

OFFERING MEMORANDUM

NOT FOR GENERAL DISTRIBUTION
IN THE UNITED STATES

Sisal Holding Istituto di Pagamento S.p.A.

€275,000,000

7.250% Senior Secured Notes due 2017



Sisal Holding Istituto di Pagamento S.p.A., a joint stock company established under the laws of the Republic of Italy (the “Issuer”), issued €275,000,000 aggregate principal amount of its 7.250% Senior Secured Notes due 2017 (the “Notes”). The Issuer will pay interest on the Notes semi-annually in arrears on March 31 and September 30 of each year, commencing on September 30, 2013. The Notes will mature on September 30, 2017. At any time prior to November 1, 2014, the Issuer will be entitled, at its option, to redeem all or a portion of the Notes upon not less than 10 nor more than 60 days’ notice by paying a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus the relevant “make-whole” premium. In addition, at any time prior to November 1, 2014, the Issuer may redeem up to 40% of the aggregate principal amount of the Notes with the net proceeds from certain equity offerings. At any time on or after November 1, 2014, the Issuer may redeem all or a portion of the Notes upon not less than 10 nor more than 60 days’ notice, at the redemption prices set forth in this offering memorandum. Upon the occurrence of certain events constituting a change of control, the Issuer may be required to make an offer to purchase the Notes. In the event of certain developments affecting taxation, the Issuer may redeem all, but not less than all, of the Notes.

The Notes are senior obligations of the Issuer. The Notes rank and will rank equally in right of payment with all existing and future indebtedness of the Issuer that is not subordinated in right of payment to the Notes and are and will be senior in right of payment to all existing and future indebtedness of the Issuer that is subordinated in right of payment to the Notes. The Notes are guaranteed (the “Guarantees”) on a senior basis by all the subsidiaries of the Issuer that guarantee obligations under our Senior Secured Credit Facilities (the “Guarantors”). The Notes are secured on a first-ranking basis by pledges over the shares of capital stock of the Issuer and of the Guarantors and a pledge over the receivables under the Proceeds Loans (as defined herein) (the “Collateral”), which pledges also secure obligations under our Senior Secured Credit Facilities. The Guarantees and the Collateral are subject to legal and contractual limitations. See “*Risk Factors—Risks Related to the Notes—Each Guarantee and the Collateral will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defences that may limit its validity and enforceability*” and “*Limitations on Validity and Enforceability of the Guarantees and the Security Interests and Certain Insolvency Law Considerations*”. The Notes, the Guarantees and the security interests over the Collateral are also subject to restrictions on enforcement and other voting arrangements. See “*Description of Certain Financing Arrangements*”.

Subject to and as set forth in “*Description of the Notes—Withholding Taxes*”, the Issuer will not be liable to pay any additional amounts to holders of the Notes in relation to any withholding or deduction required pursuant to Italian Legislative Decree No. 239 of April 1, 1996 (as the same may be amended or supplemented from time to time) where the Notes are held by a person resident in a country that does not allow for satisfactory exchange of information with Italy (as per Article 168-bis, Italian Presidential Decree No. 917 of December 22, 1986) and otherwise in the circumstances as described in “*Description of the Notes—Withholding Taxes*”.

This offering memorandum includes information on the terms of the Notes and Guarantees, including redemption and repurchase prices, covenants and transfer restrictions.

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market.

Investing in the Notes involves a high degree of risk. See “*Risk Factors*” beginning on page 19.

Price: 100.000% plus accrued interest from the issue date.

The Notes were delivered in book-entry form through Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream”) on May 15, 2013.

This offering memorandum does not constitute an offer to sell, or the solicitation of an offer to buy, securities in any jurisdiction where such offer or solicitation is unlawful. The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “U.S. Securities Act”), or the securities laws of any other jurisdiction. Unless they are registered, the Notes may be offered only in transactions that are exempt from registration under the U.S. Securities Act or the securities laws of any other jurisdiction. Accordingly, the Issuer is offering the Notes only (i) to “qualified institutional buyers” (as defined in Rule 144A under the U.S. Securities Act (“Rule 144A”)) (“QIBs”) in reliance on Rule 144A and (ii) to non-U.S. persons outside the United States in offshore transactions (as defined in Regulation S) in reliance on Regulation S. For a description of certain restrictions on the transfer of the Notes, see “*Plan of Distribution*” and “*Transfer Restrictions*”.

Bookrunner

Deutsche Bank

Bookrunners

**Banca
IMI**

**Crédit
Agricole CIB**

**Mizuho
Securities**

**The Royal
Bank of Scotland**

**UniCredit
Bank**

The date of this offering memorandum is June 7, 2013.

IMPORTANT INFORMATION FOR INVESTORS

We accept responsibility for the information contained in this offering memorandum and, to the best of our knowledge (having taken reasonable care to ensure that such is the case), the information is true and accurate in all material respects and contains no omission likely to affect the import of such information. As used in this offering memorandum, unless the context otherwise requires, references to the “Issuer” are to Sisal Holding Istituto di Pagamento S.p.A. and references to “Sisal”, “we”, “us”, “our”, the “Group” and the “Sisal Group” are to the Issuer and its consolidated subsidiaries.

This document does not constitute a prospectus for the purposes of Section 12(a)(2) of or any other provision of or rule under the U.S. Securities Act.

You should rely only on the information contained in this offering memorandum. We have not, and Deutsche Bank AG, London Branch, Banca IMI S.p.A, Crédit Agricole Corporate and Investment Bank, Mizuho International plc, The Royal Bank of Scotland plc and UniCredit Bank AG (the “Initial Purchasers”) have not, authorised anyone to provide you with information that is different from the information contained herein. We are not, and the Initial Purchasers are not, making an offer of these securities in any jurisdiction where such offer is not permitted. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front of this offering memorandum. This offering memorandum is based on information provided by us and other sources believed by us to be reliable. The Initial Purchasers are not responsible for, and are not making any representation or warranty to you concerning, our future performance or the accuracy or completeness of this offering memorandum.

This offering memorandum does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. No action has been, or will be, taken to permit a public offering in any jurisdiction where action would be required for that purpose. Accordingly, the Notes may not be offered or sold, directly or indirectly, and this offering memorandum may not be distributed, in any jurisdiction except in accordance with the legal requirements applicable in such jurisdiction. You must comply with all laws applicable in any jurisdiction in which you buy, offer or sell the Notes or possess or distribute this offering memorandum and you must obtain all applicable consents and approvals; neither we nor the Initial Purchasers shall have any responsibility for any of the foregoing legal requirements. Please see “*Transfer Restrictions*”.

In making an investment decision regarding the Notes offered hereby, you must rely on your own examination of the Issuer and the Guarantors and the terms of this Offering, including the merits and risks involved. You should rely only on the information contained in this offering memorandum. We have not, and the Initial Purchasers have not, authorised any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this offering memorandum is accurate as of the date on the front cover of this offering memorandum only. Our business, financial condition, results of operations and the information set forth in this offering memorandum may have changed since that date.

You should not consider any information in this offering memorandum to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the Notes. We are not, and the Initial Purchasers are not, making any representation to any offeree or purchaser of the Notes regarding the legality of an investment in the Notes by such offeree or purchaser under appropriate investment or similar laws. This offering memorandum is to be used only for the purposes for which it has been published.

By accepting delivery of this offering memorandum, you agree to the foregoing restrictions, to make no photocopies of this offering memorandum or any documents referred to herein and not to use any information herein for any purpose other than considering an investments in the Notes.

We obtained the market data used in this offering memorandum from internal surveys, industry sources and currently available information. Although we believe that our sources are reliable, you should keep in mind that we have not independently verified information we have obtained from industry and governmental sources and that information from our internal surveys has not been verified by any independent sources. See “*Market and Industry Data*”.

The contents of our website do not form any part of this offering memorandum.

This offering memorandum constitutes a prospectus for the purpose of the Luxembourg law dated July 10, 2005 on Prospectuses for Securities, as amended.

The Notes and the related Guarantees have not been and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act (“Regulation S”)) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act.

The Notes and the related Guarantees are being offered and sold outside the United States in reliance on Regulation S and within the United States to “qualified institutional buyers” (“QIBs”) in reliance on Rule 144A of the U.S. Securities Act (“Rule 144A”). Prospective purchasers are hereby notified that the sellers of the Notes may be relying on

the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. For a description of these and certain other restrictions on offers, sales and transfers of the Notes and the distribution of this offering memorandum, see “*Transfer Restrictions*”.

The Notes and the Guarantees have not been approved or disapproved by the U.S. Securities and Exchange Commission (the “SEC”), any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Offering of the Notes or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

The Notes and the related Guarantees are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the U.S. Securities Act and applicable state securities laws pursuant to registration thereunder or exemption therefrom. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

The information set out in relation to sections of this offering memorandum describing clearing and settlement arrangements, including “*Description of the Notes*” and “*Book-Entry, Delivery and Form*”, is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream Banking currently in effect. While we accept responsibility for accurately summarising the information concerning Euroclear and Clearstream Banking, we accept no further responsibility in respect of such information.

The distribution of this offering memorandum and the offer and sale of the Notes may be restricted by law in certain jurisdictions. You must inform yourself about, and observe, any such restrictions. See “*Notice to New Hampshire Residents*”, “*Notice to Certain European Investors*”, “*Plan of Distribution*” and “*Transfer Restrictions*” elsewhere in this offering memorandum. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Notes or possess or distribute this offering memorandum and must obtain any consent, approval or permission required for your purchase, offer or sale of the Notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. We are not, and the Initial Purchasers are not, making an offer to sell the Notes or a solicitation of an offer to buy any of the Notes to any person in any jurisdiction except where such an offer or solicitation is permitted.

IN CONNECTION WITH THIS OFFERING, DEUTSCHE BANK AG, LONDON BRANCH (THE “STABILISING MANAGER”) (OR AFFILIATES ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR AFFILIATES ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISING ACTION. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 CALENDAR DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO CERTAIN EUROPEAN INVESTORS

European Economic Area This offering memorandum has been prepared on the basis that all offers of the Notes will be made pursuant to an exemption under Article 3 of Directive 2003/71/EC (the “Prospectus Directive”), as implemented in member states of the European Economic Area (the “EEA”), from the requirement to produce a prospectus for offers of the Notes. Accordingly, any person making or intending to make any offer within the EEA of the Notes should only do so in circumstances in which no obligation arises for us or any of the Initial Purchasers to produce a prospectus for such offer. Neither we nor the Initial Purchasers have authorised, nor do they authorise, the making of any offer of Notes through any financial intermediary, other than offers made by the Initial Purchasers, which constitute the final placement of the Notes contemplated in this offering memorandum.

In relation to each Member State of the EEA that has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), the offer is not being made and will not be made to the public of any Notes which are the subject of the Offering contemplated by this offering memorandum in that Relevant Member State, other than: (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive; (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, national or legal persons (other than qualified investors as defined in the Prospectus Directive, subject to obtaining the prior consent of the relevant Initial Purchaser or the Issuer for any such offer) or (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive; provided that no such offer of the Notes shall require us or the Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive. For the purposes of this provision, the expression an “offer of Notes to the public” in relation to the Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EU and includes any relevant implementing measure in each Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU (and any amendments thereto, to the extent implemented in the Relevant Member State).

United Kingdom The explicable provisions of the United Kingdom Financial Services and Markets Act 2000 (the “FSMA”) must be complied with in respect of anything done in relation to the Notes in, from or otherwise involving the United Kingdom. This offering memorandum is for distribution only to, and is only directed at, persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, (the “Financial Promotion Order”), (ii) are persons falling within Article 49(2)(a) to (d) (high net-worth companies, unincorporated associations, etc.) of the Financial Promotion Order or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (“FSMA”)) in connection with the issue or sale of any Notes may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). This offering memorandum is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The Notes are being offered solely to “qualified investors” as defined in the Prospectus Directive and accordingly the offer of Notes is not subject to the obligation to publish a prospectus within the meaning of the Prospectus Directive.

Italy The Offering has not been cleared by the Commissione Nazionale per la Società e la Borsa (“CONSOB”) (the Italian securities exchange commission), pursuant to Italian securities legislation. Accordingly, no Notes may be offered, sold or delivered, nor may copies of this offering memorandum or of any other document relating to the Notes be distributed in the Republic of Italy, except (a) to qualified investors (*investitori qualificati*) as defined in Article 26, first paragraph, letter (d) of CONSOB Regulation No. 16190 of October 29, 2007, as amended (“Regulation No. 16190”), pursuant to Article 34-ter, first paragraph letter (b) of CONSOB Regulation No. 11971 of May 14, 1999, as amended (the “Issuer Regulation”), implementing Article 100 of Legislative Decree No. 58 of February 24, 1998, as amended (the “Financial Services Act”); and (b) in any other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and the Issuer Regulation. Each Initial Purchaser has represented and agreed that any offer, sale or delivery of the Notes or distribution of copies of this offering memorandum or of any other document relating to the Notes in the Republic of Italy will be carried out in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Any such offer, sale or delivery of the Notes or distribution of copies of this offering memorandum or any other document relating to the Notes in the Republic of Italy must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of September 1, 1993, Regulation No. 16190 (in each case, as amended from time to time) and any other applicable laws and regulations; and
- (b) in compliance with any and all other applicable laws and regulations and any other condition or limitation that may be imposed by CONSOB, the Bank of Italy or any relevant Italian authorities.

For selling restrictions in respect of Italy, see also “*Notice to Certain European Investors—European Economic Area*” above.

CERTAIN DEFINITIONS

Unless otherwise specified or the context requires otherwise, in this offering memorandum:

- “AAMS” refers to the *Agenzie delle Dogane e dei Monopoli*, formerly the *Amministrazione Autonoma dei Monopoli di Stato*, the Italian gaming regulatory authority;
- “Amend and Extend” refers to the amendment and restatement of the Senior Secured Credit Facilities Agreement, the Mezzanine Facilities Agreement, the Second Lien Facilities Agreement and the Senior Intercreditor Agreement, as described in more detail under “*Summary—The Refinancing*”;
- “Apax Partners” refers to certain funds advised by Apax Partners LLP;
- “Clearstream” refers to Clearstream Banking, *société anonyme*;
- “Clessidra” refers to the closed fund Clessidra Capital Partners advised by Clessidra Sgr S.p.A.;
- “Euroclear” refers to Euroclear Bank SA/NV;
- “EU” refers to the European Union;
- “Facility Agent” means The Royal Bank of Scotland plc, Milan Branch, as facility agent under the Senior Secured Credit Facilities Agreement, as may be replaced or substituted from time to time;
- “Gaming Invest” or “GI” refers to Gaming Invest S.à r.l., a *société à responsabilité limitée* incorporated in the Grand Duchy of Luxembourg, the direct parent of the Issuer;
- “gaming” refers collectively to gaming and betting (and “gaming industry” refers collectively to the gaming and betting industry);
- “gross gaming revenue” refers to turnover (i.e., wagers) less the amounts paid out to players as winnings;
- “Guarantees” refers to the guarantees of the Notes to be issued by each of the Guarantors;
- “Guarantors” refers to each of the Guarantors described under “*Description of the Notes—Guarantees*”;
- “IFRS” refers to International Financial Reporting Standards as adopted by the European Union;
- “Indenture” refers to the indenture governing the Notes to be dated the Issue Date by and among, *inter alios*, the Issuer, the Guarantors, the Trustee and the Security Agent;
- “Issue Date” refers to the date of original issuance of the Notes;
- “Issuer” refers to Sisal Holding Istituto di Pagamento S.p.A., a joint stock company established under the laws of the Republic of Italy;
- “Mezzanine Facilities” refers to the mezzanine credit facilities under the Mezzanine Facilities Agreement;
- “Mezzanine Facilities Agreement” refers to the mezzanine facility agreement dated as of October 16, 2006 (as amended and restated from time to time, including on or about the Issue Date) by and among, *inter alios*, Gaming Invest as borrower and Mizuho Corporate Bank, Ltd. as agent;
- “net gaming revenue” refers to gross gaming revenue less the amount of taxes payable to the Italian treasury;
- “Notes” refers to the Notes offered hereby;
- “Offering” refers to the offering of the Notes hereby;
- “Permira Funds” refers to certain funds advised by Permira Advisers LLP;
- “Proceeds Loans” refers to the loan agreements to be entered into between (i) the Issuer, as lender, and Sisal S.p.A. as borrower, (ii) Sisal S.p.A., as lender, and Sisal Entertainment S.p.A., as borrower and (iii) Sisal Entertainment S.p.A., as lender, and Sisal Match Point S.p.A., as borrower, pursuant to which Issuer will lend, and Sisal S.p.A. and Sisal Entertainment S.p.A. will further on-lend, certain of the proceeds of the Notes to Sisal S.p.A., Sisal Entertainment S.p.A. and Sisal Match Point S.p.A., as applicable, in order to allow them to repay in part the Senior Secured Credit Facilities, as described in “*Use of Proceeds*”;

- “Refinancing” refers to the issuance of the Notes and the application of the proceeds therefrom to refinance, in part, the amounts outstanding under the Senior Secured Credit Facilities as described in more detail under “Use of Proceeds”;
- “Revolving Credit Facility” or “RCF” refers to the senior revolving credit facility made available pursuant to the Senior Secured Credit Facilities Agreement, which will be repaid in part from the proceeds of the Offering and which will remain available for future drawing;
- “Second Lien Facilities” refers to the second-lien credit facilities under the Second Lien Facilities Agreement;
- “Second Lien Facilities Agreement” refers to the second lien credit agreement dated as of October 16, 2006 (as amended and restated from time to time, including on or about the Issue Date) by and among, *inter alios*, Gaming Invest and the agent named therein;
- “Security Agent” refers to The Royal Bank of Scotland plc, Milan Branch, as security agent under the Indenture, the Senior Intercreditor Agreement, the Senior Secured Credit Facilities Agreement, the Second Lien Facilities Agreement and the Mezzanine Facilities Agreement;
- “Second Lien and Mezzanine Intercreditor Agreement” refers to the intercreditor agreement dated as of October 16, 2006 by and among, *inter alios*, Gaming Invest and the Security Agent and the lenders under the Second Lien Facilities Agreement and the Mezzanine Facilities Agreement;
- “Senior Intercreditor Agreement” refers to the senior intercreditor agreement dated as of October 16, 2006 (as amended and restated from time to time, including on or about the Issue Date) by and among, *inter alios*, the Issuer, the Facility Agent and the Security Agent and to which the Trustee will accede on the Issue Date on behalf of itself and as trustee and agent on behalf of holders of the Notes;
- “Senior Secured Credit Facilities” refers to the senior credit facilities under the Senior Secured Credit Facilities Agreement, including the Term Loans and the Revolving Credit Facility;
- “Senior Secured Credit Facilities Agreement” refers to the senior credit agreement dated as of October 16, 2006 (as amended and restated from time to time, including on or about the Issue Date) by and among, *inter alios*, the Issuer, the Facility Agent, the Security Agent and the Trustee as trustee and agent on behalf of the holders of the Notes;
- “Shareholder Loan C” refers to the subordinated shareholder loan dated as of October 16, 2006 (as amended from time to time) among the Issuer (formerly, Giochi Holding S.p.A.) as borrower and Gaming Invest as lender;
- “Shareholder Loan ZC” refers to the subordinated zero coupon shareholder loan dated as of June 25, 2009 (as amended from time to time) among the Issuer (formerly, Sisal Holding Finanziaria S.p.A.) as borrower and Gaming Invest as lender;
- “Shareholder Loans” refers collectively to Shareholder Loan C and Shareholder Loan ZC;
- “SOGEI” refers to Società Generale d’Informatica S.p.A., an information and communication technology company owned by the Italian Ministry of Economy and Finance that is generally responsible for, among other things, the operation of the tax IT system;
- “Term Loans” refers to the senior term loans made available pursuant to the Senior Secured Credit Facilities Agreement, which will be repaid in part from the proceeds of the Offering;
- “Trustee” refers to The Law Debenture Trust Corporation p.l.c., in its capacity as trustee, legal representative (*Mandatario con rappresentanza*) under the Indenture and common representative (*rappresentante comune*) of the holders of the Notes pursuant to Articles 2417 and 2418 of the Italian Civil Code;
- “turnover” refers to the total amount of wagers collected and total amount of payments received from customers in the gaming industry and convenience payment services industry, respectively;
- “United States” or the “U.S.” refers to the United States of America;
- “U.S. Securities Act” refers to the U.S. Securities Act of 1933, as amended;
- “Voting Agreement” refers to the voting agreement dated as of October 16, 2006 (as amended and restated from time to time) by and among, *inter alios*, the Facility Agent as senior agent, Mizuho Corporate Bank, Ltd. as mezzanine agent, and the Security Agent, and to which the Trustee will accede on the Issue Date on behalf of itself and as trustee and agent on behalf of the holders of the Notes; and
- “we”, “us”, “our”, “SHIP”, “Ship”, “Sisal Group” and the “Group” refers to Sisal Holding Istituto di Pagamento S.p.A. and its consolidated subsidiaries.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this offering memorandum are not historical facts and are “forward-looking” within the meaning of Section 27A of the U.S. Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the “U.S. Exchange Act”). This document contains certain forward-looking statements in various sections, including, without limitation, under the headings “*Summary*”, “*Risk Factors*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and “*Business*”, and in other sections where the offering memorandum includes statements about our intentions, beliefs or current expectations regarding our future financial results, plans, liquidity, prospects, growth, strategy and profitability, as well as the general economic conditions of the industry and country in which we operate. We may from time to time make written or oral forward-looking statements in other communications. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future sales or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, our competitive strengths and weaknesses, our business strategy and the trends we anticipate in the industries and the economic, political and legal environment in which we operate and other information that is not historical information.

Words such as “believe”, “anticipate”, “estimate”, “expect”, “intend”, “predict”, “project”, “could”, “may”, “will”, “plan” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under “*Risk Factors*”, as well as those included elsewhere in this offering memorandum. You should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- the existing regulatory framework, and potential changes to that framework or the introduction of more stringent laws and regulations;
- the competitive environment in which we operate, including from online offerings, illegal gaming and a changing regulatory environment that may permit more participants;
- the limited duration of the concessions required to operate our business, and the significant upfront cash payments and performance bonds typically required to acquire or renew gaming concessions or convenience payment services agreements;
- the substantial penalties we face if we fail to perform under our concessions;
- the obligation to transfer certain assets to regulatory authorities upon the expiration of certain concessions;
- the potential exposure to an unfavourable outcome with respect to pending litigation, which could result in substantial monetary damages;
- a pending tax investigation, as well as potential changes in taxation or the interpretation or application of tax laws;
- economic weakness and political uncertainty, particularly in Italy;
- negative perceptions and publicity surrounding the gaming industry;
- our reliance on partners and retailers, as well as third party suppliers;
- the need to maintain the value of our brands and address changes in consumer preferences and technological developments;
- our potential exposure to significant losses on fixed-odds betting products from time to time;
- our exposure to credit risk and related exposure to losses;
- our reliance on key persons and employees and satisfactory labour relations;
- the challenges associated with making acquisitions;
- the impact of sports scheduling and other seasonal factors affecting our business;

- our reliance on credit card payment service providers and other financial institutions;
- the ability of our internal processes and systems to detect money laundering and fraud, and comply with data privacy laws and other applicable laws;
- our ability to maintain the security of our information technology systems and to protect our intellectual property;
- risks associated with the potential impairment of goodwill;
- risks associated with our structure and the interests of our principal shareholders;
- our high leverage and debt service obligations and restrictive debt covenants;
- risks associated with the Collateral, including the ability of holders of the Notes to enforce and realise the value of the Collateral; and
- limitations imposed under Italian insolvency and other laws.

This list of important factors is not exhaustive. You should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

PRESENTATION OF FINANCIAL INFORMATION

This offering memorandum includes audited consolidated financial statements of the Issuer as of and for the years ended December 31, 2010, 2011 and 2012. The consolidated financial statements of the Issuer have been prepared in accordance with IFRS, each of which has been audited by PricewaterhouseCoopers S.p.A. Our audited consolidated financial statements as of and for the years ended December 31, 2011 and 2012 include an emphasis of matter paragraph indicating that some subsidiaries are party to litigation with the AAMS and with the Prosecutor of the Court of Auditors. See the audit opinions of PricewaterhouseCoopers S.p.A. included therein and “*Business—Legal Proceedings*”. In order to show trends in our financial performance, we have also included certain consolidated statement of comprehensive income information and consolidated statement of financial position information as of and for the years ended December 31, 2008 and 2009, each of which has been derived from our audited consolidated financial statements as of and for the year ended December 31, 2009. Unless otherwise indicated, all financial information contained in this offering memorandum has been prepared in accordance with IFRS.

In 2010, 2011 and 2012 we made certain revisions to the classifications of our chart of accounts based on what we considered to be a more precise classification of items. The reclassifications in 2010 and 2011 related to certain line items in our consolidated statement of comprehensive income, while those in 2012 related only to certain line items in our consolidated statement of financial position. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Income Statement Comparability*”. We do not believe that reclassifications impact the comparability of the information across the historical periods presented. Line items that have been reclassified are unaudited.

In 2012 we also made certain revisions to the classifications for our cash flow statement. In particular, prior to 2012, we reconciled the movements in cash flows to the movement in cash and cash equivalents, short term loans and the current portion of long-term loans. From 2012, our cash flows have been reconciled to the changes in cash and cash equivalents. In the audited consolidated financial statements as of and for the year ended December 31, 2012, the consolidated statement of cash flow information for 2011 has been restated consistent with this new approach. For comparability purposes, the statement of cash flow information for the years ended December 31, 2008, 2009 and 2010 presented in this offering memorandum has also been restated using information from our accounting records. The consolidated statement of cash flow information for 2008, 2009, 2010 and 2011 presented in this offering memorandum therefore differs from the consolidated statement of cash flows included in our audited consolidated financial statements as of and for the years ended December 31, 2010 and 2011 included elsewhere in this offering memorandum, and from the audited consolidated financial statements as of and for the year ended December 31, 2009. All such restated information is unaudited.

Beginning with the year ended December 31, 2012, we have adopted IFRS 8, relating to disclosures of segment reporting information. In our audited consolidated financial statements as of and for the year ended December 31, 2012 we have provided the disclosure required by IFRS 8 for 2012 and for the comparative period of 2011. Our financial segment reporting is prepared on the basis of three business segments (Entertainment, Digital Games and Services and Lottery) reflecting the management structure of our business and our internal financial reporting. We do not present business segment reporting information for 2010 in our financial statements or in this offering memorandum. See Note 44 to the 2012 audited consolidated financial statements for further information.

This offering memorandum also includes certain financial information relating to Gaming Invest, including information relating to amounts outstanding under the Mezzanine Facilities Agreement and the Second Lien Facilities Agreement. Such financial information has been derived from the unconsolidated accounting records of Gaming Invest prepared in accordance with Luxembourg GAAP.

The pro forma financial information contained in this offering memorandum has been derived by applying pro forma adjustments to the Issuer's historical consolidated financial statements included elsewhere in this offering memorandum. The pro forma financial information gives effect to the Refinancing as described in "*Use of Proceeds*", as though it had occurred on January 1, 2012 for the pro forma statement of comprehensive income information and on December 31, 2012 for the pro forma statement of financial position information. The unaudited pro forma adjustments and the unaudited pro forma financial information set forth in this offering memorandum are based on available information and certain assumptions and estimates that we believe are reasonable and may differ from actual amounts. The pro forma financial information is for informational purposes only and does not purport to present what our results would actually have been had these transactions occurred on the dates presented or to project our results of operations or financial position for any future period or our financial condition at any future date.

Certain numerical figures set out in this offering memorandum, including financial data presented in millions or in thousands, have been subject to rounding adjustments and, as a result, the totals of the data in the offering memorandum may vary slightly from the actual arithmetic totals of such information.

USE OF NON-GAAP FINANCIAL MEASURES

Certain parts of this offering memorandum contain non-IFRS measures and ratios, including EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Pro Forma Adjusted EBITDA, Pro Forma Adjusted EBITDA margin, changes in trade working capital, SHIP net senior secured debt and SHIP net debt and GI net debt.

We define EBITDA as profit (or loss) for the year plus net finance expenses and similar, income taxes and amortisation, depreciation, impairments and impairment of receivables.

We define Adjusted EBITDA as EBITDA adjusted for the effect of extraordinary items. Adjusted EBITDA in 2012 includes an adjustment of €16.5 million relating to fines imposed by the AAMS for failure to meet minimum required volumes under our lottery concession. Adjusted EBITDA in 2008 includes an adjustment of €13.2 million relating to the costs of settlement agreements signed during 2008 for the termination of contracts with certain senior managers and directors. There were no extraordinary items in the years ended December 31, 2009, 2010 or 2011.

We define Adjusted EBITDA margin as Adjusted EBITDA divided by total revenues and income.

We define Pro Forma Adjusted EBITDA as Adjusted EBITDA as adjusted for the annualised net impact of cost savings actually achieved during the year ended December 31, 2012.

We define Pro Forma Adjusted EBITDA Margin as Pro Forma Adjusted EBITDA divided by total revenues and income.

We define changes in trade working capital as the sum of the movements in trade receivables, inventories and trade payables as derived from the cash flow statements.

SHIP net senior secured debt consists of the principal amounts due under the Senior Secured Credit Facilities Agreement less unrestricted cash. SHIP net senior secured debt does not include debt under finance leases, factoring of VAT receivables and other sundry financial liabilities.

SHIP net debt and GI net debt consists of the principal amount of total debt of the Issuer and its consolidated subsidiaries excluding amounts due under the Shareholder Loans and net of unrestricted cash of the Issuer and its consolidated subsidiaries, plus amounts due by Gaming Invest under the Mezzanine Facilities Agreement and the Second Lien Facilities Agreement net of cash of Gaming Invest.

EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Pro Forma Adjusted EBITDA, Pro Forma Adjusted EBITDA margin, changes in trade working capital, SHIP net senior secured debt and SHIP net debt and GI net debt are non-IFRS measures. We use these non-IFRS measures as internal measures of performance to benchmark and compare performance, both between our own operations and as against other companies. These non-IFRS measures are used by the Group, together with measures of performance under IFRS, to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. We believe these non-IFRS measures are useful and a commonly used measures of financial performance in addition to operating profit and other profitability measures, cash flow provided by operating activities and other cash flow measures and other measures of financial position under IFRS because they facilitate operating performance, cash flow and financial position comparisons from period to period, time to time and company to company. By eliminating potential differences between periods or companies caused by factors such as

depreciation and amortisation methods, financing and capital structures, taxation positions or regimes, we believe these non-IFRS measures can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe these non-IFRS measures and similar measures are regularly used by the investment community as a means of comparison of companies in our industry. Different companies and analysts may calculate EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Pro Forma Adjusted EBITDA, Pro Forma Adjusted EBITDA margin, changes in trade working capital, SHIP net senior secured debt and SHIP net debt and GI net debt differently, so making comparisons among companies on this basis should be done very carefully. EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Pro Forma Adjusted EBITDA, Pro Forma Adjusted EBITDA margin, changes in trade working capital, SHIP net senior secured debt and SHIP net debt and GI net debt are not measures of performance under IFRS and should not be considered in isolation or construed as a substitute for net operating profit or as an indicator of our cash flow from operations, investing activities or financing activities or as an indicator of financial position in accordance with IFRS. For the calculation of EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Pro Forma Adjusted EBITDA, Pro Forma Adjusted EBITDA margin, changes in trade working capital, SHIP net senior secured debt and SHIP net debt and GI net debt, see “*Summary—Summary Financial and Other Information*”.

In addition to EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Pro Forma Adjusted EBITDA, Pro Forma Adjusted EBITDA margin, changes in trade working capital, SHIP net senior secured debt and SHIP net debt and GI net debt, we have included other non-IFRS financial measures in this offering memorandum, some of which we refer to as “key performance indicators”. Certain key performance indicators include turnover, gross gaming revenue, net gaming revenue and payout ratio. We believe that it is useful to include these non-IFRS measures as we use them for internal performance analysis and the presentation by our business divisions of these measures facilitates comparability with other companies in our industry, although our measures may not be comparable with similar measurements presented by other companies. These other non-IFRS measures should not be considered in isolation or construed as a substitute for measures in accordance with IFRS. For a description of certain of our key performance indicators, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Description of Key Line Items and Certain Key Performance Indicators—Other Ratios and Measures*”.

MARKET AND INDUSTRY DATA

In this offering memorandum, we rely on and refer to information regarding our business and the markets in which we operate and compete. Such market and industry data and certain industry forward-looking statements are derived from various industry and other independent sources, where available. In particular, certain information has been derived from AAMS data. The information in this offering memorandum that has been sourced from third parties has been accurately reproduced and, as far as we are aware and able to ascertain from the information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Notwithstanding the foregoing, such third party information has not been independently verified, and neither we nor the Initial Purchasers make any representation or warranty as to the accuracy or completeness of such information set forth in this offering memorandum.

In addition, certain information in this offering memorandum for which no source is given, regarding our market position relative to our competitors in the gaming and betting industry, is not based on published statistical data or information obtained from independent third parties. Such information and statements reflect our best estimates based upon information obtained from trade and business organisations and associations and other contacts within the industries in which we compete, as well as information published by our competitors. To the extent that no source is given for information contained in this offering memorandum, or such information is identified as being our belief, that information is based on the following: (i) in respect of market share, information obtained from the AAMS, trade and business organisations and associations and other contacts within the industries in which we compete and internal analysis of our sales data, and unless otherwise stated, market share is based on turnover; (ii) in respect of industry trends, our senior management team’s general business experience, as well as their experience in our industry and the local markets in which we operate; and (iii) in respect of the performance of our operations, our internal analysis of our audited and unaudited financial and other information. As some of the foregoing information was compiled or provided by our management or advisers and is not publicly available, such information accordingly may not be considered to be as independent as that provided by other third party sources.

TAX CONSIDERATIONS

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the consequences of purchasing, holding and disposing of the Notes, including, without limitation, the application of U.S. Federal tax laws to their particular situations, as well as any consequences to them under the laws of any other taxing jurisdiction, and the consequences of purchasing the Notes at a price other than the initial issue price in the Offering. See “*Certain Tax Considerations*”.

TRADEMARKS AND TRADE NAMES

We own or have rights to certain trademarks or trade names that we use in conjunction with the operation of our businesses. Each trademark, trade name or service mark of any other company appearing in this offering memorandum belongs to its holder.

CURRENCY PRESENTATION AND EXCHANGE RATE INFORMATION

In this offering memorandum:

- \$, “dollar” or “U.S. dollar” refers to the lawful currency of the United States; and
- € or “euros” refers to the single currency of the participating member states of the European and Monetary Union of the Treaty Establishing the European Community, as amended from time to time.

The following tables set forth, for the periods indicated, the period end, period average, high and low Bloomberg Composite Rates expressed in U.S. dollars per €1.00. The Bloomberg Composite Rate is a “best market” calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The Bloomberg Composite Rate of the euro on May 7, 2013 was \$1.3080 per €1.00.

	U.S. dollar per €1.00			
	Period end	Average ⁽¹⁾	High	Low
Year ended December 31,				
2008	1.3973	1.4710	1.5992	1.2454
2009	1.4326	1.3953	1.5134	1.2531
2010	1.3387	1.3266	1.4513	1.1923
2011	1.2959	1.3926	1.4830	1.2907
2012	1.3192	1.2860	1.3458	1.2061
2013 (through May 7, 2013)	1.3080	1.3153	1.3641	1.2780

	U.S. dollar per €1.00			
	Period end	Average ⁽²⁾	High	Low
Month				
November 2012	1.2986	1.2838	1.2986	1.2704
December 2012	1.3192	1.3127	1.3244	1.2928
January 2013	1.3577	1.3302	1.3577	1.3049
February 2013	1.3056	1.3339	1.3641	1.3056
March 2013	1.2820	1.2957	1.3107	1.2780
April 2013	1.3168	1.3025	1.3177	1.2820
May 2013 (through May 7, 2013)	1.3080	1.3103	1.3180	1.3065

(1) The average rate for a year means the average of the Bloomberg Composite Rates on the last day of each month during a year.

(2) The average rate for each month presented is based on the average Bloomberg Composite Rate for each business day of such month.

The above rates differ from the actual rates used in the preparation of the consolidated financial statements and other financial information appearing in this offering memorandum. Our inclusion of the exchange rates is not meant to suggest that the euro amounts actually represent U.S. dollar amounts or that these amounts could have been converted into U.S. dollars at any particular rate, if at all.

SUMMARY

This summary highlights certain information about us and the Offering. This summary should be read as an introduction to this offering memorandum. It does not contain all the information that may be important to you or that you should consider before investing in the Notes, and it is qualified in its entirety by the remainder of this offering memorandum. You should read this entire offering memorandum, including the financial statements and related notes, before making an investment decision. You should also carefully consider the information set out in this offering memorandum under the heading “Risk Factors” for factors that you should consider before investing in the Notes and “Forward-Looking Statements” for information relating to the statements contained in this offering memorandum that are not historical facts before making any decision as to whether to invest in the Notes.

Our Business

We are the second largest gaming company and the second largest convenience payment services provider in Italy based on turnover. We were the first Italian company to operate in the gaming sector as a government concessionaire and we have been operating for over 65 years. Italy is the largest gaming market in Europe based on gross gaming revenue, and it is also one of the most developed. In addition to gaming, we operate in the convenience payment services market, which has tripled in size since 2007. In 2012 we generated revenues and income of €823.4 million and Pro Forma Adjusted EBITDA of €172.4 million.

We offer slot machines and video lottery terminals, betting, lottery games and convenience payment services. Our distribution network includes approximately 46,000 points of sale, nearly all of which also offer convenience payment services. Our network is made up of newsstands, bars, tobacconists, betting shops and corners, points of sale that are dedicated to gaming machines, multifunctional gaming halls and our online gaming platform. Our portfolio includes a number of well-known products and services sold under key brands including:



We have a proven track record of operating our business in a highly regulated environment. In Italy, gaming companies must have a concession from the national regulator. The regulator establishes tender criteria for gaming concessions, for example by requiring bidders to show an extensive territorial presence in Italy and expertise in the information technology processes necessary for the operation of a gaming network. Our gaming concessions have maturities from five to nine years, and we have successfully renewed each of our concessions to date. The payment and financial services segment of the convenience payment services industry is regulated by the Bank of Italy, from whom we hold a licence to operate as a payment institution.

With turnover in 2012 of €7.9 billion, we are the second largest gaming company in Italy and we estimate that we are the ninth largest lottery and betting company in the world. In 2009 we won the exclusive concession to operate certain national lottery games. In addition, as a gaming machine concessionaire, we provide interconnection services for approximately 36,000 slot machines and 5,000 video lottery terminals. We also directly manage over 200 betting shops and provide network services to approximately 4,000 video betting corners. In 2010 we launched a new multifunctional retail format—our WinCity gaming halls, which provide gaming services but also offer food, drink and entertainment—providing our customers with an alternative to Italy’s only four licensed casinos. We offer a wide variety of online products including online betting, poker, skills and casino games, and we have significantly grown our presence in this increasingly important channel over the last five years. The gaming market in Italy is maturing and has doubled in size since 2007, reaching turnover of an estimated €86.7 billion in 2012.

With turnover in 2012 of €5.9 billion, we are the second largest convenience payment services provider in Italy. Due to the low penetration of online and direct debit payment options as well as for cultural reasons, Italian consumers are frequently seeking to make cash payments through “local” channels such as bars and newsagents rather than through traditional channels such as post offices and bank branches. We offer customers the ability to pay approximately 300 types of bills, fines and certain taxes such as TV licences, as well as top-up prepaid mobile phones and debit cards, with partnerships with over 70 utilities, prepaid services providers and municipal governments. Our points of sale are open more days, have longer opening hours and shorter queues than post offices and bank branches, saving our customers time. We have approximately 42,000 terminals throughout Italy that function as “one stop shops”, where customers can make payments as

well as play lottery games, and we are rolling out payment-only terminals in high traffic areas. The convenience payment services market in Italy has tripled in size since 2007, reaching turnover of an estimated €18.7 billion in 2012, and we expect it to grow further. We derived 13.4% of our revenues and income from convenience payment services in 2012.

Business Units

We are one of the two Italian operators providing the full spectrum of gaming products, along with convenience payment services. We operate through three business units: (i) Entertainment, which includes gaming machines, offline betting and direct retail operations such as our WinCity gaming halls; (ii) Digital Games and Services, which includes online offerings and convenience payment services; and (iii) Lottery, which includes our numerical lotteries portfolio. The following chart sets out key information for each of our business units for the year ended December 31, 2012:

	Entertainment	Digital Games and Services	Lottery	Total
	€ millions, except percentages			
Turnover⁽¹⁾	5,202	6,811	1,767	13,780
% Group total	37.8%	49.4%	12.8%	100.0%
Revenues and income	525.3	172.9	119.1	817.3
% Group total	63.8%	21.0%	14.5%	99.3% ⁽²⁾
Segment Gross Operating Profit⁽³⁾	121.7	74.7	29.0	225.4
% Group total	54.0%	33.1%	12.9%	100.0%

(1) “Turnover” refers to the total amount of wagers collected and total amount of payments received from customers in our gaming and convenience payment services businesses, respectively.

(2) Balance to 100% represented by €6.1 million Other revenues and income which is not allocated to segments.

(3) We define “Segment Gross Operating Profit” as gross operating profit per segment before amortisation, depreciation, impairment losses and reversals, impairment of receivables, costs of our corporate structure and provisions which are not directly related to the performance of the business.

Entertainment: Our Entertainment business unit is dedicated to the operation of (i) gaming machines (slot machines and video lottery terminals (“VLTs”)), (ii) horse betting and sports betting at betting shops and betting corners and (iii) traditional Italian gaming products, such as Totocalcio (the original and well-known football pool game) and Tris (a horse race prediction game). We are a concessionaire for approximately 41,000 gaming machines at over 13,000 points of sale, and we have a dedicated retail network comprising 200 Matchpoint-branded betting shops, 4,000 betting corners and six WinCity gaming halls.

Digital Games and Services: Our Digital Games and Services unit offers players the opportunity to place online bets and play online games such as Sisal Casino, Sisal Slot, Sisal Bingo, Sisal Poker, Sisal Skill Games and Sisal Quick Games, as well as lottery games via our website, Sisal.it, games that are downloaded onto a player’s computer and, for certain games, mobile phone applications, using the latest technology for secure and legal play. We continue to seek ways to deliver additional products and services to consumers via our online platform and on their mobile phones. We complement our in-house games development efforts with strategic partnerships with leading suppliers of gaming platforms such as Playtech, an international developer of gaming software.

Since 2002, we have also offered fast, simple and secure payment solutions through a wide distribution network, which as of December 31, 2012, included approximately 42,000 terminals located throughout Italy. Our “one stop shop” strategy enables customers to perform day-to-day tasks such as renewing their digital TV subscription, paying bills and certain taxes such as municipal refuse collection, car registration and television licence fees, topping up mobile phones and prepaid cards and many other services using the same terminals where they can purchase lottery tickets. In 2013 we started rolling out payment-only terminals in high traffic areas, and we currently have approximately 200 of such terminals installed.

Lottery: Our Lottery unit is responsible for operating the exclusive concession for national totalisator number games (“NTNG”), of which the most popular product is SuperEnalotto. Unlike many other lotteries, there is no cap on the amount of times that a SuperEnalotto jackpot can rollover, creating the potential for large jackpots, such as the jackpot that reached over €175 million in October 2010. Additionally, we diversified our lottery product offering by introducing WinForLife!, the first Italian annuity lottery game, and EuroJackpot, a multi-jurisdictional lottery which guarantees a jackpot of at least €10 million. We manage lottery games through our distribution network of approximately 42,000 terminals, as well as our own website and approximately 30 third-party online gaming sites connected to our NTNG online platform.

Competitive Strengths

We believe a number of key factors give us a competitive advantage and make our business strong and resilient, including:

Key participant in an attractive and resilient industry with significant barriers to entry. We are the second largest gaming company and the second largest convenience payment services provider in Italy based on turnover. The gaming market in Italy has doubled in size since 2007, reaching turnover of an estimated €86.7 billion in 2012, and it is currently the largest gaming market in Europe based on gross gaming revenue. The Italian gaming industry is fragmented, providing us with potential opportunities to strengthen our prominent market position with selective bolt-on acquisitions. The convenience payment services market in Italy has tripled in size since 2007, reaching turnover of an estimated €18.7 billion in 2012. The gaming and convenience payment services markets have been resilient in years of declining year-on-year GDP growth in Italy. See “*Industry Overview*”. The gaming and convenience payment services markets are highly regulated, and the relationship of industry participants with regulatory authorities and their ability to operate within the existing regulatory framework are critical factors for success. The AAMS establishes criteria in tenders for gaming concessions, for example requiring bidders to show an extensive territorial presence in Italy and expertise in the information technology processes necessary for the operation of a gaming network. For instance, the AAMS granted us an exclusive concession to operate certain lottery games until June 2018. We are also licensed by the Bank of Italy to operate as a payment institution to provide payment and financial services. We believe our long-standing and leading position in the market, our trusted brand, as well as our experience operating within the Italian regulatory framework, have contributed to our generally positive and open relationship with the regulatory authorities, with whom we are in regular dialogue regarding the development of the industry. We also believe the high level of regulation in the industry represents a significant barrier to entry for potential new entrants and a particular challenge for existing independent or small participants.

Diversified product portfolio with multiple distribution channels and attractive cross-selling opportunities. We are a diversified gaming and convenience payment services company with a number of distinct and complementary product offerings. From being primarily a lottery and betting operator, we have increasingly diversified over time and we now offer a number of gaming products, including slot machines and VLTs, horse and sports betting, traditional Italian pool and prediction games and national lottery games through multiple concessions with staggered maturities. We offer different gaming products in order to appeal to a diverse customer base, and we believe we and only one other operator provide the full spectrum of gaming products and convenience payment services in Italy. Our distribution network comprises approximately 46,000 points of sale, including about 200 Matchpoint betting shops and 4,000 Matchpoint betting corners, 680 affiliated points of sale, 6 Sisal WinCity gaming halls and 4,600 points of sale dedicated to slot machines and VLTs. Our extensive land-based network is complemented by our online platform. Our product and channel diversification allows us to take advantage of the strength and depth of the Italian gaming and convenience payments services markets and has mitigated the impact of volume fluctuations in our gaming products.

Strong, high-quality distribution network. We have the second largest distribution network in Italy, comprising about 46,000 points of sale, nearly all of which also offer convenience payment services. Our broad network is made up of newsstands, bars, tobacconists, directly-managed and partner-managed betting shops, betting corners, sites dedicated to slot machines and VLTs and our directly-managed WinCity gaming halls. We carefully select points of sale to optimise our presence throughout the country. We use information about consumer habits and socio-demographic characteristics gained from experience in the industry, along with customer contact at our directly-managed points of sales, in order to strategically tailor product offerings at each point of sale, facilitating cross-selling and maximising earnings at each location. In addition, when a point of sale is not directly managed by us, we evaluate the retailer’s proven ability in managing the business before partnering with the retailer. We continuously review the performance of our retail operations, and our marketing and sales teams monitor the performance of retailers, including via annual contract reviews. In connection with this review process, we seek to have top performing retailers enter into affiliation agreements with us, and we focus on opening new points of sale and closing points of sale with lower earnings potential in order to maximise our profitability. We have a long-standing relationship with a number of retailers, and we seek ways to reinforce such strong relationships, including through ongoing dialogue and training. In addition, we complement our physical retail distribution network through a broad offering of online games through our own Sisal-branded website.

Well known and trusted brands built on a strong heritage. We believe that our strong brand heritage and national recognition helped us to reach our current state of development and positions us well to capitalise on future opportunities. We were the first Italian company to operate in the gaming sector as a government licensee and we have been operating in Italy for over 65 years. Our product portfolio includes a number of well-known brands, including SuperEnalotto, SuperStar, SiVinceTutto SuperEnalotto, Matchpoint, Sisal Pay, Centro Servizi, WinForLife!, WinCity, Totocalcio and Tris. We are continuously looking for ways to create new interest in existing branded products. For example, in 2009 we launched SuperEnalotto Giocafacile, which drew on the strength of SuperEnalotto but was a new and easier way to play SuperEnalotto that included offerings at different price points to attract a wider audience of players. Over the years we believe that we have developed a positive reputation among consumers as a trusted provider of safe and responsible gaming, which is integral to

success in the Italian gaming market. We believe this positive reputation has also supported our expansion into convenience payment services, where a reputation for trust and reliability is critical. We support our reputation with a commitment towards corporate social responsibility and we participate in a variety of community initiatives in the arts, sports and youth outreach.

Leadership in product, customer experience and distribution channel innovation. We have been a leading product innovator, from the invention of Totocalcio and Totip in the 1940s to the introduction of SuperEnalotto and the new SiVinceTutto SuperEnalotto, as well as the introduction of all-in-one lottery and convenience payment services terminals. We use our over 65 years of operating history, in-depth knowledge of consumer behaviour and ability to interpret changing preferences and habits, to develop new products. For example, during the recent economic downturn, we understood consumers' concerns about having a stable income to and through retirement. We used this understanding, along with rigorous product analysis and testing, to develop our successful WinForLife! product, which allows players to win a monthly cash income over a period of up to 20 years—the first such product offering in Italy. We also strive to improve the customer experience. Between 2010 and 2012, we invested approximately €50 million to refresh or replace our all-in-one terminals for smaller terminals with greater capacity, interactive touch-screen windows and bar-code readers that allow customers to easily check the results of their wagers. In addition, we have a history of expanding into new distribution channels such as new venues and mobile phone applications. In September 2010, we launched WinCity gaming halls, which offer a catering service and an extensive schedule of events, from food tasting to live music acts, and today we are further developing our online offerings. We dedicate significant resources to innovation with a department dedicated to research and development, both in product innovation and internal business process innovation.

Well-invested, advanced IT system supporting our cash generative business. We have invested significant resources to develop in-house an extensive integrated IT system that manages approximately five billion transactions per year and a cash flow of approximately €13.8 billion per year, representing our total turnover in 2012. Once wagers and payments are collected at one of our 46,000 points of sale, our IT system reliably transmits the payment information to utility and convenience services providers and to the Italian treasury. Our system can simultaneously process 900 transactions, with an average customer wait time of less than five seconds. Our IT system provides real-time cash balance information to management, and it automatically credits our accounts with amounts owed to us by retailers, including the cash collected by the retailer for games and convenience payment services. We believe that the cost and knowledge associated with the acquisition, operation and maintenance of an information technology system like ours represents a significant barrier to entry for potential new entrants to the gaming or convenience payment services markets.

Highly experienced management team. The members of our senior management and middle management teams have significant experience in the gaming, convenience payment services and retail consumer goods markets. We have managers with a long track record of gaming experience at Sisal and others who have worked in senior positions at multinational companies in the retail sector or at financial institutions before joining us. Additionally, we have successfully attracted and retained young talent to management positions where we believe new perspectives can add value to our business. Our experienced team has already demonstrated its ability to grow our business, for example, through expanding our distribution network, introducing innovative products, successfully executing accretive acquisitions and reducing our leverage. We also benefit from the market and industry expertise, business relationships, knowledge, investments and experience of our sponsors Apax Partners, Permira Funds and Clessidra.

Business Strategy

Our objective is to strengthen our position as a leading gaming and convenience payment services company in Italy and to achieve sustainable profitable growth through the following strategic pillars:

Continue to expand our product offerings and retail distribution network and increase the number of branded points of sale. We intend to expand our product offerings and existing distribution network consisting of approximately 46,000 points of sales through organic growth and selective bolt-on acquisitions. We aim to build on our “first mover” advantage in multifunctional gaming halls by opening additional WinCity gaming halls in prime locations, and we seek to partner with new and existing unaffiliated points of sale to expand the number of our affiliated and branded points of sale. The Italian retail gaming market is highly fragmented and characterised by a large number of small independent participants. We believe this fragmentation presents a challenge for existing independent and small participants but an opportunity for us to acquire targets who hold products, technology or concessions, or are located in areas, that complement our existing platforms and offerings, in each case, at attractive valuations. We believe we have significant experience in identifying targets and executing accretive acquisitions, following a careful diligence process. In 2011, we acquired Ilio Group for €16.7 million, which added 32 betting shops and 68 betting corners to our portfolio, and in January 2013, we acquired 60% of Friulgames S.r.l., an Italian operator of approximately 2,000 slot machines and 170 VLTs, for €5.7 million, in each case using internally generated cash. We have been able to successfully integrate acquired companies into our operations within relatively short time frames, with a goal of 90 days. We believe expanding our retail distribution network has resulted in improved brand recognition, enabling us to benefit from economies of scale and has helped increase revenues and income by allowing us to capture a larger share of the gaming and convenience payment services value chain.

Continue to develop and launch innovative products, focusing in particular on online and mobile phone offerings. We intend to capitalise on our knowledge of consumer behaviour, as well as our network of gaming offerings and our online platform by investing in new product offerings to reach an even broader customer base. We have increased our number of online games from 10 in 2007 to approximately 100 in 2012. We also have an exclusive concession for certain national lottery games (NTNG); accordingly, online NTNG products are only available on our website and on the websites of third party retailers that are connected to our platform. Through point of sale marketing and other efforts we aim to build consumer awareness of the ability to play NTNG games on the Internet or a mobile phone in order to further grow our online customer base. We also plan to expand our portfolio of offerings through the launch of new products such as virtual races (both online and offline), new VLT platforms and new online games, acting as a “first mover” where possible. We continue to seek ways to deliver additional products and services to consumers via our online platform and on their mobile phones.

Further expand our convenience payment services business and increase marketing efforts to promote our “one stop shop” offerings. We currently offer approximately 300 convenience payment services with about 70 partners such as utility providers and mobile phone companies, generating payment services turnover of €5.9 billion in 2012. Due to the low penetration of online and direct debit payment options as well as for cultural reasons, Italian consumers are frequently seeking to make cash payments through “local” channels such as bars and newsagents rather than through traditional channels such as post offices and bank branches, and we believe that convenience payment services will continue to be a growing market. In addition to maximising cross-selling opportunities with terminals that offer both lottery and convenience payment services, we seek to increase the number of payment-only terminals, which we strategically place in high-traffic areas with a low risk of saturation and where the existence of additional terminals will reduce or eliminate queue times. We also intend to roll out cashless payment devices and to incrementally expand our current offering of convenience payment services in order to appeal to even more consumers. We plan to promote our points of sale as “one stop shops” that allow consumers to utilise our terminals to play games as well as pay bills and make other payments. In addition to the potential increase in revenues and income from convenience payment services, we believe the “one stop shop” model provides an opportunity to develop more direct relationships with consumers and increase their loyalty and brand awareness.

Maintain our focus on profitability and cash flow. We will continue to carefully assess the potential for earnings, cash-flow stability and growth when we evaluate the performance of our operations and new investment opportunities. Before we participate in a tender for a concession, we extensively analyse the terms, including potential payback, taxes and any required upfront payments, as well as the ability to build on our existing brands and distribution network. We participate in tenders only on terms that we believe are attractive. In 2009, for example, we agreed to pay €15,000 per machine for the right to operate approximately 5,000 VLTs. In contrast, in 2010 we did not seek to outbid a competitor for the concession to operate the scratch and win game, which, we understand from public statements, involved an upfront payment of approximately €800 million by a consortium led by Lottomatica. We use a similar disciplined approach to acquiring businesses and assets, and we consider the impact on profitability when setting payout rates and odds in relation to legal minimums on gaming products. We will continue to seek to reduce costs in our business through cost saving initiatives, such as contract renegotiations and shift optimisations undertaken in 2012, which we estimate resulted in cost savings of approximately €5.6 million on an annualised basis. We seek to generate cash and reduce our leverage by improving our profitability. Our Adjusted EBITDA has increased from €140.2 million in 2008 to €170.4 million in 2012, and our ratio of SHIP net senior secured debt to Adjusted EBITDA has declined from 4.6x at December 31, 2008 to 3.3x at December 31, 2012.

History of the Group

We were established in 1946 and were the first Italian company to operate in the gaming sector as a government concessionaire. During the post-World War II era of reconstruction, we invented a football pool game called the “Sisal play slip” (now known as Totocalcio), which grew in popularity alongside the sport, so much so that “Playing Sisal” became a saying or expression of a community tradition synonymous with having fun. In 1948 we launched Totip, a horse race-based prediction game, and reached 12,000 points of sale nationwide. Over the years we have sought to remain in touch with the changing needs of Italians, launching a number of new products, including Tris in 1991 and SuperEnalotto and SisalTV in 1997. In 2002, we expanded into the convenience payment services sector and in 2004 we acquired Matchpoint betting and we also launched a range of online games. In recent years, we have created, among other products, WinForLife! and Sisal WinCity, and in 2012, we launched Eurojackpot in Italy.

In 2005, Clessidra acquired a controlling stake in us from the families of our founding shareholders Geo Molo, Fabio Jegher and Massimo della Pergola and as a result became our largest shareholder. We were acquired by Apax Partners and Permira Funds in October 2006, with Clessidra and the founding shareholders remaining minority shareholders. Today we are the second largest gaming company and second largest convenience payment services provider in Italy based on turnover, with approximately 46,000 points of sale.

Recent Developments

We are in the process of finalising our results for the first quarter of 2013. Based on our management accounts (which are not prepared in accordance with IFRS) and information currently available, we estimate that for the twelve months ended March 31, 2013 our revenue will be flat versus the twelve months ended December 31, 2012, while EBITDA will be higher driven primarily by the full year impact of the cost savings programme initiated in the first half of 2012 and lower marketing costs in the lottery segment.

While revenues in the first quarter of 2013 were in line with revenue generated during the first quarter of 2012, the lottery product continued the decline seen in 2012 as a result of lower jackpots and the absence of a refreshed offering (as political instability in Italy in the first quarter of 2013 has resulted in the delay of approval of primary legislation that would permit the introduction of new lottery products). The average jackpot on offer was €40 million in the first quarter of 2013 compared to €64 million during the first quarter of 2012. However, in the first quarter of 2013 we have benefitted from (i) a stronger contribution from fixed odds betting compared to the same period in 2012 as the results of sports events and races in 2012 were particularly unfavourable to bookmakers, and (ii) an increase in service and non-gaming product revenues, primarily driven by an increase in convenience payment services turnover. We expect such increases to offset a decrease in video lottery machine (VLT) revenues during the first quarter of 2013 as a result of the increase in the tax on VLT turnover (from 4% in 2012 to 5% in 2013) and delays in the approval of new VLT games.

We expect EBITDA for the first quarter of 2013 to be higher than in the first quarter of 2012 driven by the full impact of the cost savings programme initiated in the first half of 2012 and lower marketing costs in our Lottery business unit.

Our actual consolidated IFRS results for the first quarter of 2013 and 2012 may differ from the preliminary results and remain subject to our end of quarter procedures and adjustments required to present this information according to IFRS. Our interim results are not necessarily indicative of the results that may be expected for any other period or for the full year. See “*Information Regarding Forward-Looking Statements*” and “*Presentation of Financial Information*”.

The Refinancing

The gross proceeds from the issuance of the Notes will be €275 million. We intend to use the proceeds of the Notes to repay in part, directly or through Sisal S.p.A., Sisal Entertainment S.p.A. and Sisal Match Point S.p.A., amounts outstanding under the Senior Secured Credit Facilities. The issuance of the Notes and the application of the proceeds therefrom are referred to in this offering memorandum as the “Refinancing”.

In connection with the Offering and subject to the issuance of the Notes, and pursuant to the receipt of consents with respect to certain amendments and waivers from lenders under our Senior Secured Credit Facilities Agreement, as well as from lenders under the Mezzanine Facilities Agreement and the Second Lien Facilities Agreement of Gaming Invest S.à r.l., our direct parent, on or about the Issue Date, the Senior Secured Credit Facilities Agreement, the Mezzanine Facilities Agreement, the Second Lien Facilities Agreement and the Senior Intercreditor Agreement will be amended and restated (the “Amend and Extend”). As of the date of this offering memorandum, we and Gaming Invest have received the requisite consents from the lenders under the Senior Secured Credit Facilities, the Mezzanine Facilities and the Second Lien Facilities, respectively. The Amend and Extend will, among other things, extend the maturity of the existing Revolving Credit Facility and the Term Loans under the Senior Secured Credit Facilities Agreement and extend the maturity of the existing Second Lien Facilities under the Second Lien Facilities Agreement. Specifically, following the Amend and Extend, the maturity of the Senior Secured Credit Facilities and the Second Lien Facilities will be September 30, 2017, which is also the maturity date of the Notes, while the maturity of the Mezzanine Facilities will remain December 31, 2017. The Amend and Extend will also involve amending certain terms of the Senior Secured Credit Facilities Agreement and the Senior Intercreditor Agreement in order to permit the issuance of the Notes and the grant of the first-priority security interests in the Collateral related thereto.

You should read “*Use of Proceeds*”, “*Capitalisation*” and “*Description of Certain Financing Arrangements*” for a more detailed description of the Refinancing and the Amend and Extend.

Information about the Issuer

The Issuer is a joint stock company established under the laws of the Republic of Italy and was formed on September 21, 2006. The Issuer has an authorised share capital of €102,500,000, comprised of 102,500,000 shares. All shares have been issued and are fully paid up. The Issuer is registered with the Milan Companies Register under registration number 05425630968 and its corporate existence is scheduled to expire on December 31, 2050. The Issuer’s financial year ends on December 31.

The registered office of the Issuer is located at Via Alessio di Tocqueville 13, 20154 Milan, Italy and its telephone number at that address is +390288681.

Information about Our Principal Shareholders

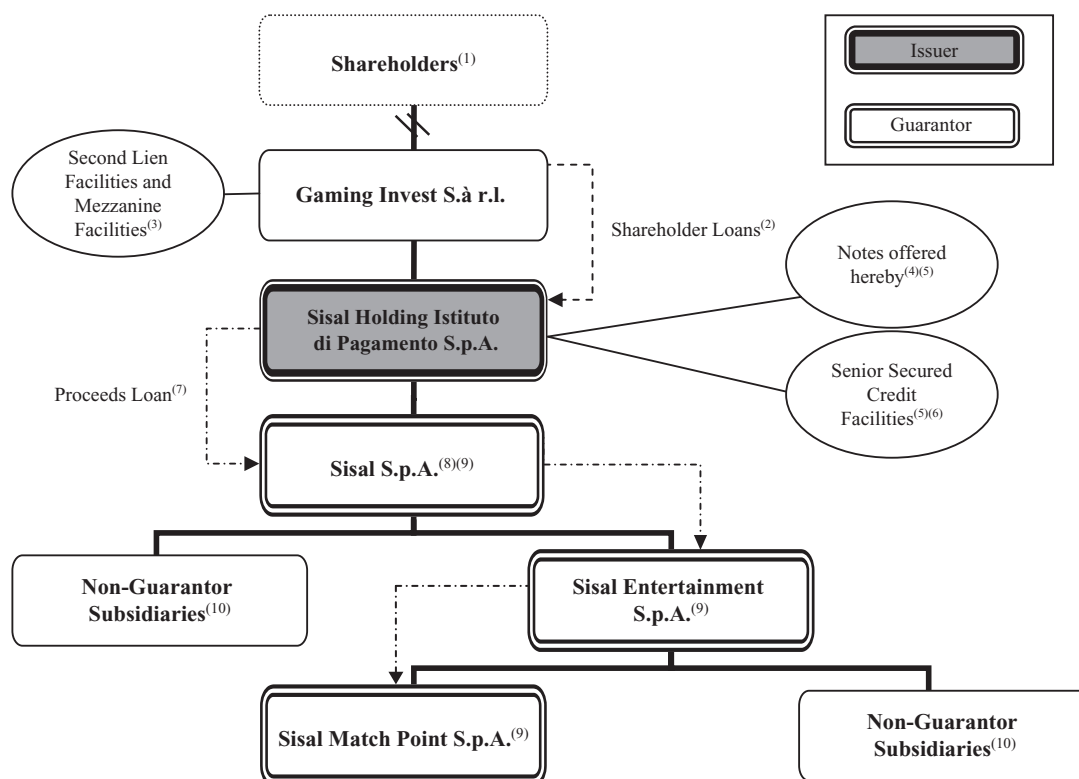
Apax Partners is one of the largest managers of private equity funds worldwide. Founded over 30 years ago, it manages \$35 billion in funds throughout the world, with offices in nine countries and the global expertise of a team of over 100 professionals. The latest fund, Apax Europe VII, is currently the largest private equity fund in Europe, valued at €11.2 billion. The funds managed by Apax Partners invest in the creation and expansion of world-class companies, creating and strengthening international excellence. Among these, the Apax Europe VI fund is an indirect shareholder of Sisal.

Permira Funds is a European private equity firm with a global reach. Permira, as adviser to the Permira Funds, has around 130 professionals in 12 offices worldwide, including Milan, Frankfurt, Hong Kong, London, Madrid, Menlo Park, New York, Paris, Stockholm and Tokyo. Over the last three decades, the Permira funds have completed over 200 transactions, investing in companies across the five key sectors on which they are focused (Consumer, TMT, Industrials, Financial Services and Healthcare). The Permira Europe III fund, with committed capital of approximately €5 billion, is an indirect shareholder of Sisal.

Clessidra was established in 2003 as an independent company leveraging the significant professional experience of its partners in the field of private equity and complex financial transactions such as mergers, acquisitions and restructuring. It is entered in the SGR register, which is maintained by the Bank of Italy and the National Compensation Fund, and is a member of the Italian Private Equity and Venture Capital Association (AIFI) and the European Venture Capital Association (EVCA). Clessidra manages the funds Clessidra Capital Partners and Clessidra Capital Partners II, the largest private equity funds dedicated exclusively to the Italian market. Clessidra Capital Partners is an indirect shareholder of Sisal.

SUMMARY CORPORATE AND FINANCING STRUCTURE

The following diagram summarises our corporate structure, as well as the principal financing arrangements of the Group and of Gaming Invest S.à r.l., the direct parent of the Issuer, after giving effect to the Refinancing. For a summary of the debt obligations referenced in this diagram, see “Description of Certain Financing Arrangements” and “Description of the Notes”.



(1) For a description of our principal shareholders, see “Principal Shareholders”.

(2) Represents Shareholder Loan C and Shareholder Loan ZC. A portion of the interest on Shareholder Loan C is payable in cash and the remainder is compounded at the option of the borrower. Shareholder Loan C is secured on a second-ranking basis by a pledge over the 99.81% of the shares of Sisal S.p.A. owned by the Issuer. Shareholder Loan ZC carries an interest rate on a zero coupon basis and is unsecured. See “Description of Certain Financing Arrangements—Shareholder Loans”.

(3) The Second Lien Facilities and the Mezzanine Facilities are secured on a first-ranking and second-ranking basis, respectively, by a pledge over the shares of Gaming Invest and a pledge over the receivables of Gaming Invest under Shareholder Loan C. The Second Lien Facilities and the Mezzanine Facilities are also secured on a second-ranking and third-ranking basis, respectively, by a pledge over the shares of the Issuer. See “Description of Certain Financing Arrangements—Mezzanine Facilities Agreement” and “—Second Lien Facilities Agreement”. As of December 31, 2012, the amount outstanding under the Second Lien Facilities and the Mezzanine Facilities of Gaming Invest was €40.0 million and €230.4 million, respectively. Enforcement of security interests granted to creditors under the Second Lien Facilities and the Mezzanine Facilities is subject to the Second Lien and Mezzanine Intercreditor Agreement and the Voting Agreement. See “Description of Certain Financing Arrangements—Second Lien and Mezzanine Intercreditor Agreement” and “—Voting Agreement”.

(4) The Notes are senior obligations of the Issuer. The Notes are secured on a first-ranking basis by (i) a pledge over all the shares of the Issuer, Sisal Entertainment S.p.A. and Sisal Match Point S.p.A., as well as a pledge over the 99.81% of the shares of Sisal S.p.A. owned by the Issuer and (ii) a pledge over the receivables of the Issuer, Sisal S.p.A. and Sisal Entertainment S.p.A. under the Proceeds Loans, each of which also secures, on an equal and ratable basis, the obligations under our Senior Secured Credit Facilities. The Issuer is also a borrower under the Senior Secured Credit Facilities. Enforcement of the Collateral will be subject to certain provisions of the Senior Secured Credit Facilities Agreement, the Senior Intercreditor Agreement and the Voting Agreement. See “Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement”, “—Senior Intercreditor Agreement”, “—Voting Agreement” and “Risk Factors—Risks Related to the Notes— Under the Senior Intercreditor Agreement and the Voting Agreement, the holders of the Notes are subject to limitations on their ability to enforce the Collateral”. Pursuant to the Senior Secured Credit Facilities Agreement, the Senior Intercreditor Agreement and the Voting Agreement, the Notes will benefit from a loss sharing agreement with the lenders under the Senior Secured Credit Facilities Agreement with respect to Collateral that is not shared with the creditors of the Second Lien Facilities and the Mezzanine Facilities, whereby payments may be required to be made among the holders of the Notes and the lenders to ensure that losses are borne proportionately by the holders of the Notes and the lenders of the Senior Secured Credit Facilities based on the exposures of all such creditors on an enforcement date. In addition, the Voting Agreement provides for a loss sharing mechanism to ensure that with respect to security that is shared with the creditors of the Second Lien Facilities and the Mezzanine Facilities, losses are borne pro rata firstly by the creditors under the Mezzanine Facilities, secondly by the creditors under the Second Lien Facilities and

finally by the creditors under the Senior Secured Credit Facilities (including the holders of the Notes). See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement*”, “*—Senior Intercreditor Agreement*” and “*—Voting Agreement*”.

- (5) On or about the Issue Date, the Trustee, on its own behalf and as trustee and agent on behalf of the holders of the Notes, will accede to the Senior Secured Credit Facilities Agreement, the Senior Intercreditor Agreement and the Voting Agreement. The Senior Secured Credit Facilities Agreement provides that, with respect to certain “Notes Related Provisions” (as defined therein), the Senior Intercreditor Agreement and the Voting Agreement, the Trustee and the holders of the Notes will be, and will be deemed to be, “Lenders” under and as defined in the Senior Secured Credit Facilities Agreement and “Senior Lenders” under and as defined in each of the Senior Intercreditor Agreement and the Voting Agreement and will therefore be entitled to exercise the rights and remedies granted to and be subject to obligations assumed by such “Lenders” or “Senior Lenders”, as the case may be, with respect to such provisions and the relevant intercreditor agreements, through the Facility Agent under the Senior Secured Credit Facilities Agreement.
- (6) The Senior Secured Credit Facilities are secured on a first-ranking basis by the same assets that will secure the obligations under the Notes and Guarantees. As of December 31, 2012, after giving pro forma effect to the Refinancing, the amount outstanding under the Senior Secured Credit Facilities would have been €438.9 million. See “*Use of Proceeds*”, “*Capitalisation*” and “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement*”. The Senior Secured Credit Facilities Agreement provides for a Revolving Credit Facility in the amount of €34.3 million. €5.0 million of the amounts outstanding on the Issue Date under the Revolving Credit Facility will be repaid with the proceeds of the Offering and €29.3 million will remain outstanding, with €5.0 million of the Revolving Credit Facility to remain available for future drawings.
- (7) Pursuant to the Proceeds Loans the Issuer will loan €115.4 million to Sisal S.p.A. as a proceeds loan and contribute €37.0 million to Sisal S.p.A. in exchange for equity in Sisal S.p.A.; then Sisal S.p.A. will loan €112.1 million to Sisal Entertainment S.p.A., who in turn will loan €71.1 million to Sisal Match Point S.p.A., in each case as further proceeds loans. The rights of the Issuer, Sisal S.p.A. and Sisal Entertainment S.p.A. under the respective Proceeds Loans will be pledged in favour of the holders of the Notes and comprise part of the Collateral. Sisal S.p.A. will use the amount available under its Proceeds Loan to partially repay Term Loan B and Term Loan C. Sisal Entertainment S.p.A. and Sisal Match Point S.p.A. will use the amount available under the respective Proceeds Loans to fully repay Term Loan D. See “*Use of Proceeds*” and “*Description of the Notes—Security—Collateral*”.
- (8) The Issuer owns 99.81% of the shares of capital stock of Sisal S.p.A., with the remainder owned by the *Ricevitore* (the individual point of sale owners).
- (9) The Notes are guaranteed on a senior basis by the subsidiaries of the Issuer that guarantee the obligations under our Senior Secured Credit Facilities: Sisal S.p.A., Sisal Entertainment S.p.A. and Sisal Match Point S.p.A. The Issuer and the Guarantors comprised 99.5% of our total assets as of December 31, 2012 and represented 99.4% and 98.8% of our total revenues and income and EBITDA, respectively, for the year ended December 31, 2012. The Guarantees will be subject to legal and contractual limitations. See “*Risk Factors—Risks Related to the Notes—Each Guarantee and the Collateral will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defences that may limit its validity and enforceability*” and “*Limitations on Validity and Enforceability of the Guarantees and the Security Interests and Certain Insolvency Law Considerations*”.
- (10) Certain subsidiaries of the Issuer will not guarantee the Notes. The subsidiaries of the Issuer that will not guarantee the Notes comprised 0.5% of our total assets as of December 31, 2012 and represented 0.6% and 1.2% of our total revenues and income and EBITDA, respectively, for the year ended December 31, 2012. After giving effect to the Refinancing, the subsidiaries of the Issuer that will not guarantee the Notes would have had no financial indebtedness and €0.8 million of other liabilities outstanding as of December 31, 2012.

THE OFFERING

The summary below describes the principal terms of the Notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The “Description of the Notes” section of this offering memorandum contains a more detailed description of the terms and conditions of the Notes, including the definitions of certain terms used in this summary.

Issuer	Sisal Holding Istituto di Pagamento S.p.A.
Notes offered	€275,000,000 aggregate principal amount of 7.250% Senior Secured Notes due 2017.
Issue date	May 15, 2013.
Issue price	100.000% plus accrued interest, if any, from the Issue Date.
Maturity date	September 30, 2017.
Interest payment dates	Semi-annually in arrears on March 31 and September 30 of each year, commencing on September 30, 2013.
Denomination	The Notes have a minimum denomination of €100,000 and integral multiples of €1,000 in excess thereof. Notes in denominations of less than €100,000 will not be available.
Ranking of the Notes	The Notes: • are a general senior obligation of the Issuer; • are secured as described under “—Security”; • rank <i>pari passu</i> in right of payment to any existing or future obligations of the Issuer that are not subordinated in right of payment to the Notes, including its obligations under the Senior Secured Credit Facilities; • rank senior in right of payment to any existing or future obligations of the Issuer that are expressly subordinated in right of payment to the Notes; • effectively rank senior in right of payment to any existing or future unsecured obligations of the Issuer, to the extent of the value of the Collateral that is available to satisfy the obligations under the Notes; and • are unconditionally guaranteed by the Guarantors, as described under “—Guarantees”.
Guarantees	The Issuer’s obligations under the Notes are guaranteed (the “Guarantees”) on a senior basis by all the subsidiaries of the Issuer that guarantee the obligations under our Senior Secured Credit Facilities: Sisal S.p.A., Sisal Entertainment S.p.A. and Sisal Match Point S.p.A. The Issuer and the Guarantors comprised 99.5% of our total assets as of December 31, 2012 and represented 99.4% and 98.8% of our total revenues and income and EBITDA, respectively, for the year ended December 31, 2012. The Guarantees are subject to legal and contractual limitations. See “ <i>Risk Factors—Risks Related to the Notes—Each Guarantee and the Collateral will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defences that may limit its validity and enforceability</i> ” and “ <i>Limitations on Validity and Enforceability of the Guarantees and the Security Interests and Certain Insolvency Law Considerations</i> ”.
Ranking of the Guarantees	The Guarantee of each Guarantor: • are a general senior obligation of the applicable Guarantor; • are secured as described under “—Security”; • rank <i>pari passu</i> in right of payment to any existing or future obligations of the applicable Guarantor that are not subordinated in right of payment to the applicable Guarantee, including its guarantee of the Senior Secured Credit Facilities;

- rank senior in right of payment to any existing or future obligations of the applicable Guarantor that are expressly subordinated in right of payment to the applicable Guarantee;
- effectively rank senior in right of payment to any existing or future unsecured obligations of the applicable Guarantor, to the extent of the value of the Collateral that is available to satisfy the obligations under the Guarantee; and
- are subordinated in right of payment to any existing or future obligations of any non-Guarantor subsidiary.

The Notes and the Guarantees are subject to the terms of the Senior Intercreditor Agreement and the Voting Agreement. See “*Description of Certain Financing Arrangements—Senior Intercreditor Agreement*” and “*—Voting Agreement*”.

The Guarantees are subject to release under certain circumstances. See “*Description of the Notes—The Guarantees*”.

Security The Notes and the Guarantees are secured, subject to certain agreed security principles, on a first-ranking basis by (i) a pledge over all the shares of the Issuer, Sisal Entertainment S.p.A. and Sisal Match Point S.p.A., as well as a pledge over the 99.81% of the shares of Sisal S.p.A. owned by the Issuer and (ii) a pledge over the receivables of the Issuer, Sisal S.p.A. and Sisal Entertainment S.p.A. under the Proceeds Loans.

The Senior Secured Credit Facilities are secured on a first-ranking basis by the same assets that secure our obligations under the Notes and the Guarantees. The Second Lien Facilities and the Mezzanine Facilities are secured on a first-ranking and second-ranking basis, respectively, by a pledge over the shares of Gaming Invest and a pledge over the receivables of Gaming Invest under Shareholder Loan C. The Second Lien Facilities and the Mezzanine Facilities are also secured on a second-ranking and third-ranking basis, respectively, by a pledge over the shares of the Issuer. Shareholder Loan C is secured on a second-ranking basis by a pledge over the 99.81% of the shares of Sisal S.p.A. owned by the Issuer. The Security may be released under certain circumstances. See “*Description of the Notes—Security—Release of Liens*”.

Intercreditor arrangements On the Issue Date, the Trustee, on its own behalf and as trustee and agent on behalf of the holders of the Notes, acceded to the Senior Secured Credit Facilities Agreement, the Senior Intercreditor Agreement and the Voting Agreement. The Voting Agreement provides that for purposes of the enforcement of the Collateral, the Security Agent shall act on the instructions of the Facility Agent which, pursuant to the terms of the Senior Intercreditor Agreement and the Voting Agreement, will act upon the instructions of the “Majority Priority Senior Creditors” (representing the senior lenders (including the holders of the Notes), lenders in respect of the Second Lien Facilities and certain senior and second lien hedge counterparties (to the extent terminated or closed out) whose commitments exceed 66 2/3% or more of the aggregate commitments under the Senior Secured Credit Facilities (including all principal amounts outstanding under the Notes), the Second Lien Facilities and hedge settlement amounts). If such instructions are issued on the basis of an event of default under the Senior Secured Credit Facilities relating to a failure to pay amounts owing to lenders under the Senior Secured Credit Facilities thereunder (other than the holders of the Notes or the Trustee), then the Facility Agent shall be entitled to act upon the instructions of the “Majority Lenders” (representing the lenders under the Senior Secured Credit Facilities (including the holders of the Notes) whose drawn and undrawn commitments under the Senior Secured Credit Facilities Agreement (including all principal amounts outstanding under the Notes) exceed 66 2/3% or more of the aggregate drawn and undrawn commitments, including all principal amounts outstanding under the Notes. In calculating the votes cast, if the requisite majority of holders of the Notes approves or disapproves of a resolution, all holders will be deemed to have approved or disapproved of the

resolution in question. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement*”, “*—Senior Intercreditor Agreement*” and “*—Voting Agreement*”.

Use of proceeds The Issuer intends to repay certain amounts outstanding under the Senior Secured Credit Facilities. See “*Use of Proceeds*”.

Optional redemption Prior to November 1, 2014 the Issuer may redeem all or part of the Notes at any time at a price equal to 100% of the principal amount of the Notes redeemed plus accrued and unpaid interest and additional amounts, if any, to the redemption date and a “make-whole” premium, as described in this offering memorandum. In addition, at any time prior to November 1, 2014, the Issuer may redeem up to 40% of the aggregate principal amount of the Notes at a price equal to 107.250% of the principal amount of the Notes, plus accrued and unpaid interest and additional amounts, if any, to the redemption date with the net proceeds from certain equity offerings.

At any time on or after November 1, 2014, the Issuer may redeem the Notes in whole or in part at the redemption prices described in this offering memorandum under the caption “*Description of the Notes—Optional Redemption*”, plus accrued and unpaid interest and additional amounts, if any, to the redemption date.

Additional amounts; tax redemption All payments in respect of the Notes and the Guarantees will be made without withholding or deduction for any taxes or other governmental charges, except to the extent required by law. If withholding or deduction is required by law, subject to certain exceptions, the Issuer or Guarantors, as applicable, will pay additional amounts so that the net amount a holder of such Notes receives is no less than that which such holder would have received in the absence of such withholding or deduction. See “*Description of the Notes—Withholding Taxes*”. The Issuer may redeem its respective Notes in whole, but not in part, at any time, upon giving prior notice, if certain changes in tax law impose certain withholding taxes on amounts payable on such Notes and, as a result, the Issuer is required to pay additional amounts with respect to such withholding taxes. If the Issuer decides to exercise such redemption right, it must pay holders of such Notes a redemption price equal to the principal amount of the Notes being redeemed, together with accrued and unpaid interest and additional amounts, if any, to the redemption date. See “*Description of the Notes—Redemption for Taxation Reasons*”.

Subject to and as set out in “*Description of the Notes—Withholding Taxes*”, the Issuer will not be liable to pay any additional amounts to holders of the Notes in relation to, among other things, any withholding or deduction required pursuant to Italian Legislative Decree No. 239 of April 1, 1996 (as the same may be amended, or supplemented from time to time) where the Notes are held by a person resident in a country that does not allow for satisfactory exchange of information with Italy (as per article 168-bis, Italian Presidential Decree No. 917 of December 22, 1986) and otherwise in the circumstances as described in “*Description of the Notes—Withholding Taxes*”.

Change of control Upon the occurrence of certain events constituting a change of control, the Issuer is required to offer to repurchase all outstanding Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest and additional amounts, if any, to the date of purchase. See “*Description of the Notes—Change of Control*”.

Certain covenants The indenture governing the Notes will limit, among other things, our ability to:

- incur additional indebtedness;
- pay dividends or make other distributions;
- make certain other restricted payments and investments;
- create liens;
- enter into any agreement that would limit the ability of our restricted subsidiaries to pay dividends or make other payments to us;

- transfer or sell assets;
- impair the security interest;
- merge or consolidate with other entities; and
- enter into certain transactions with affiliates.

Each of the covenants is subject to a number of significant exceptions and qualifications. For a more detailed description of these covenants, see “*Description of the Notes—Certain Covenants*”.

Transfer restrictions	The Notes have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any other jurisdiction. The Notes are subject to restrictions on transfer and may only be offered or sold in transactions that are exempt from or not subject to the registration requirements of the U.S. Securities Act. See “ <i>Transfer Restrictions</i> ” and “ <i>Plan of Distribution</i> ”.
Absence of a public market for the Notes	The Notes are new securities for which there is currently no market. Although the Initial Purchasers have informed us that they intend to make a market in the Notes, they are not obligated to do so and they may discontinue market-making at any time without notice. Accordingly, we cannot assure you that a liquid market for the Notes will develop or be maintained.
Listing	Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and for the Notes to be admitted for trading on the Euro MTF Market. There is no assurance that the Notes will remain listed and admitted to trade on the Euro MTF Market.
Trustee and <i>Rappresentante Comune</i> of the holders of the Notes	The Law Debenture Trust Corporation p.l.c.
Security Agent	The Royal Bank of Scotland plc, Milan Branch
Paying Agent	Deutsche Bank AG, London Branch
Registrar, Transfer Agent and Luxembourg Listing Agent	Deutsche Bank Luxembourg S.A.
Governing law for the Notes, Guarantees and the Indenture	The Notes, the Guarantees and the Indenture are governed by the laws of the State of New York.
Governing law for the Senior Secured Credit Facilities Agreement, the Senior Intercreditor Agreement and the Voting Agreement	The Senior Secured Credit Facilities Agreement, the Senior Intercreditor Agreement and the Voting Agreement are governed by the laws of England & Wales.
Security Documents	The Security Documents are governed by the laws of the Republic of Italy.
Risk factors	Please see “ <i>Risk Factors</i> ” for a description of certain of the risks you should carefully consider before investing in the Notes.

SUMMARY FINANCIAL AND OTHER INFORMATION

The following summary consolidated statement of comprehensive income information, consolidated statement of financial position information and consolidated statement of cash flows information as of and for the years ended December 31, 2010, 2011 and 2012 have been derived from the audited consolidated financial statements for such periods of the Issuer which have been prepared in accordance with IFRS and audited by PricewaterhouseCoopers S.p.A. In order to show trends in our financial performance, we have also included certain consolidated statement of comprehensive income information and consolidated statement of financial position information as of and for the years ended December 31, 2008 and 2009, each of which has been derived from our audited IFRS consolidated financial statements as of and for the year ended December 31, 2009. This summary financial information is not necessarily representative of our results of operations for any future period or our financial condition at any future date.

In 2010, 2011 and 2012 we made certain revisions to the classifications of our chart of accounts based on what we considered to be a more precise classification of items. The reclassifications in 2010 and 2011 related to certain line items in our consolidated statement of comprehensive income, while those in 2012 related only to certain line items in our statement of financial position. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Income Statement Comparability*”. We do not believe that reclassifications impact the comparability of the information across the historical periods presented. Line items that have been reclassified are unaudited.

In 2012 we also made certain revisions to the classifications for our cash flow statement. In particular, prior to 2012, we reconciled the movements in cash flows to the movement in cash and cash equivalents, short term loans and the current portion of long-term loans. From 2012, our cash flows have been reconciled to the changes in cash and cash equivalents. In the audited consolidated financial statements as of and for the year ended December 31, 2012, the consolidated statement of cash flow information for 2011 has been restated consistent with this new approach. For comparability purposes, the statement of cash flow information for the years ended December 31, 2008, 2009 and 2010 presented below was also restated using information from our accounting records. All such restated information is unaudited. See “*Presentation of Financial Information*”.

Beginning with the year ended December 31, 2012, we have adopted IFRS 8, relating to disclosures of segment reporting information. In our audited consolidated financial statements as of and for the year ended December 31, 2012 we have provided the disclosure required by IFRS 8 for 2012 and for the comparative period of 2011. Our financial segment reporting is prepared on the basis of three business segments (Entertainment, Digital Games and Services and Lottery) reflecting the management structure of our business and our internal financial reporting. We do not present business segment reporting information for 2010 in our financial statements or in this offering memorandum. See Note 44 to the 2012 audited consolidated financial statements for further information.

The following summary financial information relating to Gaming Invest has been derived from the unconsolidated accounting records of Gaming Invest prepared in accordance with Luxembourg GAAP.

The following summary pro forma financial information has been derived by applying pro forma adjustments to the Issuer’s historical consolidated financial statements included elsewhere in this offering memorandum. The summary pro forma financial information gives effect to the Refinancing as described in “*Use of Proceeds*”, as though it had occurred on January 1, 2012 for the pro forma statement of comprehensive income information and on December 31, 2012 for the pro forma statement of financial position information. The unaudited pro forma adjustments and the unaudited pro forma financial information set forth below are based on available information and certain assumptions and estimates that we believe are reasonable and may differ from actual amounts. The summary pro forma financial information is for informational purposes only and does not purport to present what our results would actually have been had these transactions occurred on the dates presented or to project our results of operations or financial position for any future period or our financial condition at any future date.

This Summary Financial and Other Information contains certain non-GAAP financial measures including “EBITDA”, “Adjusted EBITDA”, “Adjusted EBITDA margin”, “Pro Forma Adjusted EBITDA”, “Pro Forma Adjusted EBITDA margin”, “changes in trade working capital”, “SHIP net senior secured debt” and “SHIP net debt and GI net debt”.

The non-GAAP financial measures are not measurements of performance or liquidity under IFRS. Investors should not place any undue reliance on these non-GAAP measures and should not consider these measures as: (a) an alternative to operating income or net income as determined in accordance with generally accepted accounting principles, or as measures of operating performance; (b) an alternative to cash flows from operating, investing or financing activities, as determined in accordance with generally accepted accounting principles, or as a measure of our ability to meet cash needs; or (c) an alternative to any other measures of performance under generally accepted accounting principles. These measures are not indicative of our historical operating results, nor are they meant to be predictive of future results. These measures are used by our management to monitor the underlying performance of the business and the operations. Since all companies do not calculate these measures in an identical manner, our presentation may not be consistent with similar measures used by other companies. Therefore, investors should not place undue reliance on this data.

This Summary Financial and Other Information should be read in conjunction with the financial statements included elsewhere in this offering memorandum and the notes thereto and the information set forth in “Summary”, “Business”, “Use of Proceeds”, “Capitalisation”, “Selected Consolidated Financial Information”, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Summary Consolidated Statement of Comprehensive Income Information

	Year ended December 31,				
	2008	2009	2010	2011	2012
	(€ in millions)				
Revenues	459.8	568.7	674.3	792.6	754.1
Fixed odds betting income	66.3	77.4	58.0	74.5	62.3
Other revenues and income	10.8	1.9	3.7	2.7	7.0
Total revenues and income	536.9	648.0	736.0	869.8	823.4
Purchases of materials, consumables and merchandise	12.5	17.8	16.8	18.9	13.3
Costs for services	314.6	381.0	448.1	547.3	520.3
Lease and rent expenses	9.6	10.0	11.4	13.8	16.4
Personnel costs	46.7	56.7	59.4	69.0	76.1
Other operating costs	24.3	29.1	33.8	31.3	48.2
Total costs	407.7	494.6	569.5	680.3	674.3
Gross operating profit before amortisation, depreciation, provisions and impairment losses and reversals	129.2	153.4	166.5	189.5	149.1
Amortisation, depreciation, provisions and impairment losses and reversals	17.9	78.8	96.1	133.1	117.2
Net operating profit (EBIT)	111.3	74.6	70.4	56.4	31.9
Net finance expenses and similar	96.3	81.4	78.0	69.1	69.0
Profit (loss) before income taxes	15.0	(6.8)	(7.6)	(12.7)	(37.1)
Income taxes	5.3	6.3	5.3	16.6	2.7
Profit (loss) for the year	9.7	(13.1)	(12.9)	(29.3)	(39.8)

Summary Consolidated Statement of Financial Position Information

	As of December 31,				
	2008	2009	2010	2011	2012
	(€ in millions)				
Property, plant and equipment	84.0	101.9	115.3	119.7	126.6
Goodwill	867.4	869.2	870.1	886.5	869.6
Intangible assets	239.7	386.3	338.3	286.4	249.1
Cash and cash equivalents	207.9	356.0	472.9	283.7	242.1
Of which restricted ⁽¹⁾	122.6	225.0	354.9	121.5	89.2
Other current and non-current assets	128.6	209.9	242.0	282.4	241.7
Total assets	1,527.6	1,923.3	2,038.6	1,858.7	1,729.1
Long-term debt ⁽²⁾	961.0	1,036.4	1,052.0	1,082.3	1,010.2
Short term debt and current portion of long term debt	54.7	51.2	58.9	63.0	128.6
Other current and non-current liabilities	474.8	709.1	813.9	628.6	544.7
Total liabilities	1,490.5	1,796.7	1,924.8	1,773.9	1,683.5
Total equity	37.1	126.6	113.8	84.8	45.6
Total liabilities and equity	1,527.6	1,923.3	2,038.6	1,858.7	1,729.1

(1) Restricted cash relates to bank accounts which are managed by us but for which the cash is restricted to the payment of prize winnings and, to a lesser extent, deposits made by players for our online games.

(2) Long term debt includes the long-term portion of the Shareholder Loans, amounting to €276.9 million, €350.8 million, €372.5 million, €395.2 million and €420.0 million, as of December 31, 2008, 2009, 2010, 2011 and 2012, respectively. See “Description of Certain Financing Arrangements—Shareholder Loans”.

Summary Consolidated Statement of Cash Flows Information

	Year ended December 31,		
	2010	2011	2012
	(Reclassified)	(Reclassified)	
	(€ in millions)		
Cash flows provided by (used in) operating activities	205.4	(126.2)	60.5
Cash flows provided by (used in) investing activities	(85.5)	(60.1)	(68.1)
Cash flows provided by (used in) financing activities	(3.0)	(2.9)	(34.0)
Increase (decrease) in cash and cash equivalents	116.9	(189.2)	(41.6)

Other Financial Information

	As of and for the year ended December 31,				
	2008	2009	2010	2011	2012
	(€ in millions)				
EBITDA ⁽¹⁾	127.0	152.7	166.6	183.8	153.9
Adjusted EBITDA ⁽²⁾	140.2	152.7	166.6	183.8	170.4
Adjusted EBITDA margin ⁽³⁾	26.1%	23.6%	22.6%	21.1%	20.7%
Changes in trade working capital ⁽⁴⁾	34.2	(49.2)	(19.4)	7.4	46.6
Capital expenditures ⁽⁵⁾	47.2	196.3	84.6	49.5	58.9
Unrestricted cash ⁽⁶⁾	85.3	131.0	118.0	162.2	152.9
SHIP net senior secured debt ⁽⁷⁾	651.9	601.5	612.5	568.6	561.0
SHIP net debt and GI net debt ⁽⁸⁾	883.2	847.1	873.2	852.5	840.5
Ratio of SHIP net senior secured debt to Adjusted EBITDA	4.6x	3.9x	3.7x	3.1x	3.3x
Ratio of SHIP net debt and GI net debt to Adjusted EBITDA	6.3x	5.5x	5.2x	4.6x	4.9x
Pro Forma Adjusted EBITDA ⁽⁹⁾					172.4
Pro Forma Adjusted EBITDA margin ⁽¹⁰⁾					20.9%

- (1) We define EBITDA as profit (or loss) for the year plus net finance expenses and similar, income taxes and amortisation, depreciation, impairments and impairment of receivables. EBITDA is a non-IFRS measure. The following is a calculation of EBITDA:

	Year ended December 31,				
	2008	2009	2010	2011	2012
	(€ in millions)				
Profit (loss) for the year	9.7	(13.1)	(12.9)	(29.3)	(39.8)
Net finance expenses and similar	96.3	81.4	78.0	69.1	69.0
Income taxes	5.3	6.3	5.3	16.6	2.7
Amortisation, depreciation and impairments	8.1	68.8	84.9	115.1	106.3
Impairment of receivables ^(a)	7.6	9.3	11.3	12.3	15.7
EBITDA	127.0	152.7	166.6	183.8	153.9

- (a) Impairment of receivables relates to accruals for receivables where recoverability is considered to be doubtful; the movement in our impairment of receivables is primarily related to the growth of the turnover of the business.

- (2) We define Adjusted EBITDA as EBITDA adjusted for the effect of extraordinary items. Adjusted EBITDA in 2012 includes an adjustment relating to fines imposed by the AAMS for failure to meet minimum required volumes under our lottery concession. Adjusted EBITDA in 2008 includes costs of settlement agreements signed during 2008 for the termination of contracts with certain senior managers and directors. There were no extraordinary items in the years ended December 31, 2009, 2010 or 2011. Adjusted EBITDA is a non-IFRS measure. The following is a calculation of Adjusted EBITDA.

	Year ended December 31,				
	2008	2009	2010	2011	2012
	(€ in millions)				
EBITDA	127.0	152.7	166.6	183.8	153.9
Extraordinary items	13.2	—	—	—	16.5
Adjusted EBITDA	140.2	152.7	166.6	183.8	170.4

- (3) We define Adjusted EBITDA margin as Adjusted EBITDA divided by total revenues and income.

- (4) The following is a calculation of changes in trade working capital as extracted from our cash flow statement.

	As of December 31,				
	2008 (Reclassified)	2009 (Reclassified)	2010 (Reclassified)	2011 (Reclassified)	2012
	(<i>€ in millions</i>)				
Movements in trade receivables ^(a)	(7.4)	(96.0)	(42.0)	(18.1)	16.9
Movements in inventories	(1.0)	(6.9)	3.6	(4.1)	4.6
Movements in trade payables	42.6	53.7	19.0	29.6	25.1
Changes in trade working capital	34.2	(49.2)	(19.4)	7.4	46.6

- (a) In 2009, the change primarily reflects the increase in turnover in the lottery business due to higher jackpots and the successful launch of WinforLife! For a discussion of the results in 2010, 2011 and 2012, please see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”.

- (5) Capital expenditures consist of investments for the period in property, plant and equipment and intangible assets as shown in our cash flow statement.

	Year ended December 31,				
	2008 (Reclassified)	2009 (Reclassified)	2010 (Reclassified)	2011 (Reclassified)	2012
	(<i>€ in millions</i>)				
Concession rights ^(a)	—	148.8	36.9	—	1.7
Intangible assets	6.2	5.7	7.1	14.9	12.1
Property, plant and equipment	41.0	41.8	40.6	34.6	45.1
Capital expenditures	47.2	196.3	84.6	49.5	58.9

- (a) Primarily relates to lottery concessions of €101.5 million and VLT rights of €73.9 million, of which €36.9 million was paid in 2010. The consideration for such concessions was partially funded through shareholder contribution of €161.5 million in 2009.

- (6) Unrestricted cash represents cash and cash equivalents from our statement of financial position less restricted cash relating to bank accounts which are managed by us but for which the cash is restricted to the payment of prize winnings and, to a lesser extent, deposits made by players for our online games.
- (7) SHIP net senior secured debt consists of the principal amounts due under the Senior Secured Credit Facilities Agreement less unrestricted cash. Net senior secured debt does not include debt under finance leases, factoring of VAT receivables and other sundry financial liabilities which in aggregate amounted to €7.1 million, €10.5 million, €14.6 million, €26.0 million and €10.0 million as of December 31, 2008, 2009, 2010, 2011 and 2012, respectively.
- (8) SHIP net debt and GI net debt consists of the principal amount of total debt of the Issuer and its consolidated subsidiaries excluding amounts due under the Shareholder Loans and net of unrestricted cash of the Issuer and its subsidiaries, plus amounts due by Gaming Invest under the Mezzanine Facilities Agreement and the Second Lien Facilities Agreement net of cash at Gaming Invest.
- (9) We define Pro Forma Adjusted EBITDA as Adjusted EBITDA as adjusted for the annualised net impact of cost savings actually achieved during the year ended December 31, 2012. The cost savings achieved during the year ended December 31, 2012 reflect initiatives which we implemented mainly in the first half of 2012, primarily relating to re-negotiation of supplier contracts for telecommunication services, logistics and cleaning and security services. We also introduced cost optimisation initiatives relating to online recharge commissions at our points of sale and employee shift patterns. We estimate that such annualised cost savings total €5.6 million. Cost savings of approximately €3.6 million are already reflected in the statement of comprehensive income for the year ended December 31, 2012. Therefore, the adjustment of €2 million relates to the annualised impact as if the cost optimisation initiatives had been fully implemented as of January 1, 2012. Actual cost savings could be different than our pro forma estimate of the full year effect of cost savings. Pro Forma Adjusted EBITDA is a non-IFRS measure.
- (10) We define Pro Forma Adjusted EBITDA margin as Pro Forma Adjusted EBITDA divided by total revenues and income.

Segment Information

Segment Information	Year ended December 31,			
	2011	2012	2011	2012
	Revenues and income		Segment Gross Operating Profit ⁽¹⁾	
	(€ in millions)			
Entertainment	566.3	525.3	145.6	121.7
Digital Games and Services	152.8	172.9	63.0	74.7
Lottery	149.4	119.1	59.3	29.0 ⁽²⁾
Other	1.3	6.1		
Segment Gross Operating Profit			267.9	225.4
Corporate costs ⁽³⁾			(78.4)	(76.3)
Total	869.8	823.4	189.5	149.1

- (1) Segment Gross Operating Profit represents gross operating profit before amortisation, depreciation, impairment losses and reversals, impairment of receivables, costs of our corporate structure and provisions which are not directly related to the performance of the business.

- (2) Gross operating profit for the year ended December 31, 2012 includes the €16.5 million fine from AAMS within other operating costs of the Lottery segment. Excluding the impact of such fine, our lottery segment gross operating profit would have been €45.5 million.
- (3) Including the elimination of costs of €5.1 million and releases of €6.1 million for the years ended December 31, 2011 and 2012 respectively, recorded in Segment Gross Operating Profit, relating to the provisions which management consider to be directly related to the performance of the business. The effect of these items is eliminated in the reconciliation as they are recorded below gross operating profit before amortisation, depreciation, provisions and impairment losses and reversals in our statutory reporting.

Operating Information

	As of and for the year ended December 31,				
	2008	2009	2010	2011	2012
Gaming turnover (€ in millions)	5,143	6,682	7,168	8,038	7,911
Services turnover (€ in millions)	1,449	2,757	4,176	5,298	5,869
Number of slot machines	24,146	27,705	31,555	35,338	36,318
Number of video lottery terminals	—	—	1,709	4,269	4,695
Number of points of sale with gaming terminals and handheld terminals	23,971	33,708	39,259	42,034	41,561
Number of betting points of sale	3,932	3,891	4,008	4,238	4,245 ⁽¹⁾
Number of payment and financial services transactions (millions)	93.5	132.9	160.6	185.6	198.9

- (1) Including 374 betting points of sale which were in the process of being relocated as of December 31, 2012.

Summary Pro Forma Financial Information

	As of and for the year ended December 31, 2012
Pro forma cash and cash equivalents (€ in millions) ⁽¹⁾	140.1
Pro forma SHIP net senior secured debt (€ in millions) ⁽²⁾	573.8
Pro forma SHIP net debt and GI net debt (€ in millions) ⁽³⁾	853.3
Pro forma cash interest expense of SHIP and GI (€ in millions) ⁽⁴⁾	51.5
Ratio of pro forma SHIP net senior secured debt to pro forma Adjusted EBITDA	3.3x
Ratio of pro forma SHIP net debt and GI net debt to pro forma Adjusted EBITDA	4.9x
Ratio of Pro Forma Adjusted EBITDA to pro forma cash interest expense of SHIP and GI	3.4x

- (1) Pro forma cash and cash equivalents reflects our unrestricted cash at December 31, 2012, adjusted for the effects of the Refinancing and the Amend and Extend. For the adjustments to cash and cash equivalents, see “Use of Proceeds” and “Capitalisation”.
- (2) Pro forma SHIP net senior secured debt reflects SHIP net senior secured debt, adjusted for the effects of the Refinancing and the Amend and Extend. Ship net senior secured debt consists of the principal amounts due under the Senior Secured Credit Facilities Agreement and the Notes offered hereby, less SHIP unrestricted cash.
- (3) Pro forma SHIP net debt and GI net debt reflects SHIP net debt and GI net debt, adjusted for the effects of the Refinancing and the Amend and Extend.
- (4) Pro forma cash interest expense is comprised of the cash interest expense in connection with the Senior Secured Credit Facilities, the other third party financial liabilities of SHIP (including the Notes) and the Second Lien Facilities and the Mezzanine Facilities of Gaming Invest as if the Refinancing and the Amend and Extend had taken place on January 1, 2012.

RISK FACTORS

This Offering involves a high degree of risk. You should carefully consider the risks described below as well as other information and data contained in this offering memorandum before making an investment decision. If any of the events described in the risk factors below occur, our business, financial condition and results of operations could be materially and adversely affected, which in turn could adversely affect our ability to repay the Notes. The risks described below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition, operating results or prospects. In any such case, you may lose all or part of your investment in the Notes.

Risks Related to Our Business

The industries in which we operate are highly regulated, and if we fail to comply with applicable laws and regulations, or the introduction of more stringent laws and regulations, could adversely affect our financial results.

The gaming industry in Italy, which includes betting, is heavily regulated by the *Agenzia delle Dogane e dei Monopoli*, formerly the *Amministrazione Autonoma dei Monopoli di Stato* (the “AAMS”), the Italian gaming authority, which determines, among other things, (i) which games may be operated and what amounts may be charged by operators, (ii) what level of winnings may be awarded, (iii) what level of compensation may be paid to concessionaires, (iv) the number and location of the points of sale and whether a given concession is exclusive or available to multiple concessionaires and (v) minimum levels of service. Concessionaires in the gaming industry must also obtain a police licence and, if required by specific law provisions and AAMS regulations, additional permits (such as authorisations and *nihil obstat*). Other than the sale of top-ups and prepaid telephone cards, which is unregulated, the convenience payment services industry is regulated by the Bank of Italy, which determines who may operate as a payment institution. In order to obtain and maintain a licence as a payment institution, one must comply with regulations governing, among other things, (i) the segregation of assets relating to convenience payment services from the assets relating to other corporate activities, (ii) regulatory capital requirements, (iii) conduct of business rules and (iv) anti-money laundering rules and regulations. For a further description of the regulatory framework applicable to our business, see “Regulation”.

We currently hold gaming concessions from the AAMS and an authorisation to operate as a payment institution from the Bank of Italy. We are also subject to laws generally applicable to businesses, including regulations relating to employment matters. Compliance with this extensive regulatory framework requires significant investments in infrastructure and personnel. In addition, failure to comply with applicable laws, regulations and rules could result in investigations and enforcement actions, concessions or licences that we need to do business not being renewed or being revoked, criminal sanctions, administrative fines or the separation, suspension or termination of our operations. See “—We may be subject to an unfavourable outcome with respect to pending litigation, which could result in substantial monetary damages and harm to us” and “Regulation”. We could also from time to time experience delays in the application for new concessions or licences, or delays in obtaining regulatory approval or legislative changes that may be required in order to modify certain attributes of a current product offered under an existing concession, such as the delay by the AAMS in approving new games for VLTs, and such delays could preclude us from taking advantage of attractive market opportunities or require us to temporarily cease operations.

The legal requirements to which we are already subject may change, and we may become subject to new legislation. For example, the EU has been considering harmonising regulation of online gaming among member states. There may in the future be new laws related to gaming, convenience payment services, anti-money laundering, taxation requirements, employment and data privacy and protection, among others. For example, changes in law or regulation that have the effect of reducing the consideration paid to concession holders or increasing the number of licences, authorisations or concessions awarded by the AAMS to competitors, among other changes, could have a material adverse effect on our results of operations and financial condition.

We operate in a competitive environment and in particular may face pressure from online offerings.

We face competition both from land-based gaming facilities, betting shops and corners and convenience payment service providers, and from online operators offering such products and services. Competition may intensify as new operators enter the market and existing operators improve and expand their product offerings, their distribution network or their distribution channels, including online and mobile phone platforms. For example, with respect to selling top-ups for mobile phones, a service which is available on numerous competitors’ networks, competition may result in downward price pressure or reduced volumes which could lead to a decline in revenues and income. Additionally, we operate in the competitive online gaming market, and online operators have generally pursued aggressive commercial policies, such as increased advertising and welcome and loyalty bonuses. An increase in competition and aggressive commercial policies could reduce profit margins and volumes on both existing and future concessions. Gaming products are also susceptible to consumer trends, and the improvement and expansion of product offerings by our competitors may attract customers away from the products and services we offer and reduce our market share. Increased competition from other gaming operators, bookmakers, convenience payment service providers and online operators, as well as from suppliers of other gaming products and convenience payment services, in any segment of our industry, including the online market, may have a material adverse effect on our business, results of operations and financial condition.

Liberalisation or other changes in the regulatory framework may increase the number of competitors in the gaming sector, including competitors who are not required to comply with all the requirements of the Italian regulatory framework.

Since 2001, Italian gaming legislation has been challenged from time to time before the European Court of Justice. According to the European Court of Justice, national laws prohibiting collecting, taking, booking and forwarding offers of bets without a concession are permissible under Articles 43 EC (freedom of establishment) and 49 EC (freedom to provide services) only in certain cases where a national court determines that such laws genuinely contribute to the objective of preventing criminal or fraudulent activities. Accordingly, Italian courts, including higher level courts, have ruled that in certain cases EU gaming operators authorised to operate in their home member state may begin operating in Italy without a concession, though a police licence is still required. For example, Italian courts have permitted such EU gaming operators to commence operations in Italy without a concession where it is determined that the operator was unable to participate in the public tender for the concession due to restrictions put in place at the time of such tender that are found to be discriminatory against foreigner operators. As a result, several EU operators are active in the Italian gaming market without an AAMS concession. For so long as such operators are permitted to act outside the Italian regulatory framework, they may be able to obtain a competitive advantage against operators that hold an AAMS concession, including Sisal, as such operators will not be subject to the restrictions imposed by the concession.

The AAMS and the Italian legislature have taken certain steps in order to make Italian gaming legislation compliant with the EC Treaty and European Court of Justice statements. For example, pursuant to Law No. 88/2009 (2008 Community Law), the AAMS may grant gaming concessions to any gaming operator filing an application with AAMS and meeting certain legal requirements and economic conditions, without having to go through a public tender process. More recently, with the betting licences tender procedure of July 2012, the AAMS has amended the concession regime with the aim to further liberalise the gaming and betting sector. Any change in the applicable regulatory regime that has the effect of further opening the Italian gaming market and increasing the number of competitors could have a material adverse effect on our financial condition and results of operations. Furthermore, should the courts determine that the recent efforts of the AAMS and the Italian legislature to modify the Italian regulatory framework to comply with the European Court of Justice rulings are insufficient, operators that do not hold an AAMS concession may be able to continue to operate outside the Italian regulatory framework and even increase their activities, which could have a material adverse effect on our financial condition and results of operations.

A significant portion of our revenues and income are derived from concessions required to operate our gaming business, which are of limited duration, and in certain cases, subject to early termination.

Under applicable Italian law, a concession is required in order to offer gaming products, and these concessions are of limited duration. We currently hold a number of key gaming concessions from the AAMS, the Italian gaming authority. For example, we have an exclusive concession to operate all national totalisator number games (“NTNG”), or games of chance, which was awarded in 2009 and is currently set to expire in June 2018. The NTNG concession comprises our Lottery business unit, which accounted for 14.5% of total revenues and income and 12.9% of Segment Gross Operating Profit in 2012. Additionally, we currently have approximately 4,000 concessions to operate sports and horse betting corners, which are set to expire in June 2016. The concessions comprise our offline betting business, which accounted for approximately 8.2% of total revenues and income in 2012. Upon the expiration of our concessions, new concessions may be awarded to one or more parties through a competitive bidding process. Upon the expiration of a concession and as part of the competitive bidding process, the AAMS could decide that in the future a given concession will be available to multiple concessionaires, even if the previous concession was exclusively granted to only one concessionaire. Renewing concessions can be costly and time consuming, and while we have historically been able to renew our concessions, our NTNG, betting or any other concession may not be renewed upon its expiration on favourable terms or at all. Any failure to renew or obtain any such concession could have a material adverse effect on our business or results of operations and financial condition.

New concessions may also be awarded on a trial basis, meaning that we could face penalties or the AAMS could revoke the concession within the first few years of its term if certain conditions are not satisfied. For example, our NTNG concession contained a condition that we obtain certain minimum turnover over the test period, which we were not able to satisfy during a two-month period from May to June 2012 and as a result the AAMS imposed a penalty of €16.5 million in 2012. For more information, see “*Business—Legal Proceedings—Pending Litigation Regarding Minimum NTNG Turnover*”. The trial period for our NTNG concession has since expired and none of our current concession agreements provides for trial periods. In addition, our concessions are also subject to revocation upon the occurrence of certain events, which are different for each concession. Under certain circumstances, a concession could be revoked upon a change of control or if determined to be against the public interest. For example, our betting concession may be revoked by the AAMS if we fail to meet certain legal requirements set for sports and horse betting concessionaires, if we fail to pay the applicable fees to the regulatory authority or, in certain cases, if we fail to communicate to the regulatory authority certain changes in our corporate structure. Under several of our concessions the transfer of the ownership of the concession agreements is prohibited or restricted. In addition, under our concessions we are not entitled to compensation for our initial investment or loss of anticipated profits in case of early termination as a result of a breach of terms, and depending on the nature of the breach, the AAMS could call due any performance bonds granted by us in connection with the concession agreement. See “*We are subject to substantial penalties if we fail to perform under our concessions, and we are often required to post sizeable performance bonds*”.

Even after we are awarded a concession, competitors may seek to challenge the validity of the concession. For example, our NTNG concession has been challenged by multiple competitors on the grounds, among others, that our bid was faulty. See “*Business–Legal Proceedings–Pending Litigation Regarding the NTNG Concession*”. Defending the validity of our NTNG concession has been time consuming and costly. Competitors may seek to challenge the NTNG concession or other concessions, and we may be required to spend additional capital and management time defending such concessions even if the challenges are without merit. Challenges to tender procedures or the award to us of any concession or other approval could result in the denial, termination or revocation of such concession or approval, which could have a material adverse impact on our business, results of operations and financial condition.

Acquiring or renewing a concession typically requires a significant upfront cash payment, and in the future, we may not have sufficient cash on hand or adequate access to additional capital to fund such payments.

In recent years, certain concessions in Italy have required a significant upfront payment. For example, in 2009 the upfront fee for our VLT concession was €15,000 for each of the approximately 5,000 such machines, while for our exclusive NTNG concession, we were required by the AAMS to pay an upfront fee of €101.5 million. The cost of renewing existing concessions or obtaining new concessions may increase. Our ability to maintain existing concessions upon their renewal and invest in new concession opportunities depends on our ability to have available cash on balance sheet or have access to new sources of capital to fund these investments. We may not have available cash and may not be able to access sources of capital on favourable or reasonable terms. Such occurrence could have a material adverse effect on our results of operations, business and financial condition.

We are subject to substantial penalties if we fail to perform under our gaming concessions or convenience payment services agreements, and we are often required to post sizeable performance bonds.

Our concessions often require substantial performance bonds, primarily to guarantee the payment of tax revenue to the Republic of Italy, and require us to pay sizeable monetary liquidated damages in the event we do not comply with our obligations in respect of a concession. Additionally, though not required by our licence from the Bank of Italy, our convenience payment services agreements contractually require us to issue performance bonds which guarantee payment of the amounts collected from, for example, utility bill payments and mobile phone top-ups, net of our commission. As of December 31, 2012, we had performance bonds outstanding in the aggregate amount of €383.2 million of which €238.5 million was related to our gaming concessions and €140.8 million was related to our convenience payment services agreements and others of €3.9 million. These are off-balance sheet items. While we have not in the past not been subject to claims under performance bonds, these bonds and penalties present an ongoing potential for substantial cash out-flows. In the case of a material breach of our obligations under our concessions, claims on performance bonds and the payment of liquidated damages could individually or in the aggregate have a material adverse effect on our business, results of operations and financial condition. In addition, we may not be able to renew our outstanding performance bonds on commercially favourable terms, so extending the maturity of our existing performance bonds in the future could be significantly more expensive.

We are obligated to transfer certain assets upon the termination of the NTNG and gaming machine concessions, which could have an adverse effect on our business.

Upon the termination or non-renewal of our NTNG or gaming machine concessions, we will be required at the request of AAMS to transfer to AAMS, free of charge, ownership of certain assets that are part of the central system used to operate the concession. For example, with respect to our NTNG concession, we must return to the AAMS, at no charge, ownership of the assets that make up the physical distribution network for collections of NTNG offerings, as well as ownership of all the tangible and intangible assets that comprise the distribution network, including the equipment, facilities, trademarks and anything else necessary for the full functioning and operation of the NTNG network. As of December 31, 2012, the book value of these assets, net of depreciation and amortisation, totalled approximately €44.7 million. The obligation to transfer such NTNG assets may have detrimental effects on certain other businesses operated by us because our all-in-one terminals use the same hardware and software to conduct both our NTNG operations and our convenience payment services business. While the AAMS did not exercise its right to require us to transfer the assets when a prior NTNG concession expired and was replaced with the existing concession, the AAMS could in the future require such transfer, and we would need to replace such terminals, requiring additional capital expenditures which could be significant. Our gaming machines concessions require us to transfer related software and data communication network technology to AAMS, free of charge, upon expiration of the concession.

We may be subject to an unfavourable outcome with respect to pending litigation, which could result in substantial monetary damages and harm to us.

We operate in a market with a high level of litigation. At present, we are party to several administrative proceedings. In particular, in 2007 the Public Prosecutor of the Department of the State Auditor (the “Public Prosecutor”) initiated formal administrative proceedings against us and all other original nine concessionaires of slot machines for allegedly failing to comply with certain obligations arising from our concession to act as an authorised network operator. Specifically, the Public Prosecutor alleged a delay in the launch of the online network, a delay in the activation of the network, a delay in the connection of the gaming machines to the online network and a failure to comply with certain

minimum service levels because of an alleged delay in network responses to the AAMS interrogations on gaming volumes. The Public Prosecutor claimed damages to the Italian treasury for the alleged loss of revenue. Furthermore, the Public Prosecutor initiated similar proceedings against AAMS alleging that AAMS had been negligent in not ordering itself the penalties provided under the concessions in connection with the alleged violations. In turn, AAMS initiated separate legal proceedings against us and the nine other original concessionaires on the same grounds as the Public Prosecutor. We have not set aside any funds or reserves in the financial statements in respect of these two proceedings. For further information regarding this and other legal proceedings, see “*Business—Legal Proceedings*”. A negative outcome in one or more of these proceedings could require us to pay substantial monetary damages or penalties and could have a material adverse effect on our business, results of operations and financial condition.

We are currently subject to a pending tax investigation whose outcome is not yet assessable, but which may adversely affect our results of operations and financial condition.

Sisal S.p.A., one of the Guarantors, has been subject to two separate tax audits for the period 2005 to 2009. Following such audits, the tax authorities alleged that certain interest expenses and related fees should not have been deducted for income tax purposes in such 2005 to 2009 tax period. In one tax audit, the authority alleged that certain fees incurred in connection with the 2006 financing by Area Giochi S.p.A. (then merged with Sisal S.p.A.) for the acquisition of Sisal S.p.A., and VAT related to services invoiced in 2005, should not have been deducted. In the other tax audit, the tax authority alleged that interest expenses incurred in connection with the 2006 acquisition financing by Area Giochi S.p.A. should not have been deducted. With the exception of a formal assessment related to a deduction for the VAT on services of approximately €0.5 million, the tax authorities have only issued tax audit reports. A tax audit report constitutes a communication at the end of an inspection, but in the absence of a formal assessment, it is not a penalty or an act that can be contested. If claims relating to the 2005 to 2009 deductions are brought by the competent tax authorities, we estimate that the maximum payment would amount to approximately €17.6 million in taxes, plus interest, and penalties ranging from 100% to 200% of such amount. If the claim is extended to tax periods 2010 to 2012, we estimate that the maximum payment would amount to approximately €6.4 million, plus interest, and penalties ranging from 100% to 200% of such amount. For further information regarding these matters, see “*Business—Legal Proceedings—Tax matters*”. The maximum exposure amounts are estimates, and a number of factors could cause any actual payments to differ materially from such estimates. A negative outcome related to one or both of these tax audits could require us to pay substantial monetary damages or penalties and could have an adverse effect on our results of operations and financial condition.

Changes to taxation or the interpretation or application of tax laws could have an adverse impact on our results of operations and financial condition.

Our business operations are subject to a number of taxes and fees, including value-added-tax (VAT) and specific gaming-related taxes calculated with reference to turnover. For example, in sports betting, we pay a percentage of sports betting turnover to AAMS, with the applicable tax rate percentage payable determined with reference to the number of events on which a customer has placed a bet. The levels of taxation to which our operations are subject could increase in the future. For example, in 2012 VAT increased from 20% to 21% and taxation on VLTs increased from 2% to 4% in 2012 and a further scheduled increase to 5% went into effect as of January 1, 2013. Changes in tax law or other laws supersede the terms of our concessions and we are not entitled to additional compensation to offset such changes during the life of a concession. Any such future increases in the levels of taxation, or the implementation of any new taxes to which our operations will be subject, could have a material adverse effect on the business, financial condition and results of operations of our business. We are also subject to intercompany pricing laws, including those relating to the flow of funds among our Group companies pursuant to, for example, loan agreements, purchase agreements, licensing agreements or other arrangements. Adverse developments in these laws or regulations, or any change in position by the relevant Italian tax authorities regarding the application, administration or interpretation of these laws or regulations, could have a material adverse effect on our business, financial condition and results of operations.

In addition, tax law and administration is complex and often requires us to make subjective determinations. For example, tax authorities may not agree with the determinations that are made by us with respect to the application of intercompany pricing, income tax or VAT law. We are from time to time subject to tax audits and investigations by the tax authorities, which include investigations with respect to the direct tax and indirect tax regime of our transactions. In addition, the relevant tax authorities may disagree with the positions we have taken or intend to take regarding the tax treatment or characterisation of any of our transactions, including the tax treatment or characterisation of our existing as well as previously incurred and subsequently refinanced indebtedness, including the Notes, existing and future intercompany loans and guarantees or the deduction of interest expenses. Such disagreements could result in lengthy legal disputes and, ultimately, in the payment of substantial amounts of tax, interest and penalties, which could have a material effect on our results of operations. We could also fail, whether inadvertently or through reasons beyond our control, to comply with tax laws and regulations relating to the tax treatment of several of our transactions or financing arrangements, which could result in unfavourable tax treatment for such transactions or arrangements, and possibly lead to significant fines or penalties. It may be necessary to defend our tax filings in court if a reasonable settlement cannot be reached with the relevant tax authorities and such ensuing litigation could be costly and distract management from the other affairs of our business. Tax audits and investigations by the competent tax authorities may generate negative publicity which could harm our reputation with customers, suppliers and counterparties. An adverse tax adjustment in connection with our business could have a material adverse effect on our business, financial condition and results of operations.

Our business may be impacted by economic weakness and political uncertainty, particularly in Italy.

Global economic activity has undergone a sharp downturn since 2007. Global credit and capital markets have experienced volatility and disruption and business credit and liquidity have tightened. Credit has also contracted in a number of major markets, including Italy, and national unemployment rates have increased significantly. Economists, observers and market participants have expressed concern regarding the sustainability of the European Union and its common currency, the euro, in their current form. Global economic conditions and conditions specific to Italy may affect our sales and profitability. Since January 2012, Italy's sovereign debt rating has been downgraded by Standard and Poor's, Fitch Ratings and Moody's, reflecting their views as to Italy's increasing vulnerability to external financing risks and the negative implications these could have for economic growth and public finances as well as fragile market confidence and deterioration in Italy's near-term economic outlook. A further downgrade of the Italian sovereign could create additional economic uncertainty and could have an adverse effect on our credit ratings. Investor and market confidence in Italy has further deteriorated despite the government having passed two austerity packages amounting to approximately €90 billion in late 2011, and has been exacerbated by ongoing political uncertainty following the resignation of Prime Minister Silvio Berlusconi in 2011 and Prime Minister Mario Monti in 2012 and unclear early election results in 2013. The economic and political developments have had a negative impact on Italy's growth, and continued uncertainty could lead to further deterioration of investor and market confidence. The political uncertainty could also lead to delays in legislative or regulatory initiatives in the gaming and convenience payment services industries.

Our business may be sensitive to reductions in discretionary consumer spending, which is affected by negative economic conditions. For example, economic contraction, economic uncertainty and the perception by our customers of weak or weakening economic conditions could cause a decline in the demand for entertainment in the forms of the gaming services that we offer. In addition, changes in discretionary consumer spending could be driven by factors such as an unstable job market, an increase in personal taxes or perceived or actual decline in disposable consumer income and wealth. Weakening economic conditions also impact our points of sale, and we have in the past, and may in the future need to, reduce the point of sale fees paid to us by point of sale owners or increase the commissions we pay to point of sale owners in order to maintain their retail affiliation in difficult economic periods. Additionally, during 2012, a number of our point of sale managers and operators became insolvent. We only have operations in Italy and therefore we may be more affected by economic weakness or uncertainty in Italy than some of our competitors with international operations. It is difficult to determine the breadth and duration of the economic and financial market problems and their potential effects on demand for our products and our suppliers. Continuation or further worsening of these difficult financial and macroeconomic conditions could materially adversely affect our business, results of operations and financial condition.

Negative perceptions and publicity surrounding the gaming industry could lead to increased gaming regulation, which could adversely affect our business.

Recently the gaming industry has been exposed to negative publicity related to gaming behaviour, gaming by minors, the presence of gaming machines in too many shops, risks related to online gaming and alleged association with money laundering. Publicity regarding problem gaming and other concerns with the gaming industry, even if not directly connected to us and our products, could adversely impact our business, results of operations and financial condition. For example, if the perception develops that the gaming industry is failing to address such concerns adequately, the resulting political pressure may result in the industry becoming subject to increased regulation. Such an increase in regulation could adversely impact our business, results of operations and financial condition.

We depend on partners and retailers, as well as a number of third party suppliers, for the operation of our business, and problems with such partners, retailers or suppliers could adversely affect us.

We rely on our partners and retailers to operate the majority of the points of sale in our distribution network, and at our partner-owned Matchpoint betting shops, affiliated Matchpoint betting corners and affiliated points of sale, the partner or retailer, as applicable, operates under the Sisal brand. We also rely on a number of third party suppliers who provide us with products and services. We do not control these partners, retailers and third party suppliers, and we rely on them to perform their services in accordance with the terms of their contracts, which increases our vulnerability to problems with the products and services they provide. We may not be successful in recovering any losses which result from the failure of the partner, retailer or third party supplier to comply with their contractual obligations to us, and where a partner or retailer is operating under our brand, such failure may also negatively impact our reputation and consumer loyalty. Partners, retailers and third party suppliers may also seek to recover losses from us under indemnities or in respect of breaches of obligations or warranties under their agreements with us. Such events could have a material adverse effect on our reputation, business, results of operations and financial condition.

Our failure to successfully maintain and enhance our brands could adversely affect our business.

Our success is dependent in part on the strength of our brand. We believe that we have a long-established, trusted and widely recognised brand and reputation in Italy and that our brand represents a competitive advantage in the development of our gaming and convenience payment service activities. We also believe that our success will be dependent on maintaining

and enhancing the strength of our brand. In order to promote brand loyalty among our customers, we plan to increase the number of branded points of sale. See “*Summary—Business Strategy*”. We cannot assure you that this effort, or any of our other brand management initiatives, will be successful. If we are unable to enhance or maintain the strength of our brand, then our ability to expand or retain our customer base may be impaired, and our business, results of operations and financial condition may be adversely affected.

Illegal gaming may drain significant portions of gaming volumes away from the regulated industry and adversely affect our business.

A significant threat for the entire gaming industry arises from illegal activities such as illegal slot machines and, more generally, all forms of gaming that circumvent public regulation, including offshore gaming. See “*—Liberalisation or other changes in the regulatory framework may increase the number of competitors in the gaming sector, including competitors who are not required to comply with all the requirements of the Italian regulatory framework*”. Such illegal activities drain gaming volumes away from the regulated industry. For example, illegal online poker and casino games take away a portion of those players that are the focus of our online gaming business. The loss of such players could have an adverse effect on our business, results of operations and financial condition.

Changes in consumer preferences and behaviour could harm our business.

Our gaming business is dependent on the appeal of our gaming offerings to our customers. Our gaming offerings compete with various other forms of gaming venues and opportunities, as well as other forms of entertainment such as television, the Internet, social media and live events, and may lose popularity as new leisure activities arise or as other leisure activities become more popular. The popularity and acceptance of gaming is also influenced by the prevailing social mores, and changes in social mores could result in reduced acceptance of gaming as a leisure activity. We believe that the gaming market in Italy is now mature and is likely to stabilise or may slightly decline over the next few years; it is therefore critical that we are able to offer products that continue to appeal to consumers. The rapid expansion of Internet gaming may render our land-based products less desirable or oblige us to incur significant capital expenditures to meet customer demand. Even if we are able to satisfy changing consumer preferences, we may experience cannibalisation in relation to some of our other product offerings; for example, the introduction of gaming products with a higher payout may attract customers that previously played games with a lower payout and therefore generated more revenues and income.

Our convenience payment services business is dependent on the cultural appeal of making payments through “local” channels such as bars and newsagents. If consumer preferences change and we fail to anticipate or address such changes with new offerings, we could experience reduced demand. For example, we are currently rolling out cashless convenience payment services terminals, but such terminals may not prove to be attractive to consumers, and a shift in consumer preference towards, or an increased availability of, direct debit or other forms of automatic bill payment could reduce demand for our convenience payment services offerings. Direct debit or other forms of automatic bill payment have become increasingly popular in many countries, such as the United Kingdom and the United States. To the extent that the popularity of our gaming products or “local” convenience payment services declines, the demand for our offerings will decline and our business, results of operations and financial condition may be adversely affected.

Our failure to keep up with technological developments in the online gaming and convenience payment services market, or to continually develop our technological expertise, could negatively impact our business, results of operations and financial condition.

The market for online gaming products and for convenience payment services is characterised by rapid technological developments, frequent new product and service offerings and evolving industry standards. The emerging character of these products and services and their evolution requires us to use technologies effectively, enhance our current products and services and continue to improve the performance, features and reliability of our technology and information systems. In addition, the widespread adoption of new Internet technologies or standards could require substantial expenditure to replace, upgrade, modify or adapt our technology and systems, which could negatively impact our business, results of operations and financial condition. From time to time we also need to replace certain of our information technology, which can be costly.

The technology we are currently using may be rendered obsolete by new technologies and more advanced systems introduced in the industry. In addition, new technology we use may contain design flaws or other defects and require modifications or result in a loss of confidence in our products and services by our customers. Moreover, we depend on third-party technology providers for the development and maintenance of certain of our systems, and any failure to maintain relationships with such providers would negatively impact our business, results of operations and financial condition.

We may experience significant losses on our fixed-odds betting products from time to time.

In fixed-odds betting, winnings are paid on the basis of the stake placed and the odds quoted, rather than derived from a pool of stake money received from all customers. Our fixed-odds betting products give rise to either a liability to make a certain payment to a customer, or the retention by us of the stake placed by such customer. In 2012, we generated total

revenues and income of €62.3 million from our offline and online betting activities. However, as a result of significant winnings or losses event by event and day by day, our earnings in our betting business can be volatile and we cannot guarantee positive returns. For example, 2012 was a year that was particularly unfavourable to bookmakers, with fixed-odds betting products reaching an average payout ratio of 83%, the highest payout rate in the last decade, which may have contributed to a decline in fixed odds betting income in 2012 compared to 2011. Any significant losses due to a high payout could have a material adverse effect on our cash flow and therefore a material adverse effect on our business, results of operations and financial condition.

The systems and controls we have in place to manage the risks related to fixed-odds betting may not be effective. For example, we employ a team of bookmakers who use market betting data monitoring provided by Betradar to determine the odds at which we will accept bets in relation to any particular event, but our bookmakers or other members of the Group may make errors of judgement or other mistakes in relation to interpreting such market data and the compilation of odds. Significant misjudgements or mistakes made by us in relation to odds compilation or other failure of our risk management systems could result in us incurring significant losses which could have a material adverse effect on our business, results of operations and financial condition. See “*Business—Risk Management—Access to Information*”.

Our business prospects and future success rely upon the integrity of our employees and executives and the security of our systems.

The real and perceived integrity and security of our employees, executives and systems is critical to our ability to attract customers and comply with applicable regulations. We strive to set high standards of personal integrity for our employees and system security for the games and convenience payment services that we provide to our customers. Our reputation in this regard is an important factor in our business dealings with governmental agencies and our business partners and customers. Accordingly, a finding of improper conduct on our part, or on the part of one or more of our current or former employees or another related party that is attributable to us, or a system security defect or failure attributable to us, or an allegation of such conduct that impairs our reputation, could result in civil or criminal liability for us and could have a material adverse effect upon our business, results of operations and financial condition including our ability to retain or renew existing concessions and licences or obtain new concessions and licences.

The tender process and the award of concessions by public authorities involve risks associated with fraud, bribery of officials involved in the tender process and corruption or allegations thereof. Although we maintain internal monitoring systems, we may be unable to detect or prevent every instance of fraud, bribery and corruption involving our employees or agents in the future. We may therefore be subject to civil and criminal penalties and to reputational damage as a result of such occurrences. Proceedings and convictions even if not definitive (i.e., subject to further appeal), with regard to certain crimes including, *inter alia*, bribery and corruption may render us ineligible to maintain our awarded concessions or to participate in future public tenders to acquire or renew concessions. The involvement or association of our employees or agents with fraud, bribery or corruption and other crimes committed in relation to our activities, or allegations or rumours relating thereto, could have a material adverse effect on our business, results of operations and financial condition.

During 2011, the Prosecutor of the Court of Milan (the “Prosecutor”) commenced a criminal investigation of the former chief executive officer of Banca Popolare di Milano (“BPM”) and his assistant for alleged “infidelity as a consequence of the giving or promising of a benefit” (“*Infedeltà a seguito di dazione o promessa di utilità*”) under Article 2635 of the Italian Civil Code. In connection with the aforementioned investigation, the Prosecutor also investigated other companies and individuals, including, we learned in July 2012, our current chief executive officer, for possible participation in the acts alleged to constitute “infidelity as a consequence of the giving or promising of a benefit”. We believe that the relationship of Sisal and our chief executive officer with BPM and its affiliates has been conducted on an arm’s length commercial terms in compliance with standard procedures and at market conditions. We sought the advice of a third-party expert who confirmed our assessment. In connection with the investigation, we have promptly cooperated with the Prosecutor and, to date, we are not aware of any development in such investigations subsequent to July 2012 insofar as it relates to us or our chief executive officer, nor, to our knowledge, are we ourselves currently subject to any such investigation. Based upon the information available to us, while we do not believe that any criminal acts were committed by us or our chief executive officer in respect of the aforementioned matter, we can give no assurances that the Prosecutor will not press charges against our chief executive officer or otherwise extend the scope of the investigation to involve us or that the aforementioned investigation or reports or rumours related thereto will not adversely affect our reputation or legal, business or commercial relations with Italian regulatory authorities and business and financial institution partners. See “*Business—Legal Proceedings*”.

We are exposed to credit risk and may incur losses as a result of such exposure.

We rely on our partners and retailers to operate the majority of the points of sale in our distribution network. See “—*We depend on partners and retailers, as well as a number of third party suppliers, for the operation of our business, and problems with such partners, retailers or suppliers could adversely affect us*”. These partners and retailers are responsible for, among other things, collecting the cash at their respective point of sale and transferring to us such amounts, net of their commission, on a weekly or semi-weekly basis. The obligations of partners and retailers to pay us are not secured by collateral and therefore we bear the risk that our partners and retailers will be unable to pay amounts due to us. Moreover, in

the event that we do not receive payment, we remain liable to the Republic of Italy for the payment of related gaming taxes and liable to our convenience payment services partners for the payment of mobile phone top-ups, utility bills and other bills paid using our terminals. Though we monitor the credit of our partners and retailers, such partners and retailers typically experience fluctuations in demand based on economic conditions, consumer demand and other factors beyond our control, which in turn impacts their creditworthiness. To protect us against the related financial liability we make and regularly adjust provisions for bad debt. In 2011, we made accruals to the provision for bad debt in the amount of €12.3 million, representing 0.10% of total 2011 turnover. The deteriorating macroeconomic conditions in Italy have increased pressure on our partners and retailers which led us to record further accruals to our provisions for bad debt of €15.7 million, or 0.11% of total turnover in 2012. Despite these provisions, we may not be able to limit our potential loss if a significant number of partners and retailers are unable to pay amounts due to us on a timely basis, which could have a material adverse effect on our business, results of operations and financial condition.

In addition, our business is cash intensive, with a significant portion of our revenues and income generated through cash transactions. We invest the cash we generate with a number of banks through commercial bank deposits and other short-term investments, and as such we are dependent on the creditworthiness of such financial institutions. Any insolvency or failure of one or more of the financial institutions with which we do business could result in any deposits we have with such financial institutions being unavailable for an extended period of time or lost altogether.

Our business depends on certain key persons, and the loss of such persons, or difficulties attracting new employees, may impact our business and ability to implement our strategy.

Our success depends on certain key persons. In particular, members of our senior management team have contributed and continue to contribute to our business. See “Summary—Competitive Strengths”. If any of these key persons terminate their relationships with us or otherwise no longer continue to work with us, our business and implementation of our strategy may be materially impaired and we may not be able to replace them on a timely basis with other professionals capable of making comparable contributions to our business.

We are exposed to the risk of strikes, work stoppages and other industrial actions, which may adversely affect our business and results of operations.

We estimate that approximately 9.6% of our employees are members of labour unions. In the future we may experience lengthy consultations with labour unions or strikes, work stoppages or other industrial actions. We are subject to national collective bargaining agreements for the services industry as well as a supplementary bargaining agreement directly between us and our employees. Although we believe that we have good relations with our employees, strikes called by employees or unions could disrupt our operations. Strikes and other industrial actions, as well as the negotiation of new collective bargaining agreements or salary increases in the future, could disrupt our operations and make it more costly to operate our facilities, which in turn could have a material adverse effect on our business, results of operations and financial condition. See “Business—Employees”.

We may make acquisitions that prove unsuccessful or strain or divert our resources.

We intend to grow our business in part by acquiring other businesses. See “Summary—Business Strategy”. For example, in 2011, we acquired Illo Group, which added 32 betting shops and 68 betting corners to our portfolio, and in January 2013, we acquired 60% of Friulgames S.r.l., an Italian operator of approximately 2,000 slot machines. Successful growth through future acquisitions is dependent upon our ability to identify suitable acquisition targets, conduct appropriate due diligence, negotiate transactions on favourable terms and ultimately complete such transactions and integrate the acquired business into our Group. If we make acquisitions, we may not be able to generate expected margins or cash flows, or to realise the anticipated benefits of such acquisitions, including growth or expected synergies. Our assessments of and assumptions regarding acquisition targets may not prove to be correct, and actual developments may differ significantly from our expectations. We may not be able to integrate acquisitions successfully and such integration may require more investment than we expect, and we could incur or assume unknown or unanticipated liabilities or contingencies with respect to customers, employees, suppliers, government authorities or other parties, which may impact our results of operations and financial condition. The process of integrating businesses may be disruptive to our operations, as a result of, among other things, unforeseen legal, regulatory, contractual and other issues, difficulties in realising operating synergies or a failure to maintain the quality of services that we have historically provided as a result of which our results of operations may decline. Moreover, any acquisition may divert management’s attention from our day to day business and may result in the incurrence of additional debt, which could reduce our profitability and harm our business and financial condition.

Our business is subject to sports scheduling and other seasonal factors as well as extraordinary events, which may adversely affect our results of operations.

In our offline and online betting offerings, the volumes of bets we collect over the course of the year are affected by the schedule of sports events on which we accept bets. The professional football season in Italy usually runs from late August to mid-May. As a result, we have historically recorded higher betting revenues and income in these months. The volumes of bets we collect are also affected by the schedules of other significant sporting events that occur at regular but infrequent

intervals, such as the FIFA Football World Cup, UEFA European Football Championship and the Olympics. As a result of the seasonality for the sporting season, our income from offline and online betting activities can vary significantly throughout the year, and on a year-to-year basis. Our Lottery business unit is also affected by seasonality, as the sale of lottery tickets typically decreases in the summer months while some customers are on vacation.

Additionally, extraordinary events may affect our betting activities. For example, although the horse racing schedule in Italy runs for the full year, strikes in the horse racing industry in Italy, such as a strike by the owners of horse racing tracks in January and February 2012 which reduced the number of horse racing events held in 2012 to 20,094 as compared to 21,499 in 2011, can have an adverse impact on our revenues and income from horse betting. Cancellation or curtailment of significant sporting events, for example, due to adverse weather conditions, terrorist acts, other acts of war or hostility, outbreak of infectious diseases, betting scandals or the failure of certain sporting teams to qualify for sporting events, would adversely impact our business, results of operations and financial condition.

We are dependent on credit card payment service providers and other financial institutions to process payments and handle cash generated by our business.

We currently accept credit and debit card payments from customers. Certain U.S.-based card schemes and card-issuing institutions currently restrict the use of their credit cards for online gaming and betting transactions. Should all or an additional number of the major card programmes or card issuing companies stop accepting payment transactions for gaming operations, our business, results of operations and financial condition could be materially adversely affected.

Our business is dependent on banks, credit card companies, payment processors and other financial institutions, networks and suppliers to enable funds to be paid in and withdrawn by our customers. Each of these entities depends upon an intricate network to facilitate international and multi-currency fund transfers. Any disruption in those systems or relationships could have a material adverse effect on our business, results of operations and financial condition. Moreover, we are dependent upon payment service providers, some of which are responsible for data only but others of which are responsible for the handling and transmission of cash. It is possible that, for a variety of reasons, these third party payment service providers may become unwilling or unable to remit monies. As a result, our business, results of operations and financial condition could be materially adversely affected.

In addition, we are exposed to the risk of chargebacks. Chargebacks occur when customers, card issuers or payment processors seek to void credit card or other card payment transactions. Customers may seek to reverse their real money losses through chargebacks. Currently, we are liable for chargebacks to the extent they exceed 1% of our turnover on card payments. Although we have not been liable for chargebacks in the past, we may be exposed to chargebacks in the future which could adversely affect our business, results of operations and financial condition.

We may fail to detect money laundering or fraudulent activities of our customers, which may adversely impact our reputation, business and financial condition.

We are exposed to the risk of money laundering and fraudulent activities by our customers, including with respect to our convenience payment service offerings, as well as the potential collusion between online gaming customers. We have implemented internal control systems that monitor unusual transaction volumes or unusual transaction patterns and screen the personal details of our customers, but these systems may not always succeed in protecting us and our customers from money laundering and fraud. In addition, we are subject to Italian Legislative Decree No. 231 of June 8, 2001, as amended, on corporate crimes, including breaches of anti-money laundering provisions. To the extent we are not successful in protecting ourselves or our customers from money laundering or fraud, or if we fail to comply with the applicable regulations, we and our directors could be subject to criminal sanctions or administrative and civil fines and could directly suffer loss, the revocation of concessions and licences, operational bans, or lose the confidence of our customer base, which could have a material adverse effect on our reputation, business, results of operations and financial condition.

Our failure to comply with regulations regarding the use of personal customer data could subject us to lawsuits or result in the loss of goodwill of our customers and adversely affect our business and financial condition.

We process sensitive personal data on customers and retail shop owners (including name, address, age, bank details and betting and gaming history) as part of our online business and as part of our convenience payment services business and therefore must comply with strict data protection and privacy laws in Italy. Such laws restrict our ability to collect and use personal information relating to customers and potential customers, including the marketing use of that information. Notwithstanding such efforts, we are exposed to the risk that data could be wrongfully appropriated, lost or disclosed, or processed in breach of data protection regulation, by us or on our behalf. If we fail to transmit customer information in a secure manner, or if any such loss of personal customer data were otherwise to occur, we could face liability under data protection laws. This could also result in the loss of the goodwill of our existing customers and deter new customers from using our services, which would have a material adverse effect on our business, results of operations and financial condition.

The technological solutions we have in place to block access to our online services by players in certain jurisdictions may prove inadequate, which may harm our business and expose us to liability.

Historically, the gaming industry has been regulated at a national level, and currently there is no international gaming regulatory regime. Although the regulatory regime for land-based gaming operations is well established in many countries, the gaming laws in such countries may not necessarily have been amended to take account of the Internet and the ability to offer gaming services online. As a result, there is uncertainty as to the legality of online gaming in a number of countries. In the United States, for example, the offer of gaming products and services online is illegal in most states. We have systems and controls in place seeking to ensure that we offer gaming products via the Internet to Italian residents only and that we exclude access to our system from certain jurisdictions, such as the United States. The systems and controls include monitoring and analysing information provided by potential customers' registered addresses, methods of customers' payment, specific registration procedures (for example, access to our online betting system is permitted only to customers who have completed a registration process and can provide an Italian residence address and an Italian Fiscal Code) against a registry maintained by SOGEI and the AAMS, as well as a geo-locator filtering technology that identifies the location of users logging onto our websites. Despite the adoption of these measures, our procedures may not be effective. A court or other governmental authority in any jurisdiction could take the position that our systems and controls are inadequate, either currently or as a result of technological developments affecting the Internet, or that our current or past business practices in relation to such jurisdiction violated applicable law. If any such actions were brought against us or our management, whether successful or not, we may incur considerable legal and other costs, management's time and resources may be diverted, and any resulting dispute may damage our reputation and brand image and have a material adverse effect on our business, results of operations and financial condition.

Although we seek to comply with and monitor the relevant laws and regulations, we are also exposed to the risk that jurisdictions from which our advertisements may be accessed via the Internet may have conflicting laws and regulations (or interpretations of such laws and regulations) with regard to the legality or appropriate regulatory compliance of our activities. Accordingly, we may be subject to the application of existing or potential laws and regulations, fees or levies in jurisdictions in which our advertisements can be accessed via the Internet. Any such laws, regulations, fees or levies may have a material adverse effect on our business, results of operations and financial condition. Our exposure to this risk will increase to the extent we are able to grow our online operations.

Our information technology systems may be vulnerable to hacker intrusion, malicious viruses and other cyber crime attacks, which may harm our business and expose us to liability.

The games, betting and convenience payment services offered at our points of sale depend to a great extent on the reliability and security of our information technology system, software and network, which are subject to damage and interruption caused by human error, problems relating to the telecommunications network, software failure, natural disasters, sabotage, viruses and similar events. Any interruption in our system could have a negative effect on the quality of products and services offered and, as a result, on consumer demand and therefore volume of sales. As we also offer online access to games and betting, such services may be subject to attack by hackers or experience other network interruptions that interfere with provision of service and thereby subject us to liability for losses by players or to fines from the applicable governmental authorities for failure to provide the required level of service under our concessions.

Our intellectual property could be subject to infringement by third parties or claims of infringement of the rights of third parties, which could adversely affect our business, results of operations and financial condition.

We regard our copyright, trademarks, domain names, trade secrets, customer databases and similar intellectual property as critical to our success. We rely on a combination of copyright and trademark laws, trade secret protection, confidentiality and non-disclosure agreements and other contractual provisions in order to protect our intellectual property. These efforts may not be adequate, and third parties may infringe upon or misappropriate our proprietary rights. For example, consultants, vendors, former employees and current employees may breach their obligations regarding non-disclosure and restrictions on use. In addition, intellectual property laws in Italy and other jurisdictions may afford differing and limited protection, may not permit us to gain or maintain a competitive advantage, and may not prevent our competitors from duplicating our products or gaining access to our proprietary information and technology. In addition, anyone could seek to challenge, invalidate, circumvent or render unenforceable any of our intellectual property. Such claims, whether or not valid, could require us to spend significant sums in litigation, pay damages, re-brand or re-engineer services, acquire licences to third party intellectual property and distract management attention from the business, which may have a material adverse effect on our business, results of operations and financial condition.

In addition, we licence intellectual property rights from third parties such as Playtech. If such third parties do not properly maintain or enforce the intellectual property rights underlying such licences, or if such licences are terminated or expire without being renewed, we could lose the right to use the licensed intellectual property, which could adversely affect our competitive position.

A significant portion of our indebtedness and of our direct parent bears interest at floating rates that could rise significantly, increasing costs and reducing cash flow.

The loans under our Senior Secured Credit Facilities Agreement, and the loans of our direct parent, Gaming Invest, under its Second Lien Facilities Agreement and Mezzanine Facilities Agreement, bear interest at floating rates of interest per annum equal to EURIBOR, as adjusted periodically, plus a spread. These interest rates could rise significantly in the future. Though we are reviewing hedging options, we do not expect to be a party to any interest rate swaps on the Issue Date, and should we enter into hedging arrangements in the future, such hedging may not be effective. To the extent that interest rates were to increase, interest expense would correspondingly increase, reducing cash flow.

Italian tax legislation may restrict the deductibility of all or a portion of the interest expense on our indebtedness, including interest expense in respect of the Notes.

Current tax legislation in Italy (Article 96 of Presidential Decree No. 917 of December 22, 1986, as amended and restated) allows for the full tax deductibility of interest expense incurred by a company in each fiscal year up to the amount of the interest income of the same fiscal year, as evidenced by the relevant annual financial statements. A further deduction of interest expense in excess of this amount is allowed up to a threshold of 30% of the EBITDA of a company (*i.e.*, *risultato operativo lordo della gestione caratteristica*) (“ROL”) as recorded in such company’s profit and loss account. The amount of ROL not used for the deduction of the amount of interest expense that exceeds interest income can be carried forward, increasing the amount of ROL for the following fiscal years. Interest expense not deducted in a relevant fiscal year can be carried forward to the following fiscal years, provided that, in such fiscal years, the amount of interest expense that exceeds interest income is lower than 30% of ROL. In the case of a tax group, interest expense not deducted by an entity in the tax group due to lack of ROL can be deducted at the tax unity level, within the limit of the excess of ROL of the other companies within the tax group. This 30% threshold applies to the Italian subsidiaries of the Issuer. The Issuer itself currently benefits from its status as a “payment entity” which allows it to deduct up to 96% of interest expense (less 9.6% of the Issuer’s interest expense that the Issuer does not currently deduct in response to a tax audit, as discussed in “*Management’s Discussion and Analysis—Results of Operations—Group Comparison of the Years Ended December 31, 2011 and 2012—Income taxes*”). Should the Issuer lose its “payment entity” status, it too would be subject to the 30% threshold.

In addition, Article 3(115) of Law No. 549 of December 28, 1995 sets forth certain limitations to the deductibility of interest expense arising from bonds or notes issued by Italian companies other than banks or listed companies. However, under the provisions of Article 32 of Law Decree No. 83 of June 22, 2012, interest on the Notes is deductible to the extent mentioned above provided that the Notes are listed on a regulated market or on a multilateral trading platform of a Member State of the European Union and of the States of the European Economic Area included in the approved list provided for by Article 168-bis of Presidential Decree No. 917 of December 22, 1986. For more information, see “—*Risks Related to the Notes—No assurance can be given that the Notes will be listed or that, once listed, such listing will be maintained or that such listing will satisfy the listing requirement of Article 32(8) of Law Decree No. 83 of June 22, 2012 and Italian Legislative Decree No. 239 of April 1, 1996*”.

The Italian tax authorities have in certain instances challenged the deductibility of interest expenses arising in connection with acquisition financing, including for debt that is refinancing debt originally incurred for such purposes. Such tax challenges have been carried out by the Italian tax authorities by arguing in certain cases that the actual beneficiary of the transaction was not the acquiring Italian company and that interest expense should have been re-charged to its non-Italian-resident shareholder (in cases in which the Italian company was controlled by a non-Italian-resident company, as in the case of the Issuer) and in other cases by arguing that interest expense on the acquisition financing did not serve the business (*i.e.*, they were not compliant with the “inherence” principle). To date, tax courts have not ruled in a consistent way with respect to these cases.

If the Italian tax authorities were to successfully challenge the tax treatment or characterisation (including on the basis of anti-avoidance or anti-abusive criteria) of the deductibility of interest expense incurred in connection with the acquisition financing of any past merger or leveraged buyout of an Italian company, we may be unable to fully deduct the interest expense incurred on the Notes, and we may also be subject to significant penalties and interest, the imposition of withholding taxes, or other consequences that could have a material adverse effect on our financial condition and results of operations, or on our ability to service or otherwise make payments on the Notes and our other indebtedness.

Any future changes in Italian tax laws or in their interpretation or application, including any future limitation on the use of the 96% threshold for the Issuer or of the ROL of the Issuer and its subsidiaries or the tax treatment of interest expense arising from any indebtedness, including the Notes, the failure to satisfy the applicable legal requirements relating to the deductibility of interest expense or the application by Italian tax authorities of certain existing interpretations of Italian tax law may result in our inability to fully deduct our interest expense, which may have an adverse impact on our financial condition. Furthermore, if the Italian tax authorities were to successfully challenge the tax treatment or characterisation of any of the transactions performed or of our indebtedness, including the Notes or the use of proceeds from the Offering, including on the basis of anti-avoidance or anti-abusive criteria, we may be unable to fully deduct our interest expenses or be subject to significant penalties, the imposition of withholding taxes, or other consequences that could have a material adverse effect on our financial condition and results of operations or on our ability to service or otherwise make payments on the Notes and our other indebtedness.

We have recorded a significant amount of goodwill and we may not realise the full value thereof.

We have recorded a significant amount of goodwill. Total goodwill, which represents the excess of the cost of acquisitions over our interest in the net fair value of the assets acquired and liabilities and contingent liabilities assumed, was €869.6 million as of December 31, 2012, or 50.3% of our total assets. Goodwill is recorded on the date of acquisition and, in accordance with IFRS, is tested for impairment annually and whenever there is any indication of impairment. Impairment may result from, among other things, deterioration in our performance, a decline in expected future cash flows, adverse market conditions, adverse changes in applicable laws and regulations (including changes that restrict or otherwise affect our gaming or convenience payment services activities) and a variety of other factors. The amount of any impairment must be expensed immediately as a charge to our income statement. We recorded goodwill impairment charges in an amount of €17.2 million for the year ended December 31, 2012. Any future impairment of goodwill may result in material reductions of our income and equity under IFRS.

Risks Related to Our Structure

The Issuer is dependent on payments from its subsidiaries in order to be able to make payments on the Notes.

The Issuer conducts a substantial portion of its operations through operating subsidiaries. As a result, the Issuer will be dependent upon the cash flow from its subsidiaries in the form of dividends, intercompany loans, including the Proceeds Loans, or otherwise to make payments on the Notes. The Issuer's operating subsidiaries may not generate cash flow sufficient to enable it to meet its payment obligations. In addition, the Issuer's subsidiaries may be restricted from providing funds to the Issuer under some circumstances. These circumstances could include, among others, restrictions under Italian corporate law which require a company to retain at least 5% of its annual unconsolidated net income until such reserve reaches at least 20% of the value of the company's share capital, and future contractual restrictions, including restrictions in credit facilities and other indebtedness, that may affect the ability of the Issuer's subsidiaries to pay dividends or make other payments to the Issuer. In addition, applicable tax laws may also subject such payments to taxation.

The Notes will be structurally subordinated to all indebtedness of the Issuer's existing and future subsidiaries that are not Guarantors of the Notes, or to the extent debt at such Guarantor exceeds the limitation on the relevant Guarantee, subject to the loss-sharing provisions of the Senior Intercreditor Agreement.

Except for the Issuer's subsidiaries that are or will be the Guarantors of the Notes, the Issuer's subsidiaries will have no obligation, contingent or otherwise, to pay amounts due under the Notes or to make any funds available to pay those amounts, whether by dividend, distribution, loan or otherwise. Further, the Guarantees are subject to legal and contractual limitations. See “—Risks related to the Notes—Each Guarantee and the Collateral will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defenses that may limit its validity and enforceability” and “Limitation on Validity and Enforceability of the Guarantees and the Security Interests and Certain Insolvency Law Considerations”. The Notes will be structurally subordinated to all indebtedness and other obligations of any Guarantor, or provider of security, to the extent the claims of the holders of the Notes exceed the amount such Guarantor can guarantee or such grantor can secure under applicable legal and contractual restrictions. In addition, the Notes will be structurally subordinated to all indebtedness and other obligations of any non-Guarantor subsidiary such that, in the event of insolvency, liquidation, reorganisation, dissolution or other winding up of any subsidiary that is not a Guarantor, all such subsidiary's creditors would be entitled to payment in full out of such subsidiary's assets before the Issuer or a Guarantor, as the parent company of such non-Guarantor, would be entitled to any payment. As of December 31, 2012, after giving effect to the Refinancing, the subsidiaries of the Issuer that are not Guarantors would have had no financial indebtedness outstanding and €0.8 million of other liabilities outstanding. Our non-Guarantor subsidiaries represented 0.6% and 1.2% of our revenues and income and EBITDA, respectively, for the year ended December 31, 2012 and 0.5% of our total assets as of December 31, 2012.

The interest of our principal shareholders may conflict with the interests of the holders of the Notes.

Funds advised by Permira Funds, Apax Partners and Clessidra control Gaming Invest, which owns 100% of the Issuer. See “Principal Shareholders”. As a result, Permira Funds, Apax Partners and Clessidra have, and will continue to have, directly or indirectly, the power to affect, among other things, our legal and capital structure and our day-to-day operations, as well as the ability to elect and change our management and to approve other changes to our operations. In addition, for compliance with certain restrictive covenants, we will depend upon the cooperation of our principal shareholders who have the power to effect compliance with such covenants. The interests of Permira Funds, Apax Partners, Clessidra and their respective affiliates could conflict with the interests of the holders of the Notes, particularly if we encounter financial difficulties or are unable to pay our debts when due. Permira Funds, Apax Partners and Clessidra may also have an interest in pursuing divestitures, financings or other transactions that in their judgement could enhance their equity investments, although such transactions might involve risks to holders of the Notes. In addition, Permira Funds, Apax Partners, Clessidra and their affiliates may, in the future, own businesses that compete with ours or do business with us.

Risks Related to the Notes

Our high leverage and debt service obligations could adversely affect our business.

We are highly leveraged and have significant debt service obligations. As of December 31, 2012, after giving effect to the Refinancing, the principal amount of our indebtedness was €723.9 million (including €275.0 million of Notes and €438.9 million under our Senior Secured Credit Facilities but excluding the Shareholder Loans). In addition, as of December 31, 2012, Gaming Invest, our direct parent, had €230.4 million and €40.0 million outstanding under its Mezzanine Facilities and Second Lien Facilities, respectively. We anticipate that our high leverage will continue for the foreseeable future. Our high leverage could have important consequences to holders of the Notes, including:

- making it more difficult for us to satisfy our debt obligations;
- increasing our vulnerability to a downturn in our business or economic and industry conditions;
- limiting our ability to obtain additional financing to fund future working capital requirements, capital expenditures, business opportunities and other corporate requirements;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, our indebtedness, which means that this cash flow will not be available to fund our operations and for other corporate purposes; and
- limiting our flexibility in planning for, or reacting to, changes in our business, the competitive environment and our industry.

We may incur substantial additional debt in the future which could mature prior to the Notes. Although the Senior Secured Credit Facilities Agreement, the Second Lien Facilities Agreement and the Mezzanine Facilities Agreement contain, and the Indenture will contain, restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with those restrictions could be substantial. In addition, the Senior Secured Credit Facilities Agreement, the Second Lien Facilities Agreement and the Mezzanine Facilities Agreement do not, and the Indenture will not, prevent us from incurring obligations that do not constitute indebtedness under those agreements. The incurrence of additional debt would increase the leverage-related risks described in this offering memorandum.

We require a significant amount of cash to service debt and for other general corporate purposes and our ability to generate sufficient cash depends on many factors beyond our control.

Our ability to make payments on our debt, including under Shareholder Loan C, and to fund working capital and product development, renew concessions and make any acquisitions and capital expenditures, will depend on our future operating performance and ability to generate sufficient cash. This depends, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control, as well as the other factors discussed in these “Risk Factors” and elsewhere in this offering memorandum.

Our business may not generate sufficient cash flows from operations and additional debt and equity financing may not be available to us in an amount sufficient to enable us to pay our debts when due, including the Notes, or to fund our other liquidity needs. After the Refinancing and the Amend and Extend, we will continue to have a significant amount of indebtedness under our Senior Secured Credit Facilities (including €359 million under Term Loan B and Term Loan C which are non-amortising), which mature on September 30, 2017. In addition, the Second Lien Facilities and the Mezzanine Facilities of Gaming Invest mature on September 30, 2017 and December 31, 2017, respectively, after giving effect to the Amend and Extend. The ability to refinance our debt or Gaming Invest’s debt may depend on stable loan or debt capital markets. For a discussion of our cash flows and liquidity, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity”. In addition, the Indenture will permit us to make dividends, distributions or other payments to Gaming Invest to make regularly scheduled cash interest payments on the Mezzanine Facilities and the Second Lien Facilities (or any refinancing indebtedness in respect thereof) to the extent such payments are permitted under the Senior Intercreditor Agreement, as well as the repurchase or retirement for value of such indebtedness in exchange for, or out of the proceeds of, subordinated indebtedness incurred by the Issuer or its restricted subsidiaries in compliance with the Indenture. While the cash interest serviced on such parent indebtedness is treated as fixed charges and the principal amount of such indebtedness is included in the consolidated leverage ratio measured under the Indenture, the pay-in-kind interest is excluded from the definition of fixed charges, and, as our Mezzanine Facilities have a pay-in-kind interest component, the amount of such indebtedness will grow over time due to the compounding of the pay-in-kind interest.

If our future cash flows from operations and other capital resources are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to: reduce or delay our business activities, research and development and capital expenditures; sell assets; obtain additional debt or equity financing; or restructure or refinance all or a portion of our debt, including the Notes, on or before maturity. We may not be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. In addition, the terms of our debt, including the Notes, the Indenture and the Senior

Secured Credit Facilities Agreement, as well as the terms of the debt of Gaming Invest under its Second Lien Facilities Agreement and Mezzanine Facilities Agreement, limit, and any future debt that we or Gaming Invest may incur, may limit, our ability to pursue any of these alternatives. Any failure to make payments on the Notes on a timely basis would likely result in a reduction of our credit rating, which could also harm our ability to incur additional indebtedness. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business, financial condition and results of operations.

Future liquidity and cash flow difficulties could prevent us from repaying the Notes when due or repurchasing the Notes when we are required to do so pursuant to certain events constituting a change of control or otherwise, and the change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events.

At final maturity of the Notes, or in the event of acceleration of the Notes following an event of default, the entire outstanding principal amount of the Notes will become due and payable. In addition, upon the occurrence of certain events constituting a change of control, holders of the Notes may in certain circumstances require the Issuer to make an offer to purchase the Notes at a purchase price equal to 101% of the principal amount, plus accrued but unpaid interest and additional amounts, if any, to the purchase date. See “*Description of the Notes—Change of Control*”. The Issuer may not have sufficient funds or may be unable to arrange for additional financing to pay these amounts when they become due.

The Issuer’s failure to repay holders tendering Notes upon the occurrence of a change of control event would result in an event of default under the Notes. If a change of control event were to occur, we cannot assure you that we would have sufficient funds to repay our outstanding indebtedness which we would be required to prepay or offer to purchase or that became immediately due and payable as a result. We may require additional financing from third parties to fund any such purchases and we cannot assure you that we would be able to obtain financing on satisfactory terms or at all. Restrictions in the Senior Secured Credit Facilities Agreement or our other then-existing contractual obligations, and restrictions in the Second Lien Facilities Agreement, the Mezzanine Facilities Agreement or other then-existing contractual obligations of Gaming Invest, may also restrict us from making such required repurchases. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement—Payments or Repurchases of Notes*”. A change of control is a mandatory prepayment event under our Senior Secured Credit Facilities Agreement, as well as under the Second Lien Facilities Agreement and Mezzanine Facilities Agreement of Gaming Invest, and a change of control may result in an event of default under, or acceleration of, our or Gaming Invest’s other indebtedness. The repurchase of the Notes pursuant to such an offer could cause a default under such indebtedness, even if the change of control itself does not.

The change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events, including reorganisation, restructuring, merger or other similar transaction involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a “change of control” as defined in the Indenture. Except as described under “*Description of the Notes—Change of Control*”, the Indenture does not contain a provision that require us to offer to repurchase or redeem the Notes in the event of a reorganisation, restructuring, merger, recapitalisation or similar transaction.

The definition of “change of control” contained in the Indenture includes a disposition of all or substantially all the assets of the Issuer and its restricted subsidiaries taken as whole. Although there is a limited body of case law interpreting the phrase “all or substantially all”, there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of “all or substantially all” the assets of the Issuer and its restricted subsidiaries taken as a whole. As a result, it may be unclear as to whether a change of control has occurred and whether the Issuer is required to make an offer to repurchase the Notes.

We are subject to significant restrictive debt covenants, which limit our operating flexibility.

The Indenture, the Senior Secured Credit Facilities Agreement, as well as Gaming Invest’s Second Lien Facilities Agreement and Mezzanine Facilities Agreement contain covenants which impose significant restrictions on the way we can operate, including restrictions on our ability to:

- incur additional indebtedness;
- pay dividends or make other distributions;
- make certain other restricted payments and investments;
- create liens;
- transfer or sell assets;
- enter into transactions with affiliates; and

- merge or consolidate with other entities.

These covenants could limit our ability to finance our future operations and capital needs and our ability to pursue acquisitions and other business activities that may be in our interest.

The Indenture will permit us to incur unsecured as well as secured debt in the future, which may be substantial. Additionally, the Senior Secured Credit Facilities Agreement and Gaming Invest's Second Lien Facilities Agreement and Mezzanine Facilities Agreement require us to maintain specified financial ratios and satisfy specified financial tests and to observe covenants that are in certain respects more restrictive than the covenants under the Indenture. Our ability to meet these financial tests may be affected by events beyond our control and, as a result, we may not be able to meet these tests. In the event of a default under the Senior Secured Credit Facilities Agreement, the Second Lien Facilities Agreement or the Mezzanine Facilities Agreement, the lenders could terminate their commitments and declare all amounts owed to them to be due and payable. Borrowings under other debt instruments that contain cross acceleration provisions, including the Notes, or cross default provisions, may as a result also be accelerated and become due and payable. We may be unable to pay these debts in such circumstances.

The Notes will be secured only to the extent of the value of the assets that have been granted as security for the Notes.

If we default on the Notes, the holders of the Notes will be secured only to the extent of the value of the Collateral underlying their security interest. The Notes will be secured on a first-priority basis by the same assets that secure the Senior Secured Credit Facilities, while the Second Lien Facilities and the Mezzanine Facilities are secured on a second-ranking and third-ranking basis, respectively, by a pledge over the shares of the Issuer. Furthermore, the Shareholder Loan C is secured on a second-ranking basis by a pledge over the shares of Sisal S.p.A. held by the Issuer. We may incur additional indebtedness in the future, which may also be secured by the Collateral. In addition, pursuant to the Indenture, the Issuer and its subsidiaries may in certain cases incur indebtedness which may be secured on a super priority basis. If the value of the Collateral is less than the value of the claims of the other holders of the Notes together with the claims of the other secured creditors, those claims may not be satisfied in full before the claims of our unsecured creditors are paid.

No appraisal of the value of the Collateral has been prepared by us or on our behalf in connection with the Offering. The value of the Collateral and the amount to be received upon a sale of such Collateral will depend on many factors, including the ability to sell the Collateral in an orderly sale, prevailing market and other economic conditions and the availability of suitable buyers at the time of any such sale. By its nature, the Collateral may be illiquid and have no ascertainable market value. Similarly, we cannot assure you that there will be a market for the sale of the Collateral, or, if such a market exists, that there will not be a substantial delay in the liquidation of the Collateral. The book value of the Collateral should not be relied on as a measure of the realisable value for such assets. The fair market value of the Collateral as at the date of this offering memorandum may not exceed the principal amount of the debt secured thereby. The value of the Collateral, and in particular, the pledged capital stock, could be impaired in the future as a result of changing economic conditions, failure to implement our business strategy, competition and other future trends and may be without any value if that entity is subject to an insolvency or bankruptcy proceeding.

The rights of the Issuer and certain of the Guarantors to receive payments under the Proceeds Loans may be subordinated by law to the obligations of other creditors.

Italian corporate law (Articles 2497-*quinquies* and 2467 of the Italian Civil Code) provides for rules to protect creditors against "undercapitalised companies" and provides for remedies in respect thereof.

In this respect, in case of a loan to a company made by (i) a person that, directly or indirectly, directs the company or exercises management and coordination powers over that borrowing company or (ii) any entity subject to the management and coordination powers of the same person or (iii) a quotaholder in the case of a company incorporated in Italy as a *società a responsabilità limitata*, will be subordinated to all other creditors of that borrower and rank senior only to the equity in that borrower, if the loan is made when, taking into account the kind of business of the borrower, there was an excessive imbalance of the borrower's indebtedness compared to its net assets or the borrower was already in a financial situation requiring an injection of equity and not a loan ("undercapitalisation"). Any payment made by the borrower with respect to any such loan within one year prior to a bankruptcy declaration would be required to be returned to the borrower.

As of the date hereof, there are few court precedents interpreting the provisions summarised above and limited guidance has been provided so far by the courts on the specific features and extent of the undercapitalisation requirement. Some of such precedents have, however, held that Article 2467 also applies to companies incorporated as *società per azioni*, hence potentially to the borrowers under the Proceeds Loans. Furthermore, Sisal S.p.A., Sisal Entertainment S.p.A. and Sisal Match Print S.p.A. are subject to direction and coordination exercised by the Issuer.

Therefore, upon the occurrence of the requirements provided for by the relevant provisions, Italian courts may apply such provisions of the Italian Civil Code to the Issuer's relationship with Sisal S.p.A., Sisal S.p.A.'s relationship with Sisal Entertainment S.p.A. and Sisal Entertainment S.p.A.'s relationship with Sisal Match Point S.p.A. under the relevant Proceeds

Loans. Accordingly, an Italian court may conclude that Sisal S.p.A., Sisal Entertainment S.p.A. or Sisal Match Point S.p.A.'s obligations under the Proceeds Loans are subordinated to all its obligations to other creditors. Should any of Sisal S.p.A., Sisal Entertainment S.p.A. or Sisal Match Point S.p.A.'s obligations under the relevant Proceeds Loan be deemed subordinated to the obligations owed to other creditors by operation of law and senior only to the equity, the Issuer, Sisal S.p.A. and Sisal Entertainment S.p.A., as applicable, may not be able to recover any amounts under its Proceeds Loan to the relevant subsidiary, which could have a material adverse effect on the Issuer's ability to meet its payment obligations under the Notes.

It may be difficult to realise the value of the Collateral, and an enforcement action may result in the termination of concessions.

The Collateral will be subject to exceptions, defects, encumbrances, liens and other imperfections permitted under the Indenture and the Senior Intercreditor Agreement, whether on or after the date the Notes are first issued. The existence of such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral, as well as the ability of the Security Agent to realise or foreclose on such Collateral. Furthermore, the first-priority ranking of security interests can be affected by a variety of factors, including the timely satisfaction of perfection requirements, statutory liens or re-characterisation under the laws of certain jurisdictions.

The Collateral may be subject to practical problems generally associated with the realisation of security interests in collateral. The Security Agent may also need to obtain the consent of a third party to enforce a security interest. The Security Agent may not be able to obtain any such consents. In addition, the consents of any third parties may not be given when required to facilitate a foreclosure on such assets. Accordingly, the Security Agent may not have the ability to foreclose upon those assets, and the value of the Collateral may significantly decrease.

In addition, our business requires a variety of concessions and licences. The continued operation of the Issuer, whose shares are pledged as part of the Collateral, and the Guarantors, whose shares are pledged as part of the Collateral, depend on the maintenance of such concessions and licences. Under some of our concessions and licences, public authorities impose restrictions on the transfers of the ownership of the concessionaire or licence holder, including a change of control clause, which prohibits the transfer of the ownership of the concessionaire or licence holder without the prior approval of the authority. In the event of an enforcement action under the terms of the Notes or Guarantees which resulted in the transfer of ownership of the Issuer or its subsidiaries, or a change in the shareholding of the Group for other reasons, the authorities may attempt to cancel our concessions or licences. In addition, the uncertainty concerning the transferability of such concessions or licences themselves could significantly reduce the value placed on the concessions and licences by third parties and ultimately reduce the amount recovered in the event of an enforcement action. The applicable governmental authorities may not consent to the transfer of any of such concessions or licences. If the regulatory approvals required for such transfers are not obtained, are delayed or are economically prevented, the foreclosure may be delayed, a temporary or lasting shutdown of operations may result, and the value of the Collateral may be significantly decreased.

Each Guarantee and the Collateral will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defences that may limit its validity and enforceability.

The obligations of the Guarantors, the enforcement of each of their Guarantees and the obligations of the grantors of security and enforcement of the Collateral will be limited to the maximum amount that can be guaranteed by such Guarantor or grantor of security under the applicable laws of Italy (and, in the case of pledge over the shares of capital stock of the Issuer, Luxembourg), including a limitation to the extent that the grant of such Guarantee or pledge of security is not in the relevant Guarantor's or pledgor's corporate interests.

Accordingly, enforcement of any such Guarantee or on the Collateral against the relevant Guarantor or pledgor would be subject to certain defences available to guarantors generally or, in some cases, to limitations contained in the terms of the Guarantees or pledge of security designed to ensure compliance with statutory requirements applicable to the relevant Guarantors or pledgors. These laws and defences include those that relate to fraudulent conveyances or transfers, insolvency, voidable preferences, financial assistance, corporate purpose or benefit, preservation of share capital, thin capitalisation and defences affecting the rights of creditors generally. As a result, the liability of a Guarantor under its Guarantee or of a pledgor of security could be materially reduced or eliminated, depending on the law applicable to it. In addition, the Indenture will provide that the obligations of the Guarantor will not exceed the lower of (i) the original principal amount of the Subsidiaries Guaranteed/Secured Tranche as defined under "Use of Proceeds", equal to €142.3 million reduced, from time to time, by repayments, prepayments or redemptions of the Notes and (ii) the original principal amount made available under the Proceeds Loans to the Guarantor only, equal to €115.4 million with respect to Sisal S.p.A., €112.1 million with respect to Sisal Entertainment S.p.A. and €71.1 million with respect to Sisal Match Point S.p.A. as described further under "Limitations on Validity and Enforceability of the Guarantees and the Security Interests and Certain Insolvency Law Considerations". Such amounts have been determined on the basis of the overall principal amount of the Notes being equal to €275 million.

It is possible that a Guarantor or a pledgor of security, or a creditor of a Guarantor or a pledgor of security, or the bankruptcy trustee in the case of a bankruptcy of a Guarantor or a pledgor of security, may contest the validity and enforceability of the Guarantor's Guarantee or pledgor's pledge of security on any of the aforementioned grounds and that the applicable court may determine that the Guarantee or pledge should be limited or voided. To the extent such limitations on the

Guarantee or security obligation apply, the Notes would be effectively subordinated to all liabilities of the applicable Guarantor or pledgor, including trade payables of such Guarantor or pledgor to the extent of such limitations. Future Guarantees or pledges may be subject to similar limitations.

Additionally, the grant of Collateral to secure the Notes may be voidable by the grantor or by an insolvency trustee, liquidator, receiver or administrator or by other creditors, or may otherwise be set aside by a court, or be unenforceable if certain events or circumstances exist or occur, including, among others, if the grantor is deemed to be insolvent at the time of the grant, or if the grant permits the secured parties to receive a greater recovery than if the grant had not been given and an insolvency proceeding in respect of the grantor is commenced within a legally specified “clawback” period following the grant. To the extent that the grant of any security interest is voided, holders of the Notes would lose the benefit of the relevant security interest.

The Notes will not directly benefit from the terms of the Senior Intercreditor Agreement or the Voting Agreement.

On or about the Issue Date, the Trustee (on its own behalf and as trustee and agent on behalf of the holders of the Notes) will accede to the Senior Secured Credit Facilities Agreement, the Senior Intercreditor Agreement and the Voting Agreement. The Senior Secured Credit Facilities Agreement provides that, with respect to certain “Notes Related Provisions” (as defined therein), the Trustee and the holders of the Notes will be and will be deemed to be “Lenders” under and as defined in the Senior Secured Credit Facilities Agreement and as a result “Senior Lenders” under and as defined in each of the Senior Intercreditor Agreement and the Voting Agreement and will therefore be entitled to exercise the rights and remedies granted to such “Lenders” or “Senior Lenders”, as the case may be, with respect to such provisions and certain provisions of the relevant intercreditor agreements, through the Facility Agent. The rights and remedies of the holders of the Notes against the Issuer and the Guarantors upon any breach of their respective obligations under the Indenture are therefore limited to a right to instruct, through the Trustee, the Facility Agent under the Senior Secured Credit Facilities, with a view to the Security Agent enforcing the Collateral in accordance with the Senior Intercreditor Agreement and the Voting Agreement and are dependent on continuing validity and effectiveness of the Senior Secured Credit Facilities Agreement. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement*” and “*—Voting Agreement*”.

Under the Senior Intercreditor Agreement and the Voting Agreement, the holders of the Notes are subject to limitations on their ability to enforce the Collateral.

The Senior Intercreditor Agreement governs, among other things, the ranking of indebtedness and enforcement of Collateral by the lenders under the Senior Secured Credit Facilities (including, for purposes of the Senior Intercreditor Agreement, the holders of the Notes and the Trustee, and any future secured note creditors) (together with the lenders, the “Senior Lenders”), certain hedge counterparties (together with Senior Lenders, “Senior Creditors”) and Gaming Invest, as lender under Shareholder Loan C. In addition, the Voting Agreement regulates, among other things, enforcement actions with respect to “common security” for the Senior Secured Credit Facilities, the Second Lien Facilities, the Mezzanine Facilities (and including any hedging obligations relating thereto). On the Issue Date, the “common security” includes (i) the shares of the Issuer which is pledged on a first-ranking basis to secure the liabilities under the Senior Secured Credit Facilities (including the Notes and any notes that may be issued in the future) and on a second- and third-ranking basis to secure all liabilities under the Second Lien Facilities and the Mezzanine Facilities, respectively, (ii) the shares of Sisal S.p.A. held by the Issuer which is pledged, on a first-ranking basis, to secure the liabilities under the Senior Secured Credit Facilities (including the Notes and any notes that may be issued in the future) and on a second-ranking basis to secure obligations of the Issuer under Shareholder Loan C and (iii) a pledge over the receivables under the Shareholder Loan C to secure the liabilities under the Second Lien Facilities and the Mezzanine Facilities on a first- and second-ranking basis, respectively.

The Voting Agreement provides that for purposes of the enforcement of the Collateral, the Security Agent shall act on the instructions of the Facility Agent which, pursuant to the terms of the Senior Intercreditor Agreement and the Voting Agreement, will act upon the instructions of the “Majority Priority Senior Creditors” (representing the Senior Creditors (including the holders of the Notes), lenders in respect of the Second Lien Facilities (the “Second Lien Lenders”) and second lien hedge counterparties (to the extent such hedges have been terminated or closed out) whose commitments exceed 66 2/3% or more of the aggregate commitments under the Senior Secured Credit Facilities, the Second Lien Facilities and hedge settlement amounts. If such instructions are issued on the basis of an event of default under the Senior Secured Credit Facilities relating to a failure to pay amounts due to Senior Lenders (other than to the holder of the Notes and the Trustee) thereunder, then the Facility Agent shall be entitled to act upon the instructions of the “Majority Lenders” (representing the Senior Lenders whose drawn and undrawn commitments under the Senior Secured Credit Facilities Agreement (including all principal amounts outstanding under the Notes and any notes that may be issued in the future) exceed 66 2/3% or more of the aggregate drawn and undrawn commitments (including all principal amounts outstanding under the Notes and any notes that may be issued in the future)).

The Second Lien Lenders may only enforce “common security” prior to the date on which the liabilities under the Senior Secured Credit Facilities have been discharged if (i) consent of the Majority Priority Senior Creditors is obtained or (ii) an enforcement request has been issued by the agent for the Second Lien Facilities following certain events of default under that agreement or an acceleration of the liabilities under the Senior Secured Credit Facilities, the relevant standstill period of 60 days has elapsed and the Senior Lenders have not taken any enforcement action. Similar limitations exist on the ability of

the lenders under the Mezzanine Facilities to enforce on the “common security” except that the applicable standstill period is 90 days for a payment default, 120 days for a financial covenant default and 150 days for all other events of default thereunder. A demand on the Issuer by Gaming Invest for payment under the Shareholder Loan C can be made following an acceleration of liabilities under the Senior Secured Credit Facilities (including the Notes). In addition, the Senior Credit Agreement provides that if the requisite majority of holders of the Notes approves or disapproves of a resolution, all holders will be deemed to have approved or disapproved of the resolution in question. In the event the Security Agent has not received an instruction from the Trustee within ten business days from the date the request was made to all lenders, with respect to certain resolutions, the votes of the holders will be treated as a rejection.

As a result, upon the occurrence of an event of default, we anticipate that actions relating to enforcement of any Collateral securing the Notes may not be controlled by the holders of the Notes. In addition, neither the Intercreditor Agreement nor the Voting Agreement requires, in event of a distressed disposal, that the proceeds of enforcement shall be in cash, such enforcement sale shall be pursuant to be public auction or that the opinion of a financial advisor be obtained in connection therewith. In addition, there could be obligations of the Issuer that may not be released in connection with an enforcement action or a distressed disposal which could make enforcement more difficult or diminish the value of the asset or assets. The creditors under the Senior Secured Credit Facilities and the Second Lien Facilities may have interests that are different from the interests of holders of the Notes and they may not elect to pursue their remedies under the security documents at a time when it would otherwise be advantageous for the holders of the Notes to do so. It is possible that disputes may occur between the holders of the Notes and lenders under the Senior Secured Credit Facilities and Second Lien Facilities as to the appropriate manner of pursuing enforcement remedies with respect to the Collateral. In such an event, the holders of the Notes will be bound by any decisions of the lenders under the Senior Secured Credit Facilities and Second Lien Facilities, which may result in enforcement actions against the Collateral that are not approved by the holders of the Notes or that may be adverse to you. The effective control of the lenders under the Senior Secured Credit Facilities and Second Lien Facilities may delay enforcement against the Collateral. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement*”, “*—Senior Intercreditor Agreement*” and “*—Voting Agreement*”.

The ability of the Security Agent to enforce certain of the Collateral may be restricted by Italian law.

The Indenture will provide (along with the Senior Intercreditor Agreement and the Voting Agreement) that to the extent permitted by the applicable laws, only the Security Agent has the right to enforce the Security Documents on behalf of the Trustee and the holders of the Notes. As a consequence of such contractual provisions, holders of the Notes will not be entitled to take enforcement action in respect of the Collateral securing the Notes, except through the Trustee, who will (subject to the provisions of the Indenture) provide instructions to the Security Agent in respect of the Collateral and in accordance with the Senior Credit Agreement, the Senior Intercreditor Agreement and the Voting Agreement. See “*Description of the Notes—Security*”.

Furthermore, it is uncertain and untested in the Italian courts whether, under Italian law, security can be created and perfected (i) in favour of creditors (such as the holders of the Notes) which are neither directly parties to the relevant security documents nor are specifically identified therein or in the relevant share certificates and corporate documents or public registries; and (ii) in favour of The Law Debenture Corporation p.l.c. as the Trustee of the Notes, since there is no established concept of “trust” or “trustee” under Italian law and the precise nature, effect and enforceability of the duties, rights and powers of the Trustee as agent or trustee for holders of the Notes under security interests on Italian assets is debatable under Italian law.

To address the above potential issue, the Collateral will be created and perfected in favour of the Trustee acting also in its capacity as common representative (*rappresentante comune*) of the holders of the Notes pursuant to Articles 2417 and 2418 of the Italian Civil Code. However, please note that the enforceability of Italian law security granted in favour of a trustee acting as trustee and common representative (*rappresentante comune*) of the holders of the Notes pursuant to Articles 2417 and 2418 of the Italian Civil Code has not been tested in the Italian courts and, therefore, the risk of unenforceability by the holders of the Notes of the security documents posed by Italian law cannot be eliminated or mitigated. Furthermore, to date, the Italian courts have not considered whether a common representative (*rappresentante comune*) may be validly appointed by means of a contractual arrangement (such as the Indenture) and the validity and enforceability of such appointment may not be upheld by a court.

There are circumstances other than repayment or discharge of the Notes under which the Collateral and the Guarantees may be released automatically, without your consent or the consent of the Trustee.

Under various circumstances, Collateral securing the Notes and the Guarantees may be released automatically, including, without limitations the following:

- in connection with the disposition of Collateral (other than the pledge of the shares of the Issuer) to (a) any person other than the Issuer or any restricted subsidiary, other than a receivables subsidiary and excluding any transaction subject to the “consolidation and merger” covenant, that is not prohibited by the Indenture or (b) the Issuer or any restricted subsidiary, provided the relevant Collateral remains subject to, or otherwise becomes subject to, a lien in favour of the holders of the Notes;

- in the case of a Guarantor that is released from its Guarantee (with respect to the liens securing such Guarantee granted by such Guarantor);
- if a restricted subsidiary is designated to be an unrestricted subsidiary, the release of the property, assets and capital stock of such restricted subsidiary;
- upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture;
- as described under “*Description of the Notes—Amendments and Waivers*” and “*Description of the Notes—Certain Covenants—Impairment of Security Interest*”;
- if the lien granted in favour of the Senior Secured Credit Facilities, “public debt” (as defined in the Indenture) or such other indebtedness that gave rise to the obligation to grant the lien over such Collateral is released (other than pursuant to the repayment and discharge thereof); and
- as otherwise provided in the Senior Intercreditor Agreement and the Voting Agreement.

In addition, under various circumstances, the Guarantees may be released automatically, including, without limitation, the following:

- upon a sale or other disposition (including by way of consolidation or merger) of ownership interests in the Guarantor (directly or through a parent company) such that the Guarantor does not remain a restricted subsidiary, or upon a sale or other disposition of all or substantially all the assets of the Guarantor (other than to the Company or a restricted subsidiary) in each case, otherwise not prohibited by the Indenture;
- if a restricted subsidiary is designated to be an unrestricted subsidiary;
- upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture;
- with respect to a Guarantor that is not a “significant subsidiary”, so long as no event of default has occurred and is continuing, to the extent that such Guarantor (i) is unconditionally released and discharged from its liability with respect to the Senior Secured Credit Facilities and (ii) does not guarantee any other “credit facility” or “public debt” (as such terms are defined in the Indenture); and
- as otherwise provided in the Senior Intercreditor Agreement and the Voting Agreement.

Your rights in the Collateral securing the Notes may be adversely affected by the failure to perfect security interests in the Collateral.

Under Italian law, a security interest in certain tangible and intangible assets can only be properly perfected and thus retain its priority if certain actions are undertaken by the secured party and/or the grantor of the security interest. The security interests in the Collateral may not be perfected with respect to the claims of the Notes if we or the Security Agent fail or are unable to take the actions required to perfect the security interest. Such failure may result in the invalidity of the relevant security interest in the Collateral or adversely affect the priority of such security interest in favour of third parties, including a trustee in bankruptcy and other creditors who claim a security interest in the same Collateral.

Noteholders may need to rely on the effectiveness of the Senior Intercreditor Agreement and the Voting Agreement to implement parity among the secured parties with respect to the proceeds of any enforcement.

Certain of the Collateral will be shared with other secured creditors. Specifically, the Notes will be secured on a first-priority basis by the same assets that secure the Senior Secured Credit Facilities, while the Second Lien Facilities and the Mezzanine Facilities are secured on a second-ranking and third-ranking basis, respectively, by a pledge over the shares of the Issuer. Furthermore, the Shareholder Loan C is secured on a second-ranking basis by a pledge over the shares of Sisal S.p.A. held by the Issuer. The first-, second- and third-ranking security interests have been created pursuant to a single pledge agreement and accordingly the parity of the Notes and any other obligations secured by first-priority security, including the Senior Secured Credit Facilities, and the priority of the Second Lien Facilities and the Mezzanine Facilities and any other obligations secured by second-ranking or third ranking security, as applicable, over the assets which are also subject to the relevant shared Collateral, will be implemented by way of the Senior Secured Credit Facilities Agreement, the Senior Intercreditor Agreement and the Voting Agreement. As a result, the holders of the Notes will need to rely on the effectiveness of the Senior Secured Credit Facilities Agreement, the Senior Intercreditor Agreement and the Voting Agreement to implement parity among the holders of the Notes and the other *pari passu* secured creditors with respect to the proceeds of any enforcement. See “*Description of Certain Financing Arrangements—Senior Intercreditor Agreement*” and “*—Voting Agreement*”. In the event that the Senior Secured Credit Facilities Agreement, the Senior Intercreditor Agreement and the Voting Agreement do not ensure parity among the *pari passu* secured creditors on a contractual basis, the proceeds available to the holders of the Notes from the enforcement of the Collateral may be reduced or eliminated.

The granting of the security interests in the Collateral may create hardening periods for such security interests in accordance with Italian law.

The granting of new security interests in connection with the issuance of the Notes, including the new pledges over the receivables of the Proceeds Loans, may create hardening periods for such security interests in Italy. The applicable hardening period for these new security interests will run from the moment each new security interest has been granted, perfected or recreated. In each instance, if the security interest granted, perfected or recreated were to be enforced before the end of the relevant hardening period applicable in Italy, such security interest may be declared void and/or it may not be possible to enforce it. “*Limitations on Validity and Enforceability of the Guarantees and the Security Interests and Certain Insolvency Law Considerations*”.

The Issuer may amend the economic terms and conditions of the Notes with the vote of either 75% or 50% of the aggregate principal amount of the outstanding Notes.

The Indenture will contain provisions for calling meetings of the holders of the Notes to consider matters affecting their interests. As set forth in “*Description of the Notes—Meeting of Holders of Notes*”, the majority required to pass an extraordinary resolution at any meeting of noteholders will be one or more persons holding or representing at least 75% of the aggregate principal amount of the outstanding Notes. These provisions permit defined majorities (50% or 75%), depending on the nature of the resolution to bind all holders of the Notes, including noteholders who did not attend and vote at the relevant meeting, and noteholders who voted in a manner contrary to the relevant majority. In particular, under the Indenture, an extraordinary resolution may include, among other things, proposals to reduce the rate or change the time for payment of principal or interest in respect of the Notes, to change the date on which any Note may be subject to redemption or reduce the redemption price, to change the currency of payments under the Notes or to change the majority required to pass a resolution, and change the amendment provisions. These and other changes may adversely impact noteholders’ rights and may have a material adverse effect on the market value of the Notes. Under Italian law, the approval of an extraordinary resolution typically requires the consent of more than one half of the aggregate principal amount of the outstanding Notes. Our decision to increase the majority requirement is untested under Italian law, may be challenged by holders of the Notes, the Issuer and others, and if challenged, may not be upheld by an Italian court, with the consequence being that the majority voting threshold may be reduced from 75% to 50%.

The insolvency laws of Italy may not be as favourable to you as U.S. bankruptcy laws.

The Issuer and the Guarantors are organised under the laws of Italy. The insolvency laws of Italy may not be as favourable to your interests as the laws of the United States or other jurisdictions with which you are familiar, including in respect of creditors’ reorganisation, priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceedings, and thus may limit your ability to recover payments due on the Notes to the extent exceeding the limitations arising under other insolvency laws. In the event that the Issuer or any future subsidiary of the Issuer experiences financial difficulty, it is not possible to predict with certainty the outcome of such proceedings. In particular, the insolvency and other laws of Italy may be materially different from, or in conflict with, each other, including in the areas of rights of secured and other creditors, the ability to void preferential transfer, priority of governmental and other creditors, the ability to obtain post-petition interest and the duration of the proceeding. The application of these laws could call into question whether any particular jurisdiction’s laws should apply, adversely affect your ability to enforce your rights against the Collateral in Italy and limit any amounts that you may receive. For an overview of certain insolvency laws and enforceability issues as they relate to the Issuer and the Guarantors, see “*Limitations on Validity and Enforceability of the Guarantees and the Security Interests and Certain Insolvency Law Considerations*”.

Fraudulent conveyance and similar laws may adversely affect the validity and enforceability of the Notes, the Guarantees and the Collateral.

Under Italian law, in the event that the Issuer or a Guarantor enters into insolvency proceedings, the security interests granted to secure the Notes and the Guarantees could be subject to potential challenges by an insolvency administrator or by other creditors under the rules of avoidance or clawback of Italian Bankruptcy Law and the relevant law on the non-insolvency avoidance or clawback of transactions made by the debtor during a certain legally specified period (the “suspect period”). The avoidance may relate to (i) transactions made by the debtor within a suspect period of one year prior to the declaration of the insolvency at below market value (i.e., to the extent the asset or obligation given or undertaken exceeds by one-quarter the value of the consideration received by the debtor), or involving unusual means of payment (e.g., payment in kind) or security taken after the creation of the secured obligations, whereby the creditor must prove its lack of knowledge of the state of insolvency of the relevant entity in order to rebut any clawback action, (ii) security granted in order to secure a debt due and payable, whereby the creditor must prove his lack of knowledge of the state of insolvency of the relevant entity in order to rebut any clawback action during the suspect period of six months prior to the declaration of the insolvency, and (iii) payments of due and payable obligations, transactions at arm’s length or security taken simultaneously to the creation of the secured obligations during the suspect period of six months prior to the declaration of the insolvency, whereby the bankruptcy receiver must prove that the creditor was aware of the state of insolvency of the relevant entity in order to enforce any clawback action. See “*Limitations on Validity and Enforceability of the Guarantees and the Security Interests and Certain Insolvency Law Considerations—Fraudulent Transfer Provisions of General Applicability Including During Bankruptcy*” for further information.

Under Article 64 of the Italian Bankruptcy Law, all transactions without consideration are ineffective vis-à-vis creditors if entered into by the debtor in the two-year period prior to the insolvency declaration. In addition, under Article 65 of the Italian Bankruptcy Law, payments of receivables falling due on the day of the insolvency declaration or thereafter are ineffective vis-à-vis creditors, if made by the bankrupt entity in the two-year period prior to insolvency. In addition, the EU Insolvency Regulation contains conflicts of law rules which replace the various national rules of private international law in relation to insolvency proceedings within the European Union.

If challenged successfully, the security interest may become unenforceable and any amounts received must be refunded to the insolvent estate. To the extent that the grant of any security interest is voided, the holders of the Notes could lose the benefit of the security interest and may not be able to recover any amounts under the related security documents.

Under Luxembourg law, financial collateral arrangements within the meaning of the Luxembourg law of 5 August 2005 on financial collateral arrangements, as amended, may not be challenged by a bankruptcy receiver on the basis of insolvency regulations. Although the revocatory action specifically open to the bankruptcy receiver under bankruptcy rules where a transaction has defrauded the creditors of the bankrupt debtor has been clearly set aside by the Luxembourg law of 5 August 2005 on financial collateral arrangements, as amended, even if governed by a foreign law, the general revocatory action open to any creditor who is the victim of an act defrauding its rights, pursuant to article 1167 of the Luxembourg Civil Code (*actio pauliana*) and foreign revocatory actions not founded on insolvency regulations (to the extent applicable under conflict of laws rules), should remain available to such creditor.

You may be unable to recover in civil proceedings for U.S. securities laws violations.

The Issuer is incorporated under the laws of Italy. None of the members of the Issuer's management are residents of the United States and substantially all their assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon us or the members of management, or to enforce against the Issuer or them judgments obtained in U.S. courts predicated upon civil liability provisions of the U.S. securities laws. See "Service of Process and Enforcement of Judgments".

The transferability of the Notes may be limited under applicable securities laws.

The Notes and the Guarantees have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or any other jurisdiction and, unless so registered, may not be offered or sold in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and the applicable securities laws of any state or any other jurisdiction. See "Transfer Restrictions". It is the obligation of holders of the Notes to ensure that their purchase and any subsequent transfer of the Notes within the United States and other countries comply with applicable securities laws.

Payments in respect of the Notes may in certain circumstances be made subject to withholding or deduction of tax.

The Issuer is not liable to pay any additional amounts in relation to any withholding or deduction required pursuant to Italian Legislative Decree No. 239 of April 1, 1996 (as amended or supplemented) where the Notes are held by a person resident in a country that does not allow for satisfactory exchange of information with Italy (as per Article 168-bis, Italian Presidential Decree No. 917 of December 22, 1986) and otherwise in the circumstances as described in "Description of the Notes—Withholding Taxes". Investors resident in such countries or investors that are resident in a country allowing for the satisfactory exchange of information with Italy (as per Article 168-bis, Italian Presidential Decree No. 917 of December 22, 1986) but that do not satisfy the conditions set forth by Italian Legislative Decree No. 239 of April 1, 1996 (as amended or supplemented) will only receive the net proceeds of their investment in the Notes. See "Certain Taxation Considerations—Certain Italian Tax Considerations" and "Description of the Notes—Withholding Taxes".

No assurance can be given that the Notes will be listed or that, once listed, such listing will be maintained or that such listing will satisfy the listing requirement of Article 32(8) of Law Decree No. 83 of June 22, 2012 and Italian Legislative Decree No. 239 of April 1, 1996.

No assurance can be given that the Notes will be listed or that, once listed, the listing will be maintained or that such listing will satisfy the listing requirement of Article 32(8) of Law Decree No. 83 of June 22, 2012 and Italian Legislative Decree No. 239 of April 1, 1996 in order for the Notes to be eligible to benefit from the provisions of such legislation relating to deductibility of interest expense and the exemption from the requirement to apply withholding tax. The Italian tax authorities recently issued an interpretive circular relating to, among other things, the listing requirement of the aforementioned legislation. In the event that the Notes are not listed or that such listing requirement is not satisfied, our ability to deduct interest expense related to the Notes could be adversely impacted. In addition, in such circumstances, payments of interest, premium and other income with respect to the Notes would be subject to a withholding tax (*imposta sostitutiva*) currently at a rate of 20%, and we would be required to pay additional amounts with respect to such withholding taxes such that beneficial owners receive a net amount that is not less than the amount that they would have received in the absence of such withholding. The Italian tax authorities may interpret the applicable legislation to require that the listing be effective at

closing and we cannot assure you that the listing can be achieved by the Issue Date. However, we intend to achieve the required listing of the Notes on the Issue Date by obtaining a listing on the ExtraMOT of the Borsa Italiana and do not, in any event, believe that the applicable legislation requires the listing of the Notes to be effective at closing to benefit from the provisions relating to deductibility of interest expense and exemption from application of withholding tax. The possible limitation on the deductibility of interest expense and the imposition of withholding taxes with respect to payments on the Notes and the resulting obligation to pay additional amounts to noteholders could have a material adverse effect on our financial condition and results of operations.

An active trading market may not develop for the Notes.

Although we have applied to list the Notes on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market, we cannot assure you that the Notes will remain listed. In addition, we cannot assure you as to the liquidity of any market that may develop for the Notes, the ability of holders of the Notes to sell them or the price at which the holders of the Notes may be able to sell them. The liquidity of any market for the Notes will depend on the number of holders of the Notes, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and our own financial condition, performance and prospects, as well as recommendations by securities analysts. Historically, the market for non-investment grade debt, such as the Notes, has been subject to disruptions that have caused substantial price volatility. If a market for the Notes were to develop, such a market may be subject to similar disruptions. We have been informed by the Initial Purchasers that they intend to make a market for the Notes after this Offering is completed. Nevertheless, the Initial Purchasers are not obligated to do so and may cease their market-making activity at any time without notice. In addition, such market-making activity will be subject to limitations imposed by the U.S. Securities Act and other applicable laws and regulations. As a result, we cannot assure you that an active trading market for the Notes will develop or, if one does develop, that it will be maintained.

Investors may face foreign exchange risks by investing in the Notes.

The Notes offered hereby are denominated and payable in euros. If you measure your investment returns by reference to a currency other than euros, an investment in the Notes will entail foreign exchange risks related to, among other factors, possible significant changes in the value of the euro relative to the currency by reference to which you measure the return on your investments because of economic, political and other factors over which we have no control. Depreciation of the euro against the currency by reference to which you measure the return on your investments could cause a decrease in the effective yield of the Notes below the stated coupon rate and could result in a loss to you when the return on the offered Notes is translated into the currency by reference to which you measure the return on your investments. There may be tax consequences for you as a result of any foreign exchange gains or losses resulting from an investment in the Notes.

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

One or more independent credit rating agencies are expected to assign credit ratings to the Notes. The credit ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency in the future if in its judgement circumstances so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financings and could adversely affect the value and trading of the Notes.

The Notes will initially be held in book-entry form and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

Unless and until definitive Notes are issued in exchange for book-entry interests in the Notes (which will only occur in very limited circumstances), owners of the book-entry interests will not be considered owners or holders of Notes. The common depositary (or its nominee) for the accounts of Euroclear and Clearstream will be the registered holder of the Notes. After payment to the common depositary, we and the Trustee will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear or Clearstream Banking, as applicable, and if you are not a participant in Euroclear or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder under the Indenture. See “Book-Entry, Delivery and Form”.

Unlike holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents or other actions from holders of the Notes. Instead, if you own a book-entry interest, you will be

permitted to act only to the extent you have received appropriate proxies to do so from Euroclear or Clearstream or, if applicable, from a participant. We cannot assure you that procedures implemented for the granting of such proxies will be sufficient to enable you to vote on any requested actions on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered Notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear or Clearstream. We cannot assure you that the procedures to be implemented through Euroclear or Clearstream will be adequate to ensure the timely exercise of rights under the Notes.

USE OF PROCEEDS

The gross proceeds from the Offering will be €275 million. We intend to use the gross proceeds from the Offering to repay directly or through Sisal S.p.A., Sisal Entertainment S.p.A. and Sisal Match Point S.p.A., a portion of the indebtedness outstanding under the Senior Secured Credit Facilities Agreement, including €5.0 million of the amounts drawn under the Revolving Credit Facility. Specifically, one tranche of the Notes proceeds (the “Subsidiaries Guaranteed/Secured Tranche”) for an amount of €142.3 million will be used to (i) directly fund the repayment by the Issuer of the Term Loan D and fund the Proceeds Loan to Sisal S.p.A. and (ii) indirectly fund the repayment by Sisal Entertainment S.p.A. and Sisal Match Point S.p.A. of the remaining amount of the Term Loan D, and the other tranche will be used for other purposes as described below. We intend to pay from cash on hand approximately €12.8 million of fees and expenses, including the Initial Purchasers’ discount and commission and the estimated expenses in respect of the Offering and the Amend and Extend.

Certain Initial Purchasers or their affiliates are arrangers and lenders under the Senior Secured Credit Facilities Agreement, and, in their capacities as lenders, will receive a portion of the proceeds from this Offering. See “*Plan of Distribution*”.

The estimated sources and uses of the Refinancing are set out in the table below (€ in millions):

Sources	Amount	Uses	Amount
		Partial repayment of Senior Secured Credit Facilities ⁽¹⁾	275.0
Notes offered hereby	275.0	Estimated fees and expenses	12.8
Cash on balance sheet	12.8		
Total	287.8	Total	287.8

- (1) We and our subsidiaries Sisal Entertainment S.p.A. and Sisal Match Point S.p.A. will fully repay Term Loan D in the amount of €139.0 million and such Term Loan will not be available for future drawing. The Issuer will repay Term Loan D in an amount of €26.9 million while Sisal Entertainment S.p.A. and Sisal Match Point S.p.A. will repay Term Loan D in an amount of, respectively, €41.0 million and €71.1 million. The amount to be repaid by Sisal Entertainment S.p.A. will be made available by Sisal S.p.A. under the relevant Proceed Loan and the amount to be repaid by Sisal Match Point S.p.A. will be made available by Sisal Entertainment S.p.A. under the relevant Proceed Loan for a corresponding amount. The Issuer will use part of the proceeds of the Notes to advance to Sisal S.p.A. the amounts necessary to fund the Proceed Loan to Sisal Entertainment S.p.A.

We will also partially repay Term Loan B and Term Loan C in the amount of €65.5 million for each Term Loan, and such repaid amounts will not be available for future drawing. After the Refinancing, €179.5 million will remain outstanding under each of Term Loan B and Term Loan C. Term Loan B and Term Loan C are non-amortising term loans, which after the Amend and Extend, will both mature on September 30, 2017 and will both bear an interest rate of EURIBOR plus a margin of 4.25% per annum. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement*” and “*Capitalisation*”. After the Refinancing, €29.3 million will remain outstanding under the Revolving Credit Facility and €5.0 million will be available for future drawings. The Revolving Credit Facility is a revolving loan facility with a clean down and an option for utilisation by way of letters of credit, which after the Amend and Extend, will mature on September 30, 2017 and will bear an interest rate of EURIBOR plus a margin of 3.75% per annum, with the margin subject to change based on a net debt to EBITDA ratio. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement*” and “*Capitalisation*”.

CAPITALISATION

The following table sets forth as of December 31, 2012, (i) the unrestricted cash and cash equivalents and consolidated capitalisation of the Issuer and its subsidiaries and (ii) the unrestricted cash and cash equivalents and consolidated capitalisation of the Issuer and its subsidiaries on an adjusted basis after giving effect to the Refinancing and the Amend and Extend. The following table also sets forth as of December 31, 2012, the third party borrowings of Gaming Invest S.à r.l, the direct parent of the Issuer; such amounts will not change with the Refinancing or the Amend and Extend. This table should be read in conjunction with “*Use of Proceeds*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, “*Description of Certain Financing Arrangements*”, “*Description of the Notes*” and our consolidated financial statements and related notes included elsewhere in this offering memorandum.

	<u>Actual</u>	<u>As Adjusted</u>
	<u>(€ in millions)</u>	<u>(unaudited)</u>
ISSUER AND ITS SUBSIDIARIES		
Cash and cash equivalents⁽¹⁾	152.9	140.1
Senior Secured Credit Facilities ⁽²⁾	713.9	438.9
Notes offered hereby ⁽³⁾	—	275.0
Other debt ⁽⁴⁾	10.0	10.0
Total third party borrowings	723.9	723.9
Shareholder Loans ⁽⁵⁾	423.3	423.3
Total debt	1,147.2	1,147.2
Equity ⁽⁶⁾	45.2	45.2
Total capitalisation	1,192.4	1,192.4
GAMING INVEST S.À R.L. THIRD PARTY BORROWINGS		
Second Lien Facilities ⁽⁷⁾	40.0	40.0
Mezzanine Facilities ⁽⁸⁾	230.4	230.4

- (1) Excludes €89.2 million of restricted cash, which represents prize winnings and, to a lesser extent, deposits made by players for our online games. For further information on restricted cash, see note 13 to our audited consolidated financial statements as of and for the year ended December 31, 2012 included elsewhere in this offering memorandum. The “As Adjusted” column reflects the payment of €12.8 million of fees and expenses, including the Initial Purchasers’ discount and commission and the estimated expenses in respect of the Offering and the Amend and Extend.
- (2) Represents borrowings outstanding under the Senior Secured Credit Facilities. Amounts shown are gross of unamortised debt issuance costs of €5.2 million. As described in “*Use of Proceeds*”, the gross proceeds from the Refinancing will be applied to prepay a portion of our indebtedness outstanding under the Senior Secured Credit Facilities, including €5.0 million of the amounts outstanding under the Revolving Credit Facility, which Revolving Credit Facility will remain available for future drawings. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement*”.
- (3) Represents the principal amount of Notes to be issued in the Offering.
- (4) Represents finance leases, factoring of VAT receivables and other sundry financial liabilities.
- (5) Represents the principal amounts outstanding under Shareholder Loan C and Shareholder Loan ZC. Amounts shown are gross of unamortised debt issuance costs of €3.3 million. See “*Description of Certain Financing Arrangements—Shareholder Loans*”.
- (6) Represents total equity attributable to owners of the company.
- (7) Represents borrowings outstanding under the Second Lien Facilities. See “*Description of Certain Financing Arrangements—Second Lien Facilities Agreement*”.
- (8) Represents borrowings outstanding under the Mezzanine Facilities. See “*Description of Certain Financing Arrangements—Mezzanine Facilities Agreement*”.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated statement of comprehensive income information, consolidated statement of financial position information and consolidated statement of cash flow information as of and for the years ended December 31, 2010, 2011 and 2012 have been derived from the audited consolidated financial statements for such periods of the Issuer which have been prepared in accordance with IFRS and audited by PricewaterhouseCoopers S.p.A. In order to show trends in our financial performance, we have also included certain consolidated statement of comprehensive income information and consolidated statement of financial information as of and for the years ended December 31, 2008 and 2009, each of which has been derived from our audited IFRS consolidated financial statements as of and for the year ended December 31, 2009. This selected financial information is not necessarily representative of our results of operations for any future period or our financial condition at any future date.

In 2010, 2011 and 2012 we made certain revisions to the classifications of our chart of accounts based on what we considered to be a more precise classification of items. The reclassifications in 2010 and 2011 related to certain line items in our consolidated statement of comprehensive income, while those in 2012 related only to certain line items in our consolidated statement of financial position. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Income Statement Comparability*”. We do not believe that reclassifications impact the comparability of the information across the historical periods presented. Line items that have been reclassified are unaudited.

In 2012 we also made certain revisions to the classifications for our cash flow statement. In particular, prior to 2012, we reconciled the movements in cash flows to the movement in cash and cash equivalents, short term loans and the current portion of long-term loans. From 2012, our cash flows have been reconciled to the changes in cash and cash equivalents. In the audited consolidated financial statements as of and for the year ended December 31, 2012, the consolidated statement of cash flow information for 2011 has been restated consistent with this new approach. For comparability purposes, the statement of cash flow information for the years ended December 31, 2010 presented below was also restated using information from our accounting records. All such restated information is unaudited. See “*Presentation of Financial Information*”.

The Selected Consolidated Financial Information should be read in conjunction with the financial statements included elsewhere in this offering memorandum and the information set forth in “*Summary*”, “*Business*”, “*Use of Proceeds*”, “*Capitalisation*”, “*Summary Financial and Other Information*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*.”

Selected Consolidated Statement of Comprehensive Income Information	Year ended December 31,				
	2008	2009	2010	2011	2012
	(€ in millions)				
Total revenues and income	536.9	648.0	736.0	869.8	823.4
Total costs	407.7	494.6	569.5	680.3	674.3
Gross operating profit before amortisation, depreciation, provisions and impairment losses and reversals	129.2	153.4	166.5	189.5	149.1
Amortisation, depreciation, provisions and impairment losses and reversals	17.9	78.8	96.1	133.1	117.2
Net finance expenses and similar	96.3	81.4	78.0	69.1	69.0
Profit (loss) before income taxes	15.0	(6.8)	(7.6)	(12.7)	(37.1)
Income taxes	5.3	6.3	5.3	16.6	2.7
Profit (loss) for the year	9.7	(13.1)	(12.9)	(29.3)	(39.8)

Selected Consolidated Statement of Financial Position Information

	As of December 31,				
	2008	2009	2010	2011	2012
	(€ in millions)				
Property, plant and equipment	84.0	101.9	115.3	119.7	126.6
Goodwill	867.4	869.2	870.1	886.5	869.6
Intangible assets	239.7	386.3	338.3	286.4	249.1
Cash and cash equivalents	207.9	356.0	472.9	283.7	242.1
<i>Of which restricted⁽¹⁾</i>	<i>122.6</i>	<i>225.0</i>	<i>354.9</i>	<i>121.5</i>	<i>89.2</i>
Other current and non-current assets	128.6	209.9	242.0	282.4	241.7
Total assets	1,527.6	1,923.3	2,038.6	1,858.7	1,729.1
Long-term debt ⁽²⁾	961.0	1,036.4	1,052.0	1,082.3	1,010.2
Short term debt and current portion of long term debt	54.7	51.2	58.9	63.0	128.6
Other current and non-current liabilities	474.8	709.1	813.9	628.6	544.7
Total liabilities	1,490.5	1,796.7	1,924.8	1,773.9	1,683.5
Total equity	37.1	126.6	113.8	84.8	45.6
Total liabilities and equity	1,527.6	1,923.3	2,038.6	1,858.7	1,729.1

(1) Restricted cash relates to bank accounts which are managed by us but for which the cash is restricted to the payment of prize winnings and, to a lesser extent, deposits made by players for our online games.

(2) Long term debt includes the long-term portion of the Shareholder Loans, amounting to €276.9 million, €350.8 million, €372.5 million, €395.2 million and €420.0 million, as of December 31, 2008, 2009, 2010, 2011 and 2012, respectively. See “Description of Certain Financing Arrangements—Shareholder Loans”.

Selected Consolidated Statement of Cash Flows Information

	Year ended December 31,		
	2010 (Reclassified)	2011 (Reclassified)	2012
	(€ in millions)		
Cash flows provided by (used in) operating activities	205.4	(126.2)	60.5
Cash flows provided by (used in) investing activities	(85.5)	(60.1)	(68.1)
Cash flows provided by (used in) financing activities	(3.0)	(2.9)	(34.0)
Increase (decrease) in cash and cash equivalents	116.9	(189.2)	(41.6)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of our results of operations and financial condition as of and for the years ended December 31, 2010, 2011 and 2012 as derived from our audited consolidated financial statements for the same periods, in each case prepared in accordance with IFRS as adopted by the European Union. Our audited consolidated financial statements for each of the years ended December 31, 2010, 2011 and 2012 are included elsewhere in this offering memorandum.

You should read this discussion in conjunction with the sections entitled "Presentation of Financial Information", "Selected Consolidated Financial Information" and "Capitalisation", which are included elsewhere in this offering memorandum.

This discussion includes forward-looking statements, which although based on assumptions that we consider reasonable, are subject to risks and uncertainties which could cause actual events or conditions to differ materially from those expressed or implied by the forward-looking statements. See "Information Regarding Forward-Looking Statements" and, for a discussion of the risks and uncertainties which we face, you should also see "Risk Factors".

Overview

We are the second largest gaming company and the second largest convenience payment services provider in Italy based on turnover. We were the first Italian company to operate in the gaming sector as a government concessionaire and we have been operating for over 65 years. Italy is the largest gaming market in Europe based on gross gaming revenue, and it is also one of the most developed. In addition to gaming, we operate in the convenience payment services market, which has tripled in size since 2007. In 2012 we generated revenues and income of €823.4 million and Pro Forma Adjusted EBITDA of €172.4 million.

We offer slot machines and video lottery terminals, betting, lottery games and convenience payment services. Our distribution network includes approximately 46,000 points of sale, nearly all of which also offer convenience payment services. Our network is made up of newsstands, bars, tobacconists, betting shops and corners, points of sale that are dedicated to gaming machines, multifunctional gaming halls and our online gaming platform.

We have a proven track record of operating our business in a highly regulated environment. In Italy, gaming companies must have a concession from the national regulator. The regulator establishes tender criteria for gaming concessions, for example by requiring bidders to show an extensive territorial presence in Italy and expertise in the information technology processes necessary for the operation of a gaming network. Our gaming concessions have maturities from five to nine years, and we have successfully renewed each of our concessions to date. The payment and financial services segment of the convenience payment services industry is regulated by the Bank of Italy, from whom we hold a licence to operate as a payment institution.

With turnover in 2012 of €7.9 billion, we are the second largest gaming company in Italy and we estimate that we are the ninth largest lottery and betting company in the world. In 2009 we won the exclusive concession to operate certain national lottery games. In addition, as a gaming machine concessionaire, we provide interconnection services for approximately 36,000 slot machines and 5,000 video lottery terminals. We also directly manage over 200 betting shops and provide network services to approximately 4,000 betting corners. In 2010 we launched a new multifunctional retail format—our WinCity gaming halls, which provide gaming services but also offer food, drink and entertainment—providing our customers with an alternative to Italy's only four licensed casinos. We offer a wide variety of online products including online betting, poker, skills and casino games, and we have significantly grown our presence in this increasingly important channel over the last five years. The gaming market in Italy is maturing and has doubled in size since 2007, reaching turnover of an estimated €86.7 billion in 2012.

With turnover in 2012 of €5.9 billion, we are the second largest convenience payment services provider in Italy. Due to the low penetration of online and direct debit payment options as well as for cultural reasons, Italian consumers are frequently seeking to make cash payments through "local" channels such as bars and newsagents rather than through traditional channels such as post offices and bank branches. We offer customers the ability to pay approximately 300 types of bills, fines and certain taxes such as TV licences, as well as top-up prepaid mobile phones and debit cards, with partnerships with over 70 utilities, prepaid services providers and municipal governments. Our points of sale are open more days, have longer opening hours and shorter queues than post offices and bank branches, saving our customers time. We have approximately 42,000 terminals throughout Italy that function as "one stop shops", where customers can make payments as well as play lottery games, and we are rolling out payment-only terminals in high traffic areas. The convenience payment services market in Italy has tripled in size since 2007, reaching turnover of an estimated €18.7 billion in 2012, and we expect it to grow further. We derived 13.4% of our revenues and income from convenience payment services in 2012.

Income Statement Comparability

In 2011 and 2012, we made certain revisions to the classifications of our chart of accounts based on what we considered to be a more precise classification of items. In the audited consolidated financial statements as of and for the year ended December 31, 2011, the comparative 2010 information was reclassified to be consistent with the 2011 classifications. Similarly, in the audited consolidated financial statements as of and for the year ended December 31, 2012, the comparative 2011 information was reclassified to be consistent with the 2012 classifications. The reclassifications in 2011 to the 2010 comparative information related to certain line items in our consolidated statement of comprehensive income, while those in 2012 to the 2011 comparative information related only to certain line items in our statement of financial position. Specifically, the reclassifications in 2011 to the statement of comprehensive income related to revenues and income, purchases of materials consumables and services and other operating costs and were for a maximum amount of €0.2 million and did not affect our net operating profit or any other of our statement of comprehensive income measures of profit or loss. The reclassification to the statement of financial position in 2012 related to (i) a reclassification of €0.6 million between intangible assets and property, plant and equipment (ii) a reclassification of €9.7 million between other current assets and taxes receivable and (iii) a reclassification of €6.1 million between other current assets and taxes receivable and did not affect any of the statement of financial position sub-totals. We do not believe that reclassifications impact the comparability of the information across the historical periods presented. Line items that have been reclassified are unaudited.

In 2012, we also made certain revisions to the classifications for our cash flow statement. In particular, prior to 2012, we reconciled the movements in cash flows to the movement in cash and cash equivalents, short term loans and the current portion of long-term loans. From 2012, our cash flows have been reconciled to the changes in cash and cash equivalents. In the audited consolidated financial statements as of and for the year ended December 31, 2012, the consolidated statement of cash flow information for 2011 has been restated consistent with this new approach. For comparability purposes, the statement of cash flow information for the year ended December 31, 2010 presented in this offering memorandum has also been restated using information from our accounting records. The consolidated statement of cash flow information for 2010 and 2011 presented in this offering memorandum therefore differs from the consolidated statement of cash flows included in our audited consolidated financial statements as of and for the years ended December 31, 2010 and 2011 included elsewhere in this offering memorandum. All such information is unaudited.

Business Segment Reporting

Beginning with the financial year ended December 31, 2012, we adopted IFRS 8 relating to disclosures of segment reporting information. In our audited financial statements as of and for the year ended December 31, 2012 we have provided the disclosure required by IFRS 8 for 2012 and for the comparative period of 2011. Our financial segment reporting is prepared on the basis of three business segments, reflecting the management structure of our business and our internal financial reporting. The three segments identified are as follows:

- *Entertainment*—which relates to VLTs, slot machines, offline betting activities and direct retail operations such as our WinCity gaming halls,
- *Digital Games and Services*—relating to internet which includes online betting, online lotteries, poker, bingo, skill games and slot online activities and our convenience payment services; and
- *Lottery*—relating to SuperEnalotto, SiVinceTutto, WinforLife and Eurojackpot activities.

In accordance with IFRS 8 we report our segment information based on the management view of the business. The following table sets forth an analysis of the allocation of the statutory breakdown of revenues and income to the business segments.

Statutory breakdown of revenues and income

	Business Segment Reporting			
	Entertainment	Digital Games and Services	Lottery	Other
Gaming Revenues				
Gaming machines	✓			
NTNG revenues		✓ ⁽²⁾	✓ ⁽³⁾	
Horse betting revenues	✓ ⁽¹⁾	✓ ⁽²⁾		
Online games revenues		✓ ⁽²⁾		
Bingo revenues	✓ ⁽¹⁾	✓ ⁽²⁾		
Sports pools revenues	✓ ⁽¹⁾	✓ ⁽²⁾		
Fixed odds betting income	✓ ⁽¹⁾	✓ ⁽²⁾		
Services and non-gaming product revenues		✓		
Point of sale fees⁽⁴⁾	✓	✓	✓	
Other revenues and income⁽⁵⁾	✓	✓	✓	✓

(1) The Entertainment segment includes the offline portion of such activities.

(2) The Digital Games and Services segment includes the online portion of such activities.

(3) Online lottery revenues are not included in the Lottery segment (see Note 2 above).

- (4) Point of sale fees which are directly attributable to the Entertainment segment are directly allocated, while the remainder is allocated across the Lottery and Digital Games and Services segments applying a driver based on revenues and income and turnover.
- (5) Other revenues and income are allocated across the Entertainment, Lottery and Digital Games and Services segments based on the nature of the other revenue and income.

For segment reporting purposes, we report total revenues and gross operating profit of our segments. Gross operating profit of our segments represents gross operating profit before amortisation, depreciation, impairment losses and reversals, impairment of receivables, costs of our corporate structure and provisions which are not directly related to the performance of the business. We refer to such measure as “Segment Gross Operating Profit”. Costs of our corporate structure relate to the central management of the business, including (i) IT/Telecommunications services across the different operating segments (ii) advertising and institutional communication (iii) coordination, control and strategic guidelines of the Group’s business (iv) planning and centralized management of human resources and financing and (v) management of administrative, fiscal and legal/corporate obligations and as they relate to the business as a whole they are not allocated to our individual segments. See Note 44 to the audited consolidated financial statements for the year ended December 31, 2012. We do not present business segment reporting information for 2010 in our financial statements or in this offering memorandum.

Key Factors Affecting Our Financial Condition and Results of Operations

Our operations

Our operations are primarily focused on two markets, the Italian gaming market and, with increasing importance, the Italian convenience payment services market. The following table sets forth an analysis of our total revenues and income generated from the gaming market (gaming and fixed odds betting), the services market (convenience payment services and non-gaming product revenues), and other operations (mainly relating to the point of sale fees from our network).

	For the year ended December 31,					
	2010		2011		2012	
	Revenues and income	% of total	Revenues and income	% of total	Revenues and income	% of total
(€ in millions, except percentages)						
Gaming and fixed odds betting ⁽¹⁾	575.7	78.2%	685.8	78.8%	619.5	75.2%
Services and non-gaming product	86.1	11.7%	98.4	11.3%	110.5	13.4%
Others	74.2	10.1%	85.6	9.8%	93.4	11.3%
Total revenues and income	736.0	100.0%	869.8	100.0%	823.4	100.0%

(1) Gaming and fixed odds betting revenues include revenues from gaming machines, lotteries, offline and online sports and horse betting, online games, bingo, and fixed odds betting income.

As illustrated by the table above gaming continues to represent the most significant portion of our revenues and income. However, during the three years ended December 31, 2012 our services and non-gaming product revenues have increased in importance, in terms of revenues and income contribution.

Below is an overview of the key factors which have affected, and may in the future continue to affect, our gaming and services operations.

Gaming

Regulation

We operate in a complex regulatory environment, in particular with respect to our gaming operations, which is subject to continuous evolution. The Italian gaming market is regulated by the Italian government, through AAMS, the national regulator, and the other bodies responsible for the control and regulation of this market. Such bodies dictate, amongst other factors, gaming taxes, minimum payout ratios (i.e. the minimum amount payable as winnings) and the number of gaming machines that we can operate, all of which have a direct or indirect impact on our results of operations. Concession agreements with the AAMS can include additional requirements. Pursuant to the lottery concession agreement, for example, until June 30, 2012 we were subject to minimum spending limits on advertising, minimum levels of capital expenditure on network modernisation, and minimum guaranteed volumes of ticket sales, all of which are stated in the concession agreement.

The AAMS is responsible for drafting and implementing the regulatory framework governing gaming in Italy. In 2009, a new regulatory framework was introduced legalising online gaming. Following the new regulation, we were able to introduce online tournament poker in the year ended December 31, 2010, online cash poker and casino games in the year ended December 31, 2011 and online slot machine games in the year ended December 31, 2012. The regulatory framework also introduced VLTs, with our first machines becoming available in the market in August 2010, significantly broadening the product offering in the gaming machines market. See “Regulation”.

The following is a brief description of the key conditions of our concession agreements, which have affected our results of operations over the three year period ended December 31, 2012.

Minimum spending limits on advertising

The NTNG lottery concession agreement states that each year we must invest at least the equivalent of 1.82% of total lottery turnover from the previous concession year (July 1 to June 30) in advertising in the current concession year. This means that advertising expenditure is directly linked to the lottery turnover of the prior year. In particular, our advertising costs increased from €19.4 million in the year ended December 31, 2010 to €46.8 million in the year ended December 31, 2011, primarily driven by a 45.5% increase in lottery turnover in the concession year to June 2011 related to record jackpot levels in August, September and October 2010, which reached over €175 million, and the successful launch of *WinForLife* in the second half of 2009, which in turn improved lottery turnover in 2010. Although our concession agreement also required minimum capital expenditure levels, historically we have invested more than the minimum required amount.

The liberalisation of the Italian gaming market

The Bersani Decree on Deregulation, issued in July 2006, extended the availability of betting to non-specialised points of sale known as sports corners, or agencies which, offer horse and sports bets. Subsequent legislation has allowed us to grow our network, open new shops and corners and also to re-locate points of sale to geographical areas with greater potential. In particular our Matchpoint network, which comprises agencies, shops and corners, increased from 4,008 points of sale as of December 31, 2010 to 4,238 as of December 31, 2011 and to 4,245 as of December 31, 2012, of which 374 underperforming point of sales were in the process of being relocated, as permitted by the geographical liberalisation of concession rights.

Minimum guaranteed volume

Following the award of the lottery concession, the agreement stipulated that for a three year trial period from July 1, 2009, to June 30, 2012, we were required to maintain a minimum guaranteed volume of turnover of €350 million for each two-month period within such duration. Failure to meet the minimum volume requirement could result in fines, or in certain circumstances could result in the revocation of the concession. In the summer of 2011, we incurred increased marketing and advertising costs to mitigate the effect of lower jackpots and the seasonality of the vacation period, and we were able to meet the minimum required volumes. We were not able to satisfy such minimum amount during the two month period from May 1, 2012 to June 30, 2012 and as a result the AAMS imposed a penalty of €16.5 million. The expense related to such fine was recorded within “other operating costs” in our income statement for the year ended December 31, 2012. The fine has not yet been paid and is recognised within liabilities in the statement of financial position as of December 31, 2012. See “*Business—Legal Proceedings—Pending Litigation Regarding Minimum NTNG Turnover*”.

In addition, our results of operations are impacted by the timing of authorisations of new products and changes to the structure of existing products by the AAMS. For certain of our products, and in particular our lottery products, we require approvals before making any structural changes to the offering. For example, changes to the SuperEnalotto product require regulatory approval, as well as approval by parliamentary law, a process which has been delayed by the current political situation in Italy at the start of 2013. Accordingly, our performance has not benefitted from the improvement expected from the refreshment of such product.

Taxation

The Group is subject to corporate taxes as well as taxes on individual games. Changes in tax legislation can affect our results of operations. In particular, the following changes in tax legislation have affected our results of operations over the three year period ended December 31, 2012.

- On awarding the VLT licenses in 2009, AAMS stated that the tax on the turnover of these gaming machines would increase from 2% in 2010 and 2011 to 3% in 2012 and 4% in 2013. A fiscal decree issued in November 2011 amended the VLT taxation system, making the increase to 4% effective for 2012, and increasing to 5% in 2013. As our revenues are stated net of tax, this increase in taxation contributed to the decrease in the revenues generated by the VLT products from €150.2 million for the year ended December 31, 2011 to €143.7 million for the year ended December 31, 2012, despite an increase in our total VLT turnover from €1,791.9 million for the year ended December 31, 2011 to €2,207.1 million for the year ended December 31, 2012.
- PREU (*Prelievo Erariale Unico*) tax on slot machines decreased from 12.5% in the years 2010 and 2011 to 11.8% in 2012, and increased again to 12.7% in 2013. The temporary PREU deduction was designed to give relief to concessionaires in 2012 in order to facilitate the installation of GPSs on all slot machines in accordance with AAMS requirements. Our revenues are recorded net of tax; therefore any changes in PREU can impact our results of operations.
- Tax legislation introduced in 2012 imposed a 6% charge on all winnings above €500 payable by the winner for lottery and VLT products. Although this does not directly affect our revenues due to the tax being payable by the players, it in effect reduces the payout of the Group’s lottery and VLT products where the prize is in excess

of €500, thereby reducing the incentive for consumers to play VLTs. The additional 6% tax is currently being challenged on constitutional grounds. See “*Business—Legal Proceeds—Additional PREU (Prelievo Erariale Unico)*”.

Considering the environment in which we operate, further changes in tax legislation could be implemented, thereby affecting our results of operations. Changes in tax law or other laws supersede the terms of our concessions and we are not entitled to additional compensation to offset such changes during the life of a concession.

Impact of taxation and payout on profitability

As demonstrated by the impact of the VLT tax increase, the profitability of our gaming products is affected the taxes imposed and the minimum payout ratios applied by AAMS. Some of our gaming products have payouts in excess of the minimum ratios applied by AAMS and for these products, we are able to decrease the payout in order to mitigate the effect of any tax increases applied on them. In order to minimise the impact on gaming prizes and player volumes, we generally seek to make such reductions gradually over time. Accordingly, there can be a time lag between increases in taxes and decreases in payouts, resulting in a temporary decrease in profit margin of our gaming products. Where our gaming products have payouts equal to the minimum applied by AAMS, any tax increases cannot be offset by decreases to payout ratios, and as such in addition to impacting our revenue, could impact the profitability of these products.

The Italian gaming industry and gaming trends

The Italian gaming industry has shown year on year turnover growth in the three year period ended December 31, 2012, though growth is estimated to have slowed in the year ended December 31, 2012 due to the general difficult macroeconomic situation in Italy which has impacted consumer behaviour and spending patterns. The mix of products changed over this period, with tendency towards higher payout products, which creates a more positive player experience and entice players to spend more.

The following table sets forth the total market turnover and market share per gaming product determined by turnover, payout ratio and gross gaming revenues (defined as turnover less payout) in the Italian gaming industry for the periods indicated.

For the year ended December 31,												
2010 ⁽¹⁾					2011 ⁽¹⁾				2012 ⁽¹⁾			
	Turnover	% of turnover	Payout % of turnover	Gross gaming revenues	Turnover	% of turnover	Payout % of turnover	Gross gaming revenues	Turnover	% of turnover	Payout % of turnover	Gross gaming revenues
(€ in millions, except percentages)												
Slot machines	30,674	50.3%	75.0%	7,669	29,870	37.5%	75.6%	7,282	26,900	31.0%	75.5%	6,600
VLTs	860	1.4%	90.1%	85	14,745	18.5%	90.3%	1,435	21,500	24.8%	90.0%	2,150
Lotteries ⁽²⁾	18,123	29.7%	62.0%	6,889	19,421	24.4%	64.0%	6,987	17,764	20.5%	66.2%	6,004
Sports betting ⁽³⁾	4,498	7.4%	80.7%	866	3,925	4.9%	76.7%	914	3,995	4.6%	82.5%	700
Horse betting ⁽³⁾	1,730	2.8%	68.6%	543	1,369	1.7%	68.8%	427	1,012	1.2%	69.2%	311
Online games ⁽⁴⁾	3,292	5.4%	87.1%	424	8,601	10.8%	94.4%	485	14,081	16.2%	96.1%	550
Bingo	1,807	3.0%	70.1%	541	1,666	2.1%	72.2%	463	1,493	1.7%	70.3%	443
Total gaming and fixed odds	60,984	100.0%	72.1%	17,017	79,597	100.0%	77.4%	17,993	86,745	100.0%	80.7%	16,758

(1) Source: AAMS, except with respect to 2012 gaming machines data, which reflects the Group's estimates based on AAMS October 2012 data.

(2) Includes offline and online lotteries.

(3) Includes offline and online betting, fixed odds and pool games.

(4) Includes online bingo.

As illustrated by the table above, traditional gaming products such as horse betting, sports betting, bingo and lotteries are losing market share (determined as a percentage of total turnover) to newer gaming products, such as VLTs and online gaming. One driver for such shift is that the newer products offer higher payout rates. For example, online gaming products offered in Italy in the year ended December 31, 2012 had an average payout rate of 95.2% compared to the 66.2% payout rate offered by the lottery products. The launch of VLTs in August 2010 was particularly attractive to players as it offered payout rates of 90.1%. As a result of the new products introduced in the market and the changes in product mix, the overall payout percentage in the market has increased from 72.1% in the year ended December 31, 2010 to 80.7% in the year ended December 31, 2012. The higher payout rates offered by slot machines, VLT and online games helped develop a positive consumer experience; as a result, players generally were more likely to play again. This resulted in increased turnover, but, as the payout percentage was higher, gross gaming revenues did not increase in direct proportion to turnover. For additional discussion of the Italian gaming industry, see “*Industry Overview*”.

Group trends

The following table sets forth our total turnover and revenues and income generated by each gaming business and the percentage of receipts which are converted into Group revenues for the periods indicated.

	For the year ended December 31,											
	2010				2011				2012			
	Turnover	Revenue	% ⁽¹⁾	Revenue / turnover ratio	Turnover	Revenue	% ⁽¹⁾	Revenue / turnover ratio	Turnover	Revenue	% ⁽¹⁾	Revenue / turnover ratio
	(€ in millions, except percentages)											
Slot machines	2,494	321.9	55.9%	12.9%	2,570	328.9	48.0%	12.8%	2,388	309.0	49.9%	12.9%
VLTs	155	13.1	2.3%	8.5%	1,792	150.2	21.9%	8.4%	2,207	143.7	23.2%	6.5%
Lotteries ⁽²⁾	3,535	138.0	24.0%	3.9%	2,405	91.4	13.3%	3.8%	1,786	67.2	10.8%	3.8%
Sports betting ⁽³⁾	496	59.2	10.3%	11.9%	498	75.3	11.0%	15.1%	556	62.9	10.2%	11.3%
Horse betting ⁽³⁾	309	27.2	4.7%	8.8%	235	21.6	3.1%	9.1%	181	16.8	2.7%	9.3%
Online games ⁽⁴⁾	169	14.5	2.5%	8.6%	528	16.6	2.4%	3.1%	784	18.3	3.0%	2.3%
Bingo	10	1.8	0.3%	18.0%	10	1.8	0.3%	18.0%	9	1.6	0.2%	17.8%
Total gaming and fixed odds betting	7,168	575.7	100.0%	8.0%	8,038	685.8	100.0%	8.5%	7,911	619.5	100.0%	7.8%

(1) Percentage of gaming and fixed odds revenues and income.

(2) Includes offline and online lotteries.

(3) Includes offline and online betting, fixed odds and pool games.

(4) Includes online bingo.

General

Our Group turnover in the three years ended December 31, 2012 has followed the trends of the market, with the most substantial growth driven by newer forms of gaming entertainment and in particular VLTs and online gaming. The growth in our turnover has been supported by expansion of our network of points of sale, which increased from 44,004 as of December 31, 2010 to 46,213 as of December 31, 2012, as a result of organic growth and some acquisitions including of the Ilio Group in 2011, which added 100 points of sale to our network.

Turnover increased by 10.4% between 2010 and 2012, largely attributable to our VLT roll-out in 2011. In particular, our turnover from gaming and fixed odds betting increased by 12.1% in the year ended December 31, 2011, driven primarily by VLTs and online games, which more than offset a decrease in turnover of traditional gaming products, including lotteries and horse racing. In 2012, our turnover marginally decreased by 1.6%, as the increase in VLT turnover was more than offset by the continuing decrease in lottery turnover and a decrease in slot machine turnover (as slot machines face product substitution from VLTs).

Consistent with the market trends, our lottery and horse betting turnover decreased between 2010 and 2012, which we attribute to a decrease in jackpot levels and horse racing industry conditions including strikes and a decrease in races, respectively.

Our revenues in the three years ended December 31, 2012 have been impacted by the trends in our turnover as well as by the mix of products. In particular, total turnover for gaming and fixed odds betting increased by €870.6 million, or 12.1%, from €7,167.7 million in the year ended December 31, 2010 to €8,038.3 million in the year ended December 31, 2011 whilst revenues increased by €110.1 million, or 19.1%, from €575.7 million to €685.8 million. Revenues grew at a greater rate than turnover as we saw greater growth in products with higher revenue/turnover ratios. Revenue growth was particularly attributable to growth in VLTs, which have a higher revenue/turnover ratio than other gaming products. For example, in the year ended December 31, 2011 approximately 8.4% of VLT turnover were converted into revenues, compared to 3.8% for lottery products. Whilst our revenues from online games were growing, the revenue/turnover ratio decreased, from 8.6% for the year ended December 31, 2010 to 3.1% for the year ended December 31, 2011, due to the introduction of cash poker and casino games in the year ended December 31, 2011, which have a particularly high payout rate (in excess of 95%). Therefore, as a result of the combination of these factors the overall revenue/turnover ratio increased from 8.0% in the year ended December 31, 2010 to 8.5% in the year ended December 31, 2011.

Our revenues and income in the year ended December 31, 2012 continued to be impacted by the mix of products, with a continuing increase in VLT revenues. Although the overall growth in VLT turnover more than offset the decrease in slot machine turnover, our revenues and income have been negatively impacted as VLTs have a lower revenue/turnover ratio than slot machines. Additionally, the revenue/turnover ratio for VLTs decreased from 8.4% in 2011 to 6.5% in 2012 due to the increase in VLT tax rates. The higher proportion of our revenues generated from VLTs and the decrease in revenue/turnover ratio of VLTs together with the continuing decrease in lottery product revenues led to a decrease in total gaming and fixed odds revenues and income of € 66.3 million in the year ended December 31, 2012 and an overall decrease in the revenue/turnover ratio from 8.5% in the year ended December 31, 2011 to 7.8% in the year ended December 31, 2012.

VLTs, slot machines and online games

Our most substantial growth in gaming and fixed odds revenues has been generated from VLTs. We were awarded 4,924 rights for VLTs and introduced our first terminals to the market in August 2010. Our number of installed VLTs has continually increased from the first introduction to the market, reaching 4,695 as of December 31, 2012. We have been able to roll-out our VLTs more quickly than our competitors, and as of December 31, 2012, we had successfully rolled-out 95% of our total rights compared to the market average of 80% (See “*Industry Overview*”). We have also continued to support the expansion of our business with investments in slot machines, particularly in relation to those which we directly manage. The number of slot machines connected to our network has increased from 31,555 as of December 31, 2010 to 36,318 as of December 31, 2012, of which approximately 40% are directly managed. In growing the network we have also focused on opening new points of sale and closing the points of sale with lower potential in order to maximise our revenues. Finally, we have continued to introduce new online games, thus expanding and improving our product offering. In particular, we introduced tournament poker in the year ended December 31, 2010, online cash poker and casino games in July 2011 and online slot machine games in December 2012.

The following table sets forth certain information relating to our points of sale and number of terminals:

	As of December 31,		
	2010	2011	2012
Points of sale with gaming terminals and handheld terminals	39,259	42,034	41,561
VLTs	1,709	4,269	4,695
Slot machines	31,555	35,338	36,318

Lottery

The group operates a number of lottery games under concessions issued by AAMS, including *SuperEnalotto*, *Vinci per la Vita* (“WinForLife”), *SiVinceTutto* (“Win it All”) and *EuroJackpot*. We believe that the performance of the lottery products and the jackpots on offer are generally correlated. When the jackpot on offer is high, more people purchase lottery tickets, further adding to the jackpot pool. For example, 2010 saw record jackpot levels, which resulted in an increase in lottery ticket sales, and therefore an increase in revenues. Since 2010, lottery turnover and revenue have decreased reflecting softness in product consumption, primarily as a result of lower jackpot levels and the lowest gaming market payout. In particular average jackpot levels were €90.9 million in the year ended December 31, 2010, €33.0 million in the year ended December 31, 2011 and €36.8 million in the year ended December 31, 2012. Our main product within the lottery business is *SuperEnalotto*, which has suffered in recent years from a decrease in jackpot totals, and therefore a decline in ticket sales.

Launch of WinCity

In the year ended December 31, 2010 we opened our first WinCity gaming halls in Milan and Rome and we opened additional halls during 2011 and 2012 in Turin, Brescia, Pescara and Florence. The WinCity halls form an important part of our strategic plan to expand our retail network and, as a result, control more of the value chain. See “*Summary—Business Strategy—Continue to expand our product offerings and retail distribution network and increase the number of branded points of sale*” and “*Business—Business Units—Entertainment—Retail Operations*”.

Seasonality

In our offline and online betting offerings, the volumes of bets we collect over the course of the year are affected by the schedule of sports events on which we accept bets. The professional football season in Italy usually runs from late August to mid-May. As a result, we have historically recorded higher betting revenues in these months. The volumes of bets we collect are also affected by the schedules of other significant sporting events that occur at regular but infrequent intervals, such as the FIFA Football World Cup, UEFA European Football Championship and the Olympics. Additionally, during the summer months, lottery consumption, and gaming in general typically decreases while some customers are on vacation.

Growth of the Italian Convenience Payment Services Market

The overall Italian payments and services market is estimated at approximately €100 billion in the year ended December 31, 2012 and is comprised of (i) the convenience payment services market in which we and Lottomatica operate, (ii) the more traditional payments and services market in which mainly banks and post offices operate, (iii) retailer outlets offering their own branded products, and (iv) other financial services outlets. See “*Industry Overview—Italian Convenience Payment Services Market*”. We generate revenues in the form of a commission generally as follows:

- For top-ups and cards (which include top-up services for pre-paid mobile and fixed line telephone accounts and pay per view TV vouchers), we receive a fee from the utility company or other partners. The fee we earn for these services is generally based on the size of the underlying transaction.
- For payments and financial services (which include payment of telephone and utility bills, fines and taxes, and top-ups and issuances (or, in our case, reloads) of prepaid debit cards), we receive a fee from the consumer, which is generally fixed, depending on the type of payment and financial service provided.

In 2012, we estimate that payment services accounted for approximately 53% of overall payment and services market turnover, followed by top-ups with approximately 33% of total turnover and financial services which contributed approximately 12%. We estimate that more than half of all top-ups were made through our and Lottomatica's points of sale, with top-ups at our points of sale accounting for approximately one-third and top-ups at Lottomatica's points of sale accounting for the remaining two-thirds. Approximately one-third of all top-ups were made through banks with the remainder of top-ups made through retailers and the Italian post office. More than two-thirds of payments were made through the Italian post office followed by banks accounting for approximately one-quarter of payments. The remaining payments were made at our and Lottomatica's points of sale. Money transfer shops accounted for more than one-third of financial services provided followed by banks accounting for approximately one-quarter and post offices accounting for slightly less than one-quarter. The remaining financial services were offered through our and Lottomatica's points of sale.

The Italian convenience services market has grown significantly in recent years. The most significant growth has been in payments and financial services products, which have recorded a turnover of €12,198 million for the year ended December 31, 2012, an increase of €4,720 million or, 63.1% from €7,478 million for the year ended December 31, 2010, primarily as a result of changes in consumer behaviour. Traditionally consumers used banks and post offices for such payments but have recently shifted towards the convenience market because this market offers greater flexibility in terms of opening hours and proximity, as well as shorter queues, allowing consumers to more efficiently carry out routine transactions. Growth has also been driven by increased use of prepaid debit cards.

Group trends

The following table sets forth the revenues and income generated by each services product we offer.

	For the year ended December 31,								
	2010			2011			2012		
	Turnover	Revenue	% services and non gaming revenues	Turnover	Revenue	% services and non gaming revenues	Turnover	Revenue	% services and non gaming revenues
	(€ in million, except percentages)								
Top-ups and cards	1,393	58.0	67.4%	1,482	57.5	58.4%	1,547	58.8	53.2%
Payments and financial services	2,781	27.9	32.4%	3,815	40.7	41.4%	4,320	51.3	46.4%
Other	2	0.2	0.2%	1	0.2	0.2%	1	0.4	0.4%
Total services and non gaming revenues	4,176	86.1	100.0%	5,298	98.4	100.0%	5,868	110.5	100.0%

Services and non-gaming product revenues have increased from €86.1 million for the year ended December 31, 2010 to €98.4 million for the year ended December 31, 2011, and to €110.5 million for the year ended December 31, 2012. This growth has primarily been driven by the payments and financial services products, traditionally offered by banks and post offices. However, in recent years these institutions have been closing non-performing locations, or reducing opening hours of non-performing locations, while we have been expanding our network, offering clients a more convenient way to execute their routine transactions at one of our points of sale. The number of payment and financial services transactions which we have processed has increased from 160.6 million for the year ended December 31, 2010 to 198.9 million for the year ended December 31, 2012, while the revenues generated by such services increased from €27.9 million to €51.3 million over the same period. Top ups and cards continue to represent an important product within this line of business, generating revenues of €58.0 million for the year ended December 31, 2010, €57.5 million for the year ended December 31, 2011, and €58.8 million for the year ended December 31, 2012.

Acquisitions

During the three years ended December 31, 2012, we expanded our network through the acquisition of some betting and slot machine operators. We did not make any acquisitions in the year ended December 31, 2012. In 2010, we made some minor acquisitions while in 2011, we made the following acquisitions:

- Ilio Group (100% of Ilio S.p.A. which controls 100% of La Martingala Srl) for a total consideration of €16.7 million, resulting in the addition of 100 stores to our retail network, of which 32 are betting shops and 68 are betting corners
- BBET Srl for a total consideration of €4.0 million (11 betting shops)
- Arezzo Giochi Srl for a total consideration of €1.2 million (3 betting shops and 1 betting corner)
- The business activities of Costanzelli Srl (296 slot machines), and Slotmatic Srl (222 slot machines) for a total consideration of €2.5 million.

In our cash flow statement, we present the cash paid for acquisitions net of any cash included in the relevant entity which we acquired.

In January 2013, we acquired 60% of Friulgames S.r.l., an Italian operator of approximately 2,000 slot machines, for approximately €5.7 million (€3.1 million of which has already been paid) using internally generated cash.

Description of Key Line Items and Certain Key Performance Indicators

Revenues and income

Revenues

Revenues include the consideration received by the Group for the activities discussed below:

Gaming revenues

- *Gaming machine revenues* includes the revenues generated by our slot machines and VLTs distributed across the network. For segment reporting purposes these are included within the “Entertainment” segment.
- *National Totalisator Number Games revenues (NTNG revenues)*, includes the revenues generated on our lottery products including *SuperEnalotto*, *WinForLife*, *SiVinceTutto* and *EuroJackpot*. For segment reporting purposes, online lotteries are included in “Digital Games and Services” and offline lotteries are included in “Lottery”.
- *Horse betting revenues* includes the revenues earned on bets placed on horse races, and commissions on the horse pools product *Tris*. For segment reporting purposes, online bets are included in “Digital Games and Services” and offline bets are included in “Entertainment”.
- *Online game revenues*, includes revenues related to online games which players can access and play directly on our website, including online cash poker, casino games and slot machine games. For segment reporting purposes these operations are included within the “Digital Games and Services” segment.
- *Bingo revenues*, include the revenues generated by our bingo hall operation in Naples. For segment reporting purposes, online bingo operations are included in “Digital Games and Services” and the offline bingo operations are included within “Entertainment”.
- *Sports pools revenues* includes the commissions earned on the sports pools products *Totocalcio* and *Totogol*. For segment reporting purposes, online sports pools are included in “Digital Games and Services” and offline sports pools are included in “Entertainment”.

Services and non-gaming product revenues

Services and non-gaming product revenues include the revenues generated by the Group on our convenience payment services offerings, including payment of bills, taxes and fines and on the sale of mobile phone and television top up cards. For segment reporting purposes these operations are included within the “Digital Games and Services” segment.

Point of sale fees

Point of sale fees relate primarily to the annual affiliation fee charged by the Group to points of sale in our distribution network that we do not directly manage including newsstands, bars, tobacconists and betting corners. For segment reporting purposes these operations are allocated across the “Entertainment”, “Lottery” and “Digital Games and Services” using a driver based on revenues and turnover.

Fixed odds betting income

Fixed odds betting income relates to the bookmaking activities of the Group on sporting events such as football or rugby matches. This includes the revenues generated by bets placed in Sisal points of sale, as well as bets placed online. For segment reporting purposes, online bets are included in “Digital Games and Services” and offline bets are included in “Entertainment”.

Other revenues and income

Other revenues and income includes reversals of prior year accruals, gains on disposals of fixed assets, income from reimbursements and other sundry revenues and income. Other revenues and income are allocated across the business segments based on the nature of the revenues and income.

Operating Costs

Purchases of materials, consumables and merchandise

Purchases of materials, consumables and merchandise relate primarily to purchases of gaming materials, spare parts and the use of inventory.

Costs for services

Costs for services primarily include:

- *Sales channel—gaming expenses* relates mainly to distribution network compensation or commission for gaming activities, including commissions paid to points of sale for our gaming products (for example sale of lottery tickets, or bets placed at bars and tobacconists), and commissions paid to establishments which house our gaming machines;
- *Sales channel—non-gaming services* includes distribution network compensation for phone top-ups, payment and financial services, including the commissions paid to points of sale in the distribution network for executing these transactions in their establishments;
- *Commercial services* relates mainly to marketing and commercial expenses, relating to advertising and promotional expenses, including advertising on national television, national press and computerised billboards, and expenses incurred in relation to promotional events, and other commercial incentives and services;
- *Consulting* includes mainly legal expenses incurred, and to a lesser extent the expenses relating to tax and technical advice;
- *Telecommunications* expenses includes network costs (primarily related to connection with the distribution network), internet and mobile phone expenses;
- *Maintenance and technical assistance* relates primarily to the maintenance of our gaming hardware and software and to a lesser extent maintenance to our buildings and our fleet of vehicles.

Lease and rent expenses

Lease and rent expenses relate primarily to the rent incurred by the Group on properties and to a lesser extent to vehicle and gaming hardware leases.

Personnel costs

Personnel costs include the expense of the salaries and wages, social security contributions and employee service indemnity from our workforce.

Other operating costs

Other operating costs mainly include gaming and concession fees.

Gross margin

We calculate gross margin as the percentage of total revenue and income represented by our gross operating profit before amortisation, depreciation, provisions and impairment losses and reversals.

Amortisation, depreciation, provisions and impairment losses and reversals

Amortisation, depreciation, provisions and impairment losses and reversals mainly relates to the amortisation of intangible assets, depreciation of property, plant and equipment, impairment losses on fixed assets and impairment of receivables.

Finance income and similar

Finance income and similar includes other finance income, comprising primarily the interest we generate on our cash deposits, and fair value gains on derivative financial instruments.

Finance expenses and similar

Finance expense and similar includes interest and other finance expenses on our third party debt and Shareholder Loans, fair value losses on derivative financial instruments and foreign exchange gains and losses.

Income taxes

Income tax expense comprises current income tax expense and deferred tax benefits or expenses.

Other Ratios and Measures

We also use certain additional key performance indicators, which in our view provide an alternative measure with which to assess our underlying performance. Our definitions of turnover, payout, and revenue/ turnover ratio may differ from those used by other companies, therefore comparability may be limited. Such measures are non-IFRS measures and should not be considered as an alternative to operating profit or operating margin as a measure of operating performance. See “Presentation of Financial Information”.

Turnover

Turnover refers to the total amount of wagers collected and total amount of payments received from customers in the gaming industry and convenience payment services industry, respectively. In the gaming industry “turnover” is also widely referred to as “wagers” and in the convenience payment services industry, as to the amount of payments received from customers.

Payout

We define payout as the percentage of turnover which is paid out to customers as winnings from our gaming activities.

Revenue/turnover ratio

Revenue/turnover ratio is calculated as revenue divided by turnover, as defined above, and is expressed as a percentage, representing the proportion of total turnover which is converted into revenue for each individual product.

Segment Gross Operating Profit

Segment Gross Operating Profit represents gross operating profit before amortisation, depreciation, impairment losses and reversals, impairment of receivables, costs of our corporate structure and provisions which are not directly related to the performance of the business.

Results of Operations

Historical Consolidated Information

Historical Consolidated Information	Year ended December 31,						% change 2010-2011	% change 2011-2012
		% of total revenues and income		% of total revenues and income		% of total revenues and income		
	2010		2011		2012			
	(€ in millions, except percentages)							
Revenues	674.3	91.6%	792.6	91.1%	754.1	91.6%	17.5%	(4.9)%
Fixed odds betting income	58.0	7.9%	74.5	8.6%	62.3	7.6%	28.4%	(16.4)%
Other revenues and income	3.7	0.5%	2.7	0.3%	7.0	0.9%	(27.0)%	159.3%
Total revenues and income	736.0	100.0%	869.8	100.0%	823.4	100.0%	18.2%	(5.3)%
Purchases of materials, consumables and merchandise	(16.8)	2.3%	(18.9)	2.2%	(13.3)	1.6%	12.5%	(29.6)%
Costs for services	(448.1)	60.9%	(547.3)	62.9%	(520.3)	63.2%	22.1%	(4.9)%
Lease and rent expenses	(11.4)	1.5%	(13.8)	1.6%	(16.4)	2.0%	21.1%	18.8%
Personnel costs	(59.4)	8.1%	(69.0)	7.9%	(76.1)	9.2%	16.2%	10.3%
Other operating costs	(33.8)	4.6%	(31.3)	3.6%	(48.2)	5.9%	(7.4)%	54.0%
Total costs	(569.5)	77.4%	(680.3)	78.2%	(674.3)	81.9%	19.5%	(0.9)%
Gross operating profit before amortisation, depreciation, provisions and impairment losses and reversals	166.5	22.6%	189.5	21.8%	149.1	18.1%	13.8%	(21.3)%
Amortisation, depreciation, provisions and impairment losses and reversals	(96.1)	13.1%	(133.1)	15.3%	(117.2)	14.2%	38.5%	(11.9)%
Net operating profit (EBIT)	70.4	9.6%	56.4	6.5%	31.9	3.9%	(19.9)%	(43.4)%
Finance income and similar	1.6	0.2%	4.0	0.5%	4.3	0.5%	n.a.	7.5%
Finance expenses and similar	(79.6)	10.8%	(73.1)	8.4%	(73.3)	8.9%	(8.2)%	0.3%
Loss before income taxes	(7.6)	(1.0)%	(12.7)	(1.5)%	(37.1)	(4.5)%	67.1%	n.a.
Income taxes	(5.3)	0.7%	(16.6)	1.9%	(2.7)	0.3%	n.a.	(83.7)%
Loss from continuing operations	(12.9)	(1.8)%	(29.3)	(3.4)%	(39.8)	(4.8)%	n.a.	35.8%
Loss for the year	(12.9)	(1.8)%	(29.3)	(3.4)%	(39.8)	(4.8)%	n.a.	35.8%
Total comprehensive loss for the year	(12.9)	(1.8)%	(29.3)	(3.4)%	(39.8)	(4.8)%	n.a.	35.8%

Group Comparison of the Years Ended December 31, 2011 and 2012

Revenues and income

The following table sets forth our revenues and income for the periods indicated in absolute numbers and as a percentage of total revenues and income.

	For the year ended December 31,				Change	
	2011	% of total revenues and income	2012	% of total revenues and income	(amount)	%
(€ in millions, except percentages)						
Gaming revenues	611.3	70.3%	557.2	67.7%	(54.1)	(8.8)%
Fixed odds betting income	74.5	8.6%	62.3	7.6%	(12.2)	(16.4)%
Services and non-gaming product revenues	98.4	11.3%	110.5	13.4%	12.1	12.3%
Point of sale fees	81.9	9.4%	85.4	10.4%	3.5	4.3%
Other revenues and income	3.7	0.4%	8.0	0.9%	4.3	n.a.
Total	869.8	100.0%	823.4	100.0%	(46.4)	(5.3)%

Revenues and income amounted to €823.4 million for the year ended December 31, 2012, a decrease of €46.4 million, or 5.3%, from €869.8 million for the year ended December 31, 2011. The decrease was primarily attributable to a decrease in gaming revenues as further discussed below.

Gaming Revenues

The following table sets forth our gaming revenues for the periods indicated.

	For the year ended December 31,				Change	
	2011	% of total revenues and income	2012	% of total revenues and income	(amount)	%
(€ in millions, except percentages)						
Gaming machines	479.1	55.1%	452.7	55.0%	(26.4)	(5.5)%
NTNG revenues	91.4	10.5%	67.2	8.2%	(24.2)	(26.5)%
Horse betting revenues	21.0	2.4%	16.3	2.0%	(4.7)	(22.4)%
Online game revenues	16.6	1.9%	18.3	2.2%	1.7	10.2%
Bingo revenues	1.8	0.2%	1.6	0.2%	(0.2)	(11.1)%
Sports pools revenues	1.4	0.2%	1.1	0.1%	(0.3)	(21.4)%
Total	611.3	70.3%	557.2	67.7%	(54.1)	(8.8)%

The overall decrease of €54.1 million in gaming revenues was primarily attributable to a combination of the following items.

- *Gaming machine* revenues amounted to €452.7 million for the year ended December 31, 2012, a decrease of €26.4 million, or 5.5%, from €479.1 million for the year ended December 31, 2011. The decrease in gaming machine revenues is attributable to a shift in the product mix towards VLTs combined with a decrease in the revenue/turnover ratio of VLTs. In particular, total gaming machine turnover increased from €4,362 million for the year ended December 31, 2011, of which 59% related to slot machines and 41% related to VLTs, to €4,595 million for the year ended December 31, 2012, of which 52% related to slot machines and 48% related to VLTs. The change in mix towards VLTs impacted revenues as VLTs have a lower revenue/turnover ratio than slot machines (revenue/turnover ratio for slot machines in 2012 was 12.9% compared to 6.5% for VLTs). Additionally, the revenue/turnover ratio for VLTs decreased from 8.4% for the year ended December 31, 2011 to 6.5% for the year ended December 31, 2012 as a result of an increase in tax applied to the VLTs, from 2% in 2011 to 4% in 2012.
- *NTNG* revenues amounted to €67.2 million for the year ended December 31, 2012, a decrease of €24.2 million, or 26.5%, from €91.4 million for the year ended December 31, 2011. The decrease in NTNG revenues is consistent with the market trend, whereby lottery products have been experiencing a decrease in turnover and have been losing market share. The decrease in NTNG revenues was mainly related to a decrease in *SuperEnalotto* and *Superstar* revenues which decreased by an aggregate of €17.0 million, as a result of low average jackpot levels and the jackpot being won twice within 5 days in May 2012, as a result of which the jackpot balance reduced to approximately €1 million. In 2012 we launched a new offering called *Eurojackpot*, a multijurisdictional lottery which guarantees a jackpot of at least €10 million, which generated €2.3 million revenues from its launch in April 2012 to December 31, 2012.

- *Horse betting* revenues amounted to €16.3 million for the year ended December 31, 2012, a decrease of €4.7 million, or 22.4%, from €21.0 million for the year ended December 31, 2011, reflecting the ongoing downturn in the Italian horse racing industry. In particular, during January and February 2012, the owners of the horse racing tracks staged a strike, impacting the number of racing events held, which for the year ended December 31, 2012 was 20,094 compared to 21,499 for the year ended December 31, 2011.
- *Online game* revenues amounted to €18.3 million for the year ended December 31, 2012, an increase of €1.7 million, or 10.2%, from €16.6 million for the year ended December 31, 2011, primarily as a result of the continuing popularity of our online casino games products which were launched in July 2011, generating €4.1 million in revenues for the year ended December 31, 2011 compared to €10.6 million for the year ended December 31, 2012. The increase was partially offset by a decrease in tournament poker revenues, due to the success of the online casino games.
- *Bingo* revenues amounted to €1.6 million for the year ended December 31, 2012, a decrease of €0.2 million, or 11.1%, from €1.8 million for the year ended December 31, 2011.
- *Sports pools* revenues amounted to €1.1 million for the year ended December 31, 2012, a decrease of €0.3 million, or 21.4%, from €1.4 million for the year ended December 31, 2011, reflecting the ongoing decline in the popularity of these traditional products, with players preferring fixed odds betting products.

Fixed odds betting income

Fixed odds betting income amounted to €62.3 million for the year ended December 31, 2012, a decrease of €12.2 million, or 16.4%, from €74.5 million for the year ended December 31, 2011. The decrease in fixed odds betting income reflects a year in which sporting events results have been particularly unfavourable to the bookmaker. In particular, in the year ended December 31, 2012, fixed odds betting products in the Italian market had an average payout of 83% (compared to 77% in 2011), which was the highest payout rate in the last decade.

Services and non-gaming product revenues

Services and non-gaming product revenues amounted to €110.5 million for the year ended December 31, 2012, an increase of €12.1 million, or 12.3%, from €98.4 million for the year ended December 31, 2011, primarily as a result of an increase in payment and financial services revenue. The increase in revenues from payment and financial services was mainly driven by changes in consumer behaviour, away from the traditional payment and financial service providers, such as banks and post offices towards the convenience market. The number of payment and financial services transactions we processed increased from 185.6 million for the year ended December 31, 2011 to 198.9 million for year ended December 31, 2012. Revenues from top-ups and cards remained substantially unchanged in both periods.

Point of sale fees

Point of sale fees amounted to €85.4 million for the year ended December 31, 2012, an increase of €3.5 million, or 4.3%, from €81.9 million for the year ended December 31, 2011. The increase in point of sale fees is primarily as a result of our strategic decision to relocate underperforming points of sale to locations with greater sales potential. Upon the transfer of points of sale, we charge fees relating to the transfer of agreements and fees related to the activation of the points of sale. These are in addition to the annual service fee charged to the points of sale.

Other revenues and income

Other revenues and income amounted to €8.0 million for the year ended December 31, 2012, an increase of €4.3 million, from €3.7 million for the year ended December 31, 2011. Other revenues and income mainly related to over and under accruals related to the prior period. The increase in 2012 is mainly related to the partial release, for an amount of €2.1 million, of an accrual relating to historical minimum guaranteed betting volumes, and, to a lesser extent, an increase in rental income.

Costs

Purchases of materials, consumables and merchandise

Purchases of materials, consumables and merchandise amounted to €13.3 million for the year ended December 31, 2012, a decrease of €5.6 million, or 29.6% from €18.9 million for the year ended December 31, 2011, primarily as a result of a €4.2 million decrease in game materials purchases. The decrease in purchases of gaming materials was related to costs of game cards for slot machines, which, following a review of the business model, were capitalised in 2012 and will be capitalised in future periods. Finally, purchases of materials and, in particular, costs for paper, decreased due to a contraction in volumes, particularly in relation to lottery products and re-negotiation of the supplier contracts.

Costs for services

Costs for services amounted to €520.3 million for the year ended December 31, 2012, a decrease of €27.0 million, or 4.9%, from €547.3 million for the year ended December 31, 2011.

Costs for services amounted to 63.2% of total revenues and income for the year ended December 31, 2012, compared to 62.9% for the year ended December 31, 2011. The following table sets forth an analysis of costs for services for the periods indicated.

	For the year ended December 31,				Change	
	2011	% of total revenues and income	2012	% of total revenues and income	(amount)	%
			(€ in millions)			
Sales channel—Gaming	322.3	37.1%	297.3	36.1%	(25.0)	(7.8)%
Sales channel—Non-gaming services	62.2	7.2%	69.0	8.4%	6.8	10.9%
Commercial services	64.9	7.5%	52.6	6.4%	(12.3)	(19.0)%
Consulting	17.1	1.9%	16.0	1.9%	(1.1)	(6.4)%
Others ⁽¹⁾	80.8	9.2%	85.4	10.4%	4.6	5.7%
Total costs for services	547.3	62.9%	520.3	63.2%	(27.0)	(4.9)%

(1) Others primarily includes telecommunications, maintenance and technical assistance.

The decrease of €27.0 million in costs for services was primarily attributable to the combined effect of the following items:

- *Sales channel-gaming* costs amounted to €297.3 million for the year ended December 31, 2012, a decrease of €25.0 million, or 7.8%, from €322.3 million for the year ended December 31, 2011. As a percentage of total revenues and income, sales channel-gaming costs amounted to 36.1% for the year ended December 31, 2012 and 37.1 % for the year ended December 31, 2011. The decrease in sales channel—gaming costs is primarily attributed to a decrease in the network compensation (which includes the commissions paid to points of sale in our distribution network that we do not directly manage for selling our gaming products, such as lottery tickets, or for housing our gaming machines in their bars or tobacco shops) as a result of the decrease in gaming volumes during 2012.
- *Sales channel-non-gaming* services costs amounted to €69.0 million for the year ended December 31, 2012, an increase of €6.8 million, or 10.9% from €62.2 million for the December 31, 2011. The increase in such costs was mainly attributable to the increase in convenience payment services transaction volumes, particularly related to payments and financial services.
- *Commercial services* amounted to €52.6 million for the year ended December 31, 2012, a decrease of €12.3 million, or 19.0%, from €64.9 million for the year ended December 31, 2011, primarily as a result of a decrease in advertising costs, from €46.8 million for the year ended December 31, 2011 to €37.1 million for the year ended December 31, 2012. The decrease in advertising costs is in part due to the decrease in lottery ticket sales. The NTNG concession agreement states that we must invest at least 1.82% of total lottery turnover received in a concession year, in advertising in the following concession year. Our lottery turnover was high in the July 2010 to June 2011 concession year due to record jackpot levels, which had a direct impact on our advertising costs for the year ended December 31, 2011.

Lease and rent expenses

Lease and rent expenses amounted to €16.4 million for the year ended December 31, 2012, an increase of €2.6 million, or 18.8%, from €13.8 million for the year ended December 31, 2011, driven primarily by an increase in buildings lease expenses, which amounted to €12.2 million for the year ended December 31, 2012 compared to €9.9 million for the year ended December 31, 2011. The increase in building lease expenses can be attributed to the acquisition of Ilio Group in December 2011, which added 32 betting shops to our network, for which we incurred a full year's rent in 2012.

Personnel costs

Personnel costs amounted to €76.1 million for the year ended December 31, 2012, an increase of €7.1 million, or 10.3%, from €69.0 million for the year ended December 31, 2011. The €7.1 million increase in personnel costs is primarily due to an increase in the number of people employed by us.

Our average workforce expressed in full time equivalents increased from 1,228 for the year ended December 31, 2011 to 1,452 for the year ended December 31, 2012, partly as a result of the organic growth of the Group and partly as a result of the acquisition of Ilio S.p.A. in December 2011 through which we added an additional 100 members of staff. The

increase in the number of personnel employed by us was in part offset by a decrease in the variable element of wages and salaries payable to our personnel in 2012 compared to 2011. As a result of the combination of these factors, wages and salaries increased by €3.1 million, employee severance indemnity expense increased by €2.0 million, social security contributions increased by €1.0 million and other personnel costs increased by €1.0 million.

Other operating costs

The following table sets forth an analysis of other operating costs for the periods indicated.

	For the year ended December 31,			
	2011	% of total revenues and income	2012	% of total revenues and income
	(€ in millions)			
Gaming concession fees	21.3	2.5%	21.7	2.6%
Other operating costs	7.1	0.8%	23.5	2.9%
Others	2.9	0.3%	3.0	0.4%
Total	31.3	3.6%	48.2	5.9%

Other operating costs amounted to €48.2 million for the year ended December 31, 2012, an increase of €16.9 million, or 54.0% from €31.3 million for the year ended December 31, 2011, primarily related to the €16.5 million fine imposed on us by the AAMS for failing to achieve the minimum guaranteed volume of NTNG sales for the two month period May to June 2012.

Gross operating profit before amortisation, depreciation, provisions and impairment losses and reversals

Gross operating profit before amortisation, depreciation, provisions and impairment losses and reversals amounted to €149.1 million for the year ended December 31, 2012, a decrease of €40.4 million, or 21.3%, from €189.5 million for the year ended December 31, 2011. The decrease is primarily attributable to the €46.4 million decrease in total revenues and income and an increase in other operating costs of €16.9 million related to the fine of €16.5 million from AAMS, which were partially offset by a decrease in costs for services of €27.0 million.

Gross margin was 18.1% for the year ended December 31, 2012, compared to 21.8% for the year ended December 31, 2011. The decrease in gross margin is primarily attributable to the increase in other operating costs, and personnel costs. Other operating costs increased as a percentage of total revenues and income from 3.6% for the year ended December 31, 2011 to 5.9% for the year ended December 31, 2012, mainly attributable to the €16.5 million AAMS fine described above. Personnel expenses increased as a percentage of total revenues and income from 7.9% for the year ended December 31, 2011 to 9.2% for the year ended December 31, 2012 primarily as a result of the growth in our headcount arising as a result of the combination of organic growth and the acquisition of Illo Group in December 2011.

Amortisation, depreciation, provisions and impairment losses and reversals

Amortisation, depreciation, provisions and impairment losses and reversals amounted to €117.2 million for the year ended December 31, 2012, a decrease of €15.9 million, or 11.9%, from €133.1 million for the year ended December 31, 2011.

The following table sets forth an analysis of amortisation, depreciation, provisions and impairment losses and reversals for the periods indicated.

	For the year ended December 31,	
	2011	2012
	(€ in millions)	
Amortisation of intangible assets	56.8	50.3
Depreciation of property, plant and equipment	32.6	38.7
Other impairment losses on fixed assets	25.8	17.2
Impairment of receivables	12.3	15.7
Charges for provisions for risks and charges	5.6	(4.7)
Total	133.1	117.2

- *Other impairment losses on fixed assets* amounted to €17.2 million for the year ended December 31, 2012, a decrease of €8.6 million, or 33.3%, from €25.8 million for the year ended December 31, 2011. Impairment losses in the year ended December 31, 2012 relate primarily to impairments of the goodwill on the digital games CGU as a result of the annual impairment test. Other impairment losses on fixed assets for the year ended December 31, 2011, amounting to €25.8 million, relate primarily to impairments on concessions, licenses, trademarks and similar rights resulting from an evaluation of the performance of the horse betting and sports pools concessions, which, as previously discussed have suffered in recent years from a decrease in popularity with players.

- *Impairment of receivables* amounted to €15.7 million for the year ended December 31, 2012, an increase of €3.4 million, or 27.6%, from €12.3 million for the year ended December 31, 2011, as a result of the evaluation of the recoverability of certain receivables. The increase in impairment of receivables is in line with the increase in turnover of the business.
- *Charges for provisions for risks and charges* amounted to a release of €4.7 million for the year ended December 31, 2012, a decrease of €10.3 million from a charge of €5.6 million for the year ended December 31, 2011. During the year, in accordance with an updated evaluation of the facts and circumstances regarding certain provisions for risks and charges, mainly related to previously recognised provisions for fines and penalties.

Net operating profit (EBIT)

Net operating profit (EBIT) amounted to €31.9 million for the year ended December 31, 2012, a decrease of €24.5 million, or 43.4%, from €56.4 million for the year ended December 31, 2011. The decrease is primarily attributable to a €40.4 million decrease in gross operating profit before amortisation, depreciation, provisions and impairment losses and reversals, which was partially offset by a €15.9 million decrease in amortisation, depreciation, provisions and impairment losses and reversals.

Net margin was 3.9% for the year ended December 31, 2012, compared to 6.5% for the year ended December 31, 2011.

Finance income and similar

Finance income and similar amounted to €4.3 million for the year ended December 31, 2012, an increase of €0.3 million, or 7.5%, from €4.0 million for the year ended December 31, 2011, primarily as a result of the increase in average cash deposits held during 2012 compared to 2011.

Finance expenses and similar

Finance expenses and similar were largely unchanged amounting to €73.3 million for the year ended December 31, 2012, compared to €73.1 million for the year ended December 31, 2011. Interest expense on the loan with our shareholder for which a portion is not paid in cash, but rather capitalised over the term of the loan increased from €37.3 million for the year ended December 31, 2011 to €40.6 million for the year ended December 31, 2012, which was offset by a decrease in interest and finance expense with third parties from €33.1 million for the year ended December 31, 2011 to €30.9 million for the year ended December 31, 2012, mainly related to a decrease in applicable interest rates during the year.

Income taxes

Income taxes amounted to €2.7 million for the year ended December 31, 2012, a decrease of €13.9 million, or 83.7%, from €16.6 million for the year ended December 31, 2011. Income tax expense for the year ended December 31, 2011 includes €8.5 million related to the tax audit which was performed for the period 2006-2010, to be paid in instalments over future periods. In 2011, the Italian tax authorities conducted a tax audit of the Issuer in respect of the deduction of certain interest expense on financing related to the 2006 acquisition. In conclusion of such tax audit, the tax authorities claimed that a portion corresponding to 9.6% of the interest expenses should not have been deducted. Though we disagreed with the claim, in view of avoiding a lengthy litigation, we decided to accept the claim for the period 2006-2009 and complied with the same approach from 2010 onwards. On a precautionary basis (and without agreeing with the tax authorities' claim), we will apply the same partial non-deductibility of the interest expense to the Notes and any future indebtedness of the Issuer that will replace the 2006 acquisition financing. The limitation is not, in our view, applicable to debt incurred by the subsidiaries of the Issuer.

Segment information

The following table sets forth an analysis of our revenues and income and gross operating profit by business segment for the periods indicated.

	Year ended December 31,			
	2011	2012	2011	2012
			Segment Gross	
	Revenues and income		Operating Profit ⁽¹⁾	
	(€ in millions)			
Entertainment	566.3	525.3	145.6	121.7
Digital Games and Services	152.8	172.9	63.0	74.7
Lottery	149.4	119.1	59.3	29.0 ⁽²⁾
Other	1.3	6.1		
Segment Gross Operating Profit			267.9	225.4
Corporate costs ⁽³⁾			(78.4)	(76.3)
Total	869.8	823.4	189.5	149.1

- (1) Segment Gross Operating Profit represents gross operating profit before amortisation, depreciation, impairment losses and reversals, impairment of receivables, costs of our corporate structure and provisions which are not directly related to the performance of the business.
- (2) Segment Gross Operating Profit for the year ended December 31, 2012 includes the €16.5 million fine from AAMS within other operating costs of the Lottery segment. Excluding the impact of such fine, our lottery segment gross operating profit would have been €45.5 million.
- (3) Represents corporate costs which are not allocated to our segments including IT and telecommunication costs, corporate marketing costs, general administrative costs and other operating costs. Also considers the elimination of costs of €5.1 million and releases of €6.1 million for the years ended December 31, 2011 and 2012 respectively, recorded in Segment Gross Operating Profit, relating to the provisions which management consider to be directly related to the performance of the business. The effect of these items is eliminated in the reconciliation as they are recorded below gross operating profit before amortisation, depreciation, provisions and impairment losses and reversals in our statutory reporting.

Revenues and income

Entertainment

Entertainment revenues and income amounted to €525.3 million for the year ended December 31, 2012, a decrease of €41.0 million, or 7.2%, from €566.3 million for the year ended December 31, 2011, primarily as a result of the combined effects of the €26.4 million decrease in gaming machine revenues, the increase in VLT taxation, and an €8.0 million decrease in offline betting income.

Digital games and services

Digital games and services revenues and income amounted to €172.9 million for the year ended December 31, 2012, an increase of €20.1 million, or 13.2%, from €152.8 million for the year ended December 31, 2011, primarily as a result of the combined effect of the €12.1 million increase in services and non-gaming product revenues, and the €1.7 million increase in online games revenues. The increase in services and non-gaming product revenues was primarily driven by an increase in the number of payment and financial services transactions we processed from 185.6 million for the year ended December 31, 2011 to 198.9 million for the year ended December 31, 2012. The increase in online gaming revenues can be attributed to the effect of a full year of the online casino games, launched in July 2011. Our Digital Games and Services segment also includes revenues from online betting, which decreased by €3.7 million for the year ended December 31, 2012 compared to December 31, 2011.

Lottery

Lottery revenues and income amounted to €119.1 million for the year ended December 31, 2012, a decrease of €30.3 million, or 20.3%, from €149.4 million for the year ended December 31, 2011. The decrease in lottery revenues is related to the market trend which has seen a contraction in gaming volumes, the delay in rejuvenating the product due to the Italian political situation and the effect of low jackpot levels.

Other

Other revenues and income amounted to €6.1 million for the year ended December 31, 2012, an increase of €4.8 million, from €1.3 million for the year ended December 31, 2011, relating primarily to the partial release, for an amount of €2.1 million, of an accrual relating to historical minimum guaranteed betting volumes, and to a lesser extent an increase in rental income.

Segment Gross Operating Profit

Entertainment

Entertainment gross operating profit amounted to €121.7 million for the year ended December 31, 2012, a decrease of €23.9 million, or 16.4%, from €145.6 million for the year ended December 31, 2011. As a percentage of total entertainment revenues and income, entertainment gross operating profit amounted to 23.2% for the year ended December 31, 2012, compared to 25.7% for the year ended December 31, 2011. The decrease in gross operating profit is primarily attributable to the effect of the increased taxation on VLT turnover and unfavourable bets in the period resulting in higher betting payouts.

Digital games and services

Digital games and services gross operating profit amounted to €74.7 million for the year ended December 31, 2012, an increase of €11.7 million, or 18.6%, from €63.0 million for the year ended December 31, 2011. As a percentage of total digital games and services revenues and income, digital games and services gross operating profit amounted to 43.2% for the year ended December 31, 2012, compared to 41.2% for the year ended December 31, 2011. The increase is primarily attributable to the growth in payment and financial services revenues and volume growth in online casino games.

Lottery

Lottery gross operating profit amounted to €29.0 million for the year ended December 31, 2012, a decrease of €30.3 million, or 51.1%, from €59.3 million for the year ended December 31, 2011. As a percentage of total lottery revenues and income, lottery gross operating profit amounted to 24.3% for the year ended December 31, 2012 (or 38.2% adjusted for the €16.5 million fine), compared to 39.7% for the year ended December 31, 2011. Lottery gross operating profit was negatively affected by the €16.5 million fine resulting from the minimum volume requirements of the concession agreement in the last two months of the concession trial period which ended in June 2012 and the contraction in gaming volumes, which were partially offset by cost saving programs implemented in the second half of 2012, primarily related to the re-negotiation of the telecom contract.

Group Comparison of the Years Ended December 31, 2010 and 2011

Revenues and income

The following table sets forth an analysis of our revenues and income for the periods indicated.

	For the year ended December 31,				Change	
	2010	% of total revenues and income	2011	% of total revenues and income	(amount)	%
(€ in millions, except percentages)						
Gaming revenues	517.7	70.3%	611.3	70.3%	93.6	18.1%
Fixed odds betting income	58.0	7.9%	74.5	8.6%	16.5	28.4%
Services and non-gaming product revenues	86.1	11.7%	98.4	11.3%	12.3	14.3%
Point of sale fees	69.7	9.5%	81.9	9.4%	12.2	17.5%
Other revenues and income	4.5	0.6%	3.7	0.4%	(0.8)	(17.8)%
Total	736.0	100.0%	869.8	100.0%	133.8	18.2%

Revenues and income amounted to €869.8 million for the year ended December 31, 2011, an increase of €133.8 million, or 18.2%, from €736.0 million for the year ended December 31, 2010. The increase was primarily attributable to an increase in gaming revenues as further discussed below.

Gaming Revenues

The following table sets forth an analysis of gaming revenues for the periods indicated.

	For the year ended December 31,				Change	
	2010	% of total revenues and income	2011	% of total revenues and income	(amount)	%
(€ in millions, except percentages)						
Gaming machine revenues	335.0	45.5%	479.1	55.1%	144.1	43.0%
NTNG revenues	138.0	18.8%	91.4	10.5%	(46.6)	(33.8)%
Horse betting revenues	26.6	3.6%	21.0	2.4%	(5.6)	(21.1)%
Online game revenues	14.5	2.0%	16.6	1.9%	2.1	14.5%
Bingo revenues	1.8	0.2%	1.8	0.2%	—	—
Sports pools revenues	1.8	0.2%	1.4	0.2%	(0.4)	(22.2)%
Total	517.7	70.3%	611.3	70.3%	93.6	18.1%

The overall increase of €93.6 million in gaming revenues was primarily attributable to a combination of the following items.

- *Gaming machine* revenues amounted to €479.1 million for the year ended December 31, 2011, an increase of €144.1 million, or 43.0%, from €335.0 million for the year ended December 31, 2010, which was driven primarily by VLTs, which were first launched in August 2010. From their launch to December 31, 2010, VLT machines generated €13.1 million of revenues. During 2011 more VLT machines were rolled out, bringing the total in service as of December 31, 2011 to 4,269, generating total revenues of €150.2 million in the full year ended December 31, 2011. The remaining €7.0 million increase in gaming machine revenues is attributable to slot machines, the number of which increased from 31,555 machines as of December 31, 2010 to 35,338 machines as of December 31, 2011 (of which approximately 500 new machines from acquisitions in the year ended December 31, 2011). The increase in slot machines was partly offset by a decrease in average turnover/machine, as the slot machines faced product substitution from the VLTs.
- *NTNG* revenues amounted to €91.4 million for the year ended December 31, 2011, a decrease of €46.6 million, or 33.8%, from €138.0 million for the year ended December 31, 2010. In particular, “*SuperEnalotto*” and “*SuperStar*” revenues decreased by €37.3 million and “*WinForLife*” revenues decreased by €11.8 million, in the year ended December 31, 2011, compared to the year ended December 31, 2010. The decrease in *SuperEnalotto* and *SuperStar* revenues is as a result of record jackpot levels reached in August, September and October 2010, which led to an increase in ticket sales, which was not repeated in the year ended December 31, 2011. The average jackpot balance for the year ended December 31, 2010 was €90.9 million, compared to an average jackpot of €33.0 million for the year ended December 31, 2011. Other NTNG revenues increased by €2.5 million, mainly related to the “*Si Vince Tutto*” product launched in April 2011, in which a jackpot winner is selected for each draw.
- *Horse betting* revenues amounted to €21.0 million for the year ended December 31, 2011, a decrease of €5.6 million, or 21.1%, from €26.6 million for the year ended December 31, 2010. The decrease in horse betting revenues reflects the general downturn in the Italian horse racing industry. In particular the number of races in the year ended December 31, 2011 was 21,499 compared to 24,375 in the previous year.
- *Online game* revenues amounted to €16.6 million for the year ended December 31, 2011, an increase of €2.1 million, or 14.5%, from €14.5 million for the year ended December 31, 2010. The increase in revenue is attributable to the introduction of new games into the market in the year ended December 31, 2011, such as cash poker and casino games.
- *Bingo* revenues remained constant, amounting to €1.8 million for both years ended December 31, 2010 and 2011. During the year there were no significant modifications to our Bingo business.
- *Sports pools* revenues amounted to €1.4 million in the year ended December 31, 2011, a decrease of €0.4 million, or 22.2%, from €1.8 million for the year ended December 31, 2010. The decrease in sports pools revenues is largely attributed to the decline in popularity of sports pools games, as we believe some players of pool games have shifted to fixed odds betting or other games.

Fixed odds betting income

Fixed odds betting income amounted to €74.5 million for the year ended December 31, 2011, an increase of €16.5 million, or 28.4%, from €58.0 million for the year ended December 31, 2010. The increase is largely attributable to fixed odds sports betting, and in particular to the growth in the Matchpoint network, which as of December 31, 2011 reached 4,135 stores (excluding the 103 stores obtained through the acquisition of Illo and La Giostra in December 2011), from 4,008 stores as of December 31, 2010, resulting in an increase in total bets placed from €446.9 million for the year ended December 31, 2010 to €460.4 million for the year ended December 31, 2011. The increase in fixed odds betting income in the year ended December 31, 2011 compared to the year ended December 31, 2010 was also in part attributable to sporting event results which, in the year ended December 31, 2011, were particularly favourable to the bookmaker.

Services and Non-Gaming Product Revenues

Services and non-gaming product revenues amounted to €98.4 million for the year ended December 31, 2011, an increase of €12.3 million, or 14.3%, from €86.1 million for the year ended December 31, 2010, which was mainly attributable to an increase in payment and financial services turnover and therefore revenue. Total payment and financial services turnover amounted to €3,825.4 million from 185.6 million transactions in the year ended December 31, 2011, an increase of €574.0 million, or 17.7%, from €3,251.4 million from 160.6 million transactions in the year ended December 31, 2010. We attribute the increase in payment and financial services turnover to a shift towards so-called proximity “local” channels, such as tobacconists and bars, and away from the traditional collection and payment channels, such as post offices and banks. These points of sale provide greater flexibility in terms of opening hours and a wider distribution of outlets across the country, offering the public a more convenient way to make payments.

Point of sale fees

Point of sale fees amounted to €81.9 million for the year ended December 31, 2011, an increase of €12.2 million, or 17.5%, from €69.7 million for the year ended December 31, 2010. The increase in point of sale fees was driven by the growth of our network, which increased from 44,004 points of sale as of December 31, 2010 to 46,806 points of sale as of December 31, 2011. In particular, the network growth resulted in a €10.8 million increase in annual affiliation fees recorded from Sisal outlets, from €53.8 million in the year ended December 31, 2010 to €64.6 million in the year ended December 31, 2011. The remainder of the balance is comprised of transfer fees, activation fees and contract cancellation fees.

Other revenues and income

Other revenues amounted to €3.7 million for the year ended December 31, 2011, a decrease of €0.8 million, or 17.8%, from €4.5 million for the year ended December 31, 2010, mainly attributable to over accruals in the prior year.

Costs

Purchases of materials, consumables and merchandise

Purchases of materials, consumables and merchandise amounted to €18.9 million for the year ended December 31, 2011, an increase of €2.1 million, or 12.5%, from €16.8 million for the year ended December 31, 2010 in line with the increase in total revenues and income. Such purchases as a percentage of total revenues and income amounted to 2.2% for the year ended December 31, 2011 compared to 2.3% for the year ended December 31, 2010.

Costs for services

Costs for services amounted to €547.3 million for the year ended December 31, 2011 an increase of €99.2 million, or 22.1%, from €448.1 million for the year ended December 31, 2010.

Costs for services amounted to 62.9% of total revenues and income for the year ended December 31, 2011, an increase of 2.0% points from 60.9% for the year ended December 31, 2010. The increase is primarily attributable to commercial services expenses, which, as a percentage of total revenues and income, amounted to 7.5% for the year ended December 31, 2011, compared to 4.1% for the year ended December 31, 2010. The following table sets forth an analysis of costs for services for the periods indicated.

	For the year ended December 31,				Change	
	2010	% of total revenues and income	2011	% of total revenues and income	(amount)	%
(€ in millions, except percentages)						
Sales channel—Gaming	261.5	35.5%	317.0	36.3%	55.5	21.2%
Sales channel—Non-gaming services	61.7	8.4%	67.5	7.8%	5.8	9.4%
Commercial services	30.0	4.1%	64.9	7.5%	34.9	n.a.
Consulting	24.3	3.3%	17.1	2.0%	(7.2)	(29.6)%
Others ⁽¹⁾	70.6	9.6%	80.8	9.3%	10.2	14.4%
Total	448.1	60.9%	547.3	62.9%	99.2	22.1%

(1) Others primarily includes maintenance and technical assistance, telecommunications, logistics, banking charges and other service costs.

The increase of €99.2 million in costs for services was primarily attributable to the following:

- *Sales channel—Gaming* costs amounted to €317.0 million for the year ended December 31, 2011, an increase of €55.5 million, or 21.2%, from €261.5 million for the year ended December 31, 2010, and as a percentage of total revenues and income was 36.3% for the year ended December 31, 2011 compared to 35.5% for the year ended December 31, 2010. The increase was primarily driven by the network growth, in particular, distribution network compensation which increased by €41.2 million, and games system costs, which increased by €14.2 million as a result of the additional roll out of the VLTs in the year ended December 31, 2011.
- *Sales channel—Non-gaming services* costs amounted to €67.5 million for the year ended December 31, 2011, an increase of €5.8 million, or 9.4%, from €61.7 million for the year ended December 31, 2010, and primarily relates to distribution network compensation for phone top-ups, payment and financial services. The increase in sales channel- non-gaming services was driven by the increase in the use of the payment and financial services we offer, resulting in higher commissions paid to points of sale.

- *Commercial services* amounted to €64.9 million for the year ended December 31, 2011, an increase of €34.9 million, from €30.0 million for the year ended December 31, 2010. As a percentage of total revenues and income, commercial services expenses amounted to 7.5% for the year ended December 31, 2011, compared to 4.1% for the year ended December 31, 2010. The increase in commercial services expenses was primarily due to a €27.4 million increase in advertising costs, from €19.4 million for the year ended December 31, 2010 to €46.8 million for the year ended December 31, 2011, as a direct result of the conditions in the lottery concession agreement which state that we must invest at least 1.82% of total lottery turnover received in a concession year, in advertising in the following year. Record jackpot levels in August, September and October 2010 resulted in record number of lottery tickets sold, which resulted in an increase in advertising costs in the year ended December 31, 2011. In addition, the lottery concession trial period was divided into 18 two-month periods, over which we were required to maintain lottery receipts in excess of €350 million. Given the previously described decline in lottery ticket sales in the year ended December 31, 2011, and the seasonality of lottery ticket sales, which decrease in the summer months, we increased our investment in advertising and promotional expenses in May to August 2011 to generate additional lottery ticket sales, and comply with the minimum guaranteed volume stipulated in the lottery concession agreement. Commercial services expenses were also impacted by an increase in other commercial initiatives, which amounted to €14.3 million for the year ended December 31, 2011, an increase of €6.5 million from €7.8 million for the year ended December 31, 2010, primarily attributable to a €3.0 million increase in promotional events and promotional activity expenses, and a €0.7 million increase in sales force canvassing, as a result of the previously described drive to promote lottery tickets sales in the summer months of 2011, and to a lesser extent to the promotional activity related to the opening of the WinCity gaming halls. An additional increase of €1.7 million relates to an increase in promotional materials for points of sale as a result of the previously described network growth.
- *Consulting costs* amounted to €17.1 million for the year ended December 31, 2011, a decrease of €7.2 million, or 29.6%, from €24.3 million for the year ended December 31, 2010. In particular, in the year ended December 31, 2010 we incurred one-off costs mainly relating to legal advice, as a result of proposed changes to regulation.

Lease and rent expenses

Lease and rent expenses amounted to €13.8 million for the year ended December 31, 2011, an increase of €2.4 million, or 21.1%, from €11.4 million for the year ended December 31, 2010. The increase was primarily driven by a €1.6 million increase in buildings lease expenses, which amounted to €9.9 million for the year ended December 31, 2011, from €8.3 million for the year ended December 31, 2010, resulting from the growth of the Matchpoint network which as of December 31, 2011 reached 205 stores (of which 34 were acquired in December 2011), up from 159 agencies and shops as of December 31, 2010. In addition, certain Matchpoint store locations were relocated to accommodate the roll out of VLTs, which, pursuant to relevant legislation, must be in a separate room from other gaming products. As a result of this relocation to larger locations, or locations with an additional room for the VLTs, we incurred more building lease expenses in the year ended December 31, 2011 compared to the year ended December 31, 2010. Furthermore, the effect of a full-year building lease expense for the WinCity points of sale in Milan and Rome, and the new WinCity points of sale in Turin, Pescara and Brescia also impacted buildings lease expenses for the year ended December 31, 2011. In addition, other rentals and operating leases increased by €0.8 million, primarily as a result of an increase in hardware equipment leases driven by the network growth described above.

Personnel costs

Personnel costs amounted to €69.0 million for the year ended December 31, 2011, an increase of €9.6 million, or 16.2%, from €59.4 million for the year ended December 31, 2010, which reflects the increase in the number of people employed by us. Our average workforce expressed in full time equivalents increased from 1,068 for the year ended December 31, 2010 to 1,228 for the year ended December 31, 2011 driven primarily by network growth. Furthermore, personnel costs were affected by the strategic decision to extend opening hours of certain Matchpoint and Sisal Slot sites from 8 hours per day to 16 hours per day.

Other operating costs

The following table sets forth an analysis of other operating costs for the periods indicated.

	For the year ended December 31,			
	2010	% of total revenues and income	2011	% of total revenues and income
	(€ in millions, except percentages)			
Gaming concession fees	17.8	2.4%	21.3	2.5%
Other operating costs	14.3	2.0%	7.1	0.8%
Others	1.7	0.2%	2.9	0.3%
Total	33.8	4.6%	31.3	3.6%

Other operating costs amounted to €31.3 million for the year ended December 31, 2011, a decrease of €2.5 million, or 7.4%, from €33.8 million for the year ended December 31, 2010. The decrease in other operating costs is attributable to the combined effects of the following items.

- A €7.2 million decrease in other operating costs, from €14.3 million for the year ended December 31, 2010 to €7.1 million for the year ended December 31, 2011, primarily driven by a decrease of €5.9 million in pro rata non-deductible VAT in Sisal Match Point S.p.A. from 2010 to 2011 resulting from the change in the VAT regime adopted by Match Point S.p.A.
- A €3.5 million increase in gaming concession fees, from €17.8 million for the year ended December 31, 2010 to €21.3 million for the year ended December 31, 2011, driven primarily by an increase in VLT concession fees of €4.9 million, partially offset by a €1.7 million decrease in NTNG concession fees.

Gross operating profit before amortisation depreciation, provisions and impairment losses and reversals

Gross operating profit before amortisation depreciation, provisions and impairment losses and reversals amounted to €189.5 million for the year ended December 31, 2011, an increase of €23.0 million, or 13.8%, from €166.5 million for the year ended December 31, 2010. The increase is primarily attributable to the increase in total revenues and income of €133.8 million, which was partially offset by increases in costs for services and personnel costs of €99.2 million and €9.6 million respectively.

Gross margin was 21.8% for the year ended December 31, 2011, compared to 22.6% for the year ended December 31, 2010. The decrease in gross margin is primarily attributable to the increase in costs for services, which as a percentage of total revenues and income increased from 60.9% for the year ended December 31, 2010 to 62.9% for the year ended December 31, 2011, driven primarily by the increase in commercial services expenses, which was partially offset by a decrease in other operating costs which as a percentage of total revenues and income decreased from 4.6% for the year ended December 31, 2010 to 3.6% for the year ended December 31, 2011 mainly as a result of the previously described change in the VAT regime adopted by Match Point S.p.A.

Amortisation, depreciation, provisions and impairment losses and reversals

Amortisation, depreciation, provisions and impairment losses and reversals amounted to €133.1 million for the year ended December 31, 2011, an increase of €37.0 million, or 38.5%, from €96.1 million for the year ended December 31, 2010.

The following table sets forth an analysis of amortisation, depreciation, provisions and impairment losses and reversals for the periods indicated.

	For the year ended December 31,	
	2010	2011
	(€ in millions)	
Amortisation of intangible assets	50.4	56.8
Depreciation of property, plant and equipment	27.6	32.6
Other impairment losses on fixed assets	6.9	25.8
Impairment of receivables	11.3	12.3
Charges for provisions for risks and charges	(0.1)	5.6
Total	96.1	133.1

The increase of €37.0 million is primarily attributable to the combined effect of increases in other impairment losses on fixed assets, amortisation of intangible assets, charges for provisions for risks and charges, and depreciation of property, plant and equipment. In particular:

- *Amortisation of intangible assets* amounted to €56.8 million for the year ended December 31, 2011, an increase of €6.4 million, or 12.7%, from €50.4 million for the year ended December 31, 2010. The increase in amortisation relates primarily to the additional amortisation of software licenses purchased in the year ended December 31, 2011 including a new accounting and financial reporting system implemented in the year.
- *Depreciation of property, plant and equipment* amounted to €32.6 million for the year ended December 31, 2011, an increase of €5.0 million, or 18.1%, from €27.6 million for the year ended December 31, 2010. This increase in depreciation of property, plant and equipment relates primarily to the additional depreciation of slot machines, betting terminals and display screens purchased in the year ended December 31, 2011, totalling €28.4 million.
- *Other impairment losses on fixed assets* amounted to €25.8 million for the year ended December 31, 2011, an increase of €18.9 million, from €6.9 million for the year ended December 31, 2010. Impairment losses in both years mainly relate to impairments on concessions, licenses, trademarks and similar rights resulting from an evaluation of the performance of the horse betting and sports pools concessions, which, have suffered in recent years from a decrease in events and in popularity among consumers.

- *Impairment of receivables* amounted to €11.3 million for the year ended December 31, 2010 and €12.3 million for the year ended December 31, 2011. The increase in impairment losses is driven by the increased turnover of the business.
- *Charges for provisions for risks and charges* amounted to €5.6 million for the year ended December 31, 2011, an increase of €5.7 million from a release of €0.1 million for the year ended December 31, 2010. The increases in provisions recorded in the year ended December 31, 2011 were to cover general legal costs, fines and litigation.

Net operating profit (EBIT)

Net operating profit (EBIT) amounted to €56.4 million for the year ended December 31, 2011, a decrease of €14.0 million, or 19.9%, from €70.4 million for the year ended December 31, 2010. The decrease is primarily attributable to the increase in amortisation, depreciation, provisions and impairment losses and reversals of €37.0 million, which was partially offset by the increase in gross operating profit before amortisation depreciation, provisions and impairment losses and reversals of €23.0 million.

Net margin was 6.5% for the year ended December 31, 2011, compared to 9.6% for the year ended December 31, 2010. The decrease in net margin is primarily attributable to the combined effects of the following items:

- an increase in amortisation depreciation, provisions and impairment losses and reversals, which as a percentage of total revenues and income increased from 13.1% for the year ended December 31, 2010 to 15.3% for the year ended December 31, 2011, driven primarily by the impairments recognised in the year ended December 31, 2011 on the horse betting and sports pools concessions, and
- the decline in gross margin, from 22.6% for the year ended December 31, 2010, to 21.8% for the year ended December 31, 2011.

Finance income and similar

Finance income and similar amounted to €4.0 million for the year ended December 31, 2011, an increase of €2.4 million from €1.6 million for the year ended December 31, 2010. The increase in finance income and similar is primarily due to an increase in interest income generated on our bank accounts, as a result of the combined effect of higher average cash balances, and higher interest rates.

Finance expenses and similar

Finance expenses and similar amounted to €73.1 million for the year ended December 31, 2011, a decrease of €6.5 million, or 8.2%, from €79.6 million for the year ended December 31, 2010. The decrease in finance expenses is primarily due to the fair value losses on our derivative financial instruments, which amounted to €13.7 million in the year ended December 31, 2010 compared to €2.6 million in the year ended December 31, 2011, which was partially offset by a €3.1 million decrease in foreign exchange gains.

Income taxes

Income taxes amounted to €16.6 million for the year ended December 31, 2011, an increase of €11.3 million, from €5.3 million for the year ended December 31, 2010. In 2011, the Italian tax authorities conducted a tax audit in respect of the deduction of certain interest expense See “—*Group Comparison of the Years Ended December 31, 2011 and 2012—Income Taxes*”. Income Taxes expense for 2011 includes €8.5 million as a result of this tax audit.

Loss for the year

As a result of the factors explained above, loss for the year amounted to €29.3 million for the year ended December 31, 2011, an increase of €16.4 million, from a loss of €12.9 million for the year ended December 31, 2010.

Liquidity

Our primary sources of liquidity are cash flows from operations and to a lesser extent, cash proceeds from financing activities. Cash flows from our financing activities have in the past included, among others, borrowings under our Senior Secured Credit Facilities and Shareholder Loans. See “*Description of and Certain Financing Arrangements*”. Our liquidity requirements arise primarily from our need to meet debt service requirements and to fund our capital expenditure. We also require liquidity to fund any acquisitions and associated costs. Our cash flows generated from operating activities together with our cash flows generated from financing activities have historically been sufficient to meet our liquidity requirements. We believe our current liability position will be sufficient to meet our needs, subject to a variety of factors, including (i) our

future ability to generate cash flows from our operations, (ii) the level of our outstanding indebtedness and prevailing interest which affects our debt service requirements with respect to such indebtedness, (iii) our ability to continue to borrow funds from financial institutions and (iv) our capital expenditure requirements.

Our working capital fluctuates according to the amount of unpaid winnings. However, cash required to pay such winnings is generally held in bank accounts which are considered as “restricted cash” on our statement of financial position as we cannot use the cash for any other purposes. Therefore, although movements in unpaid winnings affect our working capital, we believe that such fluctuations do not impact on our liquidity requirements.

Our unrestricted cash and the principal amount of our third party debt (which does not include amounts due under the Shareholder Loans) as of December 31, 2012, after giving pro forma effect to the Refinancing and the Amend and Extend as described under “*Use of Proceeds*” would have been €140.1 million and €723.9 million, respectively.

Working Capital

The following table which is derived from our consolidated cash flow statement sets forth movements in our working capital for the periods indicated.

	Year ended December 31,				
	2008	2009	2010	2011	2012
	(€ in millions)				
	(reclassified)				
Movements in trade receivables	(7.4)	(96.0)	(42.0)	(18.1)	16.9
Movements in inventories	(1.0)	(6.9)	3.6	(4.1)	4.6
Movements in trade payables	42.6	53.7	19.0	29.6	25.1
Movements in trade working capital	34.2	(49.2)	(19.4)	7.4	46.6
Movements in other assets and liabilities	(19.6)	38.3	(7.4)	(15.3)	(7.9)
Movements in payables for winnings	69.0	119.2	128.5	(234.0)	(56.2)
Total movements in working capital	83.6	108.3	101.7	(241.9)	(17.5)
Restricted Cash as of December 31	122.6	225.0	354.9	121.5	89.2

Movements in working capital are generally connected to growth in the business.

Our business operations generally are not working capital intensive; we experience significant changes in net working capital from period to period mainly due to the significant fluctuations in payables for winnings which are generally fully offset by movements in our restricted bank accounts. Our working capital is structurally negative as we collect cash from our distribution network on a regular and frequent basis (generally once or twice a week via direct debit) while we pay our suppliers on standard credit terms (on average between 90 and 120 days). Our working capital and cash balances at the end of each period are influenced by the day of the week on which the period is closed.

The fluctuations in cash flows related to trade receivables during the historical periods is related to the growth in turnover and the timing of cash collections. In particular, the high cash absorption in 2010 is related to the introduction of VLTs in August 2010 and a change in regulation on receivables collection which resulted in an increased aging of receivables balance as some of our customers experienced financial difficulties in meeting the payment deadlines. During 2010 and 2011 we generally collected cash on a weekly basis from our points of sale. This impacts our cash flows as, due to the timing of the calendar year end, we have one extra day of turnover to be collected in 2010 compared to 2009 and a further extra day in 2011 compared to 2010. In 2012, we introduced collections on a bi-weekly basis across the services distribution network, which is extended to also include the gaming distribution network at quarter end only, thus allowing us to significantly accelerate the cash collection.

Our movements in non trade working capital items are principally driven by payables for winnings and in particular by lottery and VLT prize levels and to a lesser extent by betting winnings payable (given that generally betting winnings payable do not reach the same prize levels as lottery jackpots). In periods where the jackpot levels are high, our payables balance is also high. In particular, our payables for winnings amounted to €378.8 million, €144.9 million and €88.6 million as of December 31, 2010, 2011 and 2012, respectively. The cash required to pay such winnings is held in restricted bank accounts. Therefore, movements in payables for winnings are generally fully offset by movements in our restricted cash balances. In particular, the restricted cash balance amounted to €354.9 million, €121.5 million and €89.2 million as of December 31, 2010, 2011 and 2012 respectively. Our payables for winnings were particularly high in 2010 due to the record jackpot of over €175 million won in October 2010 and a smaller jackpot of €73.5 million won in December 2010, both of which were paid in 2011.

Cash Flows

The table below sets forth our consolidated statement of cash flows for the period indicated.

	Year ended December 31,		
	2010 (reclassified)	2011 (reclassified)	2012
	(€ in millions)		
Loss before income taxes	(7.6)	(12.7)	(37.1)
Amortisation, depreciation, provisions and impairment losses and reversals	96.2	127.4	121.9
Accruals to provisions, TFR and other accruals	0.2	6.4	(2.4)
Net finance expense	78.0	69.0	68.9
Cash flows from operating activities before changes in working capital and interest and tax paid	166.8	190.1	151.3
Change in working capital	101.7	(241.9)	(17.5)
Of which:			
<i>Changes in trade working capital</i>	(19.4)	7.4	46.6
<i>Changes in other assets and liabilities</i>	(7.4)	(15.3)	(7.9)
<i>Changes in payables for unpaid winnings</i>	128.5	(234.0)	(56.2)
Net interest paid	(55.0)	(54.9)	(49.0)
Taxes paid ⁽¹⁾	(8.1)	(19.5)	(24.3)
Cash flows provided by (used in) operating activities	205.4	(126.2)	60.5
Investments in intangible assets	(44.0)	(14.9)	(13.8)
Investments in property, plant and equipment	(40.6)	(34.6)	(45.1)
Acquisitions of subsidiaries (net of cash) ⁽¹⁾	(0.9)	(10.6)	(9.2)
Cash flows provided by (used in) investing activities	(85.5)	(60.1)	(68.1)
Net repayments of financial liabilities	(5.7)	(3.5)	(29.2)
Net proceeds/(repayments) of finance leases	2.7	0.6	(4.8)
Cash flows provided by (used in) financing activities	(3.0)	(2.9)	(34.0)
Increase (decrease) in cash and cash equivalents	116.9	(189.2)	(41.6)
Net cash at the beginning of the year	356.0	472.9	283.7
Net cash at the end of the year	472.9	283.7	242.1
<i>of which restricted</i>	<i>354.9</i>	<i>121.5</i>	<i>89.2</i>

(1) For comparability purposes, taxes paid in 2008 and 2009 were €5.4 million and €6.6 million, respectively, whilst acquisitions of subsidiaries (net of cash) were €13.4 million and €12.0 million, respectively.

Cash flows provided by (used in) operating activities

Year ended December 31, 2012 as compared to Year ended December 31, 2011

Net cash from operating activities increased by €186.7 million from net cash used of €126.2 million for the year ended December 31, 2011 to net cash provided by operating activities of €60.5 million for the year ended December 31, 2012. The movement in net cash from operating activities was primarily attributable to the combined effect of:

- a decrease in cash absorbed for payables from unpaid winnings of €177.8 million. Payables for winnings were particularly high in 2010 due to the record jackpot of more than €175 million won in October 2010 and a smaller jackpot of €73.5 million won in December 2010, both of which were paid in 2011. As previously explained, cash for unpaid winnings is held in restricted banks accounts, therefore movements in payables for unpaid winnings are generally offset by movements in restricted cash;
- an increase in cash generated from movements in trade working capital of €39.2 million from €7.4 million for the year ended December 31, 2011 to €46.6 million for the year ended December 31, 2012, mainly related to an increase in cash generated from trade receivables due to the introduction of a second weekly cash collection at the end of each quarter from June 30, 2012; and
- a decrease in cash from operating activities before changes in working capital, net interest paid and taxes paid of €38.8 million, from €190.1 million for the year ended December 31, 2011 to €151.3 million for the year ended December 31, 2012, mainly related to the previously explained €40.4 million decrease in gross operating profit before amortisation, depreciation, provisions and impairment losses and reversals.

Year ended December 31, 2011 as compared to Year ended December 31, 2010

Net cash from operating activities decreased by €331.6 million from net cash generated of €205.4 million for the year ended December 31, 2010 to net cash used by operating activities of €126.2 million for the year ended December 31, 2011. The movement in net cash from operating activities was primarily attributable to the combined effect of:

- an increase in cash absorbed for payables from unpaid winnings of €362.5 million, related to jackpot of more than €175 million won in October 2010 and a smaller jackpot of €73.5 million won in December 2010, both of which were paid in 2011. As previously explained, cash for unpaid winnings is held in restricted banks accounts, therefore movements in payables for unpaid winnings are generally offset by movements in restricted cash;
- an increase in cash generated from movements in trade working capital of €26.8 million from cash absorbed of €19.4 million for the year ended December 31, 2010 to cash generated of €7.4 million for the year ended December 31, 2010, which was primarily driven by a €23.9 million reduction in cash absorbed from movements in trade receivables. As previously explained, in 2010 the receivables balance was higher due to the introduction of VLTs in August 2010 and a change in regulation on receivables collection which resulted in an increased aging of receivables balance as some of our customers experienced financial difficulties; and
- an increase in cash from operating activities before changes in working capital, net interest paid and taxes paid of €23.3 million, from €166.8 million for the year ended December 31, 2010 to €190.1 million for the year ended December 31, 2011, mainly related to the previously explained €23.0 million increase in gross operating profit before amortisation, depreciation, provisions and impairment losses and reversals.

Cash flows provided by (used in) investing activities

Year ended December 31, 2012 as compared to Year ended December 31, 2011

Net cash used in investing activities increased by €8.0 million, from €60.1 million for the year ended December 31, 2011 to €68.1 million for the year ended December 31, 2012.

Investing activities in the year ended December 31, 2011 included:

- investments of €14.9 million in intangible assets mainly relating to software for the accounting system and the VLT network;
- investments of €34.6 million in property, plant and equipment, of which, €14.7 million related to new lottery terminals, €9.7 million relating to slot and change machines and €10.1 million relating to refurbishment of betting shops and opening of WinCity stores; and
- cash paid for the acquisition of subsidiaries and business units amounting to €10.6 million, including the €4.6 million outflow of cash relating to the acquisition of Bbet and the €3.8 million relating to the acquisition of Ilio Group (for which the remaining portion of the acquisition cost was settled in 2012).

Investing activities in the year ended December 31, 2012 included:

- investments of €13.8 million in intangible assets relating to the purchase of software for gaming and slot machines and licences
- investments of €45.1 million in property, plant and equipment, of which €16.5 million relating to slot and change machines, €12.0 million related to new lottery terminals, €9.0 million related to the refurbishment of betting agencies and €3.6 million for the opening of new points of sale, including WinCity Florence.
- payments of €9.2 million relating to the acquisitions made in 2011, mainly related to Ilio Group.

Year ended December 31, 2011 as compared to Year ended December 31, 2010

Net cash used in investing activities decreased by €25.4 million, from €85.5 million for the year ended December 31, 2010 to €60.1 million for the year ended December 31, 2011.

Investing activities in the year ended December 31, 2010 mainly included:

- investments of €44.0 million in intangible assets primarily related to the settlement of the payable of €36.9 million for VLT licences which were acquired in 2009 and software costs.
- investments of €40.6 million in property, plant and equipment of which €22.9 million related to new lottery terminals and €6.5 million related to slot machines and change machines. The remaining investments are mainly related to renovation and maintenance of points of sale and opening of WinCity stores.

Cash flows provided by (used in) financing activities

Year ended December 31, 2012 as compared to Year ended December 31, 2011

Net cash used in financing activities increased by €31.1 million, from €2.9 million for the year ended December 31, 2011 to €34.0 million for the year ended December 31, 2012. Net cash used in financing activities in the year ended December 31, 2012 included repayments of €16.9 million under the Senior Secured Credit Facilities, repayment of debt of €10.5 million of Ilio Group, which was assumed in connection with its acquisition in 2011, and €4.8 million related to the net repayments of finance lease liabilities.

Year ended December 31, 2011 as compared to Year ended December 31, 2010

Net cash used in financing activities decreased by €0.1 million, from €3.0 million for the year ended December 31, 2010 to €2.9 million for the year ended December 31, 2011 mainly related to net repayments of financial liabilities of €5.8 million in the year ended December 31, 2010 and €3.4 million in the year ended December 31, 2011.

Capital Expenditures

Our capital expenditures consist primarily of expenditures towards expansion, modernisation and upgrading of our infrastructure. The following table sets forth our capital expenditures for the periods indicated as derived from our cash flow statement.

	For the year ended December 31,		
	2010	2011	
	(reclassified)	(reclassified)	2012
	(€ in millions)		
Concession rights	36.9 ⁽¹⁾	—	1.7
Intangible assets	7.1	14.9	12.1
Property, plant and equipment	40.6	34.6	45.1
Capital expenditures	84.6	49.5	58.9

(1) Relates to concessions awarded in 2009 which were substantially funded from shareholder contribution.

Investment in property plant and equipment in 2010-2012 have mainly been related to investments in equipment and modernisation of our facilities to support the growth in our business. Investments in equipment principally relate to new generation lottery machines (*Leonardo* and *Microlot*) as well as slot machines for points of sale which we directly manage. In particular during the period from 2010 to 2012 we invested approximately €50 million in new lottery terminals and approximately €33 million in slot machines and change machines, and we do not expect to replace them in the next five years.

We also invested in new display screens and betting terminals, mainly to support refurbishment and furnishing of betting agencies relating to restructuring operations in certain points of sale that are part of the horse and sports betting agencies, and in particular those with VLTs, which pursuant to AAMS regulations are required to be located in a separate room as well as the investments relating to the WinCity halls opened in Rome and Milan in 2010, in Brescia and Turin in 2011 and Pescara and Florence in 2012 and refurbishment and replacement of NTNG terminals.

We estimate that historically we have spent approximately €16 million to €20 million in maintenance capital expenditures, which includes some replacement of machines.

Investments in intangible assets mainly relate to software to support the management of operations, the purchase of rights for betting corners and the concessions that we have acquired through our business acquisitions.

We expect our capital expenditure in 2013 to be approximately €60 million, of which approximately €20 million relates to maintenance including the replacement of gaming terminals and slot machines. Our remaining capital expenditure in 2013 relates to the growth and expansion of the business and are budgeted to include:

- VLT licences, software for both new games and for corporate requirements (€16 million)
- new slot machines for expansion of the network (€14 million)
- expansion of the WinCity halls and refurbishment of betting shops (€10 million)

We expect to finance our capital expenditure mainly from the cash generated by our operating and financing activities, and to a small extent, where applicable, from finance leases.

Capital Resources

Our main sources of financing in the past have been the Senior Secured Credit Facilities, the Shareholder Loans, and local credit facilities. We currently have and, after the issuance of the Notes, will continue to have a significant amount of outstanding debt with substantial debt service requirements. As of December 31, 2012, after giving pro forma effect to the

Refinancing as described under “*Use of Proceeds*”, the principal amount of our total external debt would have been €723.9 million, and if Gaming Invest’s external debt of the Mezzanine Facilities and Second Lien Facilities is also included, would have been €994.3 million.

The following table sets forth the principal amounts of our total external debt and of Gaming Invest as of December 31, 2012 on a historical basis and as adjusted to give pro forma effect to the Refinancing as described under “*Use of Proceeds*”: The information set forth below does not include amounts payable under the Shareholders Loans.

	As of December 31, 2012	
	Historical	As Adjusted
	(€ in millions)	
Term Loan A	50.6	50.6
Term Loan B and C	490.0	359.0
Term Loan D	139.0	—
Revolving Credit Facility	34.3	29.3
Total Senior Secured Credit Facilities	713.9	438.9
Notes offered hereby		275.0
Other	10.0	10.0
Total SHIP Group debt	723.9	723.9
Mezzanine Facilities	230.4	230.4
Second Lien Facilities	40.0	40.0
Gaming Invest debt	270.4	270.4
Total SHIP and Gaming Invest	994.3	994.3

Senior Secured Credit Facilities

Subsequent to the Refinancing, and the Amend and Extend, the amount outstanding under our Senior Secured Credit Facilities will be reduced to principal amount of €438.9 million as follows:

	Principal as of December 31, 2012	Maturity
	(€ in millions)	
Term Loan A	50.6	Sept-17
Term Loan B and C	359.0	Sept-17
Revolving Credit Facility ⁽¹⁾	29.3	Sept-17
Total Senior Secured Credit Facilities	438.9	

(1) The Senior Secured Credit Facilities Agreement provides for a Revolving Credit Facility of €34.3 million. On the Issue Date an amount of €5.0 million under the Revolving Credit Facility will be repaid with the proceeds of the Offering and will remain available for future drawings.

The Senior Secured Credit Facilities Agreement contains certain customary covenants, representations and warranties, events of default and restrictions applicable to the Issuer and the other obligors and providers of security interests, under the Senior Secured Credit Facilities Agreement. The covenants include, among others, restrictions on incurring and securing debt and disposing of assets, as well as restrictions on substantially changing the nature of our business. The Senior Secured Credit Facilities Agreement also requires us to comply with specified financial ratios of cash flow to net debt service, EBITDA to net finance charges and net debt to EBITDA, where such ratios include the external debt of Gaming Invest, events beyond our control can affect our ability to comply with these financial covenants. The Senior Secured Credit Facilities Agreement also limits the timing and extent of our capital expenditures. Historically we have been in compliance with the relevant covenant requirements. The Senior Secured Credit Facilities Agreement also contains change of control, excess cash flow and other provisions which could trigger mandatory repayments of outstanding borrowings under the Senior Secured Credit Facilities Agreement. In addition, the Senior Secured Credit Facilities Agreement contains provisions entitling lenders in certain cases to decline any prepayments we may otherwise be obligated or entitled to make.

The Senior Secured Credit Facilities Agreement provides for a Revolving Credit Facility in the amount of €34.3 million. On the Issue Date an amount of €5 million under the Revolving Credit Facility will be repaid with the proceeds of the Offering and €5 million will remain available for future drawings under the Revolving Credit Facility. Following the Amend and Extend, the Revolving Credit Facility will bear interest at a rate per annum equal to EURIBOR plus, where appropriate, any applicable mandatory costs and a margin and will be finally repayable on September 30, 2017. For further details of the Senior Secured Credit Facilities see “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities Agreement*”.

Other Financial Liabilities

Other financial liabilities primarily relate to finance lease liabilities for slot machines (€5.0 million as of December 31, 2012) and payables for factoring (€3.9 million as of December 31, 2012).

In 2009 we entered into a factoring agreement for the sale of VAT receivables relating to 2007 for a total amount of €3.9 million. This payable will be settled during 2013. We have not entered into any other factoring agreements during the historical periods.

Shareholder Loans

Our capital resources detailed above do not include obligations under the Shareholders Loans with our parent company Gaming Invest S.à.r.l. These loans are subordinated under the Senior Intercreditor Agreement. For further details of intra-group funding see “*Description of Certain Financing Arrangements—Shareholders Loans*”.

Mezzanine and Second Lien Facilities of Gaming Invest

Gaming Invest entered into the Second Lien Facilities Agreement for an amount of €85 million on October 17, 2006. On April 30, 2008 such agreement was amended and an amount of €45 million was repaid. The facility bears interest of 6% above EURIBOR per annum which is payable in cash. After the Amend and Extend, the Second Lien Facilities will be repayable in full on maturity on June 30, 2017.

The Mezzanine Facilities Agreement was entered into by Gaming Invest on October 17, 2006 for an amount of €160 million, which was increased by a further €5 million on April 30, 2008. The Mezzanine Facilities are repayable in full on December 31, 2017 and bear cash interest of EURIBOR plus a margin of 4% and PIK interest of 5.5%.

For further details of the Mezzanine and Second Lien Facilities and related obligations see “*Description of Certain Financing Arrangements—Mezzanine Facilities Agreement*” and “*—Second Lien Facilities Agreement*”, respectively.

Contractual Obligations

The following table sets forth our third party contractual obligations as of December 31, 2012, after giving pro forma effect to the Refinancing. The table does not include amounts due under our Shareholders Loans, or amounts payable by Gaming Invest.

	As of December 31, 2012				
	2013	2014	2015	2016	2017
	(€ in millions)				
Notes offered hereby	—	—	—	—	275.0
Senior Secured Credit Facilities ⁽¹⁾	—	12.6	12.7	12.6	401.0
Other financial liabilities ⁽²⁾	8.5	1.5	—	—	—
Operating lease agreements ⁽³⁾	8.8	9.2	6.9	5.2	3.9
Purchase commitments	1.1	—	—	—	—
Total SHIP Group Contractual Commitments	18.4	23.3	19.6	17.8	679.9

(1) The Senior Secured Credit Facilities provide for a Revolving Credit Facility in the amount of €34.3 million. On the Issue Date an amount of €5 million under the Revolving Credit Facility will be repaid with the proceeds of the Offering and €5 million will remain available for future drawings under the Revolving Credit Facility.

(2) Other financial liabilities mainly relate to finances leases and factoring of the VAT receivable.

(3) Operating lease agreements relate to our obligations under rental agreements for facilities and are disclosed based on the amounts payable until expiry of the relevant contract. However, our lease agreements can generally be terminated with a notice period of six months to one year.

Off-Balance Sheet Arrangements

As of December 31, 2012 we have provided the following performance bonds and guarantees:

	As of December 31, 2012
	(€ in millions)
AAMS	238.5
Non-gaming services	140.8
Other guarantees provided	3.3
Tax revenues agency—VAT Office	0.6
Total	383.2

We are required to provide performance bonds and guarantees in the ordinary course of our business, primarily in relation to our obligations under our concession agreements.

Guarantees provided to AAMS relate to the guarantees and performance bonds which we have provided to the AAMS related to the tax and operating obligations under our concessions to operate and develop various games. Non-gaming service guarantees relate to guarantees and performance bonds issued by the Issuer and Sisal S.p.A. mainly in respect of agreements relating to convenience payment services and the sale or distribution of telephone top-ups for which we are required to guarantee payment, net of our fees, for the amounts collected under such agreements.

Historically, we have not been required to make any payments or settlements under our performance bonds or guarantees.

Other than the guarantees and performance bonds provided in the ordinary course of business, there are no other off-balance sheet commitments or guarantees.

Quantitative and Qualitative Disclosures about Market Risk

Our activities expose us to a variety of financial risks including credit risk, liquidity risk, market rate risk, foreign exchange rate risk and interest rate risk. Our risk management policy, which is managed centrally by our senior management, focuses on minimising the potential adverse effects on our financial performance. The following section discusses the significant financial risks to which we are exposed. This discussion does not address other risks which we are exposed to in the normal course of business such as operational risks. See “*Risk Factors*”.

Market risks

Interest rate risk

The Group has, and after the Refinancing will continue to have, significant levels of floating rate borrowings and hence is exposed to risks related to fluctuations in the levels of interest rates, specifically with reference to the Senior Secured Credit Facilities. In particular, after giving pro forma effect to the Refinancing, and application of proceeds therefrom, approximately 62% of our borrowings as of December 31, 2012 would have been floating rate borrowings. We estimate that an increase in interest rates of 25 basis points, or 0.25%, on our floating rate debt at December 31, 2012 as adjusted for the Refinancing and application of proceeds therefrom, would result in an increase in finance expense of €1.0 million for the year ended December 31, 2012 (excluding any effect from hedging arrangements).

In the past we periodically entered into interest rate swap contracts to hedge the risk of movements in interest rates. Though we are reviewing hedging options, we do not expect to be party to interest rate swaps on the Issue Date. We have used interest rate swaps in the past and we may in the future enter into hedging transactions and use derivative financial instruments pursuant to established internal guidelines and policies to mitigate the potential adverse effects of changes in interest rates. We do not enter into financial instruments for trading or speculative purposes.

Liquidity risk

Liquidity risk is the risk of not being able to fulfil present or future obligations if we do not have sufficient funds available to meet such obligations. Liquidity risk arises mostly in relation to cash flows generated and used in financing activities, and particularly by servicing our debt as well as the Second Lien Facilities and the Mezzanine Facilities of Gaming Invest, in terms of both interest and capital, and our payment obligations relating to our ordinary business activities. We manage liquidity risk through various management policies including through monitoring of the timing receivable collections and minimising any delays in collections. We collect cash from our distribution network on a frequent basis (generally once or twice a week). Therefore, our receivables balance is generally low. We pay our suppliers on standard credit terms (on average between 90 and 120 days).

Credit risk

We have adopted risk management procedures in order to both reduce and monitor credit risk.

Our partners and retailers are responsible for, among other things, collecting the cash at our terminals and transferring these payments to us, net of their commission, on a weekly or semi-weekly basis. Approximately 95% of such cash collections are transferred to us through our IT system that automatically credits our account with amounts owed to us by retailers, with the remaining 5% paid through check or by other means. We collect the cash ourselves at points of sale we directly manage. As part of our risk management system, we evaluate the credit of a potential partner or retailer before we agree to enter into a commercial relationship, and then we continually monitor the credit of such partner or retailer during the term of our contract. If a partner or retailer fails to make a timely payment to us, we have the ability to remotely disconnect the terminals at the relevant point of sale while we investigate the cause and seek remedial action. Additionally, we can prematurely terminate our relationship with those points of sale that fail to make timely payments on a recurring basis.

The bad debt provision is evaluated on a regular basis analysis for each debtor. In the year ended December 31, 2012, we made provisions for bad debt in the amount of €15.7 million, representing 1.9% of total revenues and income.

The following table sets out the exposure to credit risk, analysed by reference to the ageing of receivables:

	As of December 31, 2012				
	Amount outstanding	Not overdue	Overdue 0-90 days	Overdue 90-180 days	Overdue more than 180 days
	(in millions of €)				
Trade receivables	193.5	137.0	10.0	2.8	43.7
Provision for impairment of receivables	(42.2)	(5.8)	(1.2)	(2.2)	(33.0)
Net amount	151.3	131.2	8.8	0.6	10.7
Other receivables	31.7	30.7	—	—	1.0
Provision for impairment of receivables	(0.4)	(0.2)	—	—	(0.2)
Net amount	31.3	30.5	—	—	0.8
Total	182.6	161.7	8.8	0.6	11.5

Credit risk relating to cash and cash equivalents, bank loans, finance leases, short-term bank deposit and bank deposits on demand as well as derivative financial instruments arises from the risk that the counterparty becomes insolvent and accordingly is unable to return the deposited funds or execute the obligations under the derivative transaction as a result of the insolvency. To mitigate this risk, we seek to transact and deposit funds with financial institutions we deem credit worthy and we monitor transaction volumes in order to reduce the risk of concentration of Group's transactions with any single party.

Foreign currency exchange risk

The Group faces only minimal levels of foreign currency exchange exposure (primarily USD and GBP).

In particular, the Group is affected by currency exchange rate risks in relation to the supply of spare parts and gaming equipment purchased in foreign currency, which represent a minimal portion of such purchases.

Bookmaker risk

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

The risk management function who are also assisted by external consultants in order to correctly determine the odds and reduce the possibility of speculative betting. See "*Business—Risk Management*".

Critical Accounting Estimates

The preparation of our consolidated financial statements requires that management apply accounting standards and methods which, under certain circumstances, are based on difficult subjective measurements and estimates based on past experience and on assumptions considered, at various times, to be reasonable and realistic in terms of the respective circumstances. The use of such estimates and assumptions affects the amounts reported in the consolidated financial statements as of and for each of the years ended December 31, 2010, 2011 and 2012 as well as the information disclosed. Actual results for those areas requiring management judgement or estimates may differ from those recorded in the financial statements due to the occurrence of events and the uncertainties which characterise the assumptions and conditions on which the estimates are based.

The primary areas applicable to our Group, that require greater subjectivity of management in making estimates and where a change in the conditions underlying the assumptions could have a significant impact on our consolidated financial statements include:

Revenue recognition

Revenues are recognised initially at the fair value of the consideration received. Revenues from services are recognised by reference to the value of the services rendered as of the end of the reporting period. Revenues from sales of goods are recognised when the company has transferred substantially all the risks and rewards of ownership of the goods. In accordance with IAS 18, sums collected on behalf of third parties, such as in an agency relationship, which do not cause an increase in the company's equity, are excluded from revenues which, instead, are represented solely by the commissions accrued on the transaction. Specifically, the cost pertaining to the purchase of telephone and television content cards and refills are shown as a deduction from gross revenues to highlight that with these transactions the Group's revenue is only the difference between the sale price and the nominal cost of the card.

Fixed odds betting income

The bets connected with fixed odds betting are recognised initially as a financial liability in accordance with IAS 39 at the date the bet is accepted. Subsequent changes in the amount of the financial liability are recognised in the statement of comprehensive income under “Fixed odds betting income” until the date of the event on which the bet was taken.

Goodwill

Goodwill is tested annually for impairment and any impairment losses arising as a result of the impairment test are recognised in the statement of comprehensive income. The impairment test involves allocating goodwill to “cash generating units” (“CGU”) and the determination of the relative fair value. Our primary CGUs relate to Lottery, Digital Games and Services and Entertainment. When the fair value is lower than the carrying amount of the CGU, an impairment loss is recognised on the goodwill allocated to the CGU. The allocation of goodwill to a CGU and the determination of fair value requires assumptions and estimates based on factors which may change over time, with consequent effects, which may be significant, on the assessments. As of December 31, 2012, goodwill amounted to €869.6 million, representing 50.3% of our total assets.

Impairment Loss/Reversal of Fixed Assets

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

Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets

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

Deferred Tax Assets

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

Provision for Risks and Charges

The Group accrues a provision for probable liabilities relating to litigations and controversies with staff, suppliers, third parties and expenses arising from commitments. The quantification of this provision is based on assumptions and estimates based on information and knowledge which may vary over time. Therefore, the final outcome of such litigations may be significantly different from those considered during the preparation of the financial statements.

Provision for Impairment of Receivables

The provision reflects the estimated losses on receivables. The provision covers the estimate of the risk of losses which derives from past experience with similar receivables, from the analysis of overdue receivables (current and historical), of losses and recoveries and finally from monitoring economic trends and forecasts both currently and prospectively to the company's business.

Severance Indemnity Provision

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

INDUSTRY OVERVIEW

We operate in two distinct markets: the Italian gaming market and the Italian convenience payment services market. The gaming market includes land-based and online gaming and betting. The gaming market is regulated by the AAMS. The convenience payment services market includes top-ups, payment of utility and other bills and fines, and prepaid debit cards. The sale of top-ups is unregulated, while the payment of bills and fines and issuance and reload of debit cards is regulated by the Bank of Italy.

Italian Gaming Market

The Italian gaming market is measured using three key performance indicators: turnover, gross gaming revenue and net gaming revenue. “Turnover” refers to the total amount of wagers collected from players. “Gross gaming revenue” refers to turnover less the amount paid to players as winnings. “Net gaming revenue” refers to gross gaming revenue less the amount of taxes payable to the Italian treasury. Other countries may use different key performance indicators. This “*Industry Overview*” excludes casinos, of which there are only four in Italy, none of which are operated by us.

It is estimated that Italy was the largest gaming market in Europe with gross gaming revenue of €16.8 billion in 2012, followed by the gaming market in the United Kingdom and Ireland with gross gaming revenue of €12.4 billion, France with gross gaming revenue of €9.4 billion, Germany with gross gaming revenue of €8.9 billion and Spain with gross gaming revenue of €8.6 billion. We estimate that total turnover on gaming activities in Italy amounted to €86.7 billion in 2012.

The following table shows certain key performance indicators for the total gaming market in Italy for the years 2007 to 2012:

	Year ended December 31,						
	2007	2008	2009	2010	2011	2012	CAGR
	(in € millions, except percentages)						
Turnover	41,425	47,555	54,402	60,984	79,597	86,744	15.9%
Year on year growth	—	14.8%	14.4%	12.1%	30.5%	8.9%	n/a
Gross gaming revenue	13,192	14,835	16,198	17,017	17,993	16,758	4.9%
Year on year growth	—	12.5%	9.2%	5.1%	5.7%	(6.9%)	n/a
Net gaming revenue	5,487	6,344	6,882	7,681	8,570	8,075	8.0%
Year on year growth	—	15.4%	8.7%	11.6%	11.6%	(5.7%)	n/a
Real Italian GDP	1,492,671	1,475,412	1,394,347	1,418,376	1,423,674	1,389,948	(1.42%)
Year on year real Italian GDP growth	1.7%	(1.2%)	(5.5%)	1.7%	0.4%	(2.4%)	n/a

Source: AAMS, except with respect to 2012 gaming machines data, which reflects the Group’s estimates based on October 2012 data.

Source for Italian GDP: Istat.

The Italian gaming market has experienced strong growth since 2007, with a compound annual growth rate (“CAGR”) in the period from 2007 to 2012 for turnover of 15.9% and for net gaming revenue of 8.0%. The CAGR growth of net gaming revenue over the past six years compares favourably to real GDP in Italy which declined at a CAGR of (1.4%) in the same period. The growth of the Italian gaming market is estimated to have slowed in 2012 as the market is maturing and due to the general difficult macroeconomic situation in Italy which has impacted consumer behaviour and spending patterns. Additionally, gross and net gaming revenue in 2012 declined due to an increase in the legally mandated payout ratio for existing games, the introduction of new games with higher payout and an increase in taxes.

Historically, the Italian gaming market has experienced attractive through-the-cycle growth primarily due to (i) the imposition and subsequent liberalisation of a new regulatory framework, which, among other things, legalised online gaming activities and introduced VLTs which significantly broadened the product offering in the gaming machine market segment; (ii) the modernisation of existing retail networks and introduction of new gaming hall formats suitable to hosting VLTs; (iii) the re-launch and re-styling of traditional lottery products including the development of new lottery formats such as annuity lottery games; (iv) an increase in the average payout from about 68% in 2007 to about 81% in 2012, largely attributable to the introduction of new games with higher legally mandated payouts, which made games more attractive to consumers; and (v) stricter controls on illegal gaming activities as well as a greater focus on socially responsible gaming, which we believe may have led to a broader acceptance of gaming in the population.

The Italian and the UK and Irish gaming markets are the only fully centrally regulated and liberalised gaming markets in Europe. The Italian gaming market is subject to a complex regulatory framework which is overseen by the AAMS. Regulations prescribe, among other things, (i) which games may be operated and what amounts are charged as taxes; (ii) what minimum level of winnings may be awarded; (iii) what level of compensation may be paid to concessionaires; (iv) the number and location of the points of sale and whether a given concession is exclusive or available to multiple concessionaires; and (v) minimum levels of service. Regulation of the Italian gaming market has been significantly liberalised, including through the following laws and regulations:

- the Bersani Decree of 2006 which significantly liberalised the betting market by extending betting concessions to non-specialised points of sales such as tobacconists and coffee shops;

- the Abruzzo Decree of 2009 which introduced and regulates VLTs in Italy, thus significantly broadening the product offering in the gaming machines market;
- the Balduzzi Decree of 2012 which regulates advertisements in the gaming industry and the disclosure of payout ratios;
- the 2008 Community Law which aimed at modifying and integrating the existing Italian regulatory framework to comply with EC Treaty requirements on competition law and freedom of establishment, with a view to simplifying the award of new concessions to existing market participants and to opening the Italian market to competition from other EU member states; and
- the legalisation and regulation of online gaming in 2009, introducing new games such as online tournament poker in 2010, online cash poker and casino games in 2011 and online slot machines in 2012, and setting higher payout ratios and lower tax rates for online games.

Based on these recent initiatives and the overall regulatory framework, we believe Italy is one of the most developed gaming markets in Europe. For more information on the regulatory framework that governs our gaming activities, see “*Regulation*”.

We believe that the gaming market is maturing and is likely to stabilise or may slightly decline over the next few years, and will be characterised by the following trends:

- the further consolidation of the fragmented Italian gaming market through the acquisition by larger players of small independent and local operators, especially in the slot machine, VLT and betting market segments;
- the introduction of innovative new products such as virtual races which have proved to be popular in the betting market segment in the United States and the United Kingdom and Ireland, and for which regulatory approval is currently pending;
- the expansion of the online gaming market, which is characterised by a high rate of product innovation and lower margins than the offline gaming market due to higher payout rates and customer acquisition costs;
- the consolidation and modernisation of the existing retail network with improved gaming hall formats; and
- the stable or somewhat declining performance of the concentrated lottery market segment in which Lottomatica and Sisal hold the only concessions.

Market Segments

The following table shows gaming turnover in Italy by market segment for the years 2007 to 2012:

	Year ended December 31,						2007-2012 CAGR
	2007	2008	2009	2010	2011	2012	
	(in € millions, except for percentages)						
Betting⁽¹⁾	4,561	5,184	4,805	4,773	4,098	3,697	2.1%
Sports betting	1,932	3,012	2,936	3,142	2,798	2,759	7.4%
Horse betting	2,628	2,172	1,869	1,631	1,300	938	(18.6%)
Gaming Machines	18,072	21,685	25,525	31,534	44,615	48,400	21.8%
Slot	18,072	21,685	25,525	30,674	29,870	26,900	8.3%
VLTs	—	—	—	860	14,745	21,500	n/a
Online Games	1,045	1,484	3,766	4,827	9,850	15,425	71.3%
Poker	—	242	2,320	3,073	6,752	9,069	n/a
Casino	—	—	28	73	1,666	4,864	n/a
Online lotteries	48	69	81	80	52	35	(5.9%)
Online betting	997	1,173	1,338	1,455	1,196	1,309	5.6%
Sports betting	893	1,073	1,226	1,356	1,127	1,236	6.7%
Horse betting	104	100	112	99	69	73	6.8%
Online bingo	—	—	—	146	184	147	n/a
Lotteries	15,994	17,566	18,795	18,043	19,368	17,729	2.1%
Instant lotteries	7,904	9,205	9,359	9,308	10,193	9,741	4.3%
Lotto	6,150	5,852	5,663	5,231	6,795	6,221	0.2%
NTNG	1,940	2,509	3,772	3,503	2,380	1,767	(1.9)%
Bingo	1,753	1,636	1,512	1,807	1,666	1,493	(3.2)%
Total market turnover	41,425	47,555	54,403	60,984	79,597	86,745	15.9%

(1) Includes pool games and prediction games.

Source: AAMS, except with respect to 2012 gaming machines data, which reflect the Group’s estimates based on October 2012 data.

The payout ratio to winners varies by segment. In 2012, we estimate that winnings expressed as a percentage of turnover amounted to approximately 66% for lottery games, 83% for sports betting (online and offline betting), 69% for horse betting, 75% for slot machines, 90% for VLTs, 95% for online games and 70% for bingo. As a result of the different payout ratios, there has been a shift of players towards games with higher payout such as VLTs and online games in recent years.

The following table shows gross gaming revenue in Italy by market segment for the years 2007 to 2012:

	Year ended December 31,						2007-2012 CAGR
	2007	2008	2009	2010	2011	2012	
	(in € millions, except for percentages)						
Betting⁽¹⁾	1,354	1,469	1,269	1,163	1,111	827	(9.4%)
Sports betting	539	795	680	652	703	533	(0.2%)
Horse betting	814	674	588	511	408	294	(18.4%)
Gaming Machines	4,518	5,421	6,381	7,754	8,716	8,750	14.1%
Slot	4,518	5,421	6,381	7,669	7,282	6,600	7.9%
VLTs	—	—	—	85	1,435	2,150	n/a
Online Games	241	317	575	696	731	748	25.4%
Poker	—	29	278	369	372	351	n/a
Casino	—	—	4	11	62	156	n/a
Online lotteries	14	21	26	27	17	13	(1.5%)
Online betting	226	267	266	245	229	185	(4.0%)
Sports betting	196	237	232	214	210	168	(3.0%)
Horse betting	30	30	34	31	19	17	(10.8%)
Online bingo	—	—	0	44	51	43	n/a
Lotteries	6,343	6,941	7,519	6,862	6,969	5,991	(1.1%)
Instant lotteries	2,371	2,761	2,808	2,606	2,820	2,853	3.8%
Lotto	2,768	2,633	2,521	2,277	2,795	2,120	(5.2%)
NTNG	1,204	1,546	2,190	1,979	1,354	1,018	(3.3%)
Bingo	736	687	454	541	463	443	(9.7%)
Total market gross gaming revenue	13,192	14,835	16,198	17,017	17,993	16,758	4.90%

(1) Includes pool games and prediction games.

Source: AAMS, except with respect to 2012 gaming machines data, which reflect the Group's estimates based on October 2012 data.

Gaming providers must pay taxes on turnover (gross gaming revenue for poker cash and online casino games), the amount of which varies by segment and on a game-by-game basis. In 2012, we estimate that taxes expressed as a percentage of turnover on average amounted to approximately 21% for lottery games, 4% for sports betting, 18% for horse betting, 12% for slot machines, 4% for VLTs, 1% for online games and 12% for bingo.

The following table shows net gaming revenue in Italy by market segment for the years 2007 to 2012:

	Year ended December 31,						2007-2012 CAGR
	2007	2008	2009	2010	2011	2012	
	(in € millions, except for percentages)						
Betting⁽¹⁾	693	868	731	681	716	509	(6.0%)
Sports betting	394	621	519	495	566	404	0.5%
Horse betting	299	247	212	185	150	105	(18.9%)
Gaming Machines	2,279	2,743	3,127	3,939	4,636	4,546	14.8%
Slot	2,279	2,743	3,127	3,874	3,548	3,331	7.9%
VLTs	—	—	—	65	1,088	1,215	n/a
Online Games	177	231	405	487	534	549	25.4%
Poker	—	21	202	277	282	274	n/a
Casino	—	—	3	9	48	124	n/a
Online lotteries	6	8	10	10	6	4	(6.4%)
Online betting	172	201	191	165	168	122	(6.7%)
Sports betting	160	192	181	157	163	118	(5.9%)
Horse betting	12	9	10	8	5	4	(20.7%)
Online bingo	—	—	—	26	29	25	n/a
Lotteries	2,019	2,204	2,347	2,249	2,420	2,206	1.8%
Instant lotteries	830	1,120	1,139	1,132	1,223	1,159	3.8%
Lotto	961	790	765	706	917	840	0.2%
NTNG	228	294	444	411	279	207	(1.9%)
Bingo	319	298	272	325	264	264	(3.7%)
Total market net gaming revenue	5,487	6,344	6,882	7,681	8,570	8,075	8.0%

(1) Includes pool games and prediction games.

Source: AAMS, except 2012 gaming machines data, which reflect the Group's estimates based on October 2012 data.

Betting

Concessions for betting activities are granted in the form of licenses for the operation of a single betting shop or betting corner and a concessionaire can hold one or more licenses depending on the number of betting shops or corners it operates. The Italian betting market comprises two main segments: sports betting and horse betting, which can be played both in authorised betting shops or corners and online. Most large concessionaires integrate their betting offerings; we, for example, integrate our betting shops, corners and online offerings under the Sisal Matchpoint brand. Other betting relates to non-sports events connected with the world of entertainment, music, culture and current affairs of national and international importance. In 2012, we estimate total betting turnover (including online betting) in Italy amounted to approximately €5.0 billion and total betting net gaming revenue (including online betting) amounted to €631 million.

- **Sports Betting.** Sports betting includes fixed-odds sports betting, as well as pool games, where participants pay a fixed price into a betting pool and make a selection on a particular outcome. Sports betting takes place at designated betting shops and corners as well as online and is based on real-life sport events, such as football. Popular Sisal brands in the sports betting market segment are Totocalcio, Totogol, Big Match, and Big Race. In 2012, we estimate that total sports betting turnover amounted to approximately €4.0 billion, of which we estimate about 31% relates to bets placed online, and we estimate total sports betting net gaming revenue amounted to €522 million. Consumer participation in the sports betting segment fluctuates from year to year and is influenced by the occurrence of special sport events such as the Olympic Games and the World or European Football Championships. Furthermore, the liberalisation of the regulatory framework has broadened the range of permissible betting events and introduced new betting formats such as live betting, which allows consumers to place bets on an event after the event has started based on constantly changing odds. We estimate that live betting accounted for approximately 13% of estimated sports betting turnover in 2012. The popularity of pool games has declined significantly in recent years, which we attribute primarily to competition from fixed-odds sports betting and the limited appeal of pool games compared to other newer offerings. In 2012, we estimate that turnover from pool games amounted to approximately €54 million and pool games net gaming revenue amounted to approximately €6 million.
- **Horse Betting:** Horse betting includes traditional horse race betting, which is exclusively played in betting shops and corners and hippodromes, as well as other horse betting games, such as Ippica Nazionale, which can be played in betting shops and corners and online. For traditional horse race betting, a unit bet costs €0.50 and the number of events on which bets can be placed depends on the daily programme published by the horse race association. For Ippica Nazionale, the number of events on which bets can be placed is fixed at approximately 15 events per day and a unit bet costs €1.00. Turnover from horse betting has significantly declined since 2007, which we attribute primarily to players switching to other betting games as well as prolonged strikes by horse racing industry workers. Additionally, horse betting is characterised by high taxes as a percentage of turnover, which in turn reduces the payout to players. Industry associations and public authorities are currently evaluating measures to restore interest in the horse betting market. In 2012, we estimate total horse betting turnover (including online horse betting) amounted to approximately €1,011 million and total horse betting net gaming revenue (including online horse betting) amounted to €109 million. Further development and innovation in the horse betting segment is anticipated in 2013 with the possible introduction of virtual races. Virtual racing is a visual representation of a race where odds are based on a computerised number draw. Virtual races are currently pending launch approval by the regulator. The introduction of virtual races has been favourably received in the United Kingdom and Ireland.

The Italian sports betting market is relatively consolidated and in 2012 the three largest operators had an estimated betting market share of approximately 65%. Snai is the largest betting market participant, with over one-third of the Italian betting market in 2012. According to its public reports, Snai generally does not hold all betting concessions itself but instead partners with betting shops that hold a license for which it acts as service provider. We own the license for each of our betting shops and corners, and we believe this is generally the case for the other large market participants. We estimate that we are the third largest betting market participant, with approximately 13% market share.

Gaming Machines

In 2012, we estimate that the Italian gaming machines market accounted for approximately 56% of overall gaming market turnover, with total turnover in Italy amounting to approximately €48 billion and total net gaming revenue amounting to €4.5 billion. The gaming machines market currently includes 12 concessionaires. The gaming machines market can be divided into two different segments; (i) slot machines and (ii) VLTs.

A slot machine concessionaire is responsible to AAMS for the certification of the gaming machine, the establishment and management of the network connection, data transmission to AAMS and the proper functioning of the machine. The concessionaire receives compensation based on a percentage of the turnover. The operator of a slot machine, known as the “*gestore*”, is responsible for the initial deployment, management and maintenance of the gaming machine and enters into a revenue-sharing contract with the retailer who displays the machine. The *gestore* is also responsible for collecting the wagers. A concessionaire may also act as *gestore*, and we are the *gestore* for about 40% of our slot machine concessions. Currently, we estimate that over 4,000 *gestore* operate in the Italian gaming machines market segment.

A VLT concessionaire is the owner of the machine. VLT operators provide the platform for the terminal which determines the winnings as VLT winnings are paid out across the entire network. The concessionaire enters into a revenue-sharing contract with the retailer who displays the machine. Additionally, in certain instances the concessionaire enters into an agreement with a third party intermediary to install the VLT in return for either a fixed fee or a portion of the revenue generated by the VLT.

Slot Machines. Traditional slot machines, also referred to as “clause 6A” machines, or amusement with prize (“AWP”), employ a graphical reel containing pictures (such as fruits) and provide games of controlled chance, paying cash to winners. Slot machines were legalised in Italy in 2004. Slot machines are primarily placed in bars, cafés, tobacconists, gaming and bingo halls. Slot machines offered a minimum payout ratio of approximately 75% in 2012, with actual payouts varying between concessionaires. Because of the similarity in product offerings, slot machines face some product substitution in favour of VLTs. In 2012, we estimate total slot machines turnover in Italy amounted to approximately €26.9 billion and total slot machine net gaming revenue amounted to €3.3 billion.

The six largest slot machines concessionaires represent a market share of approximately 78% based on turnover. We are the fifth largest concessionaire with approximately 9% of slot machine turnover. The operation of slot machines in Italy is highly fragmented, with over 4,000 participants.

Video Lottery Terminals. Video lottery terminals, also referred to as “clause 6b” machines, or VLTs, were first introduced in Italy in August 2010. Instead of the traditional graphical reels of slot machines, VLTs employ a video display and provide a wider range of games. VLTs can be managed and monitored remotely and in real time. VLTs can only be placed in dedicated gaming halls. VLTs offer a minimum payout ratio of approximately 85%, which is higher than the payout ratio for traditional slot machines, due to different legally mandated payout rates which include jackpots and games mechanics. In 2012, we estimate total VLT turnover in Italy amounted to approximately €21.5 billion and we estimate VLT net gaming revenue amounted to €1.2 billion.

Currently, concessions to deploy approximately 56,700 VLTs (corresponding to 14% of the total number of installed slot machines in 2010) have been assigned to the same concessionaires that are active in the slot machines market segment. By October 2012, based on the latest available AAMS data, approximately 80% of such awarded concessions had been deployed. We have deployed approximately 95% of our awarded concessions.

The VLTs market segment is relatively consolidated with the largest five concessionaires accounting for a market share of approximately 77%. We estimate that we are the third largest concessionaire with 10% market share.

Online Games

Online games were legalised in Italy in 2005 with the introduction of online sports betting. The online games market is highly fragmented and currently includes over 140 concessionaires. An online concession generally permits the concession holder to operate any number of online games, even if such concession holder does not hold a concession to operate such games at a physical point of sale. The Italian online games market (excluding online betting which is included in betting, see “—Betting”) has grown to an estimated turnover and net gaming revenue of €14.1 billion and €428 million, respectively, in 2012. We believe this increase in turnover can be primarily attributed to the frequent introduction of new online games as well as the very high legally-mandated payout rates of online games (excluding betting and lotteries games, which have the same payout rate whether they are played online or offline) which on average exceed 95%. The following online games are available in the market: sports and horse betting, instant lotteries, pool games, NTNG and other lottery games, skill games, casino games, poker cash games, soft games (i.e., games of chance not based on cards) and online slot machines.

- **Poker.** Online poker games were launched in September 2008 and currently consist mainly of poker cash games, which are played with money at stake and which usually have no predetermined end time, with players being able to enter and leave as they see fit. Poker cash games have gained market share at the expense of poker tournament games which are played with special tournament chips worth nothing outside the tournament, and which usually have a definite end condition and a specific roster of players. In 2012, we estimate total online poker turnover amounted to approximately €9.1 billion and online poker net gaming revenue amounted to €274 million.
- **Casino.** Online casino games include roulette, blackjack and card games. Online casino games are characterised by product innovation such as our introduction of online slot machines in 2012. Online casino games have shown the fastest turnover growth in the industry. In 2012, we estimate total online casino games turnover amounted to approximately €4.9 billion and online casino games net gaming revenue amounted to €124 million. We believe we were the first company to offer online casino and online slot games.
- **Online Lotteries.** Online lotteries include the online version of NTNG and instant lotteries. Online lotteries account for only about 0.2% of total online gaming turnover mainly due to lower payout ratios compared to other online games. In 2012, we estimate total online lotteries turnover amounted to approximately €35 million and we estimate online lotteries net gaming revenue amounted to €4 million.

To access the online gaming market, players must set up an online account with an online games provider, must have an Italian fiscal code card (i.e., an Italian tax registration number) and an Italian registered address and must be located in Italy.

The online games market is generally considered to be a low margin market segment characterised by a high degree of competition. Many of our competitors have pursued aggressive commercial policies, such as a high level of advertising and welcome and loyalty bonuses or actively promoting games with very high payouts, in an effort to increase market share. Instead, we have historically sought to attract customers with innovative products in order to maintain profitability.

We estimate that the three largest operators of online games account for approximately 53% of total turnover in 2012, and we believe that we are the sixth largest online games operator in Italy.

Lotteries

Lotteries represent the most traditional segment of the Italian gaming market and have historically attracted the largest number of players. Lottery games can be played in, among other locations, newsagents, coffee shops, tobacco shops, betting shops and corners as well as gaming halls. In 2012, we estimate total lotteries turnover in Italy amounted to €17.7 billion and lotteries net gaming revenue amounted to €2.2 billion.

There are currently three concessions in the lotteries market, which comprise three product offerings: (i) Instant Lotteries, (ii) Lotto and (iii) NTNGs.

- **Instant Lotteries.** Instant lotteries are the largest contributor to the lotteries market, accounting for about 55% of lotteries turnover in 2012. Instant lotteries are exclusively managed by Consorzio Lotterie Nazionale, a consortium of gaming companies led by Lottomatica, with its current concession expiring in June 2019. Historically, the instant lotteries segment has been characterised by a short product life cycle with a high level of product innovation and product replacement. The main product currently is “Gratta e Vinci”. The estimated 2012 payout for instant lotteries is approximately 71% of turnover. In 2012, we estimate total instant lotteries turnover amounted to approximately €9.7 billion and total instant lotteries net gaming revenue amounted to €1.2 billion.
- **Lotto.** Lotto is the oldest game in the Italian gaming market and is exclusively managed by Lottomatica, with its current concession expiring in June 2016. Lotto is a draw-based numeric lottery game based on fixed odds with the prize based on the type of bet made by the player. Recently, new lotto games (such as “10 e Lotto”) and new playing mechanics (such as “Lotto Più”) have been introduced, along with an increase in the payout ratio to an estimated 66% of turnover in 2012, up from 55% in 2010. In 2012, we estimate total lotto turnover amounted to approximately €6.2 billion and total lotto net gaming revenue amounted to €840 million.
- **NTNG.** NTNG products involve (i) players choosing a combination of numbers, or electing to receive a random combination of numbers; (ii) a single jackpot, derived from a predetermined share of the pool, collected on a nationwide basis; and (iii) the division of the jackpot into equal shares between winners in the same prize category. We have an exclusive concession to operate NTNG, which expires in June 2018. NTNG include games such as SuperEnalotto, the most popular Italian jackpot game with an estimated average weekly turnover of €30 million, WinForLife!, the first Italian annuity-prize game, and the European NTNG, EuroJackpot, which was introduced in Italy in 2012. SuperEnalotto is the largest contributor to the NTNG segment, accounting for approximately 88% of total NTNG turnover in 2012. NTNG turnover is influenced by fluctuations of jackpot sizes, as high jackpots attract a larger number of players. NTNG has the lowest payout ratio among lottery products at approximately 42% of turnover in 2012. In 2012, total NTNG turnover amounted to approximately €1.8 billion and total NTNG net gaming revenues amounted to €207 million.

Bingo

Bingo games were legalised in Italy in 2000. Originally bingo could only be played in dedicated bingo halls, but since 2010 the online version has also been authorised. The objective of a bingo game is to complete a five-by-three card showing random numbers between 1 and 90. Gaming cards are sold by bingo hall employees immediately before the draw. Numbers are randomly selected by a caller and players fill a corresponding space on their card. Currently, we estimate that over 220 concessionaries are active in the bingo market segment.

In 2012, we estimate bingo (excluding online bingo) turnover amounted to approximately €1.5 billion and we estimate net gaming revenue amounted to approximately €264 million.

Italian Convenience Payment Services Market

The overall Italian payment and services market that we address is estimated at approximately €100 billion in 2012 in terms of total transaction value and is organised along two broad market segments: (i) the convenience payment services market segment in which we and Lottomatica operate, which we estimate represented about 18% of the market in 2012 and (ii) the other payments and services market segment in which mainly banks and post offices operate, which represented the remaining 82%. Convenience payment services refers to the ability to make payments through “local” channels such as bars and newsagents. For cultural reasons and because of the low penetration of online and direct debit payments, Italian consumers frequently seek to make such convenience payments.

The Italian payments and services market offers three broad product categories: (i) top-ups, (ii) payments and (iii) financial services.

- **Top-ups.** Top-ups comprise top-up services for pre-paid mobile and fixed-line telephone accounts, TV card top-up services and pay-per-view TV vouchers. The convenience payment service provider typically receives a fee from the utility company or other partner.
- **Payments.** Payment services allow for payment of telephone and national and local utilities bills, traffic violation fines and certain taxes such as municipal refuse collection, car registration and television licence fees. Currently payment services are provided by the Italian post office and banking institutions, as well as terminal operators like Sisal. The consumer typically pays a fee to the convenience payment service provider.
- **Financial Services.** Financial services consist of prepaid debit card issuances and reload services. The customer typically pays a fee for the card and for subsequent reloads. We do not issue cards but allow customers to reload Italian post office cards at our terminals.

In 2012, we estimate that payment services accounted for approximately 53% of overall payment and services market turnover, followed by top-ups with approximately 33% of total turnover and financial services which contributed approximately 12%. We estimate that more than half of all top-ups were made through our and Lottomatica's points of sale, with top-ups at our points of sale accounting for approximately one-third and top-ups at Lottomatica's points of sale accounting for the remaining two-thirds. Approximately one-third of all top-ups were made through banks with the remainder of top-ups made through retailers and the Italian post office. More than two-thirds of payments were made through the Italian post office followed by banks accounting for approximately one-quarter of payments. The remaining payments were made at our and Lottomatica's points of sale. Money transfer shops accounted for more than one-third of financial services provided followed by banks accounting for approximately one-quarter and post offices accounting for slightly less than one-quarter. The remaining financial services were offered through our and Lottomatica's points of sale.

Due to proximity to the consumer which allows customers to more efficiently carry out routine transactions, the convenience payment services market has grown significantly from a turnover of approximately €6.3 billion in 2007 to an estimated €18.7 billion in 2012. We believe that the Italian payments and services market, and especially the convenience payment services market, will continue to be an attractive market primarily due to the following factors: (i) changes in consumer behaviour as Italian consumers frequently seek to make payments through “local” channels such as bars and newsagents given their widespread presence throughout Italy, as well as greater flexibility in terms of opening hours, as compared to traditional bank and post office hours, and the absence of queues, which saves customers time when making payments; (ii) the potential for further diversification of product offerings and the penetration of existing retail networks to reach a broader customer base; and (iii) the potential for parallel growth of online platforms that may be able to leverage existing technological networks.

BUSINESS

Overview

We are the second largest gaming company and the second largest convenience payment services provider in Italy based on turnover. We were the first Italian company to operate in the gaming sector as a government concessionaire and we have been operating for over 65 years. Italy is the largest gaming market in Europe based on gross gaming revenue, and it is also one of the most developed. In addition to gaming, we operate in the convenience payment services market, which has tripled in size since 2007. In 2012 we generated revenues and income of €823.4 million and Pro Forma Adjusted EBITDA of €172.4 million.

We offer slot machines and video lottery terminals, betting, lottery games and convenience payment services. Our distribution network includes approximately 46,000 points of sale, nearly all of which also offer convenience payment services. Our network is made up of newsstands, bars, tobacconists, betting shops and corners, points of sale that are dedicated to gaming machines, multifunctional gaming halls and our online gaming platform. Our portfolio includes a number of well-known products and services sold under key brands including:



We have a proven track record of operating our business in a highly regulated environment. In Italy, gaming companies must have a concession from the national regulator. The regulator establishes tender criteria for gaming concessions, for example by requiring bidders to show an extensive territorial presence in Italy and expertise in the information technology processes necessary for the operation of a gaming network. Our gaming concessions have maturities from five to nine years, and we have successfully renewed each of our concessions to date. The payment and financial services segment of the convenience payment services industry is regulated by the Bank of Italy, from whom we hold a licence to operate as a payment institution.

With turnover in 2012 of €7.9 billion, we are the second largest gaming company in Italy and we estimate that we are the ninth largest lottery and betting company in the world. In 2009 we won the exclusive concession to operate certain national lottery games. In addition, as a gaming machine concessionaire, we provide interconnection services for approximately 36,000 slot machines and 5,000 video lottery terminals. We also directly manage over 200 betting shops and provide network services to approximately 4,000 betting corners. In 2010 we launched a new multifunctional retail format—our WinCity gaming halls, which provide gaming services but also offer food, drink and entertainment—providing our customers with an alternative to Italy's only four licensed casinos. We offer a wide variety of online products including online betting, poker, skills and casino games, and we have significantly grown our presence in this increasingly important channel over the last five years. The gaming market in Italy is maturing and has doubled in size since 2007, reaching turnover of an estimated €86.7 billion in 2012.

With turnover in 2012 of €5.9 billion, we are the second largest convenience payment services provider in Italy. Due to the low penetration of online and direct debit payment options as well as for cultural reasons, Italian consumers are frequently seeking to make cash payments through "local" channels such as bars and newsagents rather than through traditional channels such as post offices and bank branches. We offer customers the ability to pay approximately 300 types of bills, fines and certain taxes such as TV licences, as well as top-up prepaid mobile phones and debit cards, with partnerships with over 70 utilities, prepaid services providers and municipal governments. Our points of sale are open more days, have longer opening hours and shorter queues than post offices and bank branches, saving our customers time. We have approximately 42,000 terminals throughout Italy that function as "one stop shops", where customers can make payments as well as play lottery games, and we are rolling out payment-only terminals in high traffic areas. The convenience payment services market in Italy has tripled in size since 2007, reaching turnover of an estimated €18.7 billion in 2012, and we expect it to grow further. We derived 13.4% of our revenues and income from convenience payment services in 2012.

Business Units

We are one of the two Italian operators providing the full spectrum of gaming products, along with convenience payment services. We operate through three business units: (i) Entertainment, which includes gaming machines, offline betting and direct retail operations such as our WinCity gaming halls; (ii) Digital Games and Services, which includes online offerings and convenience payment services; and (iii) Lottery, which includes our numerical lotteries portfolio. The following chart sets out key information for each of our business units for the year ended December 31, 2012:

	Entertainment	Digital Games and Services	Lottery	Total
	€ millions, except percentages			
Turnover⁽¹⁾	5,202	6,811	1,767	13,780
% Group total	37.8%	49.4%	12.8%	100.0%
Revenues and income	525.3	172.9	119.1	817.3
% Group total	63.8%	21.0%	14.5%	99.3% ⁽²⁾
Segment Gross Operating Profit⁽³⁾	121.7	74.7	29.0	225.4
% Group total	54.0%	33.1%	12.9%	100.0%

- (1) “Turnover” refers to the total amount of wagers collected and total amount of payments received from customers in our gaming and convenience payment services businesses, respectively.
- (2) Balance to 100% represented by €6.1 million Other revenues and income, which is not allocated to segments.
- (3) We define “Segment Gross Operating Profit” as gross operating profit per segment before amortisation, depreciation, impairment losses and reversals, impairment of receivables, costs of our corporate structure and provisions, which are not directly related to the performance of the business.

Entertainment: Our Entertainment business unit is dedicated to the operation of (i) gaming machines (slot machines and video lottery terminals (“VLTs”)), (ii) horse betting and sports betting at betting shops and betting corners and (iii) traditional Italian gaming products, such as Totocalcio (the original and well-known football pool game) and Tris (a horse race prediction game). We are a concessionaire for approximately 41,000 gaming machines at over 13,000 points of sale, and we have a dedicated retail network comprising 200 Matchpoint-branded betting shops, 4,000 betting corners and six WinCity gaming halls.

Digital Games and Services: Our Digital Games and Services unit offers players the opportunity to place online bets and play online games such as Sisal Casino, Sisal Slot, Sisal Bingo, Sisal Poker, Sisal Skill Games and Sisal Quick Games, as well as lottery games via our website, Sisal.it, games that are downloaded onto a player’s computer and, for certain games, mobile phone applications, using the latest technology for secure and legal play. We continue to seek ways to deliver additional products and services to consumers via our online platform and on their mobile phones. We complement our in-house games development efforts with strategic partnerships with leading suppliers of gaming platforms such as Playtech, an international developer of gaming software.

Since 2002, we have also offered fast, simple and secure payment solutions through a wide distribution network, which as of December 31, 2012, included approximately 42,000 terminals located throughout Italy. Our “one stop shop” strategy enables customers to perform day-to-day tasks such as renewing their digital TV subscription, paying bills and certain taxes such as municipal refuse collection, car registration and television licence fees, topping up mobile phones and prepaid cards and many other services using the same terminals where they can purchase lottery tickets. In 2013 we started rolling out payment-only terminals in high traffic areas, and we currently have approximately 200 of such terminals installed.

Lottery: Our Lottery unit is responsible for operating the exclusive concession for national totalisator number games (“NTNG”), of which the most popular product is SuperEnalotto. Unlike many other lotteries, there is no cap on the amount of times that a SuperEnalotto jackpot can rollover, creating the potential for large jackpots, such as the jackpot that reached over €175 million in October 2010. Additionally, we diversified our lottery product offering by introducing WinForLife!, the first Italian annuity lottery game, and EuroJackpot, a multi-jurisdictional lottery which guarantees a jackpot of at least €10 million. We manage lottery games through our distribution network of approximately 42,000 terminals, as well as our own website and approximately 30 third-party online gaming sites connected to our NTNG online platform.

Competitive Strengths

We believe a number of key factors give us a competitive advantage and make our business strong and resilient, including:

Key participant in an attractive and resilient industry with significant barriers to entry. We are the second largest gaming company and the second largest convenience payment services provider in Italy based on turnover. The gaming market in Italy has doubled in size since 2007, reaching turnover of an estimated €86.7 billion in 2012, and it is currently the largest gaming market in Europe based on gross gaming revenue. The Italian gaming industry is fragmented, providing us with potential opportunities to strengthen our prominent market position with selective bolt-on acquisitions. The

convenience payment services market in Italy has tripled in size since 2007, reaching turnover of an estimated €18.7 billion in 2012. The gaming and convenience payment services markets have been resilient in years of declining year-on-year GDP growth in Italy. See “*Industry Overview*”. The gaming and convenience payment services markets are highly regulated, and the relationship of industry participants with regulatory authorities and their ability to operate within the existing regulatory framework are critical factors for success. The AAMS establishes criteria in tenders for gaming concessions, for example requiring bidders to show an extensive territorial presence in Italy and expertise in the information technology processes necessary for the operation of a gaming network. For instance, the AAMS granted us an exclusive concession to operate certain lottery games until June 2018. We are also licensed by the Bank of Italy to operate as a payment institution to provide payment and financial services. We believe our long-standing and leading position in the market, our trusted brand, as well as our experience operating within the Italian regulatory framework, have contributed to our generally positive and open relationship with the regulatory authorities, with whom we are in regular dialogue regarding the development of the industry. We also believe the high level of regulation in the industry represents a significant barrier to entry for potential new entrants and a particular challenge for existing independent or small participants.

Diversified product portfolio with multiple distribution channels and attractive cross-selling opportunities. We are a diversified gaming and convenience payment services company with a number of distinct and complementary product offerings. From being primarily a lottery and betting operator, we have increasingly diversified over time and we now offer a number of gaming products, including slot machines and VLTs, horse and sports betting, traditional Italian pool and prediction games and national lottery games through multiple concessions with staggered maturities. We offer different gaming products in order to appeal to a diverse customer base, and we believe we and only one other operator provide the full spectrum of gaming products and convenience payment services in Italy. Our distribution network comprises approximately 46,000 points of sale, including about 200 Matchpoint betting shops and 4,000 Matchpoint betting corners, 680 affiliated points of sale, 6 Sisal WinCity gaming halls and 4,600 points of sale dedicated to slot machines and VLTs. Our extensive land-based network is complemented by our online platform. Our product and channel diversification allows us to take advantage of the strength and depth of the Italian gaming and convenience payments services markets and has mitigated the impact of volume fluctuations in our gaming products.

Strong, high-quality distribution network. We have the second largest distribution network in Italy, comprising about 46,000 points of sale, nearly all of which also offer convenience payment services. Our broad network is made up of newsstands, bars, tobacconists, directly-managed and partner-managed betting shops, betting corners, sites dedicated to slot machines and VLTs and our directly-managed WinCity gaming halls. We carefully select points of sale to optimise our presence throughout the country. We use information about consumer habits and socio-demographic characteristics gained from experience in the industry, along with customer contact at our directly-managed points of sales, in order to strategically tailor product offerings at each point of sale, facilitating cross-selling and maximising earnings at each location. In addition, when a point of sale is not directly managed by us, we evaluate the retailer’s proven ability in managing the business before partnering with the retailer. We continuously review the performance of our retail operations, and our marketing and sales teams monitor the performance of retailers, including via annual contract reviews. In connection with this review process, we seek to have top performing retailers enter into affiliation agreements with us, and we focus on opening new points of sale and closing points of sale with lower earnings potential in order to maximise our profitability. We have a long-standing relationship with a number of retailers, and we seek ways to reinforce such strong relationships, including through ongoing dialogue and training. In addition, we complement our physical retail distribution network through a broad offering of online games through our own Sisal-branded website.

Well known and trusted brands built on a strong heritage. We believe that our strong brand heritage and national recognition helped us to reach our current state of development and positions us well to capitalise on future opportunities. We were the first Italian company to operate in the gaming sector as a government licensee and we have been operating in Italy for over 65 years. Our product portfolio includes a number of well-known brands, including SuperEnalotto, SuperStar, SiVinceTutto SuperEnalotto, Matchpoint, Sisal Pay, Centro Servizi, WinForLife!, WinCity, Totocalcio and Tris. We are continuously looking for ways to create new interest in existing branded products. For example, in 2009 we launched SuperEnalotto Giocafacile, which drew on the strength of SuperEnalotto but was a new and easier way to play SuperEnalotto that included offerings at different price points to attract a wider audience of players. Over the years we believe that we have developed a positive reputation among consumers as a trusted provider of safe and responsible gaming, which is integral to success in the Italian gaming market. We believe this positive reputation has also supported our expansion into convenience payment services, where a reputation for trust and reliability is critical. We support our reputation with a commitment towards corporate social responsibility and we participate in a variety of community initiatives in the arts, sports and youth outreach.

Leadership in product, customer experience and distribution channel innovation. We have been a leading product innovator, from the invention of Totocalcio and Totip in the 1940s to the introduction of SuperEnalotto and the new SiVinceTutto SuperEnalotto, as well as the introduction of all-in-one lottery and convenience payment services terminals. We use our over 65 years of operating history, in-depth knowledge of consumer behaviour and ability to interpret changing preferences and habits, to develop new products. For example, during the recent economic downturn, we understood consumers’ concerns about having a stable income to and through retirement. We used this understanding, along with rigorous product analysis and testing, to develop our successful WinForLife! product, which allows players to win a monthly cash income over a period of up to 20 years—the first such product offering in Italy. We also strive to improve the customer experience. Between 2010 and 2012, we invested approximately €50 million to refresh or replace our all-in-one terminals for

smaller terminals with greater capacity, interactive touch-screen windows and bar-code readers that allow customers to easily check the results of their wagers. In addition, we have a history of expanding into new distribution channels such as new venues and mobile phone applications. In September 2010, we launched WinCity gaming halls, which offer a catering service and an extensive schedule of events, from food tasting to live music acts, and today we are further developing our online offerings. We dedicate significant resources to innovation with a department dedicated to research and development, both in product innovation and internal business process innovation.

Well-invested, advanced IT system supporting our cash generative business. We have invested significant resources to develop in-house an extensive integrated IT system that manages approximately five billion transactions per year and a cash flow of approximately €13.8 billion per year, representing our total turnover in 2012. Once wagers and payments are collected at one of our 46,000 points of sale, our IT system reliably transmits the payment information to utility and convenience services providers and to the Italian treasury. Our system can simultaneously process 900 transactions, with an average customer wait time of less than five seconds. Our IT system provides real-time cash balance information to management, and it automatically credits our accounts with amounts owed to us by retailers, including the cash collected by the retailer for games and convenience payment services. We believe that the cost and knowledge associated with the acquisition, operation and maintenance of an information technology system like ours represents a significant barrier to entry for potential new entrants to the gaming or convenience payment services markets.

Highly experienced management team. The members of our senior management and middle management teams have significant experience in the gaming, convenience payment services and retail consumer goods markets. We have managers with a long track record of gaming experience at Sisal and others who have worked in senior positions at multinational companies in the retail sector or at financial institutions before joining us. Additionally, we have successfully attracted and retained young talent to management positions where we believe new perspectives can add value to our business. Our experienced team has already demonstrated its ability to grow our business, for example, through expanding our distribution network, introducing innovative products, successfully executing accretive acquisitions and reducing our leverage. We also benefit from the market and industry expertise, business relationships, knowledge, investments and experience of our sponsors Apax Partners, Permira Funds and Clessidra.

Business Strategy

Our objective is to strengthen our position as a leading gaming and convenience payment services company in Italy and to achieve sustainable profitable growth through the following strategic pillars:

Continue to expand our product offerings and retail distribution network and increase the number of branded points of sale. We intend to expand our product offerings and existing distribution network consisting of approximately 46,000 points of sales through organic growth and selective bolt-on acquisitions. We aim to build on our “first mover” advantage in multifunctional gaming halls by opening additional WinCity gaming halls in prime locations, and we seek to partner with new and existing unaffiliated points of sale to expand the number of our affiliated and branded points of sale. The Italian retail gaming market is highly fragmented and characterised by a large number of small independent participants. We believe this fragmentation presents a challenge for existing independent and small participants but an opportunity for us to acquire targets who hold products, technology or concessions, or are located in areas, that complement our existing platforms and offerings, in each case, at attractive valuations. We believe we have significant experience in identifying targets and executing accretive acquisitions, following a careful diligence process. In 2011, we acquired Ilio Group for €16.7 million, which added 32 betting shops and 68 betting corners to our portfolio, and in January 2013, we acquired 60% of Friulgames S.r.l., an Italian operator of approximately 2,000 slot machines and 170 VLTs, for €5.7 million, in each case using internally generated cash. We have been able to successfully integrate acquired companies into our operations within relatively short time frames, with a goal of 90 days. We believe expanding our retail distribution network has resulted in improved brand recognition, enabling us to benefit from economies of scale and has helped increase revenues and income by allowing us to capture a larger share of the gaming and convenience payment services value chain.

Continue to develop and launch innovative products, focusing in particular on online and mobile phone offerings. We intend to capitalise on our knowledge of consumer behaviour, as well as our network of gaming offerings and our online platform by investing in new product offerings to reach an even broader customer base. We have increased our number of online games from 10 in 2007 to approximately 100 in 2012. We also have an exclusive concession for certain national lottery games (NTNG); accordingly, online NTNG products are only available on our website and on the websites of third party retailers that are connected to our platform. Through point of sale marketing and other efforts we aim to build consumer awareness of the ability to play NTNG games on the Internet or a mobile phone in order to further grow our online customer base. We also plan to expand our portfolio of offerings through the launch of new products such as virtual races (both online and offline), new VLT platforms and new online games, acting as a “first mover” where possible. We continue to seek ways to deliver additional products and services to consumers via our online platform and on their mobile phones.

Further expand our convenience payment services business and increase marketing efforts to promote our “one stop shop” offerings. We currently offer approximately 300 convenience payment services with about 70 partners such as utility providers and mobile phone companies, generating payment services turnover of €5.9 billion in 2012. Due to the low penetration of online and direct debit payment options as well as for cultural reasons, Italian consumers are frequently seeking to make cash payments through “local” channels such as bars and newsagents rather than through traditional channels such as

post offices and bank branches, and we believe that convenience payment services will continue to be a growing market. In addition to maximising cross-selling opportunities with terminals that offer both lottery and convenience payment services, we seek to increase the number of payment-only terminals, which we strategically place in high-traffic areas with a low risk of saturation and where the existence of additional terminals will reduce or eliminate queue times. We also intend to roll out cashless payment devices and to incrementally expand our current offering of convenience payment services in order to appeal to even more consumers. We plan to promote our points of sale as “one stop shops” that allow consumers to utilise our terminals to play games as well as pay bills and make other payments. In addition to the potential increase in revenues and income from convenience payment services, we believe the “one stop shop” model provides an opportunity to develop more direct relationships with consumers and increase their loyalty and brand awareness.

Maintain our focus on profitability and cash flow. We will continue to carefully assess the potential for earnings, cash-flow stability and growth when we evaluate the performance of our operations and new investment opportunities. Before we participate in a tender for a concession, we extensively analyse the terms, including potential payback, taxes and any required upfront payments, as well as the ability to build on our existing brands and distribution network. We participate in tenders only on terms that we believe are attractive. In 2009, for example, we agreed to pay €15,000 per machine for the right to operate approximately 5,000 VLTs. In contrast, in 2010 we did not seek to outbid a competitor for the concession to operate the scratch and win game, which, we understand from public statements, involved an upfront payment of approximately €800 million by a consortium led by Lottomatica. We use a similar disciplined approach to acquiring businesses and assets, and we consider the impact on profitability when setting payout rates and odds in relation to legal minimums on gaming products. We will continue to seek to reduce costs in our business through cost saving initiatives, such as contract renegotiations and shift optimisations undertaken in 2012, which we estimate resulted in cost savings of approximately €5.6 million on an annualised basis. We seek to generate cash and reduce our leverage by improving our profitability. Our Adjusted EBITDA has increased from €140.2 million in 2008 to €170.4 million in 2012, and our ratio of SHIP net senior secured debt to Adjusted EBITDA has declined from 4.6x at December 31, 2008 to 3.3x at December 31, 2012.

History of the Group

We were established in 1946 and were the first Italian company to operate in the gaming sector as a government concessionaire. During the post-World War II era of reconstruction, we invented a football pool game called the “Sisal play slip” (now known as Totocalcio), which grew in popularity alongside the sport, so much so that “Playing Sisal” became a saying or expression of a community tradition synonymous with having fun. In 1948 we launched Totip, a horse race-based prediction game, and reached 12,000 points of sale nationwide. Over the years we have sought to remain in touch with the changing needs of Italians, launching a number of new products, including Tris in 1991 and SuperEnalotto and SisalTV in 1997. In 2002, we expanded into the convenience payment services sector and in 2004 we acquired Matchpoint betting and we also launched a range of online games. In recent years, we have created, among other products, WinForLife! and Sisal WinCity, and in 2012, we launched Eurojackpot in Italy.

In 2005, Clessidra acquired a controlling stake in us from the families of our founding shareholders Geo Molo, Fabio Jegher and Massimo della Pergola and as a result became our largest shareholder. We were acquired by Apax Partners and Permira Funds in October 2006, with Clessidra and the founding shareholders remaining minority shareholders. Today we are the second largest gaming company and second largest convenience payment services provider in Italy based on turnover, with approximately 46,000 points of sale.

Business Units

We operate through three business units: Entertainment, Digital Games and Services, and Lottery. The following table provides an overview of our business units, product categories and concessions:

Business Unit	Segment	Product Categories	Concession
Entertainment	Slot machines and VLTs	- direct management of slot machines/VLTs - connection of third-party slot machines to AAMS control system	Multi-providing; expires March 2022
	Betting	- sports games and betting - horse games and betting	Multi-providing; expires June 2016
Digital Games & Services	E-Gaming	- online betting - lotteries - poker - bingo - skill games - online slots and other online casino games	Multi-providing; expires November 2020
	Services	- top-ups (i.e., prepaid mobile phones) - payment services (i.e., utility bills; certain taxes) - financial services (i.e., prepaid debit cards)	n/a
Lottery		- SuperEnalotto - SiVinceTutto - WinForLife! - Eurojackpot	Exclusive; expires June 2018

Entertainment

Our Entertainment business unit includes gaming machines, offline betting and one bingo hall. In 2012, we generated Entertainment revenues and income of €525.3 million and Segment Gross Operating Profit of €121.7 million. In 2012, our Entertainment business unit contributed 63.8% to our revenues and income and 54.0% to our Segment Gross Operating Profit, respectively.

Gaming Machines

As one of 12 gaming machine concessionaries in Italy, we act as a network system operator for the computerised management of slot machines and VLTs. We also act as an operator or “gestore”, meaning we also directly manage many of our slot machines. Slot machines can be managed by someone other than the owner of the machine, while VLTs can only be managed by the owner.

Under the Italian regulatory regime, only gaming machines that are linked to the AAMS control system are permitted to operate. This system permits games played on the machines to be controlled and monitored for tax purposes by AAMS. We provide the required interconnection services to approximately 36,000 slot machines, which we estimate represent about 9.5% of such machines currently in operation in Italy, and approximately 5,000 VLTs, which we estimate represent about 8.7% of such machines in Italy. Of the 36,000 slot machines and 5,000 VLTs in our network, we directly manage approximately 14,500 slot machines and 3,400 VLTs, respectively, and we provide connection and monitoring services to 21,500 slot machines and 1,600 VLTs, respectively, which are directly managed by 270 distribution partners. In line with our growth strategy, we installed approximately 1,500 new slot machines in 2012. The machines are spread among approximately 13,000 points of sale.

The following table provides an overview of key performance indicators of our slot machine operations as of and for the year ended December 31, 2012:

Turnover (in million €)	2,388
Number of machines	36,318
Direct management	40%
Provider of connection services	60%

With slot machines, the outcome of the game is based on chance, and players bet against the house. By law, slot machines pay winnings of €100 or less in cash. Each individual game lasts between 7 and 13 seconds and costs between €0.50 and €1.00. Slot machines' minimum pay-out equates to 74% of the aggregate amount of turnover per machine cycle collected across the network. In addition, 12.7% of turnover is paid to AAMS as tax. The remaining amount of approximately 13.3% is our revenues and income, from which we pay a concession fee of 0.3% to AAMS. In cases where we do not own the machine, we also pay the owner of the machine a commission; such commission is lower where we directly manage the machine than in cases where we only provide interconnection services. We also deduct 0.5% as a security deposit to AAMS, which is subsequently reimbursed to us, in whole or in part, once a year, subject to our compliance with certain service and quality requirements. All our machines are remotely monitored in real time at our data centres located at our executive offices, and over 95% of our cash collection is processed through automated direct debit procedures. Our slot machines are mainly located in affiliated coffee shops and bars, our betting shops and betting corners as well as our six WinCity gaming halls. Slot machines have an average useful life of six years for the machine and three years for the software.

The following table provides an overview of key performance indicators of our VLT operations as of and for the year ended December 31, 2012:

Turnover (in million €)	2,207
Number of machines	4,695 ⁽¹⁾
Operated in our retail	38% ⁽²⁾
Operated in third-party retail	62% ⁽³⁾

(1) Excludes approximately 300 VLTs which we have the right to deploy.

(2) 1,799 of our 4,695 VLTs are operated in our Matchpoint betting shops and betting corners and our WinCity gaming halls.

(3) 1,394 of our 4,695 VLTs are operated in third-party points of sale without third-party intermediary services. Approximately 1,502 of our 4,695 VLTs are operated in third-party points of sale with third-party intermediary services.

VLTs, which were first approved for use in Italy in 2009, are technologically advanced versions of traditional slot machines and feature innovative graphics and multiple game options. VLTs allow the loading of new games remotely without having to modify the hardware of the machine and have the ability to share a jackpot within the same hall or across the network level. In addition, VLTs are more user-friendly and allow greater winnings than traditional slot machines. Each individual game must last at least four seconds and costs between €0.50 and €10.00. VLTs pay winnings of up to €5,000 (and a nationwide jackpot of €500,000) and pay out a minimum of 85% of the aggregate amount of turnover across the network (whilst the market average is 90%). Of the remaining 10%, 5% must be paid as tax to AAMS. The remaining amount of 5% is our revenues and income, from which we also pay AAMS a concession fee of 0.3% and a 0.5% security deposit, similar to slot machines. We operate our VLTs on the basis of a revenue sharing agreement with machine suppliers who receive a share of the related revenues and income. Unlike slot machines, VLTs can only be placed in dedicated spaces in, for example, our WinCity gaming halls. Approximately 38% of our 4,695 VLTs are located in our Matchpoint betting shops and corners and our WinCity gaming halls. VLTs have an average useful life of six years, as software can be updated remotely.

Since 2004, we have held a non-exclusive concession to act as network operator for slot machines, which was renewed in March 2013 and will expire in March 2022. As concessionaire in the slot machine business we are permitted to act as network operator for an unlimited number of slot machines.

Concessions for the operation of VLTs are also non-exclusive and concessionaires are granted rights to operate VLTs on a machine-by-machine basis. We currently hold rights to act as network system operator for 4,924 VLTs. Our concession for the operation of VLTs was renewed in March 2013 and will expire in March 2022.

Offline Betting

We allow consumers to place bets based on sports, horse racing and social events at approximately 200 Matchpoint-branded betting shops and at approximately 4,000 betting corners. "Betting shops" are venues dedicated to gaming, while "betting corners" refer to points of sale located in venues primarily dedicated to activities other than gaming, such as bars and tobacco shops. All our betting shops bear the Sisal Matchpoint brand, and pursuant to a recent branding initiative, approximately 95% our betting corners bear the Matchpoint brand, with the remainder expected to be branded in the near term.

We also offer online sports and horse betting as part of our online operations. See "*Digital Games and Services—Online*".

The following table provides an overview of key performance indicators of our betting operations as of and for the year ended December 31, 2012:

Turnover (in million €)	597.9
Sport bets	427.7
Horse bets	170.2
Number of Matchpoint points of sale	4,245
Betting shops	204
Betting corners	4,041

We have a comprehensive betting portfolio, including horse racing and sports events such as football and basketball, as well as a wide range of secondary sports such as tennis and volleyball and non-sports events connected with the world of entertainment, music, culture, and current affairs of national or international importance. We accept a range of different bets, from simple bets on the outcome of a single event to more complex bets on the outcome of a number of different events, as well as live bets, which allows consumers to place bets on an event after the event has started based on constantly changing odds. Bets can be placed in the form of fixed-odds bets or totaliser bets. The range of events on which bets may be placed is defined for all players by AAMS.

Fixed-odds betting is a form of betting in which the bookmaker pays the player, in the event of a win, an amount equal to the bet multiplied by the odds fixed at the time the bet was placed. The maximum prize for a single sports bet ticket cannot exceed €10,000 and €50,000 for a multiple sports bet ticket. There is no limit on horse betting. However, we constantly monitor our overall maximum risk of exposure in line with our risk management policies. See “—*Risk Management*.” Fixed-odds betting gives rise to either a liability to make a certain payment to a customer, or the retention by us of the stake placed by such customer. The odds offered in fixed-odds betting depend on the nature of the event. We make money where the amounts staked by customers that are retained are greater than the liability to make payments to customers. In fixed-odds betting, we bear the risk of losing the bet. Although the liability to make a payment is in principle unlimited, we are not obliged to accept any bets, and may accept bets on certain conditions only, in order to limit our maximum exposure. See “—*Risk Management—Bet Acceptance Limits*”. We believe we offer competitive odds throughout our network as a result of our team of professionals with years of experience in national and international bookmaking.

Totaliser betting is a form of betting in which bets are pooled together before an event and the total pool of bets minus a specified percentage is distributed amongst the winning players. In totaliser betting, we bear no risk, as there is no obligation to make payments greater than the total percentage of money staked by players, and we earn revenues and income from a commission on the volume of bets collected. Our principle totaliser betting offerings include Totocalcio, Totogol, Tris and Big Match betting.

Approximately 93% of our sports bets turnover is generated by fixed-odds bets. Approximately 59% of our horse bets turnover is generated by fixed-odds bets.

In 2012, we distributed approximately 83% of the total amount collected in sports bets as winnings, and we paid approximately 5% of the total amount collected in sports betting as taxes to AAMS. The remaining amount was our revenues and income. In cases where bets are placed at a betting corner or at a partner betting shop (as opposed to at a directly managed betting shop or on our website), we also pay the betting corner or partner betting shop, as applicable, a commission, with commissions to betting corners being smaller than commissions to partner betting shops.

The most popular event on which we offer bets is football, which in 2012 represented approximately 90% of our total sport bets turnover. The Italian football season runs from late August to mid-May, and, during the summer, we experience a decline in the volumes of sports bets collected. We experience peaks in sports bets during significant sports events that occur at regular intervals, such as the FIFA Football World Cup, the UEFA European Football Championship and the Olympics.

In 2012, we distributed approximately 69% of the total amount collected in horse bets as winnings and we paid approximately 17.5% as taxes to AAMS, a fraction of which is then paid by the AAMS to the UNIRE, the Italian organisation responsible for horse races. The applicable tax rate percentage payable to AAMS varies depending on the number of events on which a customer has placed a bet: the current AAMS tax rate is 2% for the first 7 events and 5% thereafter. The remaining amount is our revenues and income. In cases where bets are placed at a betting corner or at a partner betting shop (as opposed to at a directly owned betting shop or on our website), we also pay the betting corner or partner betting shop, as applicable, a commission, with commissions to betting corners being smaller than commissions to partner betting shops. The amount of the commission depends on both the number of bets accepted and the profitability of the betting shop or corner. As horse races run throughout the year, absent a strike or other disturbance, we do not experience seasonality with respect to horse racing bets.

We have been a non-exclusive concessionaire in the betting market since the acquisition of Matchpoint in 2004 and we currently hold concessions to operate 204 sports and horse betting shops as well as approximately 1,000 sports betting corners and approximately 3,000 horse betting corners. Additionally, the award of an additional concession for betting rights related to sport bets is currently pending. As a concessionaire we are responsible for the establishment of a network to run and

monitor bets, the provision of the odds, the collection of bets, and the collection and payment of taxes due to AAMS on all sports and horse bets. Our current concessions will expire in June 2016. We have historically been able to renew all our concessions.

Retail Operations

Through AAMS concessions we operate 204 sports and horse betting shops under our own brand, Matchpoint. Betting shops are equipped with both traditional betting counters and self service terminals, areas dedicated to slot machines and separate rooms with VLTs, areas for viewing the sports events and horse races on which bets are being accepted, monitors showing betting odds and event results, printed notices and self service terminals showing betting odds, statistics and other information useful for completing a betting slip.

We believe the Italian gaming shop model has evolved during the last few years, changing from the traditional “sports bar” to a multifunctional centre which provides the public with a variety of entertainment and service opportunities. Accordingly, in September 2010, we launched WinCity gaming halls based on the concept “Eat, Drink, Play”, where members of the public can play games or watch performances and events in a pleasant and secure environment. The first two WinCity gaming halls opened in Milan and Rome in August and October 2010, respectively. Three additional halls were opened in 2011 and one in 2012, and we aim to further expand our WinCity network. See “—*Business Strategy—Continue to expand our product offerings and retail distribution network and increase the number of branded points of sale*”. Historically, our WinCity gaming halls have demonstrated attractive economics and a short payback period, which we attribute to being able to capture a larger portion of the gaming value chain. WinCity gaming halls offer a catering service and an extensive schedule of events, from food tasting to live music acts. They also screen major sports events and organise events around other important social events. WinCity halls offer comfortable surroundings and are equipped with advanced technology, where the entire range of Sisal games are available to the public, from the latest generation of VLTs to SuperEnalotto, WinForLife!, and betting and convenience payment services. On-site staff provides players with information about how to play, safety, and self-restraint mechanisms.

We also own a bingo hall close to Naples, which we have operated since 2007. The results of our bingo hall are included in our retail operations.

For a full description of our distribution network, see “—*Distribution Network*”.

Digital Games and Services

Our Digital Games and Services business unit includes online offerings and convenience payment services, and in 2012 we generated Digital Games and Services total revenues and income of approximately €172.9 million and Segment Gross Operating Profit of approximately €74.7 million. In 2012, our Digital Games and Services business unit contributed 21.0% and 33.1% to our total revenues and income and Segment Gross Operating Profit, respectively.

Online

We offer customers the ability to play a variety of online games either directly on our Sisal website, or by downloading games onto their computer in the form of special gaming clients. For certain games we also provide mobile phone applications. We believe we were the first Italian gaming company to introduce online poker cash, casino games and slot machine games, and today our range of online offerings includes online-only games such as poker, casino, skill and quick games, as well as online sports and horse betting, online NTNG products (SuperEnalotto and WinForLife!) and online scratch and win games. We currently offer approximately 100 different online games. We have entered into a number of agreements with game suppliers to develop an even broader online gaming platform.

The following table provides an overview of key performance indicators of our online operations for 2012:

Turnover (in million €)	942.3
Number of online games	>100

For games and bets placed on a Sisal website, customers have the ability to top-up their online account directly on the website or by visiting one of our approximately 46,000 points of sale. If a top-up is made at a point of sale that we do not directly manage, such as at a betting corner, we pay a commission to the owner of that point of sale.

In online skill games, we act as a host or facilitator for customers who play against one another. In return for facilitating these games, we charge a one-off entrance fee in the case of tournaments and charge a type of commission, in poker known as a “rake”, for facilitating the game. In 2012, we distributed the minimum required amount of 95% as winnings.

In online betting, customers are able to place bets on the same events and with the same odds, payout and other terms as available at our Matchpoint betting shops and betting corners. We also pay taxes to AAMS at the same rate for online betting as well as land-based betting. However, because customers can only place bets on the Sisal website, we do not pay any commissions to third parties, other than those associated with top-ups of online accounts, as discussed above.

As the sole concessionaire for online NTNG products, consumers are able to play NTNG games on the Sisal website. As part of our exclusive concession, we also manage a network of approximately 30 online concessionaires who, subject to authorisation from the AAMS and our own internal inspection, also offer NTNG products to customers on their own website. In order to enhance security and to uniformly present the products, gaming applications are provided directly from our platform to end users. Any time a customer purchases an NTNG product on our website or at another retailer's website, we earn a fixed commission. If the customer makes the purchase at a point of sale that we own or on the Sisal website, we earn an additional fixed commission.

For NTNG products and for all other online games, the player can use one of our websites or so-called "gaming clients", which are specialist applications for specific types of games and distributed in the form of programs that can be downloaded and installed on the player's computer. Additionally, we complement our online offering with dedicated applications for mobile phone devices which allows our customers to place bets through the Matchpoint application and our mobile phone devices m-website Sisal.it.

We operate our online games business on the basis of a non-exclusive concession for the remote collection of skill games, poker cash, casino games, bingo, sport and horse bets. The AAMS generally does not require holders of an online concession to also hold a concession to offer the game at physical sites. Accordingly, we are able to offer products such as Scratch & Win, which only Lottomatica may offer at physical points of sale, and others may offer online NTNG products though we hold an exclusive concession for physical points of sale. In such cases, the holder of the exclusive concession still earns a commission, as described above with respect to the online NTNG fee structure. Our online gaming concession will expire in November 2020.

The core IT infrastructure consists of a sophisticated gaming account system, designed and produced internally, which provides all services necessary for the interaction between the player and products, and securely stores all information about the player's activity. Players can therefore monitor their gaming activity via the 'MY SISAL' section of the Sisal website, view their games history and amounts, and use self-restraint and self-exclusion tools.

Games platforms are subject to certification by specialist third party inspection bodies authorised by the AAMS and registered on a special list. Certification must be issued when a new games platform is launched, and is renewed annually. Players can view our legal compliance certificates, as well as information on the security and functionality of online gaming applications, on the Sisal website. We have adopted security protocols for software and data, and our online gaming IT infrastructure is redundant in order to ensure high levels of reliability. We also have disaster recovery operations in place 24 hours a day, seven days a week. Support and upgrades are handled by a dedicated in-house IT team and by a network of specialist and certified external partners.

We currently have agreements in place with leading providers of online technology and associated services, such as Playtech, to provide us with market leading technology and gaming content. This includes the ability for customers to use a wide variety of payment cards and methods and the delivery of up-to-date games content and branded games. We also employ a CRM system and tools with which to leverage our considerable databases of past and present customers, and manage new customers to the sites.

Convenience Payment Services

Leveraging our distribution network along with our advanced technology and IT infrastructure, we offer high-volume transaction processing of non-lottery commercial transactions through our "one stop shop" strategy. By using one of our approximately 42,000 all-in-one terminals a consumer is able to make a wide range of cash payments (including utility bills and certain taxes such as municipal refuse collection, car registration and television licence fees), buy national and international telephone cards, prepaid cards, and financial services, and pay for small purchases while having the opportunity to play NTNG at the same terminal. Additionally, since 2013, our customers can access our convenience payment services at over 200 payment-only terminals, which are strategically located in high traffic areas that we believe have a low risk of saturation and where the existence of additional terminals will reduce or eliminate queue times. As part of our business strategy, we are rolling out more of the payment-only terminals. We also intend to roll out cashless payment devices and to incrementally expand our current offering of convenience payment services in order to appeal to more consumers. *See "— Business Strategy—Further expand our convenience payment services business and increase marketing efforts to promote our "one-stop shop" offerings".*

We believe convenience payment services is a growing market, as Italian consumers frequently seek to make payments through "local" channels such as bars and newsagents given their widespread presence throughout Italy, as well as greater flexibility in terms of opening days and hours, including lunch breaks, evenings and weekends, and the absence of queues, which saves our customers time compared to post offices and bank branches. The number of transactions made at our terminals grew from approximately 72 million in 2007 to approximately 199 million in 2012, with turnover growing from €1.1 billion to approximately €5.9 billion in the same period. We believe our dedicated communication channels (point-of-sale terminals, SisalTV, Sisal websites) have increased the visibility of the services and generated consumer interest as evidenced through our increased turnover in this segment.

Our convenience payment service is secure and there is usually no queue given our substantial number of locations, thus saving our customers time. We have been providing convenience payment services in Italy since 2002 and we currently provide approximately 300 such services involving approximately 70 partners. Some of our convenience payment services partners include:

	<u>Example of Partners</u>		
	<u>Mobile Top-ups and Telephone Cards</u>	<u>Utility and other Payment Services</u>	<u>Prepaid Debit and Credit Cards</u>
	TIM	Enel	Postepay
	Vodafone	E.on	CartaSi
	Wind	Mediaset PREMIUM	Pluton
	H3G	Sky	Istituto Centrale delle Banche Popolari Italiane
	Poste Mobile		Banca Popolare dell'Emilia Romagna
	BT Mobile		

As part of our convenience payment services offering, we collect cash payments from our customers at a terminal and then deliver to our convenience payment services partner, i.e., the mobile phone provider, utility company or other billing company, (i) confirmation of the payment, so that the convenience payment services partner may credit the customer's account and (ii) the customer's payment. For mobile phone top-ups, we transfer the customer's payment to the mobile phone company net of our commission, while for bill payments, we transfer the gross amount to the convenience payment services partner and the end customer pays us a fixed fee per transaction. In cases where we do not directly manage the point of sale, we pay the owner a commission based on transaction volume for top-ups and a commission for payment transactions, and the owner pays us a monthly fee based on a percentage of prior year revenues and income at the point of sale for services related to the terminal, such as maintenance services, device replacement, paper supplies, point of purchase materials and maintaining a minimum distance between points of sale. We do not currently issue prepaid debit cards but do allow consumers to reload prepaid debit cards, including cards issued by the Italian post office, for which the customer pays us a fee.

Other than the sale of top-ups, which is unregulated, the convenience payment services industry is regulated by the Bank of Italy, which determines who may operate as a payment institution. In order to obtain and maintain a licence as a payment institution, an operator must comply with regulations governing, among other things, (i) the segregation of assets relating to convenience payment services from the assets relating to other corporate activities; (ii) regulatory capital requirements; (iii) conduct of business rules; and (iv) anti-money laundering rules and regulations.

Prior to 2011 we offered convenience payment services under a licence to operate as financial intermediary, which was granted to us by the Bank of Italy.

In September 2011, upon implementation by the Italian government of the EU Payment Service Directive, the Bank of Italy enrolled us in the register of licensed payment institutions. Such licence created additional opportunities to manage collection and convenience payment services on behalf both of private companies and the government, in accordance with the directives on transaction security issued by the Bank of Italy. Due to such authorisation, we are in a position to maintain our existing product offering and may expand to offer payment accounts in the future. Payment accounts are accounts held in the name of one or more convenience payment services users and are used for the execution of payment transactions. Additionally, licensed payment institutions can apply to obtain an authorisation as an Electronic Money Institute (IMEL). Should we obtain such an authorisation in the future, we may be able to further expand our product offering.

Convenience payment services are provided by Sisal Holding Istituto di Pagamento S.p.A., and subject to supervision by the Bank of Italy. To comply with the regulatory framework set by the Bank of Italy we have set aside capital in the amount of approximately €2.3 million. However, the Bank of Italy does not regulate the fees that we and other convenience payment service providers charge our customers. We perform know-your-customer ("KYC") procedures at our points of sales that offer financial services such as the purchase and reloading of prepaid debit cards. For example, any time a customer tops up a prepaid card, the terminal requires an ID reference and Italian fiscal code in order to process the transaction. In addition, cash payments over €1,000 are not permitted. Our KYC procedures are developed and regularly updated in line with applicable laws and regulations. For more information, see "*Regulation—Payment Services Regulation—Anti-money Laundering Regulations*".

We have implemented internal control systems that monitor unusual transaction volumes or unusual transaction patterns and screen the personal details of the customer, in order to minimise opportunities for money laundering and fraud. See "*Risk Management—Know Your Customer Procedures*".

Lottery

We are the exclusive concessionaire for all national totalisator number games (“NTNG”). The concession was entered into in 2009 and expires in June 2018. NTNG products involve (i) players choosing a combination of numbers, or electing to receive a random combination of numbers; (ii) a single jackpot, derived from a predetermined share of the pool, collected on a nationwide basis; and (iii) the division of the jackpot into equal shares between winners in the same prize category. In 2012, our Lottery business unit generated Lottery revenue of approximately €119.1 million and Segment Gross Operating Profit of approximately €29.0 million. In 2012, our Lottery business unit contributed 14.5% and 12.9% to our total revenues and income and Segment Gross Operating Profit, respectively.

Our NTNG products include:

- (i) *SuperEnalotto*, and its optional and complementary game *SuperStar* which allows players to choose an extra number to increase their chances of winning. *SuperEnalotto* replaced the earlier *Enalotto* game that had been played in Italy since the 1950s. Unlike many other lotteries, there is no cap on the amount of times that a *SuperEnalotto* jackpot can rollover, resulting in potentially large jackpots, such as a jackpot that reached over €175 million in October 2010. We estimate that *SuperEnalotto* generates an average weekly turnover of €30 million, with the number of players fluctuating with the size of the jackpot.
- (ii) *WinForLife!*, an annuity lottery game which allows players to win a monthly cash stream for a period of up to 20 years—the first such product offering in Italy. In October 2010, we launched the additional game *WinForLife! Gold* which is offered at a slightly higher price and which provides the winner with a monthly cash stream of up to €10,000 for a period of up to 20 years.
- (iii) *SiVinceTutto*, a lottery game available since April 2011 where a jackpot winner is selected for each drawing (*i.e.*, rather than a rollover, if no player matches all the numbers, the drawing is “rolled down” until a winner is chosen).
- (iv) *EuroJackpot*, available in Italy since April 2012, a multinational lottery game which pools the stakes from several European countries offering a minimum jackpot of €10 million.

Our number games can be played through our national point of sale network and online on our websites, or on a website of one of approximately 30 retailers where the content is delivered through our platform. Any time a customer purchases an NTNG product, whether at a point of sale, on our website or at another retailer’s website, we earn a fixed commission. If the customer makes the purchase at a point of sale that we directly manage or on the Sisal website, we earn an additional fixed commission. Additionally, our concession agreement with the AAMS imposes minimum spending limits on advertising (we must invest at least 1.82% of total lottery turnover received in a concession year in advertising in the following year) and minimum levels of capital expenditure on network modernisation.

Distribution Network

We have the second largest gaming and convenience payment services distribution network in Italy with approximately 46,000 points of sale after Lottomatica with approximately 100,000 points of sale. In 2012, approximately 41% of our points of sale were based in Northern Italy, 22% in Central Italy and 37% in Southern Italy.

Our Retail Network

Our retail network is made up of WinCity gaming halls, Matchpoint-branded betting shops and betting corners, affiliated points of sale and unaffiliated points of sale such as newsstands, bars and tobacconists. Additionally, we own a bingo hall close to Naples, which we have operated since 2007.

The following table provides an overview of the products available through our distribution network as of December 31, 2012:

	Slot Machines	VLTs	Betting	Services	Lottery	2006	2012
WinCity	✓	✓	✓	✓	✓	—	6
Matchpoint shops	✓	✓	✓	✓	✓	102 ⁽¹⁾	204
Matchpoint corners	✓		✓	✓	✓	— ⁽²⁾	4,041
Affiliated points of sale	✓			✓	✓	—	680
Slot Machines and Video Lottery Terminals only points of sale ⁽³⁾	✓	✓				4,219	4,652
Unaffiliated points of sale	✓			✓	✓	15,534	36,630
Total						19,855	46,213

(1) We were granted rights to operate a total of 162 Matchpoint shops of which 102 were operative in 2006 and 60 in roll-out.

(2) We were granted rights to operate a total of 3,838 Matchpoint corners of which 0 were operative in 2006 and 3,838 in roll-out.

(3) VLTs must be installed in separate rooms from slot machines.

WinCity Gaming Halls

WinCity gaming halls offer a catering service and an extensive schedule of events, from food tasting to live music acts. WinCity gaming halls also screen major sports events and organise events around other important social events. We directly operate our six WinCity gaming halls located in Milan, Rome, Turin, Brescia, Pescara and Florence. See “*Business Units—Entertainment—Retail Operations*”.

Matchpoint Betting Shops and Betting Corners

Our network of Matchpoint betting shops consists of 204 points of sale, of which 158 shops offer sport and horse bets, 41 shops offer sport bets only and 5 offer horse bets only. Additionally, all our Matchpoint betting shops offer our lottery products, slot machines, VLTs and access to our convenience payment services. We directly manage 79 Matchpoint betting shops (“directly owned betting shops”) and franchise 125 Matchpoint betting shops to qualified business partners (“partner betting shops”). Our partner betting shops are continuously monitored account managers within our sales department. Matchpoint betting shops only offer Sisal products.

Additionally, we partner with approximately 4,000 betting corners, which are typically located inside coffee shops and bars where our customers can also access our sport and horse betting products, our lottery products, slot machines, VLTs and our convenience payment services. Our betting corners are managed and operated by a partner, and approximately 95% operate under our Matchpoint brand, with the remainder expected to be branded in the near term.

The continuing liberalisation of the Italian gaming market permits us to relocate active Matchpoint betting shops and corners to geographical locations with greater potential. As a result, in 2012 we relocated 374 underperforming Matchpoint betting corners to more economically viable locations. Upon the transfer of a Matchpoint betting corner we charge the partner a fee related to the transfer of agreements as well as an activation fee.

Affiliated Points of Sale

We have a strong retail relationship with 680 affiliated points of sale which are managed and operated by third parties. We have selected these affiliated points of sale from our retail network of generic unaffiliated points of sale due to their strong sales performance of Sisal products. The managers of our affiliated points of sale benefit from specific advertising of Sisal products and the delivery of new technical devices which improve customers’ experience. Through affiliated points of sale customers can have access to our lottery products, slot machines and convenience payment services. Our agreements with affiliated points of sale are generally not exclusive (i.e., the points of sale may also offer non-Sisal products).

Unaffiliated Points of Sale

We offer our lottery products and convenience payment services through a network of approximately 36,500 unaffiliated points of sale across Italy such as newsstands, bars and tobacconists, many of which are local family-owned businesses. Additionally, our customers can access our slot machines at many unaffiliated points of sale which exclusively offer gaming machines such as bars and tobacconists. We do not directly operate these unaffiliated points of sale but offer our products on the basis of non-exclusive service contracts with these third-party operators.

Retailer Relationships

We have entered into framework service contracts with our 680 affiliated points of sale. Such agreements include provisions relating to the sale of the relevant Sisal products on offer at the particular point of sale. Depending on the service contract, the affiliated point of sale may undertake to exclusively sell Sisal products. These contracts generally last for a period of two to five years and provide for automatic renewal unless one of the parties serves a termination notice at the end of the contractually agreed period. We can terminate the contracts prior to their expiration for cause, such as fraudulent behaviour by the manager or owner of the point of sale, the unauthorised assignment of the contract, a violation of payment obligations and violations of relevant laws. In addition to the standard commission received for the sale of Sisal products, we pay the affiliated point of sale a fee for its on-site marketing efforts of our products. Furthermore, in return for a point of sale fee, we provide the affiliated point of sale with the relevant technological equipment (for example, Sisal terminals), terminal-related maintenance and support services, insurance against robbery and theft as well as personal advisory, training, IT, marketing and communication services. Our framework service agreements contain territorial exclusivity clauses pursuant to which we undertake not to open another affiliated point of sale within a certain proximity. Upon the expiration of the contracts, any right of the retailer to use trademarks and logos relating to Sisal automatically terminates and the affiliated point of sale must return to us the technical equipment provided as well as any documentation received.

Additionally, we enter into service contracts relating the sale of our products with our unaffiliated points of sale. On average, the duration of these contracts mirrors the duration of the concession underlying the relevant product. We can terminate the contracts prior to their expiration for cause, such as fraudulent behaviour by the manager or owner of the point of sale, the unauthorised assignment of the contracts, a violation of payment obligations and violations of relevant laws, loss of the license to operate the point of sale as well as failure to achieve contractually agreed sales levels. Generally, we pay the

unaffiliated point of sale a commission which is an AAMS-established percentage of the amount wagered by the customer. Furthermore, in return for a point of sale fee we provide the unaffiliated point of sale with the relevant technological equipment (for example, Sisal terminals), terminal-related maintenance and support services, insurance against robbery and theft as well as personal advisory, training, IT and commercial support. Upon the expiration of the contracts, the unaffiliated point of sale must return to us the technical equipment provided as well as any documentation received. Generally, the service contracts with the unaffiliated point of sale are on a non-exclusive basis.

Our partners and retailers are responsible for, among other things, collecting the cash at our terminals and transferring these payments to us, net of their commission, on a weekly or semi-weekly basis. Approximately 95% of such cash collections are transferred to us through our IT system that automatically (via direct debit) credits our account with amounts owed to us by retailers, with the remaining 5% paid through check or by other means. We collect the cash ourselves at points of sale we directly manage. As part of our risk management system, we evaluate the credit of a potential partner or retailer before we agree to enter into a commercial relationship, and we then continually monitor the credit of such partner or retailer during the term of our contract. If a partner or retailer fails to make a timely payment to us, we have the ability to remotely disconnect the terminals and gaming machines at the relevant point of sale while we investigate the cause and seek remedial action. Additionally, we can prematurely terminate our relationship with those points of sale that fail to make timely payments on a recurring basis.

We regularly review our own performance, and our marketing and sales teams, comprising approximately 120 people, monitor the performance of our retailers. We operate separate sales departments for each of our gaming machine network, betting network and lottery network. The three departments are centrally coordinated and supervised at our Milan and Rome executive offices. Members of our sales team visit the points of sale for quality control and to optimise product offerings. They also select the distribution channels, evaluate new point of sale openings and provide training to retailers, with whom there is ongoing dialogue through different communication channels (including an online portal, the gaming terminals and our publication *Mondo Sisal*). In order to manage our relationship with retailers, we also help retailers address issues arising from the introduction of new games and the management of existing games and technical issues relating to our IT software and hardware.

Point of Sale Fees

In addition to the fixed commissions for our bets and games which vary by business segment, we collect a fixed annual point of sale fee from third-party owned and operated points of sale. In return, we provide certain services such as maintenance, device replacement, point of purchase materials and maintain a minimum distance between points of sale. See “—Retailer Relationships”. We recorded approximately €85.4 million in point of sale fees for the year ended December 31, 2012.

Points of Sale Offering

Over the past 65 years we have developed in-depth knowledge of consumer behaviour and the ability to interpret changing preferences and habits. We have developed five different formats for points of sale, each offering a certain suite of games designed to maximise earnings at a given location. For example, medium- to high-income consumers that visit a sports bar are more likely to be interested in placing a bet on a sports event than using a slot machine. In contrast, at certain convenience stores such as a tobacco shop, consumers often like to play traditional games such as one of our NTNG offerings. Recently, we have introduced in high-traffic areas, such as downtown business centres, payment-only terminals because we believe terminals in such areas have a low risk of saturation and the existence of additional terminals will reduce or eliminate queue times. We tailor the offerings at our various points of sale to maximise their potential earnings. We also use our knowledge of consumers to drive new product development, point of sale management and advertising campaigns to retain existing Sisal customers and attract new ones.

Each point of sale provides the customer with access to our modern terminals which are equipped with touch-technology enabled displays, optical scanners for scanning, among other things, lottery tickets and utility bills, and a high-speed ADSL internet connection. The average transaction time at our terminals is less than five seconds (including printing out the receipt) and our IT system is capable of processing approximately 900 transactions simultaneously. All our terminals can be remotely updated for new products and are regularly used to deliver messages, marketing materials and training programmes to the point of sale managers. Additionally, we use our terminals to monitor our cash flow in real time.

Furthermore, we have deployed television screens to show our latest SisalTV programmes, which include real-time draws for our various games, live transmissions of sports events on which our customer can place bets and product advertisements informing our customers of our latest product offering at approximately 12,000 of our points of sale.

Sisal Brand

We believe that the “Sisal” brand name is nationally recognisable, and we use the Sisal brand at a number of our points of sale. Specifically, our six WinCity gaming halls and 204 Matchpoint betting corners bear the Sisal name. Pursuant to a recent branding initiative, approximately 95% of our approximately 4,000 betting corners also bear the Sisal Matchpoint brand,

with the remainder expected to be branded in the near term. In addition, we aim to brand the approximately 680 affiliated points of sale, most of which focus on lottery and convenience payment services, as Smartpoint points of sale. We launched the first Italian convenience payment services brand, Sisal Pay, in 2012. Furthermore, to create a modern and innovative appearance to match our position as an entertainment and services provider, in February 2013 we revised the logos of our corporate brand, our sales channels and products. As part of the rebranding, we have also defined a new vision for the Sisal group, to render “people’s lives simpler and more enjoyable”, and our corporate mission is to “offer the best entertainment proposal and services”.

Marketing

We integrate our marketing and communication efforts with the requirements of our different business units. We aim to leverage our expansive distribution network to reach a broad customer base; for example, we use Sisal TV, our own TV channel dedicated to gaming which we have deployed at approximately 12,000 of our points of sale, to promote the Sisal brand and our products. Additionally, our NTNG lottery concession agreement requires us to invest a minimum amount of the previous year’s turnover in advertising. Our marketing and communication strategy also involves promoting and supporting our extensive social responsibility programme.

Suppliers

We have established relationships with numerous business partners, including for the provision of terminals and other hardware, software, gaming materials, logistics services, call centre services, marketing and market research. As part of our quality management system we carry out an evaluation and accreditation process for all our business partners who supply materials, services and supplies that directly influence customers and processes. Monitoring compliance with delivery times and other specifications, along with compliance with technical and administrative requirements, make it possible to perform an overall analysis of the business partner and to calculate a Vendor Rating Index (VRI) every six months. This allows performance to be monitored at regular intervals and offer opportunities for improvement. In addition to the specific commercial terms in our contracts, our business partners also commit to comply with the regulations and principles contained in our code of conduct and ethics.

We rely on partnerships with leading international companies that provide games and online platforms such as Playtech, an industry leading company in the provision of online gaming platforms who supplies our online bingo, casino and poker games. Other key partners provide us platforms for video lotteries.

We have a number of partners in our convenience payment services unit, including leading operators in the fixed and mobile telephony sector and in the digital and satellite TV market; leading utility companies providing services such as electricity, water and gas utilities, licensed tax collection agents, and local, regional and central government; leading credit institutions; and various companies present in the logistics and money transfer sector.

Competition

We are the second largest Italian gaming company and the second largest convenience payment services provider based on turnover. We compete with gaming companies, including concessionaires and online and retail operators, as well as with other providers of convenience payment services.

Due to the expansion of distribution networks and the introduction of online games and a number of new games, the Italian gaming market, which has historically been represented by a number of small concessionaires and operators, has seen, over recent years, increasing interest from foreign operators and the expansion by certain Italian gaming operators of their product portfolio. As a result, the Italian gaming market has become more competitive, and concessionaires that historically specialised on certain types of bets and games have expanded into other types of games. Our primary competitors in the Italian gaming market include Lottomatica and Snai, the first and third largest gaming companies by turnover in Italy.

We also face competition from a number of other industry participants, especially in the online games segment, which is highly fragmented and competitive; our main competitors in this area include Lottomatica and Snai but also Pokerstar and BWIN. Additionally, our retail operations, which comprise our WinCity gaming halls as well as betting shops, face competition from a number of small, local market participants such as family-owned convenience stores and coffee and tobacco shops, though larger industry participants have sought ways to expand their retail offerings.

We and other competitors in the Italian gaming market also face competition from illegal activities such as all forms of betting that circumvent public regulation. Italy continues to have an illegal or “grey” market in betting (i.e., online operators from outside of Italy operating without an Italian licence or Italian online-only operators without a retail licence providing betting services in shops). The AAMS continues to work to curtail illegal activities. Additionally, at times we may compete with several game operators from other EU member states who operate in the Italian gaming market without an AAMS license based on several decisions of the European Court of Justice and higher level Italian courts in accordance with EC Treaty rules. See *“Risk Factors—Risks Related to Our Business—Liberalisation or other changes in the regulatory framework may increase the number of competitors in the gaming sector, including competitors who are not required to comply with the requirements of the Italian regulatory framework”*.

In our convenience payment services business we primarily compete with banks and the Italian post office, each of which offers the ability to make certain payments, as well as the other gaming concessionaire active in the convenience payment services market, Lottomatica.

Risk Management

Risk management is important to our businesses, and particularly fixed-odds betting. A bookmaker's odds are determined so as to provide an average return to the bookmaker over a large number of events and therefore, over the long term, the amount staked by customers on betting less amounts won by customers has remained reasonably constant; however, there is an inherent level of variation by event and by day. There is no certainty of generating a positive return and from time to time we experience significant wins or losses with respect to individual events or betting outcomes.

The risk of incurring daily losses is significantly reduced by the averaging effect of taking a large number of individual bets over a considerable number of events. In addition, given our extensive distribution network throughout Italy, and that the vast majority of sports bets is on football events, the risk of adverse outcomes on single events (i.e., football games) is mitigated by the tendency of customers to bet on the team they support which are typically the teams located in their area. Because our extensive distribution network allows us to collect bets in both areas as well as online, we are able to naturally balance the volume of bets collected on many football games during the Italian football season.

In addition to such natural mitigating factors, the risk of incurring losses is also controlled through our risk management process. Some of the key attributes of our risk management process include:

Odds Compilation

We employ an experienced team of odds compilers and bookmaking risk managers. Initial odds are compiled from the mathematical chance of an outcome based on previous results and then adjusted for any market information. For horse racing and sports events, the odds are compiled by specific individuals within the team with in-depth knowledge of the sport. The process also uses information from consultants, sports websites, news gathering agencies and other betting markets. Once odds are compiled and published, real-time risk management processes are applied to monitor and adjust the total level of risk on each event.

Access to Information

Access to market information is needed both before odds are compiled and after odds are published. We employ a team of bookmakers who determine the odds by relying on information compiled from our knowledge of the gaming industry, including the sports concerned and its participants, both to the extent available in the media generally and from information derived and available at events. We also rely on information about our potential liabilities from overall betting patterns and the total amount bet on particular outcomes drawn from our online offerings and betting shops and corners, as well as certain individual bets that are referred before acceptance or notified subsequently, because of the source or size. Additionally, we utilise market betting data monitoring services provided by Betradar, a leading supplier of sports events results, statistics and odds, in order to limit the risk of out-of-market odds. This allows us to assess the probability of each possible outcome based on a wide range of up-to-date information, to assess potential exposure on each possible outcome and to determine whether bet acceptances should be limited on certain possible outcomes.

Bet Acceptance Limits

Under the applicable rules of Italy we are not permitted to hedge bets to reduce risk. However, we are under no obligation to accept any bet, and where a bet is considered undesirable, it may be refused or accepted in part, with or without adjusted odds. We constantly monitor our overall maximum risk of exposure and seek to limit our total exposure by setting limits on stake value and potential liability at which bets must be notified (that is, reported after acceptance) or referred to our Rome executive office. Referred bets are accepted only after management approval, based on the latest information about the event, potential liability and the customer's historical betting pattern with us (if any). These pre-set liability limits are programmed into our terminals to avoid operator mistakes. Our online offering operates in a similar way with agents referring bets to risk managers above a set limit for the event or customer. The online sports betting systems contains an automatic procedure whereby liability limits are pre-set by management on individual events for customers generally and, if appropriate, for specific customers. Generally, the maximum prize for a single sports bet ticket cannot exceed €10,000 and €50,000 for a multiple sports bet ticket. There is no limit on horse betting.

Online Offerings

We have systems and controls in place which seek to ensure that we offer gaming products via the Internet only to customers located in Italy. The systems and controls include monitoring and analysing information provided by potential customers' registered addresses (in order to access our website each customer must have an Italian fiscal code and an Italian address) and customers' payment methods, as well as a geo-locator filtering technology that identifies the location of each user trying to log onto our website. We do not currently accept bets or wagers from customers that we determine are located outside of Italy.

Know-Your-Customer Procedures

We perform know-your-customer (“KYC”) procedures at our points of sale that offer financial services such as the purchase and reloading of prepaid debit cards. See “—*Digital Games and Services—Convenience Payment Services*”.

Information Technology

We operate a number of IT and telecommunications systems in order to support our business. Our information technology is generally developed and managed in-house by a team of more than 300 employees in our IT department, who also receive external support from manufacturers and suppliers, often under support agreements tailored to our specific needs. We operate more than 900 servers. We own the hardware that comprises our IT systems.

The primary components of our information technology system include the following:

- *Video system:* Approximately 30,000 points of sale in our retail network have a customer display using the latest generation terminals. These monitors play a continual loop of product information videos and commercials.
- *SisalTV:* SisalTV is our proprietary secured satellite channel and is aimed both at our retailers that sell lottery products and points of sale that offer convenience payment services to the public. SisalTV is a major source of entertainment and information about games, services and responsible gaming, and is aimed at players, consumers and retailers. SisalTV Sport is particularly focused on horse racing, broadcasting events from all Italian racecourses. SisalTV announces the results of draws for each Sisal product every five minutes.
- *Slot machine and VLT systems:* Our slot machine and VLT systems connect our slot machines to the AAMS’ network and collect data related to the games managed by the machines, installed in shops, bars and other locations, in addition to betting shops. The data collected is sent to AAMS’ system for further processing and analysis relating to income and taxes. The AAMS system may query the machines through our IT system. Additionally, we remotely control all of our VLTs through our IT system. We also operate fully equipped maintenance laboratories for the overhaul of our terminals and slot machines.
- *Websites:* Sisal.com is the information portal which gives access to the group’s main websites. Sisal.it is dedicated to Sisal’s online games.
- *Sportsbook systems:* We have a front-end web server that manages the screen-based sports betting information system for our betting shops and points of sale, as well as a corresponding web-based betting information system, and back-end application servers that carry out bet settling and client accounting.
- *Betting risk management system:* Our betting risk management system provides real-time information on estimated liabilities on an event-by-event basis. All bets collected online, together with the majority of bets collected at our betting shops and corners and referrals and notifications from all betting shops and corners, are entered into a consolidated field book that provides a real-time overview of our estimated liabilities.
- *Payment services information technology:* Through our IT system we collect payments for mobile phone top-ups and to municipal governments and utilities, credit the customer’s account with the relevant service provider and remit the appropriate amount of payments.

We maintain three enterprise management systems, one for each of Sisal S.p.A., Sisal Slot S.p.A. and Sisal Match Point S.p.A., which are certificated in accordance with ISO 9001:2008 for, among other things, the remote collection and operational management of online games and services data; software design and development; distribution of material and equipment to points of sale; and technical support for equipment at points of sale.

Our IT systems are inspected by AAMS and are connected in real time to the central system and the central gaming accounts database of SOGEL, a company owned by the Italian Ministry of Economy and Finance that is generally responsible for the operation of the tax IT system.

Through our integrated IT system we manage approximately five billion transactions per year and a cash flow of approximately €13.8 billion per year through automated direct debit cash collection, representing the total turnover as well as payments made by our customers to utility and third-party convenience services providers. Once turnover and payments are collected at one of our 46,000 points of sale, our IT system reliably transmits the payment information to utility and convenience services providers and to the Italian treasury. Our IT system provides real-time cash balance information to management. Through automatic direct debit, our system credits our account with amounts owed to us by retailers, including the cash collected by the retailer for games and convenience payment services.

We have two proprietary, high availability data centres and our material information technology systems are duplicated. The back-up data centre also acts as a site for bench testing and proposed changes to systems are thoroughly tested to avoid interruptions to service. Fully documented and tested disaster recovery plans are in place with a focus on business continuity. All the above arrangements are inspected regularly. We monitor and update our information technology system in order to promote high standards of reliability, business continuity, performance and scalability.

Responsible Gaming

Responsible gaming is an ongoing commitment, and we strive to design and provide safe, legal, and balanced forms of entertainment. Some of the key tenants of our commitment include: the protection of children and measures to prevent underage play; responsible marketing, geared towards promoting a responsible gaming model with the aim of providing the recipients with clear and comprehensive information so that they can make an informed choice with due care and responsibility; and the prevention of forms of excessive gaming and support for players.

In line with these objectives, we have established a Responsible Gaming Programme, which is updated each year and is channelled and monitored through ongoing dialogue with, among others, employees, the AAMS, consumer organisations and research and statistical institutes. We also submit our Responsible Gaming Programme for evaluation by accredited third parties, and in February 2011 we were one of the first European operators to obtain certification for compliance with the European Lotteries Responsible Gaming Standards. We continue to hold these certifications.

We are committed to corporate social responsibility and have developed a number of community-focused programs such as our charities Sisal Junior Star which assists children and teens in need, Sisal per lo Sport which provides sports programs to our customers and Sisal per la Ricerca which supports scientific research through fundraising campaigns in our betting shops.

Intellectual Property and Innovation

We have a number of brands, logos, websites and other intellectual property which we seek to protect from third party infringement through the registration of trademarks and through certain other means of trade secret protection, including licences, confidentiality and non-disclosure agreements as well as through other contractual provisions. We believe the strength of each of these brands, and the protection of the associated intellectual property, is an important factor in the success of our business.

Under the terms of our NTNG concession, we have the right to use the trademarks SuperEnalotto, Superstar, Enalotto, Jackpot in Palio, WinForLife!, Tresette and Gioca Facile during the term of the concession. We are obligated to comply with the legal tax and management obligations related to the registration of such trademarks and are obligated to transfer the rights in such trademarks to AAMS upon the expiration of the concession.

We have a special business unit (Business and Product Innovation) dedicated to innovation, research and development and attracting new talent. The Business and Product Innovation Department works both on product innovation, for example designing the SiVinceTutto and WinForLife! games, and on structuring internal projects in the area of process and business innovation.

Properties

We lease our primary executive office, which is located at Via Tocqueville 13, Milan, Italy. We also own an executive office in Rome and lease one smaller executive office in Milan and a representative office in Rome. In addition, we lease a warehouse in Milan and one in Northern Italy. Furthermore, as of December 31, 2012, we leased and managed 79 Matchpoint betting shops in Italy.

We believe that our facilities meet our present needs and that our properties are generally well maintained and suitable for their intended use. We believe that we have sufficient capacity to satisfy the demand for our services in the foreseeable future. We continuously evaluate the composition of our portfolio of properties in light of current and expected market conditions and demand.

Insurance

We face risks of accident in our operations, including risk of fire and risks related to third party claims. We maintain comprehensive insurance policies with respect to, among other things, property damage and theft and robbery of electronic equipment. We believe that our insurance coverage is in accordance with that of other similar companies and is adequate for our needs.

Employees

The following table shows the average number of our employees by category expressed in full time equivalents for the periods indicated.

	2010	2011	2012
Managers	39	43	44
Management Staff	77	91	113
Clerical	948	1,081	1,284
Other	4	13	11
Total	1,068	1,228	1,452

All our employees are located in Italy and are subject to a national collective bargaining agreement for the services industry which will expire at the end of 2013 and which is due for renegotiation at national level by March 2014 but will stay in effect until a new agreement is signed, as well as a supplementary bargaining agreement between us and our employees which will expire at the end of 2015. Additionally, our managers are subject to a national bargaining agreement for managers of the services industry which will expire at the end of 2013 and which will not remain in effect until a new agreement is signed. Specifically, these collective bargaining agreements regulate regular and additional salaries, working hours and termination rights.

In line with our growth strategy, which focuses on the further extension of our retail distribution network, the average number of our full time equivalent employees increased by 384 employees from 1,068 in 2010 to 1,452 in 2012.

We believe that our relationship with our employees is satisfactory. During the last three years, we have not experienced any strikes or work outages.

Legal Proceedings

We are subject to various legal proceedings. On the basis of current information, we do not expect that the actual claims, lawsuits and other proceedings to which we are subject, or potential claims, lawsuits and other proceedings relating to matters of which we are aware, will ultimately have a material adverse affect on our results of operations, financial condition or liquidity. However, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation, it is possible that an adverse outcome in certain matters could, from time to time, have a material adverse effect on our results of operations or cash flows in particular periods.

We believe that we have fully complied with all our contractual and legal obligations or have viable defences, including that any non-compliance was due to circumstances out of our control, and we intend to continue to defend vigorously the below claims. We have not set aside any fund or reserve in the financial statements in respect of these proceedings, except for legal costs and for the matter described under “—Pending Litigation Regarding Payments to the AAMS of Certain Minimum Guaranteed Amounts” and “—Pending Litigation Regarding Minimum NTNG Turnover”.

Audit Investigation and AAMS Proceeding Concerning the Set-up and Operation of a Slot Machine Network

On June 8, 2007, the Public Prosecutor of the Department of the State Auditor (*Corte dei Conti*) (the “Public Prosecutor”), commenced proceedings against Sisal Entertainment S.p.A. (formerly Sisal Slot S.p.A.) and the other nine gaming machine concessionaires (together, the “Concessionaires”) in relation to an alleged failure by the Concessionaires to comply with (a) certain of their obligations arising from their role as authorised network operators of slot machines in Italy (specifically, the complaint alleged (i) delay in the launch of the online network; (ii) delay in the activation of the network; and (iii) delay in the connection of the gaming machines to the online network); and (b) certain minimum service levels relating to the operation of gaming machines (specifically, the complaint alleged a delay in network response to requests by the AAMS of gaming volumes). The Public Prosecutor claimed damages for the Italian treasury for the alleged violations. The Public Prosecutor initiated similar proceedings against the AAMS alleging that the AAMS had been negligent in not pursuing the remedies provided for by the concession agreements in relation to the alleged violations. As a response, the AAMS brought the same four claims as the Public Prosecutor against the Concessionaires, which we and the other Concessionaires subsequently challenged before the Administrative Court for the Region of Lazio (the “TAR”) and the Supreme Administrative Court (the “*Consiglio di Stato*”).

Department of the State Auditor (Corte dei Conti) Proceedings

In its initial pleadings of June 8, 2007, the Public Prosecutor quantified Sisal Entertainment S.p.A.’s responsibility for the alleged violations at approximately €1.265 billion. Following a challenge by Sisal Entertainment S.p.A. and the other Concessionaires, Italy’s civil highest court, the Supreme Court (*Corte di Cassazione*), held on December 4, 2009 that the Department of the State Auditor had jurisdiction to decide the claim brought by the Public Prosecutor. On November 17, 2010, the Department of the State Auditor decided: (a) that the compensation for damages (if any) to be paid by the Concessionaires to the Italian treasury must not be a mere duplication of the penalties claimed by the AAMS for the same

alleged violations by the Concessionaires, as damages payable to the Department of State Auditors should only compensate the Treasury for its lost incomes or costs, while the penalties requested by the AAMS were aimed at indemnifying the AAMS pursuant to its purported contractual rights under the concessions; (b) to appoint Digit PA as consultant for the plaintiff to prepare a report outlining, among other things, whether the Concessionaires were entirely responsible for the alleged economic damage to the Italian treasury or whether other third parties were also responsible; and (c) the methods used by the Public Prosecutor to determine the amount of damages of €1.265 billion were incorrect and the Public Prosecutor should undertake further investigations to determine the amount of lost income to the Italian treasury from the alleged conduct of Sisal Entertainment S.p.A. and the other Concessionaires. In addition, the Department of the State Auditor ordered that SOGEI, the governmental entity that was responsible for the design and implementation of the slot machine network, be joined as a party to the Department of the State Auditor proceedings. Following the delivery of Digit PA's report in September 2011, the Department of the State Auditor issued a decision on February 17, 2012 affirming the merit of the claims brought by the Public Prosecutor against Sisal Entertainment S.p.A. and the other Concessionaires and ordering all Concessionaires to make a total payment of €2.5 billion. The Department of the State Auditor quantified Sisal Entertainment S.p.A.'s responsibility at €245 million.

In March 2010, Sisal Entertainment S.p.A. filed an appeal on a number of grounds. First, we believe that the decision of the Department of the State Auditor contradicts a definitive holding of the Supreme Administrative Court (*Consiglio di Stato*) that affirmed the absence of negligence or breach by Sisal Entertainment S.p.A. in connection with the delays of the system which were instead attributed to a number of factors which were not in the control of the Concessionaires and thus declared as void the first three penalties issued against the Concessionaires (see "*AAMS proceedings*"). Second, we maintain that the ruling does not take into consideration numerous essential elements contained in the report filed by Digit PA, which we believe, together with the other arguments presented by Sisal Entertainment S.p.A., demonstrate that Sisal Entertainment S.p.A. was not responsible for the alleged violations. Third, we dispute the method used by the Department of the State Auditor to calculate the loss of revenue to the state as the amount as calculated includes not only the profit of Sisal Entertainment S.p.A. from its activity as concessionaire but also in our opinion improperly includes the assumed profit of Sisal Entertainment S.p.A. from its activity as operator of the network and owner of slot machines. Lastly, we contest the fact that a decision on damages caused by the breach of a concession falls within the jurisdiction of the Department of the State Auditor; instead we believe it may only assess the existence of lost income for the Treasury (if any) according to a Supreme Court ruling on December 4, 2009.

The first hearing for our appeal has not yet been scheduled by the Department of the State Auditor. As a matter of law, by filing an appeal, Sisal Entertainment S.p.A. suspended the execution of the decision until the appeal is resolved. The same court ruling was also appealed by the Public Prosecutor and the other Concessionaires. In particular, with its separate appeal, the Public Prosecutor asked the Central Department of the State Auditor to increase the amount of the compensation due by the Concessionaires by up to 50% of the amount calculated in the court's initial ruling (which would represent a total penalty between €10 million and €122 million).

AAMS Proceedings

Claims Regarding Delay in Launch, Activation and Connection of Gaming Machines to the Network

On June 22, 2007, as a consequence of the proceedings brought by the Public Prosecutor and on the basis of the same claims, AAMS officials sought payment from Sisal Entertainment S.p.A. of another €1.265 billion in penalties in addition to those penalties claimed by the Public Prosecutor. Sisal Entertainment S.p.A. together with the other Concessionaires challenged the AAMS's claims before the TAR. On March 31, 2008, the TAR invalidated the penalties on the grounds that the AAMS had violated the principle of proportionality of sanctions and improperly calculated the amount of penalties due. The AAMS has not appealed this ruling, and the time to bring an appeal has since lapsed.

On March 13, 2008, following a political debate on the need to revise the penalty system set forth in the AAMS concession agreements, the AAMS and the Concessionaires entered into a supplemental deed to the existing 2004 concession. In line with an opinion of the *Consiglio di Stato* which had required the AAMS to redefine the service standards and applicable penalties in accordance with the principles of fairness, impartiality and economic feasibility, the supplemental deed, which applies retroactively, reduced the standard of services required from the operators, concurrently reducing the penalties applicable in a case of failure to comply with the service standards.

Subsequently, on May 23, 2008, the AAMS initiated formal administrative proceedings against Sisal Entertainment S.p.A. and the other Concessionaires on the basis of three of the original claims brought by the Public Prosecutor (i.e., (i) delay in the launch of the online network; (ii) delay in the activation of the network; and (iii) delay in the connection of the gaming machines to the online network). In the proceedings, the AAMS had recalculated the penalties due for the three alleged violations on the basis of the terms of the amended 2004 concessions, alleging aggregate penalties of approximately €200,000, instead of the approximately €2 million calculated by the Department of the State Auditor for the same three violations. Sisal Entertainment S.p.A. challenged this claim, and on November 26, 2009, the TAR ruled in favour of the AAMS, confirming its claim for approximately €200,000. Sisal Entertainment S.p.A. appealed this ruling and, on June 6, 2011, the *Consiglio di Stato* vacated the three alleged violations as well as the related penalties of approximately €200,000. Specifically, the Italian Council of State held that the online network was a new and innovative system and therefore required

a testing period. The Council of State further held that it was during this testing period that unforeseen technical and administrative difficulties arose, thus affirming, among other things, the absence of negligence on behalf of Sisal Entertainment S.p.A. as well as the absence of any evidence of actual damage suffered by the AAMS. The statutory period to file an appeal against the ruling of the Italian Council of State has since lapsed and AAMS can no longer appeal this ruling.

Claims Regarding Breach of Minimum Service Levels

The proceedings brought by the AAMS on May 27, 2008 for the alleged breach of certain service levels required for the slot machines network (i.e. delay in network responses to the AAMS interrogations on gaming volumes) are still pending. The AAMS has appointed a technical commission in order to identify the criteria to determine, among other things, the size of the penalty for this alleged fourth violation. In July 2009, the technical commission issued a report stating, among other things, that in the event that the AAMS should impose a penalty on the Concessionaires, the amount should not exceed 10% of their annual revenue from providing interconnection services. The commission's report further stated that the annual revenue of the Concessionaires should be considered to be around 0.3 % of the "coin in" (amounts wagered). Subsequently, the Italian Council of State issued a statement to the effect that if the penalties were imposed on the Concessionaires, the amount should not exceed 11% of their annual revenue from providing interconnection services, which is considered to amount on average to approximately 0.25% and 1.2% of "coin in". In October 2010, Sisal Entertainment S.p.A. and the other Concessionaires entered into a further amendment to the concessions originally granted in 2004. Pursuant to the amendment, the penalties imposed as a consequence of violations of the concession shall not exceed 11% of a concessionaire's actual compensation.

On January 27, 2012 the AAMS calculated the penalty for Sisal Entertainment S.p.A.'s alleged breach of certain service levels to amount to approximately €9.0 million. Sisal Entertainment S.p.A. filed its appeal against the determination of the AAMS in April 2012 on the substantive legal grounds used to set aside the first three alleged violations, as well as on the basis that the proposed penalty was improperly calculated. In particular, we believe that: (i) the basis on which the penalty has been calculated includes not only the profit of Sisal Entertainment S.p.A. from its activity as concessionaire, but also improperly includes the profit of Sisal Entertainment S.p.A. from its activity as operator of the network; (ii) the AAMS did not suffer any damages and did not present any proof of any damage; (iii) the AAMS failed to comply with certain administrative law principles on fairness of procedures and proportionality of sanctions; and (iv) the ruling does not properly consider the previous ruling of the Consiglio di Stato on June 6, 2011 which vacated the three alleged violations and related penalties and affirmed, *inter alia*, the absence of negligence or breach by Sisal Entertainment S.p.A. Following a hearing on May 9, 2012, the TAR suspended the fourth penalty as a matter of law pending a determination by the court on the merits of the case. The hearing to consider the merits of the case was held on February 20, 2013. As of the date of this offering memorandum, the TAR has not yet issued a ruling. In the event the TAR were to reject Sisal Entertainment S.p.A.'s appeal, we could appeal the TAR's decision before the Consiglio di Stato.

Additional PREU (Prelievo Erariale Unico)

In the fourth quarter of 2011 the AAMS increased the PREU tax (*Prelievo Erariale Unico*) to 4% commencing on January 1, 2012 and introduced an additional 6% tax on any VLT winnings exceeding €500. PREU tax is a tax payable on the distributed winnings by the winner of our games. The Concessionaires filed an appeal before the TAR challenging the increase, and in January 2012, the TAR temporarily suspended the additional 6% tax. On January 25, 2012, the suspension was confirmed and the hearing on the merits of the case was adjourned, pending the conversion into law of the Decree No. 16/2012 ("Decree No. 16/2012") that confirmed the PREU tax increase to 4% starting in January 2012 and postponed the application of the 6% PREU tax on any VLT winnings exceeding €500 until September 2013. Decree No. 16/2012 was converted into Law No. 44/2012 on April 26, 2012 and confirmed both tax increases. As a result, the Concessionaires filed further arguments in order to challenge the constitutionality of the new law. On July 26, 2012 the TAR suspended the additional tax on VLT winnings exceeding €500 until a decision on the constitutionality of the law is reached by the Corte Costituzionale. The 6% PREU tax on any VLT winnings exceeding €500 is suspended pending the constitutional challenge.

Submission of Accounts by Slot Concessionaires

In January 2010, the Public Prosecutor of the Department of the State Auditor ordered Sisal S.p.A. (the original gaming machine concessionaire for the Group) to pay a penalty of €111.6 million for the years 2004-2006 and an additional amount to be determined for the subsequent years because of Sisal S.p.A.'s failure to submit accounts to the AAMS and the Audit Division of the State Auditor for their approval. The same claim was raised against the other Concessionaires. The parties filed their written defences as well as the accounts related to 2004-2009 which had previously been duly approved by the AAMS.

On November 17, 2010 the Department of the State Auditor confirmed that the Concessionaires are "tax collecting agents" and therefore would be required to submit accounts to the AAMS and the State Auditor, but held in favour of Sisal S.p.A. and the other Concessionaires because they demonstrated the absence of any negligence and ordered the Public Prosecutor to reimburse their legal costs. On March 14, 2011, the Public Prosecutor appealed the ruling. A hearing in respect of the appeal has been set for June 19, 2013.

On August 6, 2012, the Public Prosecutor served the Concessionaires, including Sisal S.p.A., with a technical relation of the reporting judge of the Judicial Section of the Lazio Region Department of the State Auditor challenging the reliability of the accounts relating to the period from 2004 to 2009 that had previously been duly approved by the AAMS. Such relation contests that accounts rendered for the period from 2004 to 2009 were not complete and were not based on fully reliable data claiming that most of the slot machines were installed but not properly connected to the central system. At a hearing on January 17, 2013 the Department of State Auditor held that accounts must be rendered pursuant to the accounting scheme provided by the Sezioni Unite of the Department of the State Auditor on December 2012. Sisal S.p.A. is preparing a new set of accounts drafted pursuant to such accounting scheme provided by the Sezioni Unite of the Department of the State Auditor on December 2012 for a further hearing which is scheduled for May 16, 2013.

Pending Litigation Regarding Payments to the AAMS of Certain Minimum Guaranteed Amounts

On December 23, 2011 Sisal Match Point S.p.A., together with other concessionaires, was notified by the AAMS of certain orders requesting the payment of additional amounts to supplement the minimum guaranteed amounts due to the AAMS in connection with horse and sport betting activities in relation to the period from 2006 to 2009. Sisal Match Point S.p.A. and the other concessionaires have challenged the new requests. The previous requests received from the AAMS for the payment of the minimum guaranteed amounts for the period from 2006 to 2009 were temporarily suspended by the TAR pending implementation of a so-called “safeguard measure” set out in Decree No. 223 of 4 July 2006 (“Decree No. 223”). When Decree No. 16/2012 came into effect as Law No. 44/2012, any reference to such “safeguard measure” was cancelled. As a result, the concessionaires raised the question of an alleged non-compliance to constitutional principles of the new Law 44/2012. On January 30, 2013, as a consequence of the appeals of the concessionaires, the TAR suspended the proceedings initiated by the AAMS and submitted the case file to the Corte Costituzionale. The hearing before the Corte Costituzionale has not yet been scheduled. We have set aside a reserve in the amount of €7.8 million for this matter.

Pending Litigation Regarding Minimum NTNG turnover

Pursuant to our NTNG concession agreement with the AAMS we undertook to collect a minimum turnover of €350 million per two-month period for the 18 two-month periods from July 1, 2009 to June 30, 2012. During the two-month period from May 1, 2012 to June 30, 2012 we only collected a turnover from our NTNG concession of €317.3 million. On September 10, 2012, the AAMS requested us to pay a penalty in the amount of €16.5 million, which we challenged before the TAR Lazio. On February 13, 2013, the TAR rejected our claim and reinstated the penalty. In early 2013 we proposed a settlement to the AAMS pursuant to which we would pay the aggregate penalty of €16.5 million in instalments stretching over a period of 4.5 years. Should AAMS refuse to accept our settlement offer, we could appeal the TAR’s decision before the Consiglio di Stato until September 15, 2013. We have recorded a liability of €16.5 million on our 2012 financial statements.

Pending Litigation Regarding the NTNG Concession

In 2008, Snai S.p.A., Stanley International Betting Limited and Lottomatica S.p.A. filed claims against Sisal S.p.A. in relation to the NTNG concession. According to the claimants, the AAMS improperly evaluated Sisal’s bid for the concession, as they contend that the bid was not in compliance with market standards (*offerta anomala*). The AAMS appointed a technical committee to evaluate Sisal’s bid, and such committee confirmed the validity of the bid. Subsequently, on June 25, 2009 and July 14, 2009, Snai S.p.A. and Lottomatica S.p.A. submitted appeals (*memoria con motivi aggiunti*) to the TAR against the committee’s evaluation. To date, a hearing to discuss the appeals has not been scheduled by the TAR, nor requested by the applicants. We believe our bid was valid and also believe that Snai S.p.A. and Stanley International Betting Limited may have limited, if any, interest in pursuing such litigation further, as neither of them was the second ranked bidder in the tender process.

Pending investigation of our chief executive officer under Article 2635 of the Italian Civil Code

During 2011, the Prosecutor of the Court of Milan (the “Prosecutor”) commenced a criminal investigation of the former chief executive officer of Banca Popolare di Milano (“BPM”) and his assistant for alleged “infidelity as a consequence of the giving or promising of a benefit” (“*Infedeltà a seguito di dazione o promessa di utilità*”) under Article 2635 of the Italian Civil Code. In connection with the aforementioned investigation, the Prosecutor also investigated other companies and individuals, including, we learned in July 2012, our current chief executive officer, for possible participation in the acts alleged to constitute “infidelity as a consequence of the giving or promising of a benefit”. We believe that the relationship of Sisal and our chief executive officer with BPM and its affiliates has always been conducted on an arms’ length commercial terms in compliance with standard procedures and at market conditions. We sought the advice of a third-party expert who confirmed our assessment. Our board of directors sought advice from legal counsel and considered the allegations and concluded that they were without merit. In connection with the Prosecutor’s investigation, we have promptly cooperated with the Prosecutor and, to date, we are not aware of any development in such investigations subsequent to July 2012 insofar as it relates to us or our chief executive officer, nor, to our knowledge, are we ourselves currently subject to any such investigation. In addition, even if such alleged acts constituting “infidelity as a consequence of the giving or promising of a benefit” were to be prosecuted and a conviction against our chief executive officer obtained, while we can provide no assurances, we do not believe that such an eventuality would constitute grounds to terminate any of our concessions pursuant to their terms. See “Risk Factors—Risks Related to Our Business—Our business prospects and future success rely upon the integrity of our employees and executives and the security of our systems”.

Tax matters

In October 2009 the Italian Tax Agency served Sisal S.p.A. with a tax audit report alleging that certain fees incurred in connection with the 2006 financing by Area Giochi S.p.A. (then merged with Sisal S.p.A.) for the acquisition of Sisal S.p.A., and VAT related to services invoiced in 2005, should not have been deducted. A tax audit report constitutes only a communication at the end of an inspection, and in the absence of a formal assessment, it is not a finding that can be appealed. The Italian Tax Agency claim is grounded on the alleged applicability of transfer pricing rules to the presumed “services” that Area Giochi S.p.A. could be deemed to have rendered to its shareholders by obtaining such acquisition financing. Sisal S.p.A. received a formal assessment notice concerning the deduction in 2005 of the VAT for an amount of approximately €0.5 million, plus interest, and penalties for the same amount. We successfully appealed such assessment before the Provincial Tax Court of Milan. The Italian Tax Agency could appeal the decision prior to May 13, 2013, but as of the date of this offering memorandum has not done so. We have not received a formal assessment concerning the deduction of the acquisition financing fees. Should such a claim be brought by the competent tax authority, we estimate the maximum payment would amount to approximately €2.8 million in taxes, plus interest, and penalties ranging from 100% to 200% of such amount. In case a settlement is reached (or the claim is accepted) the penalties could be reduced to one-third of the minimum (i.e., up to €0.9 million) under applicable Italian tax law.

In September 2010 the Italian Tax Police served Sisal S.p.A. with a tax audit report alleging that interest expenses incurred in connection with the 2006 acquisition financing by Area Giochi S.p.A. should not have been deducted, as described above. The Italian Tax Police claim is based on an anti-abuse of law principle whereby interest may not be deducted if it is proved that the assumption of financing was primarily motivated by tax benefits rather than for a bona fide business purpose. The Italian Tax Office sent to Sisal S.p.A. a questionnaire requesting clarifications on the business reasons of the transaction, but no formal assessment has been served. Should such a claim be brought by the competent tax authority, we estimate the maximum payment would amount to approximately €14.8 million, plus interest, and penalties ranging from 100% to 200% of such amount. In case a settlement is reached (or the claim is accepted) the penalties could be reduced to one-third of the minimum (i.e., up to €4.9 million) under applicable Italian tax law. Should the claim be extended to tax periods 2010-2012, we estimate the maximum payment would amount to approximately €6.4 million, plus interest, and (were Sisal not to amend its tax return accordingly) penalties ranging from 100% to 200% of such amount.

In 2010, the Lombardy Regional Office of the Revenues Agency challenged the depreciation rate used by Sisal Entertainment S.p.A. (formerly Sisal Slot S.p.A.) to depreciate certain “comma 6” slot machines in 2007, alleging that such rate overstated depreciation expense in 2007 by approximately €1.6 million. In 2011, the Milan Provincial Office of the Revenues Agency challenged the depreciation rate used in 2006, alleging that such rate overstated depreciation expense in 2006 by approximately €0.3 million. We defended our position, but the Revenues Agency obtained a judgement against us for 2007 tax period in the amount of €1.4 million, including penalties and interest, which we have appealed. In February 2013 we won first instance judgement related to the fiscal year 2006; however, the Revenue Agency still has time to appeal against the first-tier decision. We have not made a provision for this judgement in our 2012 financial statements.

In December 2011, the Lazio Regional Office of the Revenues Agency began a general tax inspection of Sisal Match Point S.p.A. with respect to tax year 2009. The inspection concluded in May 2012 with the issue of a tax audit report, which alleged that our tax accounting in that year understated taxable income by approximately €4.0 million for corporate income tax (IRES) purposes and €2.7 million for regional business tax (IRAP) purposes. A tax audit report constitutes only a communication at the end of an inspection, and in the absence of a formal assessment, it is not a finding that can be appealed. We are currently analysing the tax audit report and believe that we would have valid grounds to challenge its findings should a formal assessment be brought against us.

REGULATION

The following paragraphs provide a brief description of the main European and Italian regulations that govern the activities of the Group.

Regulation of Gaming Activities

The Italian legal framework regulating the gaming market is complex and is aimed at striking a balance between compliance with principles and general guidelines established at an EU level (in particular the principles of freedom of establishment (Article 43 EC) and freedom to provide services (Article 49 EC)), and the protection of the Italian treasury's financial interest and the maintenance of public order.

The Competent Authority in the Area of Public Gaming

The Italian state has a monopoly on the right to organise and run gaming, betting and sports pools, for which there is any kind of prize and for which payment of a sum of money is required to participate. The Italian Ministry of Economy and Finance (the "MEF") can manage these activities either directly or through third-party regulators.

The management of gaming, betting and sports pools, including the management of the applicable taxes (other than direct taxes and VAT), is carried out by the AAMS, which is an agency established by the MEF. AAMS regulates, *inter alia*, (i) the specific games and bets which may be offered in the Italian gaming market, (ii) the minimum and maximum wagers that may be charged by operators, (iii) the pay-out ratio of winnings, (iii) the compensation paid to concessionaires and (iv) the number and location of points of sale.

Conditions to Carry Out a Gaming Activity

Anyone intending to carry out a gaming activity is required by Italian law to obtain the following:

- (a) a concession awarded by AAMS in compliance with European community and Italian national public procurement rules; and
- (b) a police license to run the betting, gaming machines and bingo activities in each single point of sale, which is granted in accordance with Royal Decree No. 773 of June 18, 1931, approving the consolidated text of public safety laws (*Testo unico delle leggi di pubblica sicurezza*, the "TULPS") which may be granted only to concessionaires or to those authorised by the Government ministries or authorities that are entitled by law to organise and manage betting, and/or to persons or entities appointed by the concessionaire or authorised holder based on the concession or authorisation.

Additional permits (such as authorisations and *nihil obstat*) may be required according to specific legal provisions and AAMS regulations.

The concessions are awarded by AAMS by public tender, through which the concessionaires are selected. The concessionaires and AAMS enter into a concession agreement, the terms of which are set by AAMS and cannot be negotiated. The concession agreement regulates, amongst other things, the permitted activities under the concession, the concessionaire's obligations toward AAMS, the duration of the concession and the concession fee, the conditions for assignment of the concession to third parties, the testing of the technical equipment necessary to carry out the gaming activity that is covered by the concession, the form and the amount of guarantees to be granted by the concessionaire in favour of AAMS, the conditions for revocation or early termination of the concession by AAMS and the penalties for failure of the concessionaire to comply with its obligations under the concession agreement.

A police license is granted by location, is personal and subject to revocation or suspension in cases of violations committed by the authorised person. Persons who have a criminal record or who are unable to demonstrate good character cannot obtain a police license. Additionally, police licenses can be revoked if the authorised person subsequently fails to satisfy the application criteria. Police licenses may impose special conditions, based on location, to protect the public interest. Once the police license has been granted, the licensee must ensure at all times that police have unrestricted access to the premises on which the activity subject to the authorisation is exercised.

Carrying out gaming activities without fulfilling the relevant licensing requirements is a criminal offense. However, a concessionaire may assign the activity of collecting and accepting horse and sports bets to third parties, in compliance with the TULPS and the concessions. For example, Sisal relies on this assignment system in relation to the operation of its horse and sport betting corners.

Regulatory Framework Relating to the Concessions Held by Sisal

Slot Machines

Sisal holds one of the twelve concessions for the operation of the network for the remote management of legal games by means of slot machines, also referred to as AWP, regulated by TULPS, as well as related activities and functions.

Sisal was initially awarded a concession to act as a network operator of slot machines in 2004. The concession expired in December 2011 but was subsequently extended until the conclusion of the public tender for the award of the concession for the subsequent period. On February 14, 2013, AAMS awarded to Sisal Entertainment the new concession for the operation of the network for the remote management of legal games by means of slot machines and connected activities and functions (the “Slot Machine Concession”). The agreement governing the Slot Machine Concession was executed by Sisal Entertainment and AAMS on March 20, 2013 and will expire on March 20, 2022.

Only machines equipped with a certification of compliance with the applicable provisions issued by AAMS and which are connected to the AAMS network are allowed to be operated in Italy. To comply with AAMS requirements, slot machines must be equipped with an element of chance (i.e., random or dependent on chance or luck) as well as a skill element that allow the consumer to choose a gaming strategy, by selecting their preferred gaming option at the start of or during the game. Applicable law requires that the cost of the game does not exceed €1 and that the minimum duration of any game is four seconds. Monetary winnings must not exceed €100 in any one play. The machine must calculate the winnings in an unpredictable way over a cycle of a maximum of 140,000 games. The payout ratio must not fall below 74% of turnover.

Slot machines may only be played by adults over the age of 18 and the shopkeeper or manager of the point of sale can be subject to administrative sanctions in case of a violation of the age restriction.

Legal Framework Governing the Slot Machines Network

Law No. 289 of December 27, 2002, as subsequently amended by Law Decree No. 223 of July 4, 2006 (superseded by Law No. 248/2006) (the “Bersani Decree”), allowed for the introduction of new slot machines, by regulating the following:

Nihil obstat

In order to operate a slot machine in Italy a manufacturer or importer of the machines must obtain the following licenses from AAMS:

- (a) a certification of compliance with technical and electronic systems of identification and control of slot machines in accordance with the requirements set forth by AAMS for each type of slot machine that the manufacturer intends to manufacture or import. This is to ensure that the machines can be controlled remotely, regardless of location or barriers between the regulator receiving and reviewing the data and the machine; and
- (b) *nihil obstat* for the machines to be distributed, each of which is to be identified by a serial number, upon self-certification that the machines comply with the model specifications certified by AAMS.

The manager of machines produced or imported after January 1, 2003, must obtain a further *nihil obstat* by indicating the serial number of each machine as well as the details of the relevant authorisations of the importer or manufacturer. A pre-condition for the issuance of such additional *nihil obstat* is the possession of a valid police license provided by TULPS.

The Slot Machines network

Each concessionaire is required to ensure that its slot machine network complies with the law and must immediately communicate to AAMS and other relevant authorities any potential non-compliance in its slot machines. Upon the malfunctioning of a slot machine, the concessionaire is under an obligation to disconnect the non-compliant machine from the network by giving notice to AAMS and other relevant authorities. The concessionaire must verify that the shopkeeper blocks non-compliant machines.

Additionally, the concessionaire is required to fulfil its administrative obligations relating to slot machines and to calculate the one-off tax withdrawal (*prelievo erariale unico*, “PREU”) and pay the relevant sums for the machines connected to the network that are managed by such concessionaire, as required by the relevant AAMS decree. Furthermore, the concessionaire must carry out all other activities and functions required for the correct and effective management of the machines and must ensure the ordinary and extraordinary maintenance of the network, according to the process indicated by AAMS, with the purpose of ensuring the maintenance of the technical and market value of the network owned by AAMS.

Slot Machine Concession fee and concessionaire remuneration

In 2005, Law No. 266/2005 amended the existing framework relating to concession fees by fixing (i) the concession fee to be paid by concessionaires to AAMS at a maximum of 0.8% of the total amount of turnover, and (ii) the remuneration to be paid by AAMS to the concessionaires at a maximum of 0.5% of the total amount of turnover. Additionally, the concessionaire's remuneration depends on its investment in the slot machine network and the level of services provided by the concessionaire.

The Slot Machine Concession provides that AAMS pays remuneration to the concessionaire in an amount equal to 0.5% of the amounts collected by such concessionaire. In turn, the concessionaire is required to pay to AAMS a separate concession fee (currently contractually fixed at a rate of 0.3% of turnover) as well as to remit to AAMS a security deposit in the amount of 0.5% for each gaming machine for which a *nihil obstat* or a serial number is provided by AAMS to guarantee the level of the service and the number of machines installed. The 0.5% deposit is returned to the concessionaires in the subsequent year (usually within the first six months), upon fulfillment of certain conditions and in proportion to the level of compliance achieved.

Video Lottery Terminals

Article 12, paragraph 1, letter l), of Law Decree No. 39 of April 28, 2009 (concerning state of emergency measures in the Abruzzo Region following the recent earthquake) (the "Abruzzo Decree"), allowed AAMS to implement the testing and operation of gaming systems consisting of (i) the remote control of the game by means of VLTs in dedicated premises, (ii) remote and random winning combinations and (iii) the restitution of a minimum pay-out of 85% of the collected sums. To implement VLTs, AAMS was delegated powers to define, amongst other things, the rules of the games, the procedures, requirements and authorisation required for the installation of the VLTs and the taxation rates on collected sums.

Pursuant to Article 21, paragraph 7, of Law Decree No. 78/2009 (superseded by Law No. 102/2009), AAMS called a public tender for the award of concessions to act as a network system operator for, *inter alia*, slot machines and VLTs. A total of twelve concessions were awarded the rights to install and operate VLTs in Italy as of 2013. The operation of VLTs is currently governed by the Slot Machines Concession executed in 2013, which will expire on March 20, 2022.

Since February 2010, the AAMS Decree No. 43593 of 22 January 2010 provides the legal framework applicable to VLTs. Pursuant to the decree, VLTs and related gaming systems must be connected to a control system and control network which is operated by an authorised network system operator. The games played on the VLTs must be capable of remote monitoring for regulatory and tax purposes. The AAMS decree also sets forth requirements for the testing and commissioning of gaming systems, the operating parameters for the games and a timetable for the introduction of VLTs into the Italian market.

The minimum and maximum costs per individual game are set at €0.5 and €10.0, respectively. Payment for games may be made by coin, tickets, prepaid cards, "smart" cards in respect of registered gaming accounts or the reinvestment of previous winnings. The decree sets the maximum payout for VLT games at €5,000 per game; however, this amount is higher in the case of jackpots which are set at a maximum payout of €100,000 per gaming room and at €500,000 per gaming system. Pursuant to the decree, no less than 85% of turnover must be paid to players, and up to a maximum of 4% of pay-out can be paid to players in the case of jackpots.

Pursuant to AAMS Decree No. 30011 of July 27, 2011, VLTs can only be installed in bingo halls, betting agencies during sports events, agencies for totaliser and fixed-odds betting on horse races, in gaming shops with the primary business activity of marketing public gaming products, public gaming rooms specifically established for the conduct of lawful gaming that provide a separate area for games reserved for underage players, and establishments dedicated exclusively to VLTs and slot machines. VLTs can be installed in these premises only on the condition that the premises hold the specific gaming license in accordance with the Italian regulatory framework. The decree provides that the maximum number of video VLTs that can be installed and operated on any of these premises must be limited by reference to a proportion of the premises' surface area and/or to the total number of slot or other betting machines hosted.

The PREU tax levied on the amount wagered on VLTs was set at 4% in 2012 and 5% from 2013 onwards, plus an additional 6% on the quota of winnings exceeding €500. The application of the additional 6% of PREU tax was temporarily suspended by a preliminary injunction of the Administrative Regional Court of Lazio, dated January 26, 2012, and is still pending. See "*Business—Legal Proceedings*." In addition, as is the case for slot machines, each concessionaire pays a separate fee to the AAMS in the amount of 0.3% of turnover and remits a 0.5% deposit that is returned upon satisfaction of certain conditions. See also "*Slot Machine Concession fee and concessionaire remuneration*."

Betting

Historically, the Comitato Olimpico Nazionale Italiano ("CONI") and the Ministries of Finance and Agricultural Policy have awarded concessions (the "*Ordinary Concessions*") for accepting sport bets (the "*Ordinary Sports Concessions*")

and horse racing bets (the “*Ordinary Horse Racing Concessions*”), each concession having a duration of six years, renewable once for an additional six years. After the renewal period elapses, new concessions are awarded by means of a public tender process.

Ordinary Concessions

Ordinary Concessions include, amongst others, bets on horse races carried out as part of the official programme of Italian and foreign racecourses, contests linked to Olympic sports events (including football, basketball, cycling, alpine skiing, cross-country skiing, tennis, sailing and volleyball) and motor sports (motor racing and cycling). Since their introduction, ordinary concessions have been expanded to allow betting on an extended list of games, and include the possibility to operate both horse racing and sport betting on the same premises provided that no more than two concessionaires collect the different bets and provided both concessionaires are represented by a single operator who holds a police license.

Ordinary Sports Concession

Currently, Ordinary Sports Concessions are awarded by AAMS. Ordinary Sports Concessions are regulated by Ministerial Decree n.111 of March 1, 2006, which contains the following key provisions:

- (a) **Operators Entitled to Collect Bets.** The operators entitled to the collection of bets are the concessionaires selected by AAMS in compliance with national and EU principles. The characteristics of the distribution networks of the concessionaires are set forth by AAMS’s decrees. Bets are either collected at designated points of sale or remotely i.e. through mobile or fixed telephone channels, the internet or interactive television. AAMS can authorise concessionaires to open temporary points of sale to allow for bets which are linked to, for example, special events, to be accepted. Generally, any form of intermediation in the collection of bets, i.e., the unauthorised or irregular collection of bets by persons other than the concessionaires, is prohibited.
- (b) **Permitted Bets and AAMS’s Official Programmes.** The type of bets covered by the concession are bets on sports events (other than horse races) and non-sports events, including single bets that are made in reference to the single result of a sole event and multiple bets, so-called “*martingala*,” that are made in reference to the results of more than one event. The characteristics of the types of bets, as well as the list of permitted sports and non-sports events on which bets can be placed, are prescribed by AAMS. Based on the official AAMS programme, the concessionaire prepares the programme of acceptance of bets which contains the odds associated with each predicted result for the events on which bets are allowed. The concessionaire’s programme must be displayed at the points of sale and, with respect to bets which are placed remotely, the concessionaire must make its programme available through the collection channels (i.e., mobile or fixed telephone channels, internet or interactive television). The concessionaire is required to communicate any variation to its programme to the public immediately. Concessionaires are permitted to offer different odds for bets carried out at a physical point of sale when compared to bets placed remotely. Fixed odds bets are those for which the sum to be cashed in case of winning is previously agreed between the participant and the concessionaire of the bets.
- (c) **Miscellaneous Provisions.** Additional relevant provisions include:
 - a. the minimum bet amount is €2.0;
 - b. with respect to fixed odds bets on events other than horse racing, Article 4, paragraph 1, letter b) point 3 of Legislative Decree No. 504 of 23 December 1998, as subsequently amended, provides for the imposition of a one-off tax at rates for each bet that vary from 2% to 8% depending on the net turnover generated by the fixed odds bets during the preceding 12-month period;
 - c. the exclusion of the operations connected with the exercise and collection of bets from VAT;
 - d. maximum winnings for a single sports bet ticket cannot exceed €10,000, and for a multiple sports bet ticket, €50,000;
 - e. provisions for the control of compliance with the applicable provisions, for example by means of inspections at the concessionaires’ premises, the point of sale and on the remote systems used by the concessionaires through AAMS. In case of violation of the applicable regulation, AAMS issues measures of suspension of the remote collection between the national totalisator and the concessionaire and, in cases of serious violation, can terminate the concession;
 - f. provisions for the disbursement of winnings through the national totalisator, normally at the point of sale or, for remote bets, according to the terms of payment indicated by AAMS;

- g. provisions for the certification of the acceptance of the bet, which takes place exclusively by the receipt of a participation issued by the game terminal, according to the data provided by the national totalisator. The acceptance of remote bets is registered in accordance with the procedures set forth by AAMS. Remote bets are irrevocable; and
- h. provisions for the maximum term during which requests for reimbursements and winnings can be made, which is currently set at 90 days from the date of the result of the last events which were the object of the bet. The amounts not requested within this term will be paid to the Italian treasury.

Ordinary Horse Racing Concession

Currently, Ordinary Horse Racing Concessions are awarded by AAMS. Ordinary Horse Racing Concessions are primarily regulated by Presidential Decree No. 169/1998, which contains provisions on horse racing bets at totalisator and at fixed odds. The key provisions governing Ordinary Horse Racing Concessions are:

- (a) **Concessions for the Exercise of Horse Race Bets.** The concessions for the exercise of fixed odds and totaliser horse race bets are awarded by public tender to persons and companies with appropriate and demonstrated technical, professional and financial prerequisites, based, *inter alia*, on the following criteria: (i) transparency of the proprietary asset and efficiency of the management of the single points of acceptance of bets; (ii) strength of the network for the collection and acceptance of bets; rational and balanced distribution on the territory according to programmed and controllable parameters; (iii) homogeneity and balance of the remuneration set forth for the various categories of concessionaires; (iv) guarantee of competition and market freedom by provision of parameters aimed at avoiding the abuse of dominant positions; and (v) provision of a centralised real-time control of the bets and of the relevant financial flows. For the management of the bets, the concessionaire must adopt remote tools that comply with the technical specifications determined by the MEF. The right to collect bets directly at horse races is reserved for the owner of the race track. The transfer of the concession is allowed upon prior consent by AAMS, in cooperation with the Ministry of Agricultural Policy. The cooperation is required because AAMS has jurisdiction over horse racing betting, while the Ministry of Agricultural Politics has jurisdiction over other horse racing related matters (such as horse races, race courses, and horse studs).
- (b) **Revocation of the Concessions.** AAMS, together with the Ministry of Agricultural Politics, may revoke the concession in the following cases: (i) inability to comply with the requirements necessary for the award of the concession; (ii) interruption of the activities for causes other than force majeure; (iii) violation of certain legal provisions concerning the stockholders and the communication to the MEF of the transfer of shares or quota of the concessionaire and particularly of the prohibition of intermediation in the collection of bets; and (iv) violation of the provisions of Presidential Decree No. 169/1998 and of the decrees that regulates the type of permitted bets. The concessionaire who has been subject to a procedure of revocation (and managers and partners that exercise the control over the company that holds the concession subject to revocation pursuant to Article 2359 of the Italian Civil Code) cannot participate directly or indirectly in the tender process for the award of new concessions for three years following the date of publication of the relevant act.
- (c) **Permitted Horse Race Bets and Official Programme of the Races.** Bets can be made at national totalisers or at fixed odds. Bets at totalisers are those where the overall amount, net of the amount of a one-off tax withdrawal, is divided amongst the winners. The bets at fixed odds are those where the sum to be cashed in case of winning is previously agreed between the customer and the manager of the bets. Such bets can be carried out at the counters and agencies within the race courses. The MEF, upon proposal by the Agency for the development of the horse sector (*Agenzia per lo sviluppo del settore ippico*, “Assi”—former UNIRE) and in cooperation with the Ministry of Agricultural Politics, sets forth the types of bets permitted, which includes bets that can be placed by telephone or via remote connection, the number of the bets that can be placed and the limitations on amounts that can be bet. The official programme of the races, prepared by Assi, is verified annually by the Ministry of Agricultural Politics, upon prior consultation with the MEF. Law No. 135/2012 provides for the transfer of the functions of Assi to the Ministry of Agricultural Politics and to the Agency of Customs. However the implementation decrees have not been issued yet.
- (d) **Miscellaneous Provisions.** Additional relevant provisions include the following:
 - a. bets can be collected exclusively at race courses, horse race betting agencies and betting offices. Any form of intermediation is prohibited;
 - b. the receipt, certified by the acceptance systems, is the only proof of participation in the bet and cannot be replaced by any other form of proof;

- c. each holder of Ordinary Horse Racing Concessions is subject to the payment of a withdrawal contribution (*quota di prelievo*) on pre-tax revenue (*introito lordo*) derived from totaliser and fixed odds horse racing bets to Assi, at the rates currently set forth by Ministerial Decree of February 15, 1999. The Assi contribution is used to support the horse racing industry, including the remuneration of the TV services for reproduction of the images of the races in the points of sale or through other channels (e.g., internet) and which are of practical use to the consumers to place their bets; and
- d. the acceptance of bets is the condition for the application of the one-off tax provided by Law No. 1379 of December 22, 1951. The regulation indicates the taxable amount (the amount paid by the bettor for each bet), the tax rate and the sanctions for failure to carry out the payments due.

Bersani Concessions

Upon implementation of the Bersani Decree of July 4, 2006 on liberalisation and reorganisation of the public gaming sector, we have been awarded two concessions for public gaming based on events other than horse races (the “Bersani Sports Concessions”) and on horse racing events (the “Bersani Horse Racing Concessions”) and for the establishment of the relevant distribution networks and related operation.

The Bersani Decree

The Bersani Decree confirmed the current licensing system of the gaming sector, based on concessions, and the Italian state and the AAMS as competent authorities in the area of public gaming. The Bersani Decree structures the new concessions as giving the right to open betting corners, contains provisions that widen the range of operators which are entitled to participate in the tenders for the awarding of concessions, and provides for principles aimed at reorganising the Sports and horse racing games with a view to eliminating the distinction between operators of the two types of bets.

In particular, with the explicit purpose of fighting irregular and illegal gaming, tax evasion and evasion in the gaming sector and in order to ensure the safety of the players, the Bersani Decree introduced the following provisions:

- (a) **Remote gaming and regulation of the characteristics of the points of sale.** The Bersani Decree provided, *inter alia*, that the following should have been the subject matter of specific regulations: (i) remote bets at fixed odds with forms of direct interaction between the single players; (ii) remote skill games with cash prizes (*giochi di abilità a distanza con vincita in denaro*), in which the outcome depends mainly upon the skill of the players (in this respect, the Bersani Decree points out that the single tax rate for remote skill games is set at an amount equal to 3% of the sum wagered, and that card games of any kind are regarded as skill games if they are organized as a tournament and in the event that the stake is exclusively constituted by the sole amount required for registration); and (iii) the requirements that the point of sale, having as its main activity the sale of public game products, must satisfy. The aforementioned provisions concerning skill games were implemented by Ministerial Decree No. 186 of September 17, 2007.
- (b) **Bersani Sports Betting Concessions.** Pursuant to the Bersani Decree, AAMS must set forth the new terms of the distribution of bets on events other than horse races, in compliance with the following key criteria: inclusion, among public games, of: (i) totaliser bets and fixed odds bets on events other than horse races; (ii) sports pools; (iii) totip sports pools; (iv) horse race bets under Article 1, paragraph 498, of Law No. 311 of December 30, 2004 (*Vincente nazionale* and *Accoppiata nazionale*); (v) any other public game based on events other than horse racing; (vi) possibility of gaming collection on events other than horse racing by operators that exercise the gaming collection in an EU Member State, by operators of member states of the European Free Trade Association and operators of other states, only if in possession of the requisites of reliability defined by AAMS; (vii) exercise of the betting collection by means of points of sale having as main activity the marketing of public game products (which can be attributed sole selling rights exercise of certain types of bets) (“Betting Shops”) and points of sale having as an accessory activity the marketing of public game products (“Betting Corners”); (viii) provision for the establishment of at least 7,000 new points of sale of which at least 30% must be Betting Shops; (ix) determination of the maximum number of points of sale for each municipality in proportion to the inhabitants and in consideration of the points of sale already established; (x) award of the points of sale upon prior call of one or more public tenders opened to all gaming operators, where the tender basis cannot be lower than (1) €50,000 for each Betting Shop and (2) €17,500 for each Betting Corner; and (xi) acquisition of the possibility to collect remote gaming, including skill games with cash prizes.
- (c) **Bersani Horse Race Concessions.** Pursuant to the Bersani Decree, AAMS must set forth the terms for the distribution of horse racing games, in compliance with the following criteria: (i) inclusion, amongst horse racing games, of totaliser and fixed odds horse racing bets, totip sport pools, horse racing bets under

Article 1, paragraph 498, of Law No. 311 of December 30, 2004 and any other public game; (ii) the possibility of gaming collection on horse racing events by operators that exercise the gaming collection in an EU Member State, by operators of member states of the European Free Trade Association and operators of other states, only if they satisfy AAMS criteria; (iii) exercise of the betting collection by means of Betting Shops and Betting Corners; (iv) provision for the establishment of at least 10,000 new points of sale of which at least 5% must be Betting Shops; (v) determination of the maximum number of points of sale for each municipality in proportion to the inhabitants and in consideration of the points of sale already granted; (vi) award of the points of sale upon prior call of one or more public tenders opened to all gaming operators, where the tender basis cannot be lower than (1) €30,000 for each Betting Shop and (2) €7,500 for each Betting Corner; (vii) acquisition of the possibility to collect remote gaming, including skill games with cash prizes; and (viii) definition of the terms of safeguard of the concessionaires for the collection of bets on horse racing events regulated by Presidential Decree No. 169/1998.

Implementation of the Bersani Decree

In implementing the above provisions of the Bersani Decree, AAMS carried out two public tenders concerning the granting of the Bersani Sports Concessions and the Bersani Horse Racing Concessions. In particular, the subject of the tenders was the assignment of the rights for the opening of Betting Shops and Betting Corners for gaming activities and activation of remote gaming networks. The tenders held pursuant to the Bersani Decree assigned 16,300 rights to open (i) 500 horse racing Betting Shops, (ii) 9,500 horse racing Betting Corners, (iii) 1,900 sports Betting Shops, and (iv) 4,400 sports Betting Corners, as well as the right for the establishment of remote horse racing or sports betting networks.

The Bersani Concessions were awarded to several operators, including Sisal Match Point. On March 28, 2007, Sisal Match Point and AAMS executed two Bersani Concession Agreements, one for each type of right awarded (rights concerning the exercise of bets on horseracing events and rights concerning bets on sport events). The term of these concessions (originally expiring on December 31, 2015) has been extended until June 30, 2016 by Directorial Decree of September 7, 2007, No. 2007/49R/Giochi/UD.

Licensing requirements for the exercise of remote skill games with cash prizes

The Bersani Decree also introduced remote games of skill in Italy, including remote card games, such as online poker, that satisfy the following requirements: (i) which are organized in the form of a tournament (except as otherwise provided by AAMS) and (ii) for which the relevant stake is represented by the sole amount paid for registration in Italy.

The requirements to exercise remote skill games with cash prizes are regulated by the Bersani Decree and by Ministerial Decree No. 186 of September 17, 2007 (the "Regulation") as well as by implementing AAMS's decrees and circular letters. The management of remote skill games, as currently exercised, is subject to (i) the concessions set out in the Bersani Decree; (ii) an authorisation issued by AAMS after verification of the security standards of the skill game platform structure; and (iii) an authorisation of the skill game plan pursuant to the Regulation.

The gaming operators entitled to file the request for authorisations to exercise skill games (including online poker) with AAMS pursuant to the Regulation are all holders of the Bersani Concessions. AAMS simplified the authorisation procedures for those concessionaires that intend to use skill game platforms and skill game plans and that are already authorized, favouring these over other concessionaires, upon the condition that a copy of the relevant authorisations be attached to the applications.

As part of the current temporary regime, concessionaires authorised to operate remote skill games pursuant to Directorial Decree of March 21, 2006 can offer sessions of remote skill games only to those consumers who have entered into a game account agreement with them which has been subsequently approved by AAMS. In order to execute the agreement, the operator must check the player's personal details, age, and fiscal code. Only one agreement per player per concessionaire can be executed. In case of the termination or withdrawal of the agreement, the execution of a new agreement with the same player is not allowed for 30 days from the date of termination.

AAMS measures aimed at the closing down of illegal websites

Article 1, paragraph 50, of Law No. 296/2006, provides that, in line with the principles stated by Article 38 of the Bersani Decree and with the purpose of fighting the spread of illegal games and tax evasion in the gaming sector, as well as to ensure public order and the protection of players, AAMS should set forth ways to eliminate the offering of games, betting and sports pools with cash prizes, by means of telecommunication networks, without concessions, authorisations, licenses or other permits or which are, in any case, offered in violation of the existing legal framework.

AAMS Directorial Decrees No. 1034/CGV of January 2, 2007, May 29, 2007 and June 10, 2008, implementing provisions of the Bersani Decree, introduced a set of fines for website operators not complying with AAMS standards, ranging from €30,000 to €180,000 per ascertained violation.

A list of the websites removed for not being in compliance with applicable legal standards is set out on AAMS's official website.

"Giorgetti" Concession

In 1999, the Italian Government decided to increase the number of horse racing betting centres in Italy from 329 to 1,000, by offering 671 new licenses by tender and by renewing the 329 existing ones ("Historic Horseracing Concessions").

On July 24, 2001, the European Commission initiated infringement procedures against Italy pursuant to Article 226 of the European Community Treaty (the "EC Treaty"), in which the renewal of the Historic Horseracing Concessions were challenged on the basis that they were carried out without inviting any competing bids, in breach of the general principles of EC competition law and freedom of establishment as set out in the EC Treaty.

In response, the Italian Government adopted Law Decree No. 452/2001 (superseded by Law No. 16/2002), providing that the Historic Horseracing Concessions were to be reallocated by way of a Community call for tenders, and that they would remain valid until that reallocation had been finalised. The European Commission was unsatisfied with the implementation of the provisions of Law No. 16/2002 and issued a reasoned opinion on October 16, 2002 asking the Italian Republic to adopt the necessary measures to comply with the reasoned opinion within two months from its receipt. By letter of December 10, 2002, the Italian Government responded that it had to conduct a detailed assessment of the financial status of the existing concession holders before issuing a call for tenders. Subsequently, UNIRE's resolution No. 107 of October 14, 2003, by implementing Article 8, paragraph 13, of Law No. 200/2003, in light of the financial difficulties encountered by the sector, provided for the renewal of the Historic Horseracing Concessions until 2012, in favour of those concessionaires who had signed the agreement for the settlement of their debts in relation to the Historic Horseracing Concessions.

As a result of the continuing failure of the Republic of Italy to comply with the European Commission's reasoned decision No. 1999/5352 of October 16, 2002, the Commission appealed to the European Court of Justice ("ECJ"). In its conclusions presented on March 29, 2007, Advocate General Sharpston asked the ECJ reach the conclusion that the Republic of Italy failed to fulfil its obligations under Article 226 of the EC Treaty.

On September 13, 2007, the ECJ confirmed the conclusion of the Advocate General, that by renewing the 329 Historic Horseracing Concessions without inviting any competing bids, Republic of Italy failed to fulfil its obligations under Articles 43 and 49 EC Treaty and, in particular, infringed the general principle of transparency and the obligation to ensure a sufficient degree of advertising. Therefore, pursuant to Article 4-bis of Law Decree No. 59 of April 8, 2008, superseded by Law No. 101 of June 6, 2008, as further implemented by Article 1-bis of Law Decree No. 149/2008 (superseded by Law No. 184/2008 and amended by Article 2, paragraph 49 and 50 of Law No. 203/2008) the Government revoked all Historical Horseracing Concessions. On February 3, 2009 and February 9, 2009, in line with the ECJ's judgment, AAMS published a call for the tender of the 329 Historic Horseracing Concessions in the European Union Official Journal and in the Italian Official Journal. The purpose of the public tender was to award concessions for the exercise of horseracing public gaming, by opening and managing 3,000 horse racing Betting Corners (the "Giorgetti Concession"). In May 2009 concessionaires, including Sisal Match Point, were awarded Giorgetti Concessions.

Numeric Games at National Totaliser Concession

On January 26, 2008, the NTNG concession was awarded to Sisal on an exclusive basis. The NTNG concession agreement was executed between Sisal and the AAMS on June 26, 2009 and it will expire on June 30, 2018.

On the basis of the NTNG concession, Sisal currently manages the distribution system of all national totalisator number games, including SuperEnalotto, SuperStar, SiVinceTutto, WinForLife and EuroJackpot and has also commenced the remote collection of numeric games at national totaliser. As exclusive concessionaire, Sisal must allow for the collection of games by other operators using remote selling points provided these are compliant with the technical standards approved by AAMS. As consideration for the distribution of the games, Sisal receives a consideration equal to a percentage of the bets collected which increases with the amount of remotely collected bets.

The NTNG concession was granted to Sisal by AAMS on the basis of a public tender process in accordance with Article 1, paragraph 90, of Law No. 296/2006 indicating the criteria for the selection of the NTNG concessionaire. Among the other things, Article 1, paragraph 90, of Law No. 296/2006 establishes that the concessionaire must be selected between qualified national and foreign operators that take part in the tender process and, among them, to the operator that submits the best technical and economical offer for the implementation and operation of system.

With its bid Sisal undertook, among other things, to ensure a minimum turnover of €350 million in each two-month period and to invest an annual amount equal to a percentage of the turnover for the first 18 two-month periods from July 1, 2009 to June 30, 2012. During the two-month period from May 1, 2012 to June 30, 2012, Sisal only achieved a turnover of €317.3 million. On September 2012 the AAMS requested we pay a penalty of €16.5 million which we challenged before the TAR Lazio. On February 13, 2013, the TAR rejected our claim and reinstated the penalty. See *"Business—Legal Proceedings—Pending Litigation Regarding Minimum NTNG Turnover."* To secure its obligations under the concession, Sisal is required to provide the AAMS with certain security deposits, the amount of which is determined annually based on Sisal's turnover.

Certain competitors have challenged the award of the NTNG concession to Sisal on the basis that Sisal's bid was not in compliance with market standards (i.e. "*offerta anomala*"). See "*Business—Legal Proceedings—Pending Litigation Regarding the NTNG Concession*".

Bingo Concession

The Decree of MEF dated November 21, 2000 provides the main regulation concerning the management and operation of the bingo game (the "Bingo Concession"). The Bingo Concession agreement currently in force, was executed between Sisal Bingo and AAMS on October 9, 2009 and will expire on October 21, 2015.

Further Aspects of the Regulatory Framework

Recent Changes to the Gaming Concession Legal Framework Regarding the Exercise and Remote Collection of Bets and Games

The current legal and regulatory framework of public games outlined above has been consolidated into Article 24, paragraphs 11-26 of Law No. 88 of 7 July, 2009 (the "2008 Community Law"), which was passed by the Italian Parliament in order to ensure compliance of the Italian regulation with the principles of freedom of establishment (Article 43 EC) and freedom to provide services (Article 49 EC). The 2008 Community Law has determined the need to merge the existing concessions (see "*GDA (giochi a distanza) concession*") and that is expected to introduce significant integrations and changes to the process, requirements and conditions for the exercise of the games in the future, as described below.

The purpose of this new regulation is to curtail the spread of irregular and illegal games and betting and to ensure the protection of consumers and of public order, the protection of minors as well as the avoidance of infiltration of organised crime into the gaming sector. Additionally, the new regulatory framework aims to modify and integrate the existing Italian regulatory framework to comply with Articles 43 and 49 of the EC Treaty, the provisions of the TULPS and the principles of non-discrimination, necessity, proportionality and transparency, with a view to open the Italian market to further competition from abroad.

In particular, the concessions for the exercise and remote collection of certain public games can directly be issued by AAMS upon the filing of an application by gaming operators that meet specific requirements and comply with certain economic obligations rather than being assigned by public tender only. See "*New Regulation of Certain Aspects of the Gaming Sector.*" Additionally, the new regulatory framework provides that current concessionaires may broaden their range of activities carried-out by filing an application to AAMS. The 2008 Community Law entitles AAMS to integrate the provisions illustrated below by means of AAMS' directorial decrees. Said provisions have been, in part, implemented by AAMS' directorial decrees on the basis of a specific feasibility project in accordance with Article 24, paragraph 26 of 2008 Community Law.

New Regulation of Certain Aspects of the Gaming Sector

Pursuant to Article 24, paragraph 12, of 2008 Community Law AAMS is entitled to introduce detailed regulations, in compliance with the provisions of the 2008 Community Law, relating to following public games, listed under Article 24, paragraph 11 of the 2008 Community Law:

- (a) fixed odds or totaliser bets on sport events, including virtual sports events and horse racing events;
- (b) horse racing and sport pools;
- (c) national horse racing games;
- (d) skill games;
- (e) fixed odds bets with direct interaction between the players;
- (f) bingo;
- (g) numeric games at the national totaliser; and
- (h) lotteries at instantaneous and deferred drawing.

Condition for the Exercise of Numeric Games at the National Totaliser and Lotteries by Other Concessionaires

The remote collection of the public games indicated by Article 24, paragraph 11 of the 2008 Community Law, letters (g) and (h), can be carried out by those concessionaires authorised to provide the same games through physical channels (i.e., on a non-remote basis) upon AAMS authorisation. In addition, said concessionaires must obtain a license issued by the current holders of the concessions for the remote collection of the abovementioned public games. Such license must provide that said concessionaires pay a commission not lower than the one recognised by the managers of the points of sale of such games that are part of the physical collection network of the current sole holder of the respective concessions.

Conditions for the Issuance of New Concessions

The exercise and remote collection of the public games indicated in Article 24, paragraph 11, letters a) to f) of 2008 Community Law is permitted to (i) operators that fulfil certain requirements and that undertake the obligations described below in favour of which AAMS shall issue a nine-year concession; and (ii) operators that already hold a concession for the exercise and collection of one or more public games by means of physical and/or remote networks. Notwithstanding the foregoing, AAMS may limit new concessions to a maximum of 200 for fixed odds or totaliser bets on sport events, including virtual sports events, and including horse racing events.

New Concessions in Favour of New Operators

Subject to compliance with the following requirements and conditions, new concessions can be issued to operators as indicated in the section entitled “—*Condition for the Issuance of New Concessions*” above:

- (a) the operator must exercise the remote activity of managing and collecting games in one of the member states of the European Economic Area, where the operator must have been registered or where they have located a business office, based on a valid and effective authorisation issued according to the legal system of such state, with an overall turnover, connected to the gaming activity, of no less than €1,500,000 during the last two fiscal years closed before the date of submission of the application;
- (b) if the requirements indicated under (a) above are not satisfied, the operator must (i) have a technical infrastructural capacity not lower than that required by the technical specification signed by the current concessionaires, as certified by a technical report signed by a third independent party; and (ii) set up a first demand two-year bank or insurance guarantee in favour of AAMS in an amount equal to €1,500,000;
- (c) the operator must be set up as a corporation (*società di capitali*) with registered office in one of the member states of the European Economic Area, prior to the issuance of the concession and execution of the relevant concession agreement;
- (d) the chairman, managers and agents of the operators must meet certain specific ethical and professional requirements such as compliance with tax and social securities legislation;
- (e) the technological hardware and software infrastructure for the exercise of the gaming activity which is the subject matter of the concession must be located in one of the states of the European Economic Area;
- (f) the operator must pay to AAMS a one-off fee, covering the entire duration of the concession, as contribution to the expenses for the technical and administrative management by AAMS of the licensed activity, in an amount equal to €300,000 plus VAT for skill game concessions. This amount can be increased every three years based on the index of national consumer prices for the general public (NIC) published by ISTAT; and
- (g) the operator must execute a specific deed of undertaking.

Condition for the Exercise of New Games by Existing Concessionaires

Existing concessionaires that apply for a concession for the exercise and remote collection of those games that are listed in Article 24, paragraph 11, letter a) to f) (i.e., all games mentioned in “—*New Regulation of Certain Aspects of the Gaming Sector*” with the exception of the numeric games at national totaliser and lotteries) to broaden or complete their existing offering of games they are already entitled to provide and exercise remote collection, must pay to AAMS a one-off fee of the amount indicated below:

- (a) concessionaires that hold a concession for Bingo games which file an application concerning the games indicated in Article 24, paragraph 11, letter a) to e) (i.e., all games mentioned in “—*New Regulation of Certain Aspects of the Gaming Sector*” excluding bingo, numeric games at national totaliser and lotteries) must pay €300,000;
- (b) concessionaires that hold Bersani Decree Concessions which file an application concerning Bingo games €50,000; and

- (c) concessionaires holding concessions relating to all remaining games, and that are not already entitled to the remote collection of their games which file an application concerning the games indicated in Article 24, paragraph 11, letter a) to f) (i.e., all games mentioned in “—*New Regulation of Certain Aspects of the Gaming Sector*” excluding numeric games at the national totaliser and lotteries) must pay €350,000.

These amounts can be increased every three years based on the index of national consumer prices for the general public (NIC) published by ISTAT.

Content of the Relevant Applications

The law prescribes the content of an application for a concession which must be published on AAMS’ website. Submission of the application entails the undertaking of several obligations in a deed of undertaking, which shall be valid throughout the life of the concession agreement. The procedure for the assessment of the applications must be completed by AAMS within 90 days from filing of the application. Within 90 days from the date indicated by AAMS, the concessionaire for the exercise and remote collection of public games must sign an addendum to the existing concession which conforms the existing concession to the changed regulatory framework outlined above.

Condition for the Exercise of Remote Games

The management of remote games is conditioned on the establishment of a game account agreement between the player and the concessionaire. AAMS is required to publish a model game account agreement which must comply with the provision of the 2008 Community Law on its website.

GDA (giochi a distanza) Concession

In accordance with the new provisions of the 2008 Community Law, AAMS launched a procedure for awarding the concessions for the exercise of remote games. Such process was open to (a) new operators and (b) existing concessionaires by means of the physical and remote network, or both.

In case sub (b) the tender process was aimed at the integration of the existing concessions for the exercise of the remote collection of games and bets for the purpose to adequate such concessions to the new requirements introduced by the 2008 Community Law.

AAMS has awarded approximately 200 concessions for the remote collection of bets and games (the “GDA Concession”) concerning, *inter alia*: (i) horse racing and sport pools; (ii) skill games (e.g. poker cash); (iii) bingo; and (iv) numeric games at national totaliser.

Having participated in the tender process as existing concessionaire, Sisal Match Point has been awarded with a GDA concession and has been authorised to the remote collection of the above mentioned games.

Further provisions on gaming concessions

Article 2.2 of Law Decree No. 40 of March 25, 2010, (the “Incentives Decree”), converted into Law No. 73 of 22 May, 2010, prohibits any business relationship between the holders of concessions which generate income for the Italian treasury and third parties, unless such business relationships are expressly allowed by the tender documentation for the award of the relevant concessions. Any consideration received by the concessionaires from third parties in violation of the aforementioned prohibition is to be paid to the authority that granted the concession. According to an opinion issued by the Council of State this prohibition also applies to gaming concessions.

Fiscal Decree No. 2 of March 2012, converted into Law No. 44 of April 26, 2012, subsequently clarified that Article 2.2 should be interpreted to only apply to concessions awarded on the basis of tender procedures launched after the Incentive Decree came into force. As far as the Group is concerned, we received confirmation by final judgment of the Regional Administrative Court of Lazio that the Incentive Decree does not apply to the business relationships between Sisal S.p.A. and third parties under our NTNG concession.

The Incentives Decree entitles AAMS to integrate the existing gaming concessions in order to introduce administrative fines for breaches of the prohibition established under the Incentive Decree. Such fines have to comply with the principles of reasonableness and proportionality.

Furthermore, Article 2.2-*bis*, confirms that the activities of remote gaming collection can only be carried out by concessionaires and in compliance with the provisions of the relevant concessions granted by the AAMS.

Payment Services Regulation

The following is a brief description of the main regulations that govern the payment services and financial services segments of the convenience payment services market in which the Group operates. The payment services segment does not include services such as top-ups for mobile phones and telephone cards.

The Italian regulatory framework on payment services is derived from Legislative Decree 27 January 2010, No. 11 (“Payment Services Decree”) implementing in Italy Directive 2007/64/EC (“Payment Services Directive”) and from Legislative Decree of 1 September 1993, No. 385, as amended (“Italian Banking Act”). In Italy, payment services may only be provided by licensed banks, electronic money institutions, payment institutions and other administrative bodies, such as the European Central Bank and other EU central banks and EU sovereigns.

Italian payment institutions (“Payment Institutions”) are licensed and supervised by the Bank of Italy. The Bank of Italy maintains a register of licensed Payment Institutions that is available to the public.

Payment Institutions are subject to the same regulatory requirements applicable to banks with respect to the authorisation and/or disclosure of the acquisition of certain equity interests, as well as the integrity, professional and other requirements that apply to shareholders and directors. Payment Institutions must maintain at all times a minimum regulatory capital. In addition, Payment Institutions are required to keep separate payment accounts for each client (i.e., the beneficiary of the payment). Clients’ accounts must be segregated from the accounts of the Payment Institutions and from those of other clients. The provision of payment services is subject to conduct of business rules aimed at protecting payment services customers. Violation of licensing or other regulatory requirements applicable to payment institutions may lead to, among other things, criminal sanctions and administrative monetary fines.

Payment Institutions that carry out a business other than and in addition to payment services, as in the case of the Issuer, must comply with specific provisions (such Payment Institutions, “Hybrid Payment Institutions”): Hybrid Payment Institutions must, among other things, segregate at all times assets relating to payment services (the “Segregated Assets”) and assets relating to other businesses. The regulatory framework applicable to Payment Institutions applies to the payment services business and Segregated Assets of Hybrid Payment Institutions. In addition, with respect to the Segregated Assets, Hybrid Payment Institutions must appoint a person responsible for the Segregated Assets; maintain a separate administrative function and accounts; and establish and calculate initial minimum capital requirements as well as regulatory capital requirements.

Authorisation

Authorisation to provide payment services is granted by the Bank of Italy subject to certain conditions. Pursuant to the Bank of Italy supervisory provisions on payment institutions and electronic money institutions adopted on June 20, 2012 (“Supervisory Provisions”), a license will be granted if the payment institution provides for, among other things, sound management and correct functioning of the payment system. For this purpose, the Supervisory Provisions require, among other things, the payment institution (i) to be established as a joint stock company (*società per azioni*) or limited liability company (*società a responsabilità limitata*) or other approved corporate form; (ii) to have its headquarters in Italy; (iii) to hold a minimum share capital ranging from €20,000 to €125,000, depending on the payment services carried out; (iv) that shareholders and corporate directors satisfy integrity, professional and other applicable requirements; and (v) that in light of the structure of the group of the payment institution or the relationships existing between such payment institution, its group, and other entities, there is no impediment to exercising the required level of supervision. Subject to the above conditions, the Bank of Italy grants authorisation if it finds that the payment institution has a suitable program of activities and an administrative and accounting organisation that is proportionate to the structure and the activities of the payment institution.

Prudential Requirements

Payment Institutions must maintain a regulatory capital equal to the sum of the base capital and the supplementary capital, the minimum amount of which is determined in accordance with the Supervisory Provisions. Valuation of the regulatory capital must be made pursuant to the New Supervisory Provisions for Banks (set forth in the circular 263/2006 of the Bank of Italy), which implements the Capital Requirements Directives. In particular, except for the first financial year (for which an alternative method of calculation of the applicable amount of regulatory capital is available), a Payment Institution must hold a regulatory capital calculated with reference to a proportion of the aggregate amount of all payment transactions carried out by the Payment Institution in the immediately previous financial year. As of December 31, 2012 the regulatory capital of the Issuer amounted to €2.3 million.

Supervision

The Bank of Italy holds supervisory powers on the provision of payment services. These powers include adopting measures imposed by applicable law, carrying out investigations, conducting enforcement proceedings and applying sanctions. With respect to any Payment Institution that carries out a separate business, if security of the payment services is not guaranteed, the Bank of Italy may order the establishment of a separate company to carry out payment services.

Acquisition of Equity Interests

Prior authorisation must be obtained from the Bank of Italy in the case of a direct or indirect acquisition of the equity interests in the capital of a payment institution, which acquisition allows a person, acting individually or in concert:

- to acquire a stake equal to or greater than a certain percentage of the share capital or of the voting rights of the payment institution concerned; or
- to exercise a significant influence over the management of the payment institution concerned; or
- to acquire the control of the entity concerned.

Specific rules as to how the relevant thresholds are calculated are set forth under the Supervisory Provisions. In addition, a notification must be made to the Bank of Italy upon a purchase or withdrawal of a relevant shareholding. Reduction of a relevant shareholding below the applicable threshold must also be notified.

Anti-money Laundering Regulations

We are subject to anti-money laundering rules and regulations, including Legislative Decree No. 231 of 21 November 2007, as amended, implementing in Italy the anti-money laundering EU Directive (2005/60/EC).

In particular, we are required to:

- (a) adequately identify and verify our customers (using rigorous procedures of identification and verification in certain situations that are deemed higher-risk for money laundering and terrorism financing);
- (b) establish a Consolidated Computer Archive (*Archivio Unico Informatico*, “AUI”);
- (c) record and preserve the identifying data and other information related to relationships and transactions in the AUI;
- (d) send the compiled data to the Financial Information Unit (*Unità di Informazione Finanziaria*);
- (e) report suspicious transactions; and
- (f) establish internal control measures and ensure adequate training of employees.

MANAGEMENT

The following is a summary of certain information concerning the management of the Issuer, certain provisions of the by-laws (*statuto*) of the Issuer and of Italian law regarding corporate governance. This summary is qualified in its entirety by reference to such by-laws and Italian law. See “*Listing and General Information*” for information on how to obtain a copy of our by-laws.

The Issuer is managed by a board of directors (*Consiglio di Amministrazione*) which, within the limits prescribed by Italian law, has the power to delegate its general authority to an executive committee or one or more managing directors. The board of directors determines the powers of the chief executive officer. In addition, the Italian Civil Code requires the Issuer to have a board of statutory auditors (*Collegio Sindacale*) which functions as a supervisory body (see below).

Board of Directors of the Issuer

There are presently fourteen members on the board of directors. Members of the board of directors are appointed by the shareholders of the Issuer at ordinary shareholders’ meetings for a three-year term expiring on the date of the ordinary shareholders’ meeting called to approve the financial statements for the third financial year of their term. All directors were appointed at the shareholders’ meeting held on June 28, 2012. The directors will remain in office until approval by the shareholders of the financial statements for the year ended December 31, 2014.

The following table sets forth the names, ages and titles of the members of the board of directors of the Issuer:

Name	Age	Title
Augusto Fantozzi	72	Chairman
Emilio Petrone	49	Director and Chief Executive Officer
Giancarlo Aliberti	51	Director
Simone Bassi	39	Director
Roberto Biondi	42	Director
Amedeo Carassai	46	Director
Gabriele Cipparrone	38	Director
Mario Gian Battista Corti	59	Director and Director of Legal and Corporate Affairs
Simone Cucchetti	37	Director
Roberto Gavazzi	73	Director
Alessandro Grimaldi	58	Director
Alessandro Papetti	46	Director
Nicola Volpi	51	Director
Roberto Zanchi	55	Director

The business address for the members of the board of directors of the Issuer is the registered office of the Issuer at Via Alessio di Tocqueville 13, 20154 Milan, Italy.

The following is biographical information for each of the members of the board of directors of the Issuer:

Augusto Fantozzi. Mr. Fantozzi joined us in 2010 and was appointed Chairman of the board of directors in 2010. Mr. Fantozzi is a Professor of tax law at the Università La Sapienza di Roma, served as Chairman of the permanent Scientific Committee of the International Fiscal Association, and was a board member of the boards of management of Benetton, Lloyd Adriatico, and Citinvest, and Chairman of Antonveneta. Mr. Fantozzi was Minister of Finance, Budget, and European Policies in the Dini Government (1995-1996) and served as Minister of Foreign Trade in the first Prodi Government (1996-1998). Mr. Fantozzi is a Knight of the Grand Cross of the Italian Republic and a Knight of the Legion of Honor.

Emilio Petrone. Emilio Petrone was appointed Chief Executive Officer in 2008. Mr. Petrone holds a degree in economics from the Università degli Studi di Salerno and a Master in Business Administration (“MBA”). Prior to joining the Sisal Group, Mr. Petrone was Senior Vice President of Mattel Corporation responsible for Central & Eastern Europe, Middle East and Africa and served as Chairman and Chief Executive Officer of Mattel Italy, Mattel Greece and Mattel Manufacturing Europe. Before its experience in Mattel, he worked for Ferrero Unilever, Sara Lee Corporation and Telecom Italia Group.

Giancarlo Aliberti. Mr. Aliberti joined Apax Partners in April 2000 and was appointed to the board of directors of the Issuer as Director in 2006. He is one of the 14 equity partners of Apax globally, focusing mainly on the sector of financial services and retail. He has both led and participated in a number of transactions including Weather Investments, Farmafactoring, Tim Hellas and Sisal. He is also a director of the board of Farmafactoring and previously served on the boards of Azimut and Tim Hellas. Prior to joining Apax Partners, Mr. Aliberti was a Senior Vice President at Monitor Company, where he specialised in telecommunications and consulting support to private equity firms. He also worked at Montedison in a staff function supporting the President of the company. Mr. Aliberti holds an MBA from Harvard Business School and a degree in Economics from Università La Sapienza di Roma.

Simone Bassi. Mr. Bassi holds a degree in business administration from the University of St. Gallen. He was appointed to the board of directors of the Issuer as Director more than three years ago. He started his professional career as consultant at Arthur Andersen. From 2000 to 2004 he was Investment Manager for Zurmont Management AG, a Swiss

company active in the private equity sector. Since 2005 he has been the Chief Executive Officer of Amministra SA, a fiduciary company providing corporate, accounting and tax consultancy services in addition to fiduciary and administrative services.

Roberto Biondi. Mr. Biondi joined Permira Funds in 2001 where he became partner in 2010 and was appointed to the board of directors of the Issuer as Director in 2007. Mr. Biondi holds a degree in chemical engineering from Politecnico di Milano and an MBA from INSEAD (France). Prior to joining Permira Funds, Mr. Biondi worked as an associate for McKinsey & Company in Italy and Israel.

Amedeo Carassai. Mr. Carassai joined Apax Partners as a director responsible for managing the development of the telecommunications and retail sectors in Italy and Southern Europe in 2003 and was appointed to the board of directors of the Issuer as Director in 2006. Mr. Carassai holds a degree in electrical engineering from the Università La Sapienza di Roma and a Master of Business Administration from the Sloan School of Management, Massachusetts Institute of Technology. Prior to joining Apax Partners, Mr. Carassai served as Chief Investment Officer at Syntek Capital and was a partner at McKinsey & Company.

Gabriele Cipparrone. Mr. Cipparrone was appointed to the board of directors of the Issuer as Director in 2008. Mr. Cipparrone holds a degree in mechanical engineering from Politecnico di Torino, a master degree in engineering from École Centrale of Paris, and an MBA from Harvard Business School. Mr. Cipparrone started his career as associate with McKinsey & Company and joined Apax Partners in 2003, working in London and Milan as a member of the Tech & Telecom team. For Apax Partners he participated in a number of transactions including Orange Switzerland, Wind Telecom, Farmafactoring, Sisal and TDC.

Mario Gian Battista Corti. Mr. Corti joined the Sisal Group in 1996 and was appointed Director in the period from 2000 to 2006 and from 2009 onwards. Prior to joining the Sisal Group, Mr. Corti worked in the legal departments of the SIR Group and the Augusta Group, as Legal Vice Director of Ciba Geigy and Legal Director of Recordati S.p.A. Mr. Corti has been admitted to the Italian bar and is a certified public accountant and has been a statutory auditor and board member for a number of Italian companies. Mr. Corti holds a degree in jurisprudence from the Università degli Studi di Milano.

Simone Cucchetti. Mr. Cucchetti joined Clessidra in 2003 as Investment Director handling a variety of private equity transactions, was appointed to the board of directors of the Issuer as Director in 2005 and became a partner of Clessidra in 2013. Mr. Cucchetti holds a degree in political economics from the Università Bocconi of Milan. Prior to joining Clessidra, Mr. Cucchetti worked in Citigroup's European Investment Banking division in London.

Roberto Gavazzi. Mr. Gavazzi was appointed to the board of directors of the Issuer as Director in 2006. Mr. Gavazzi holds degrees in economics and law. Prior to joining the Sisal Group, Mr. Gavazzi was a member of the board of directors of Mediobanca, Pirelli, Credito Italiano and Banca Commerciale Italiana and served as member of the *Vorstand* of Allianz Holding Germany and Managing Director of Allianz Europe based in Amsterdam. Mr. Gavazzi is admitted to the Italian bar and a certified public accountant.

Alessandro Grimaldi. Mr. Grimaldi is a Senior Partner, co-founder and member of the board of directors of Clessidra and was appointed to the board of directors of the Issuer as Director in 2006. Mr. Grimaldi holds a degree in economics and business from the Università La Sapienza di Roma and a Master in Business Administration from American University in Washington, D.C. Mr. Grimaldi is a member of the board of directors of Giochi Preziosi S.p.A. and of several companies of the Funds Portfolios. Prior to co-founding Clessidra, from 1999-2003, Mr. Grimaldi served as General Affairs Director of Fininvest S.p.A. and was a member of the boards of directors of Medusa Film S.p.A. and Mediolanum S.p.A. Mr. Grimaldi has extensive experience as professional consultant to medium-sized companies advising on general corporate affairs, investment and restructuring transactions.

Alessandro Papetti. Mr. Papetti joined Clessidra in 2003 and was appointed to the board of directors of the Issuer as Director in 2006. Mr. Papetti holds a degree in business administration from Università Bocconi, and is a Manager and Partner of Clessidra SGR S.p.A. Since 2003, Mr. Papetti has been involved in the formation of Fondo Clessidra Capital Partners and CCPII and served as a member of the board of directors of various companies of the Funds Portfolios. Prior to joining Clessidra, Mr. Papetti was a partner at Arca Impresa Gestioni SGR S.p.A. and worked in private equity at IMI—ABN Amro and Chase-Gemina.

Nicola Volpi. Mr. Volpi joined Permira Funds in 1995 and is Chief Executive Officer of Permira Associati S.p.A. Mr. Volpi was appointed to the board of directors of the Issuer as Director in 2007. Mr. Volpi holds a degree in business economics from the Università Bocconi di Milano. Prior to joining Permira, Mr. Volpi was an Equity Capital Markets executive at Sanpaolo Finance. Prior to joining Sanpaolo Finance, Mr. Volpi worked in Sefimeta as an analyst for the development of new financial products.

Roberto Zanchi. Mr. Zanchi was appointed to the board of directors of the Issuer as Director in 2006. Mr. Zanchi holds a degree in law and was admitted to the Italian bar in 1983. He has been working with the law firm Pavia e Ansaldo since 1983, became equity partner in 1991 and managing partner in 2005. Mr. Zanchi is primarily responsible for firm's

corporate law department handling mainly transactions relating to banking and financial markets law, mergers and acquisitions and private equity. Mr. Zanchi has also been Director of Bulgari S.p.A. from 2001 to 2007 and Chairman of Banca Popolare di Cremona S.p.A. in the financial years 2010-2011.

Powers and Responsibilities

Pursuant to its by-laws, the management of the Issuer's business is the exclusive responsibility of the directors, who may perform all acts that they consider necessary for the achievement of the Issuer's corporate purpose, except for those actions reserved by law or the by-laws for the shareholders' meeting. In particular, the board of directors has the ability to take all actions it deems appropriate to achieve the objectives of the Issuer. Subject to the limitations of applicable Italian law, the board may delegate its powers to an executive committee or one or more directors.

Pursuant to its by-laws, meetings of the board of directors require a quorum of the majority of directors. Resolutions are generally adopted by a simple majority of directors present at the meeting unless for specific matters (e.g., amendments of by-laws, mergers, capital increase, material acquisitions and financings and directors' remuneration) where the by-laws requires a larger majority.

The chairman of the board of directors and, within the limit of the powers granted to them, the executive directors, have the power to bind the Issuer in dealings with third parties and to represent it in court proceedings.

Senior Management

The following table sets forth the names, ages and titles of the members of the senior managers of the Group.

Name	Age	Title
Emilio Petrone	49	Chief Executive Officer
Corrado Orsi	49	Chief Financial Officer
Andrea Orlandini	57	Director of Human Resources and Organisation
Giovanni Emilio Maggi	58	Director of Institutional Relations
Mario Gian Battista Corti	59	Director of Legal and Corporate Affairs
Andrea Castellani	46	Head of Internal Audit and Risk Management
Simonetta Consiglio	48	Director of Marketing and Communications
Maurizio Santacroce	42	Director of Digital Games and Services Business Unit
Francesco Durante	42	Director of Entertainment Business Unit
Roberto di Fonzo	50	Director of Strategy
Maurizio Dell'Oca	59	Director of Information Systems and New Technologies
Marco Caccavale	41	Director of Lottery Business Unit

The business address for the senior managers of the Group is the registered office of the Issuer at Via Alessio di Tocqueville 13, 20154 Milan, Italy.

See “—*Board of Directors of the Issuer*” for biographies of Emilio Petrone and Mario Gian Battista Corti.

Corrado Orsi. Mr. Orsi holds a degree in economics and business from Bocconi University. Mr. Orsi joined the Sisal Group in early 2009 as Chief Financial Officer. Previously Mr. Orsi held managerial positions in the Nestlè Group as Director of the Controlling Department, in San Pellegrino as Chief Financial Officer and in Brembo as Chief Financial Officer and Head of Investor Relations.

Andrea Orlandini. Mr. Orlandini holds a degree in political sciences from Università degli Studi di Milano. Since 1995 Mr. Orlandini has been the head of Human Resources and Organisation of the Sisal Group. From 1986 to 1995 Mr. Orlandini worked in SmithKline Beecham pharmaceuticals, holding various positions, including Head of the Business Development. Previously Mr. Orlandini worked in Italcable and Dalmine focusing on Industrial Relations. Currently Mr. Orlandini is chairman of Gruppo Regionale Lombardo AIDP.

Giovanni Emilio Maggi. Mr. Maggi holds a degree in economics from Bocconi University. Mr. Maggi joined Sisal in 1991 and, since 2004, has been Director of Institutional Relations, after various experiences as Marketing Director and subsequently as Director of Business Development and International Development. Previously Mr. Maggi worked with increasing responsibilities in the Marketing Division of companies in the consumer goods business such as Airwick-Ciba Geigy S.p.A., Alivar S.p.A. (Motta-Alemagna)—and Fedital S.p.A. (Polenghi Lombardo).

Andrea Castellani. Mr. Castellani holds a degree in economics from Bocconi University. He joined Sisal in 2007 as Head of Management Control and currently is Head of Internal Audit e Risk Management. Mr. Castellani is member of the Organismo di Vigilanza pursuant to Legislative Decree n. 231 of 2001 of the subsidiaries of the Group. Before joining Sisal, Mr. Castellani was Finance & Administration Director of the BU EMEA Systemedia of NCR Corporation directly responsible for the administration processes, planning and control for the countries of the region Europe, Middle East & Africa.

Simonetta Consiglio. Mrs. Consiglio holds a degree in political sciences from LUISS University of Rome and a Master in Business Administration. Mrs. Consiglio joined the Sisal Group in 2011. As Director of Marketing & Communication, Mrs. Consiglio is responsible for planning and implementing marketing strategies alongside the business units of the group. Mrs. Consiglio developed her career within the Telecom Italia Group as Country Manager in Germany and UK, Vice President Strategy and Business Innovation and subsequently Executive Vice President Marketing Voice and Mobile Services in Telecom Italia Sparkle.

Maurizio Santacroce. Mr. Santacroce holds a degree in economics and business from the Università degli Studi di Bari and an MBA from LUISS University of Rome. Mr. Santacroce joined the Sisal Group in 2008 as Director of the Strategy Business Unit. Since 2009 Mr. Santacroce has been the Director of the Digital Games & Services Business Unit. Prior to joining Sisal, Mr. Santacroce worked in Vodafone Omnitel Italy as Strategy and Business Planning Officer, in Bain & Company and from 2005 to 2008 in Lottomatica-Gtech, initially as Director of the Lottery Business Unit and later as Director of the Services Division.

Francesco Durante. Mr. Durante holds a degree in economics and business from LUISS University of Rome. He joined the Sisal Group in 2009 as head of the Entertainment Business Unit. Mr. Durante is also Chief Executive Officer of two subsidiaries of the Sisal Group, Sisal Entertainment and Sisal Match Point. Prior to joining Sisal Mr. Durante worked in multinational companies including Lucent Technologies and Sara Lee.

Roberto Di Fonzo. Mr. Di Fonzo holds a degree in economics and business from Università La Sapienza di Roma and an MBA from ISDA. Since 2011 Mr. Di Fonzo has been head of the Strategy Division of the Sisal Group. Mr. Di Fonzo previously worked in multinational companies including Sara Lee and Unilever in senior management in Italy and abroad. From 2003 to 2010 Mr. Di Fonzo was Managing Director Italy of the Apparel division of Sara Lee, and previously was CFO of the European division of the same Group, responsible for Europe, Far East & Africa.

Marco Caccavale. Mr. Caccavale holds a degree in economics and business from Università di Napoli Federico II. Mr. Caccavale joined the Sisal Group in August 2008 as Trade Marketing Director, Business Director from April 2009 and subsequently Director of the Lottery Business Unit. From 2004 to 2008 Mr. Caccavale worked in Mattel as Director of Sales & Trade Marketing and previously in Exportex in the area of business.

Maurizio Dell'Oca. Mr. Dell'Oca holds a degree in physics from the Università degli Studi di Milano. Since 2001 Mr. Dell'Oca has been Director of Information Systems and New Technologies for the Sisal Group. Early in his career Mr. Dell'Oca worked in the Brown Boveri Group in the industrial automation and projecting sector. Subsequently Mr. Dell'Oca joined Agusta Aerospace where he held numerous roles and was responsible for Information Systems. In 1990 joined the NCR Corporation holding roles of increasing responsibilities before being appointed Vice President Professional Services for the Retail Solutions business units.

Compensation

The aggregate cash compensation to the Group's senior management and to the board of directors of the Issuer amounted to €4.9 million in 2012. Additionally, the Group's senior management participates in an incentive compensation plan.

Board of Statutory Auditors

General

Pursuant to applicable Italian law, the Issuer has appointed a board of statutory auditors (*Collegio Sindacale*) whose objective is to oversee the Issuer's compliance with applicable law and with its by-laws, monitor the implementation of best practices, and assess the adequacy of the internal controls and accounting reporting systems at the Issuer, as well as the adequacy of the supply of information to its subsidiaries.

There are presently three auditors and two alternate auditors on the board of statutory auditors for the Issuer. Members of the board of statutory auditors are appointed by the shareholders of the Issuer at ordinary shareholders' meetings for a three-year term expiring on the date of the ordinary shareholders' meeting called to approve the financial statements for the third financial year of their term. All members of the board of statutory auditors were appointed at the shareholders' meeting held on June 28, 2012. At least one of the auditors and one of the alternate auditors must be selected among legal auditors registered with the relevant special registry. Members of the board of statutory auditors may be removed only for a valid reason and with the approval of an Italian court.

The following table sets forth the names, ages and titles of the members of the board of statutory auditors of the Issuer. They will remain in office until approval by the shareholders of the financial statements for the year ended December 31, 2014.

<u>Name</u>	<u>Age</u>	<u>Title</u>
Piero Alonzo	47	Chairman
Massimo Bellavigna	47	Auditor
Francesco Tabone	57	Auditor
Carlo Bosello	52	Alternate Auditor
Giuseppe Farchione	52	Alternate Auditor

PRINCIPAL SHAREHOLDERS

The Issuer is wholly owned by Gaming Invest S.à r.l. and as of December 31, 2012 its share capital comprised 102,500,000 fully subscribed and paid-in ordinary shares. The following table sets forth, as of December 31, 2012, information regarding the indirect beneficial ownership of the Issuer's outstanding ordinary shares (excluding treasury shares):

Name and Address of Owner of Record	Number of Shares of Record	Percentage of Shares of Record
Apax Partners ⁽¹⁾	37,328,117	36.42%
Permira Funds ⁽¹⁾	37,328,117	36.42%
Clessidra ⁽¹⁾	20,377,000	19.88%
Rodolfo Molo	4,431,998	4.32%
Malvina Molo	662,252	0.65%
Global Leisure Partners ⁽¹⁾⁽²⁾	1,757,516	1.71%
Sisal Management	615,000	0.60%

(1) Includes funds advised by such entity and related entities.

(2) Global Leisure Partners is a financial advisory firm established in 2004 which also seeks investments alongside private equity partners in the global leisure industry.

RELATED PARTY TRANSACTIONS

In the course of our ordinary business activities, we regularly enter into agreements with companies within the Group. These agreements mainly relate to the rendering of intra-Group services, such as the provision of software and IT, treasury, controlling and other services as well as marketing services.

We believe that all transactions with subsidiaries are negotiated and executed on an arm's-length basis and that the terms of these transactions are comparable to those currently contracted with unrelated third-party suppliers and service providers.

The parent company of the Issuer is Gaming Invest. Gaming Invest has issued two subordinated shareholder loans to the Issuer—Shareholder Loan C in 2006 and Shareholder Loan ZC in 2009. See “*Description of Certain Financing Arrangements—Shareholder Loans*”. At December 31, 2012, the total principal outstanding balance on the Shareholder Loans was €423.3 million (gross of amortized cost of €3.3 million) of which €79.8 million was outstanding under Shareholder Loan ZC and €343.5 million was outstanding under Shareholder Loan C.

Under the agreements reached with the shareholders following the acquisition of the majority of the share capital of Sisal S.p.A. by the Issuer in 2006, some managers subscribed to certain debt and equity instruments of Gaming Invest. Similar opportunities have been provided to certain other managers since such date.

DESCRIPTION OF CERTAIN FINANCING ARRANGEMENTS

The following is a summary of the material terms of our and Gaming Invest's principal financing arrangements. The agreements described herein are subject to the issuance of the Notes as described in this offering memorandum. The following summaries do not purport to describe all of the applicable terms and conditions of such arrangements and are qualified in their entirety by reference to the actual agreements. We recommend you refer to the actual agreements for further details, copies of which are available upon request.

Senior Secured Credit Facilities Agreement

The following is a summary of the provisions of the Senior Secured Credit Facilities Agreement entered into between, among others, the Issuer and Sisal S.p.A. as original borrowers, the mandated lead arrangers named therein and The Royal Bank of Scotland Plc, Milan Branch as agent and security agent originally dated October 16, 2006, as subsequently amended or amended and restated on February 21, 2007, March 12, 2007, December 18, 2007, April 30, 2008, March 31, 2010, August 3, 2010, and October 11, 2011, and as further amended and restated on or about the Issue Date. Sisal Entertainment S.p.A. (formerly, Sisal Slot S.p.A.) and Sisal Match Point S.p.A. acceded as additional borrowers on November 29, 2006. In addition, Sisal S.p.A., Sisal Entertainment S.p.A. and Sisal Match Point S.p.A. are guarantors under the Senior Secured Credit Facilities Agreement, each guaranteeing, subject to certain limitations, the obligations of any subsidiary of Sisal S.p.A. that is or becomes an additional borrower thereunder (each, an "Additional Borrower", and all such borrowers and guarantors together the "Obligors").

On or about the Issue Date, The Law Debenture Trust Corporation p.l.c. shall accede to the Senior Secured Credit Facilities Agreement as the original note trustee (the "Original Note Trustee") on its own behalf and as trustee and agent on behalf of Noteholders (as defined below), who will be and will be deemed to be party to the Senior Secured Credit Facilities Agreement as "Lenders" under the applicable Note Facility (as defined below) for the purposes and to the extent set out in the Senior Secured Credit Facilities Agreement.

In this summary, reference to a "Note Trustee" shall mean the Original Note Trustee and any institution that is, from time to time, acting as trustee on behalf of Noteholders in connection with a future issuance of Notes, and "Noteholders" means the "Holders" of the relevant Notes as defined in the relevant indenture.

Overview

The Senior Secured Credit Facilities Agreement will be amended and restated on or about the Issue Date to, among other things, (i) amend and incorporate certain definitions and provisions necessary to permit the issuance of the Notes and the grant of the security in the collateral related thereto, (ii) reschedule the repayment instalments of the amortising facility and (iii) extend the final maturity dates of the Senior Secured Credit Facilities to September 30, 2017 (the "Final Maturity Date").

The proceeds from the Offering will be used to repay in full and cancel the amounts drawn under the Term D Facility (as defined in the Senior Secured Credit Facilities Agreement), partially repay the Term B and Term C Facilities (as defined in the Senior Secured Credit Facilities Agreement) and cleardown €5.0 million of the Revolving Credit Facility (following which €29.3 million will remain outstanding and €5.0 million will remain available for future drawing) (See "Use of Proceeds").

Notes Related Provisions

The Original Note Trustee is acceding to the Senior Secured Credit Facilities Agreement (on its own behalf and as trustee and agent for the Noteholders) solely with respect to certain provisions and definitions therein, primarily to ensure that the Original Note Trustee and the Noteholders have the status of "Lenders" under the Senior Secured Credit Facilities Agreement and "Senior Lenders" under each of the Senior Intercreditor Agreement and the Voting Agreement and as a result benefit from certain rights and remedies afforded to the Lenders under these intercreditor arrangements in particular with a view to instructing the Security Agent to enforce the Collateral. These definitions and provisions include the following (the "Notes Related Provisions"):

- (a) the definitions of Additional Notes, Additional Notes Trustee, Indenture, Notes, Note Creditor, Notes Default Notice, Note Documents, Note Facility, Note Guarantee, Note Issuer, Note Liabilities, Notes Major Terms, Notes Related Provisions, Notes Structure Memorandum, Note Trustee, Note Trustee Amounts, Noteholder, Original Notes, Proceeds Loan, Proceeds Loan Agreement, Proceeds Loan Pledge, Proceeds Loan Major Terms and Voting Request;
- (b) the definitions of Commitment, Facilities, Finance Documents, Finance Parties, Lender, Majority Lenders, Parent Facilities, Security Documents, Senior Intercreditor Agreement, Total Commitments, Transaction Documents, Security Documents, Transfer Certificate and Voting Request to the extent used in any Notes Related Provision for the purpose of (x) the Senior Intercreditor Agreement and/or (y) any other relevant intercreditor arrangements between the Finance Parties (as defined therein) and other creditors of Gaming Invest S.à.r.l. ("Luxco");

- (c) Clause 1.2 (Interpretation), Clause 1.9 (Note Trustees), Clause 1.10 (Voting), Clause 2.2 (Grant of Note Facility), Clause 2.3 (Lenders' and Issuing Bank's rights and obligations), Clause 27.28 (Further Assurance), Clause 28.5-bis (Note Event of Default), Clause 28.15.2 (Acceleration and Cancellation), 36.10 (Assignments and Transfers by Noteholders), 41.1 (Required Consents), paragraphs 41.2.1.d, 41.2.2, 41.2.3, 41.2.7 and 41.2.8 only of Clause 41.2 (Exceptions), and Clause 42 (Survival and withdrawal of rights following discharge);
- (d) Clause 35.1 (Appointment of the Agent) to Clause 35.12 (Confidentiality) (inclusive but excluding Clause 35.10 (Lender's indemnity to the Agent)), Clause 35.17 (Deduction from amounts payable by Agent) and Clause 35.19 (Release of Security); and
- (e) The Senior Intercreditor Agreement and/or any other relevant intercreditor arrangements between the Finance Parties and the creditors of Luxco.

The Facility Agent under the Senior Secured Credit Facilities Agreement will be acting as agent for the Noteholders through instructions of the Note Trustee with respect to the Notes Related Provisions. In addition, the Senior Secured Credit Facilities will permit trustees acting as trustee and agent for holders of future senior secured notes having terms consistent with the Notes Major Terms (as defined in the Senior Secured Credit Facilities Agreement) to become a "Lender" under the Senior Secured Credit Facilities.

Solely for the purpose of determining the "Majority Lenders" in connection with the Notes Related Provisions, the "Commitments" of any Note Trustee and the Noteholders as Lenders shall be included and (A) the aggregate principal amount of all Notes outstanding at any time under each facility representing the Notes (the "Note Facility") shall be voted by the relevant Note Trustee acting on behalf of the relevant Lenders acting in accordance with the terms of the relevant Indenture and treated as if they were Commitments of such Lenders, and (B) Commitments of the Lenders (other than the Note Trustee and the Noteholders) shall be taken to mean the drawn and undrawn Commitments of those Lenders. Pursuant to the Senior Secured Credit Facilities Agreement, if the requisite majority of Noteholders approve or disapprove a resolution, all Noteholders will be deemed to have approved or disapproved the resolution in question. If the Security Agent has not received an instruction from the Original Notes Trustee within ten business days the Noteholders will be deemed to have rejected the request, whereas if the other Lenders fail to respond, their Commitment will be disregarded in calculating the votes cast.

The Notes Related Provisions as defined in the Senior Secured Credit Facilities Agreement cannot be amended without the consent of the Note Trustee.

Facilities

Following the repayment and cancellation of the Term D Facility pursuant to the Refinancing, the Senior Secured Credit Facilities Agreement provides for senior facilities of up to €443.9 million, comprising the following:

- (a) three term loan facilities:
 - (i) Term A Facility is an amortising term loan in euro and as at April 2013 remains drawn for approximately €50.5 million;
 - (ii) Term B Facility is a non-amortising term loan in euro and as at April 2013, following the partial repayment pursuant to the Refinancing, remains drawn for approximately €179.5 million;
 - (iii) Term C Facility is a non-amortising term loan in euro and as at April 2013, following the partial repayment from the Offering, was drawn for a base currency amount of €179.5 million; and
- (b) a Revolving Credit Facility of up to €34.3 million which may be drawn in euro and following cleardown from the proceeds of the Offering of €5.0 million, €29.3 million will remain outstanding and €5.0 million will be available for future drawings.

Prior to the amendment and restatement of the Senior Secured Credit Facilities Agreement, the final maturity dates of the Senior Secured Credit Facilities were as follows:

- (a) the Term A, Term D and Revolving Credit Facilities had a final maturity date of December 31, 2014 (with six-monthly repayment instalments being due under the amortising Term A and Term D facilities);
- (b) the Term B Facility had a final maturity date of December 31, 2015; and
- (c) the Term C Facility had a final maturity date of December 31, 2016.

As referred to above (see "*—Overview*"), as a result of the amendment and restatement, the final maturity date of each of the Term A, Term B, Term C and Revolving Credit Facilities is extended to September 30, 2017.

Purpose

The proceeds of the amounts borrowed under the Term A, Term B and Term C Facilities were used to finance the acquisition of Lauro Otto S.p.A. and Area Giochi Holding S.p.A. (the “Acquisition”), repay the intercompany loan made available by Gaming Invest S.à.r.l. to the Issuer, refinance directly or indirectly the existing financial indebtedness of Lauro Otto S.p.A., Area Giochi Holding S.p.A. and their subsidiaries, and finance the costs and expenses incurred in connection with the Acquisition.

The Revolving Credit Facility is available for the general corporate purposes of the Group.

Utilisation

The Term A, Term B and Term C Facilities have been fully drawn and, as the prepayments made pursuant to the Refinancing cannot be redrawn, there will be no further utilisation under these facilities.

The Revolving Credit Facility may be utilised by the Issuer, Sisal S.p.A or any Additional Borrower and has an option for utilisation by letters of credit. It may only be utilised in euro.

The Senior Secured Credit Facilities Agreement contains various conditions that must be satisfied by the Issuer for the lenders to make a loan under the Revolving Credit Facility, including that on the date of such advance (i) no default is continuing or would occur as a result of that advance and (ii) certain representations and warranties specified in the Senior Secured Credit Facilities Agreement are true and will remain true immediately after such advance.

Availability Period

As described above, the Term A, Term B and Term C Facilities are fully drawn and are not available for future drawing.

The Revolving Credit Facility may be utilised up to, and including, the date falling 1 month prior to the Final Maturity Date, which is currently September 30, 2017.

Interest Rates and Fees

The interest rate under the Senior Secured Credit Facilities Agreement is EURIBOR plus mandatory costs and a margin initially set at:

- 3.75% per annum for any advance under the Term A Facility (the “Term A Advances”);
- 4.25% per annum for any advance under the Term B and Term C Facilities; and
- 3.75% per annum for any advance or letter of credit under the Revolving Credit Facility (the “Revolving Advances”),

(together the “Base Level Margins”).

Provided that no event of default has occurred and is continuing, the Base Level Margins on the Term A Advances and the Revolving Advances can be reduced by up to a maximum of 0.50 per cent. per annum if certain debt cover is met.

Interest accrues daily from and including the first day of an interest period and is payable on the last day of each interest period (unless the interest period is longer than six months, in which case interest is payable at six-monthly intervals after the first day of each interest period) and is calculated on the basis of a 360-day year.

With respect to any available but undrawn amounts under the Revolving Credit Facility, the borrowers must pay a commitment fee on such undrawn amounts at 40 per cent. of the applicable margin on the Revolving Credit Facility. The commitment fee is payable on the last day of each quarter.

The Issuer is also required to pay customary arrangement and agency fees to the Agent in connection with the Senior Secured Credit Facilities Agreement.

Repayment

The Term A Facility will be subject to five amortisation payments, all of equal amount, commencing on June 30, 2014 with a final payment to be made in full repayment of the Term A Facility on the Final Maturity Date.

The Term B and Term C Facilities must be repaid in full on the Final Maturity Date.

Each Revolving Advance must be repaid in full on the last day of the interest period relating thereto. Amounts repaid by the borrowers in respect of loans made under the Revolving Credit Facility may be reborrowed, subject to certain exceptions. All outstanding amounts under the Revolving Credit Facility must be repaid on the Final Maturity Date.

Guarantees

Each of Sisal S.p.A., Sisal Entertainment S.p.A. and Sisal Match Point S.p.A. guarantees all amounts payable by an Additional Borrower under the Senior Secured Credit Facilities Agreement (limited in accordance with Italian Law and subject to customary financial assistance exclusions) to the Agent, the Security Agent, the mandated lead arrangers and the Lenders under the Senior Secured Credit Facilities Agreement as well as the counterparties to certain hedging agreements and any ancillary Lender or issuing bank (the “Facilities’ Creditors”).

The Senior Secured Credit Facilities Agreement requires that, to the extent legally possible: (i) members of the Group which generate not less than 75 per cent. of Consolidated EBITDA and gross assets of the Group and (ii) any subsidiary of the Issuer which has EBITDA representing 5.0 per cent. or more of the Consolidated EBITDA of the Group, or has gross assets representing 5.0 per cent. or more of the gross assets of the Group, guarantee, subject to certain limitations, all amounts payable by an Additional Borrower under the Senior Secured Credit Facilities Agreement.

Security

The Senior Secured Credit Facilities are secured by (i) a first-ranking share pledge over the entire issued share capital of each of the Issuer, Sisal Entertainment S.p.A. and Sisal Match Point S.p.A., (ii) a first-ranking share pledge over 99.76 per cent. of the issued share capital of Sisal S.p.A. and (iii) pledges over receivables under the Proceeds Loans. In addition, the Senior Secured Credit Facilities (as well as the Notes) will benefit from first-ranking pledge over the receivables arising under the acquisition agreement of 2006, although we believe the value of such security interest to be immaterial.

Prepayment

The Senior Secured Credit Facilities Agreement allows for voluntary prepayments (subject to *de minimis* amounts) of the Term Loans and the Revolving Credit Facility, and requires mandatory prepayment in full or in part, in certain circumstances, including, *inter alia*:

- upon a change of control or a sale of all or substantially all of the assets of the Group;
- subject to certain exceptions, where debt cover is greater than 4.50:1, payment of 50.0 per cent. of excess cash flow as calculated under the Senior Secured Credit Facilities Agreement for each financial year, which percentage may reduce to zero per cent. if certain levels of debt cover are met;
- subject to certain exceptions, upon the disposal of certain assets equal to or greater than €2.5 million, other than to the extent that such proceeds are not reinvested within 12 months (or contracted to be so applied within 12 months and actually applied within 18 months) of such disposal;
- subject to certain exceptions, in relation to insurance claims whose proceeds are in an amount equal to or greater than €3 million, other than to the extent that such proceeds are not applied within 12 months (or contracted to be so applied within 12 months and actually applied within 18 months) of receipt; and
- subject to certain exceptions and conditions, upon an initial public offering of shares of the Issuer.

Prepayments or repurchase of Notes

So long as any of the Senior Liabilities (as defined below under “—Senior Intercreditor Agreement—Overview”) (other than liabilities owed to the Noteholders and other Note creditors (the “Note Liabilities”)) are or may be outstanding, the Issuer may not prepay, repurchase or offer to prepay or repurchase Note Liabilities prior to their stated maturity at any time, whether voluntarily or involuntarily, unless the prior consent of the Facility Agent (acting on the instructions of the Senior Lenders (as defined below under “—Senior Intercreditor Agreement—Overview”) (other than the Noteholders)) is obtained.

Restricted payments

There are restrictions on the ability of the Issuer to make certain distributions and other payments. These are subject to exceptions allowing (provided certain conditions are met) certain payments to be made by the Issuer, including, among others, payments to be made to service the payment of interest and principal on indebtedness of Luxco (subject to the terms and conditions of the Senior Secured Credit Facilities Agreement and the Senior Intercreditor Agreement).

Representations and Warranties

The Senior Secured Credit Facilities Agreement contains customary representations and warranties (subject to certain exceptions and qualifications and with certain representations and warranties being repeated), including status, binding obligations, non-conflict with constitutional documents, applicable laws or regulations or other obligations, power and authority, validity and admissibility into evidence and governing law.

Covenants

The Senior Secured Credit Facilities Agreement includes customary operating and financial covenants, subject to certain agreed exceptions, including covenants that restrict the Issuer's and certain members of the Group's ability to:

- create or permit to subsist any encumbrances;
- sell or dispose of their assets;
- substantially change the nature or scope of their business;
- merge with other companies;
- permit to subsist any loans or grant credit;
- incur or have outstanding certain borrowings, guarantees, loans or hedges;
- make certain acquisitions or investments; and
- make certain share redemptions.

The Senior Secured Credit Facilities Agreement also requires certain members of the Group to observe certain affirmative covenants, including covenants relating to:

- maintenance of *pari passu* ranking of any unsecured and unsubordinated claims of a Finance Party (as defined in the Senior Secured Credit Facilities Agreement) against it under the Finance Documents (as defined in the Senior Secured Credit Facilities Agreement) rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors (except those creditors whose claims are mandatorily preferred by laws of general application to companies);
- maintenance of insurance and compliance with environmental and any other applicable laws;
- maintenance of "guarantor coverage" (see "Guarantees" above); and
- further assurance with respect to security interests granted in connection with the Senior Secured Credit Facilities Agreement.

In relation to distributions, and subject to certain exceptions, the Senior Secured Credit Facilities Agreement contains restrictions on the Issuer and Sisal S.p.A. (and places an obligation on Sisal S.p.A. to prevent any other member of the Group) declaring, making or paying any dividends, repaying or distributing any share premium reserve, paying any management or other advisory fees or redeeming, repurchasing or repaying in any way any of its share capital.

The Issuer's financial and operating performance is monitored by a financial covenant package that, with effect from the Issue Date, will be updated so as to require it to maintain the following ratios and to observe limitations on capital expenditure:

	2013			2014				2015				2016				2017		
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Leverage Ratio . . .	7.00x	6.90x	6.25x	6.65x	6.65x	6.05x	6.00x	5.90x	5.90x	5.75x	5.75x	5.75x	5.75x	5.75x	5.75x	5.75x	5.75x	5.75x
Interest cover	1.60x	1.65x	1.65x	1.70x	1.75x	1.80x	1.85x	1.90x	1.90x	1.90x	1.90x	1.90x	1.90x	1.90x	1.90x	1.90x	1.90x	1.90x
Cash flow cover	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x

The Senior Secured Credit Facilities Agreement also requires the Issuer to deliver to the Agent annual financial statements, quarterly financial statements, monthly financial statements, compliance certificates and an annual budget.

Events of Default

The Senior Secured Credit Facilities Agreement contains customary events of default for agreements of this type, including, among other things, non-payment, breach of other obligations set forth in the Senior Secured Credit Facilities Agreement, misrepresentation of a representation or warranty, unlawfulness or repudiation of obligations, certain insolvency, winding-up or related events, and cross default in relation to certain other financial indebtedness not being paid when due or becoming due and payable before its specified maturity.

In addition, the Senior Secured Credit Facilities Agreement contains a cross default provision in relation to the Notes, whereby if any “Event of Default” under and as defined in the Indenture(s) governing the original and any additional Notes is continuing this will also be an event of default under the Senior Secured Credit Facilities Agreement.

Upon the occurrence of an Event of Default, subject to certain exceptions and materiality qualifications, the Facility Agent (who would be required to do so on the instructions of the majority lenders, excluding the Note Trustee and Noteholders) is entitled to accelerate all outstanding loans and terminate the commitments of such Lenders under the Senior Secured Credit Facilities.

If an “Event of Default” under the Indenture has occurred and is continuing, then the Facility Agent, if instructed by the Note Trustee (acting on the instructions of the requisite number of Noteholders under and in accordance with the relevant Indenture) shall confirm or declare that an event of default has occurred in respect of the relevant Indenture and notify the Facility Agent upon the occurrence of such acceleration and, to the extent amounts have become due and payable with respect to the Notes pursuant to the relevant Indenture, such amounts shall automatically be considered due and payable for the purposes of the Notes Related Provisions.

Governing Law

The Senior Secured Credit Facilities Agreement will be governed by English law.

Amended Mezzanine Facility Agreement

The following is a summary of the provisions of the Mezzanine Facility Agreement entered into between, among others, Luxco as borrower, Mizuho Corporate Bank, Ltd. as facility agent and The Royal Bank of Scotland plc, Milan branch as security agent, originally dated October 16, 2006, as subsequently amended by amendment and/or amendment and restatement agreements respectively dated February 21, 2007, March 12, 2007, December 18, 2007, April 30, 2008, March 31, 2010, August 3, 2010, and which will be further amended and restated on or about the Issue Date (the “Amended Mezzanine Facility Agreement”).

Facility

The Amended Mezzanine Facility Agreement provides for a term loan facility in an aggregate amount of €165,000,000.00 (the “Mezzanine Facility”).

Purpose

The Facility was granted for general corporate purposes and to fund a repayment of the Second Lien Facility.

Interest Rates

The interest rate under the Mezzanine Facility is EURIBOR plus mandatory costs and a margin made of a “Cash margin” equal to 4% per annum and a “PIK margin” equal to 5.5% per annum.

Interest accrues daily from and including the first day of an interest period and is calculated on the basis of a 360-day year. The cash margin is payable on the last day of each interest period (unless the interest period is longer than six months, in which case interest is payable at six-monthly intervals after the first day of each interest period). The PIK margin shall, on the last day of each interest period (unless the interest period is longer than six months, in which case interest is payable at six-monthly intervals after the first day of each interest period) be automatically capitalised and added to the outstanding principal amount of the loans.

Guarantees

The Mezzanine Facility is not guaranteed.

Repayment

Luxco shall repay the Mezzanine Facility in full on December 31, 2017 (such final maturity date remaining unaltered following the amendment and restatement of the Mezzanine Facility Agreement).

Security

The Mezzanine Facility is secured by (i) a second-ranking pledge given by Gaminghouse S.A. (“Topco”) over the shares of Luxco; (ii) a third-ranking share pledge given by Luxco over the shares of the Issuer; and (iii) a second-ranking pledge given by Luxco over its rights under the loan agreement dated October 16, 2006 between Luxco as lender and the Issuer as borrower (the “Shareholder Loan C”, or the “Luxco Loan Agreement”) (the “Mezzanine Security”). The ranking of the security interests listed above is contractual and set out in the Amended Second Lien and Mezzanine Intercreditor Agreement.

Prepayment

The Amended Mezzanine Facility Agreement allows for voluntary prepayments, and requires mandatory prepayment in full or in part, in certain circumstances. These include (*inter alia*):

- a Change of Control (as defined in the Amended Mezzanine Facility Agreement) or a sale of all or substantially all of the assets of Luxco and its subsidiaries;
- subject to certain exceptions and conditions, where debt cover is greater than 4.50:1, 50.0 per cent. of excess cash flow as calculated under the Amended Mezzanine Facility Agreement for each financial year, which percentage may reduce to zero per cent. if certain levels of the debt cover are met;
- subject to certain exceptions and conditions, the disposal of certain assets equal to or greater than €2.5 million other than to the extent that such proceeds are not reinvested within 12 months (or committed to be so applied within 12 months and actually applied within 18 months) of such disposal;
- subject to certain exceptions and conditions, insurance claims whose proceeds are in an amount equal to or greater than €3 million other than to the extent that such proceeds are not applied within 12 months (or contracted to be so applied within 12 months and actually applied within 18 months) of receipt; and
- subject to certain exceptions and conditions, an initial public offering of shares of the Issuer.

Representations and Warranties

The Amended Mezzanine Facility Agreement contains customary representations and warranties (subject to certain exceptions and qualifications and with certain representations and warranties being repeated) which are substantively similar to those in the Senior Secured Credit Facilities Agreement, including status, binding obligations, non-conflict with constitutional documents, applicable laws or regulations or other obligations, power and authority, validity and admissibility into evidence and governing law.

Covenants

The Amended Mezzanine Facility Agreement includes customary operating and financial covenants, subject to certain agreed exceptions, including covenants that restrict Luxco’s ability and the ability of the Luxco’s subsidiaries to:

- create or permit to subsist any encumbrances;
- sell or dispose of their assets;
- substantially change the nature or scope of their business;
- merge with other companies;
- permit to subsist any loans or grant credit;
- incur or have outstanding certain borrowings, guarantees, loans or hedges;
- make certain acquisitions or investments;
- declare or pay certain dividends or make certain other distributions to our shareholders; and
- make certain share redemptions.

Luxco’s financial and operating performance is monitored by a financial covenant package that requires it to maintain certain ratios of cashflow cover (at a ratio of 1.0), interest cover (beginning at a ratio of 1.55:1.00 at June 30, 2013 to 1.80:1.00 at December 31, 2017), debt cover (beginning at a ratio of 7.95:1.00 at June 30, 2013 to 6.35:1.0 at March 31, 2015 and each quarter date thereafter) and to observe limitations on capital expenditures each year with a maximum amount equal to €22.4 million for the years ending December 31, 2013 and December 31, 2017.

Events of Default

The Amended Mezzanine Facility Agreement contains customary events of default substantively similar to those set out in the Senior Secured Credit Facilities Agreement, including, among other things, non-payment, breach of other obligations set forth in the Amended Mezzanine Facility Agreement, misrepresentation of a representation or warranty, unlawfulness or repudiation of obligations, certain insolvency, winding-up or related events, and cross default in relation to certain indebtedness not being paid when due or becoming due and payable before its specified maturity, the occurrence of which, subject to certain exceptions and materiality qualifications, would allow the agent (who would be required to do so on the instructions of the majority lenders) to accelerate all outstanding loans and terminate their commitments under the Mezzanine Facility.

Amended Second Lien Credit Agreement

The following is a summary of the provisions of the Second Lien Credit Agreement entered into between, among others, Luxco as borrower, The Royal Bank of Scotland plc, the mandated lead arrangers named therein and The Royal Bank of Scotland plc, Milan Branch as agent, originally dated October 16, 2006, as subsequently amended by amendment and/or amendment and restatement agreements respectively dated December 18, 2007, April 30, 2008 and August 3, 2010 and by a waiver letter approved on March 31, 2010 and which will be further amended and restated on or about the Issue Date (the “Amended Second Lien Credit Agreement”).

Facility

The Amended Second Lien Credit Agreement provides for a term loan facility, under which, as of December 31, 2012, an aggregate amount of €40,000,000.00 was outstanding (the “Second Lien Facility”).

Purpose

The Second Lien Facility was granted for general corporate purposes.

Interest Rates

The interest rate under the Second Lien Facility is EURIBOR plus mandatory costs and a Margin equal to 6% per annum.

Interest accrues daily from and including the first day of an interest period and is payable on the last day of each interest period (unless the interest period is longer than six months, in which case interest is payable at six-monthly intervals after the first day of each interest period) and is calculated on the basis of a 360-day year.

Repayment

Prior to the amendment and restatement of the Second Lien Credit Agreement, the final maturity date of the Second Lien Facility was June 30, 2017. The amendment and restatement extends the final maturity date so that Luxco shall repay the Second Lien Facility in full on September 30, 2017.

Guarantees

The Second Lien Facility is not guaranteed.

Security

The Second Lien Facility is secured by (i) a first-ranking pledge given by Gaminghouse S.A. (“Topco”) over the shares of Luxco; (ii) a second-ranking share pledge given by Luxco over the shares of the Issuer; and (iii) a first-ranking pledge given by Luxco over its rights under the Luxco Loan Agreement. The ranking of the security interests listed above is contractual and set out in the Amended Second Lien and Mezzanine Intercreditor Agreement (the “Second Lien Security”).

Prepayment

The Amended Second Lien Credit Agreement allows for voluntary prepayments, and requires mandatory prepayment in full or in part, in certain circumstances. These include (*inter alia*):

- a Change of Control (as defined in the Amended Second Lien Facility Agreement), or a sale of all or substantially all of the assets of Luxco and its subsidiaries;

- subject to certain exceptions and conditions, where debt cover is greater than 4.5:1.0, 50.0 per cent. of excess cash flow as calculated under the Amended Second Lien Credit Agreement for each financial year, which percentage may reduce to zero per cent. if certain levels of the debt cover are met;
- subject to certain exceptions and conditions, the disposal of certain assets equal to or greater than €2.5 million other than to the extent that such proceeds are not reinvested within 12 months (or committed to be so applied within 12 months and actually applied within 18 months) of such disposal;
- subject to certain exceptions and conditions, insurance claims whose proceeds are in an amount equal to or greater than €3 million other than to the extent that such proceeds are not applied within 12 months (or contracted to be so applied within 12 months and actually applied within 18 months) of receipt; and
- subject to certain exceptions and conditions, an initial public offering of shares of the Issuer.

Representations and Warranties

The Amended Second Lien Credit Agreement contains customary representations and warranties (subject to certain exceptions and qualifications and with certain representations and warranties being repeated) which are substantively similar to those in the Senior Secured Credit Facilities Agreement, including status, binding obligations, non-conflict with constitutional documents, applicable laws or regulations or other obligations, power and authority, validity and admissibility into evidence and governing law.

Covenants

The Amended Second Lien Credit Agreement includes customary operating and financial covenants, subject to certain agreed exceptions, including covenants that restrict Luxco's ability and the ability of the Luxco's subsidiaries to:

- create or permit to subsist any encumbrances;
- sell or dispose of their assets;
- substantially change the nature or scope of their business;
- merge with other companies;
- permit to subsist any loans or grant credit;
- incur or have outstanding certain borrowings, guarantees, loans or hedges;
- make certain acquisitions or investments;
- declare or pay certain dividends or make certain other distributions to our shareholders; and
- make certain share redemptions.

The financial and operating performance of Luxco and its subsidiaries (the "Group") is monitored by a financial covenant package that, with effect from the Issue Date, will be updated so as to require it to main the following ratios and to observe limitations on capital expenditure:

	2013			2014				2015				2016				2017		
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Leverage Ratio . .	7.00x	6.90x	6.25x	6.65x	6.65x	6.05x	6.00x	5.90x	5.90x	5.75x	5.75x	5.75x	5.75x	5.75x	5.75x	5.75x	5.75x	5.75x
Interest cover	1.60x	1.65x	1.65x	1.70x	1.75x	1.80x	1.85x	1.90x	1.90x	1.90x	1.90x	1.90x	1.90x	1.90x	1.90x	1.90x	1.90x	1.90x
Cash flow cover	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x

Events of Default

The Amended Second Lien Credit Agreement contains customary events of default in line with those set out in the Senior Secured Credit Facilities Agreement, including, among other things, non-payment, breach of other obligations set forth in the Amended Second Lien Credit Agreement, misrepresentation of a representation or warranty, unlawfulness or repudiation of obligations, certain insolvency, winding-up or related events, and cross default in relation to certain indebtedness not being paid when due or becoming due and payable before its specified maturity (or commitments being

cancelled or suspended or creditors becoming entitled to declare certain indebtedness due and payable prior to its specified maturity), the occurrence of which, subject to certain exceptions and materiality qualifications, would allow the agent (who would be required to do so on the instructions of the majority lenders) to accelerate all outstanding loans and terminate their commitments under the Second Lien Facility.

Senior Intercreditor Agreement

The following is a summary of the provisions of the Senior Intercreditor Agreement entered into between, among others, the Issuer, Sisal S.p.A., Luxco and The Royal Bank of Scotland plc, Milan Branch (formerly, ABN Amro Bank N.V.) as the Facility Agent and Security Agent originally dated October 16, 2006, and as amended and restated on or about the Issue Date. On or about the Issue Date, the Original Note Trustee will accede to the Senior Intercreditor Agreement on its own behalf and as trustee and agent on behalf of the Noteholders.

Overview

The Senior Intercreditor Agreement sets out, among other things:

- the relative ranking of certain indebtedness of the Obligors in respect of (i) indebtedness arising pursuant to the Senior Secured Credit Facilities Agreement and the Notes by virtue of the Original Note Trustee's accession to the Senior Secured Credit Facilities Agreement on its own behalf and as trustee and agent for and on behalf of the Noteholders (and any future accession by further trustees of Noteholders), (ii) certain interest rate hedging agreements (each a "Hedging Agreement") as provided for under the Senior Secured Credit Facilities Agreement by a Hedge Counterparty (as defined in the Senior Intercreditor Agreement) (the "Hedging Liabilities" and, together with the liabilities under the Senior Secured Credit Facilities Agreement, the "Senior Liabilities") and (iii) indebtedness owed by the Issuer to Luxco pursuant to the Shareholder Loan C, Shareholder Loan CZ and any other liabilities owed by the Issuer to Luxco (the "Luxco Liabilities");
- the respective rights and obligations of (i) each lender (including, with respect to Notes Related Provisions, the Note Trustee and the Noteholders), issuing bank and ancillary lender under the Senior Secured Credit Facilities Agreement (the "Senior Lenders"), (ii) the Hedge Counterparties (together with the Senior Lenders, the "Senior Creditors") and (iii) Luxco, in relation to the financing documents to which they are party;
- when payments can be made in respect of the Luxco Liabilities and other subordinated debt of the Obligors and when enforcement action can be taken in respect of such liabilities;
- when enforcement action can be taken by the Security Agent in respect of any security interest created (or expressed to be created) under or in connection with the Senior Liabilities (the "Senior Security") and/or any security interest created (or expressed to be created) under or in connection with the Shareholder Loan C (the "Luxco Security" and, together with the Senior Security, the "Transaction Security");
- the terms pursuant to which the Luxco Liabilities and other subordinated debt will rank behind the Senior Liabilities and the Senior Security so far as it relates to the same assets as Luxco Security;
- the requirement for the Senior Creditors, Luxco and the Obligors to turnover amounts received from enforcement of the Transaction Security, among other things; and
- when certain claims and Transaction Security will be released to permit an enforcement sale or a disposal.

Ranking and Priority

The Senior Intercreditor Agreement provides that the Obligors' liabilities shall rank in right and priority of payment in the following order:

- *firstly*, the Senior Liabilities shall rank *pari passu* and without any preference between them; and
- *secondly*, the Luxco Liabilities.

Transaction Security

The Senior Intercreditor Agreement provides that the Transaction Security shall rank and secure the Senior Liabilities and the Luxco Liabilities in the following order:

- *firstly*, the Senior Liabilities shall benefit from Senior Security, so far as it relates to the same assets as the Luxco Security, in priority to the Luxco Liabilities; and

- *secondly*, the Luxco Liabilities are postponed and subordinated to the Senior Liabilities in relation to any Luxco Security so far as it relates to the same assets as the Senior Security.

The proceeds from the enforcement of the Transaction Security are to be applied as described below (see “—Application of Proceeds”).

No Obligor will create or permit to subsist (i) (and Luxco will not take, accept or receive the benefit of) any security, guarantee, indemnity or other assurance against loss in respect of the Luxco Liabilities other than the Luxco Security, or (ii) (and no Hedging Party will take, accept or receive the benefit of) any security, guarantee, indemnity or other assurance against loss in respect of the Hedging Liabilities other than the Senior Security.

Restrictions on Payments

The Senior Intercreditor Agreement provides that the Obligors may pay, repay, redeem or acquire the Senior Liabilities at any time:

- in accordance with the terms of any Finance Document (as defined in the Senior Secured Credit Facilities Agreement (and including, for the avoidance of doubt, the Indenture), herein the “Senior Finance Documents”); and
- provided that an Obligor may only pay, redeem or acquire the Hedging Liabilities if, at the time of payment, redemption or acquisition no scheduled payments due from the relevant Hedge Counterparty to any Obligor under the Hedging Agreements to which both are a party are unpaid or the consent of the Facility Agent (acting upon instructions of the Senior Lenders other than the Note Trustee and the Noteholders) is obtained and if permitted or not prohibited by the Notes Documents.

No Obligor may pay, repay, redeem or acquire Luxco Liabilities at any time unless that action is permitted under the Senior Secured Credit Facilities Agreement and each relevant Indenture or if the prior consent of the Facility Agent and each Note Trustee is obtained.

Upon (i) the acceleration of all or part the Senior Liabilities or (ii) all or part of the Senior Liabilities having been declared prematurely due and payable or payable on demand (both a “Payment Stop Event”), the Facility Agent may issue a written stop notice (a “Stop Notice”) to Luxco and shall at the same time notify all Senior Creditors if the Payment Stop Event is continuing. No Stop Notice may be served by the Facility Agent in reliance on a particular Payment Stop Event more than six months after the Facility Agent receives notice in writing specifying the occurrence constituting that Payment Stop Event and not more than one Stop Notice may be served with respect to the same event or set of circumstances. From the date of issue of a Stop Notice, no payments may be made in respect of any of the Luxco Liabilities unless the Facility Agent gives consent or notifies Luxco (at the same time notifying all the Senior Creditors) that the Stop Notice is cancelled. Any failure to make a payment due under the Shareholder Loan C as a result of the Stop Notice shall not prevent an event of default for non-payment from occurring under the Shareholder Loan C.

Effect of an Insolvency Event

Upon an insolvency event occurring to or in respect of any Obligor, each of the Senior Lenders (in the case of any Senior Lender that is a Noteholder, acting through the relevant Trustee), Hedge Counterparties and Luxco (each a “Lender”) is entitled to exercise any right it may otherwise have in respect of that Obligor to:

- (i) accelerate any of its Liabilities or declare them prematurely due and payable or payable on demand, or prematurely close out or terminate any Hedging Liabilities;
- (ii) make a demand under any guarantee, indemnity or other assurance against loss in respect of any liabilities of that Obligor;
- (iii) exercise any right of set off or take or receive any payment in respect of any Liabilities; or
- (iv) claim and prove in the liquidation of that Obligor for the liabilities owing to it.

After the occurrence of an insolvency event in relation to any Obligor, the person responsible for the distribution of the assets of that Obligor shall be directed to pay (to the extent permitted by the applicable law) any distributions in respect of any of the liabilities to the Security Agent until the liabilities of the Security Agent, the Facility Agent, the Senior Creditors (including, for the avoidance of doubt, the Note Trustee and the Noteholders) and Luxco (together, the “Secured Parties”) have been paid in full.

Turnover

The Senior Intercreditor Agreement, in general, provides that if, at any time prior to the discharge in full of the Senior Liabilities, any Lender receives or recovers:

- (i) any payment or distribution of, on account of, or in relation to any of the liabilities, which is not permitted by the Senior Intercreditor Agreement;
- (ii) any amount by way of set-off in respect of any of the liabilities owed to them which does not give effect to a payment permitted by the Senior Intercreditor Agreement;
- (iii) the proceeds of any enforcement of any Transaction Security for the Senior Liabilities, except in accordance with the Senior Intercreditor Agreement; or
- (iv) any distribution in cash or in kind made as a result of the occurrence of an insolvency event in respect of any Obligor,

that Lender will hold that amount on trust for the Security Agent and promptly pay that amount to the Security Agent or, if such trust cannot be given effect to that Lender, shall pay an amount equal to that receipt or recovery to the Security Agent, in each case to be held on trust by the Security Agent for application in accordance with the terms of the Senior Intercreditor Agreement (see “—Application of Proceeds”).

Application of Proceeds

All amounts from time to time received or recovered by the Security Agent pursuant to the terms of the Senior Finance Documents or in connection with the realization or enforcement of all or any part of the Transaction Security shall be held by the Security Agent on trust to apply them at any time the Security Agent sees fit, to the extent permitted by applicable law, provided that the Security Agent may only refrain from applying amounts so long as it is able to demonstrate it is in the course of calculating the appropriate application or there is reasonable likelihood that the relevant payment will be revoked.

Enforcement of Security

Until such time as the Senior Liabilities have been unconditionally repaid in full, the Security Agent will enforce the Senior Security only at the request of the Facility Agent, and subject to the terms of the Senior Intercreditor Agreement.

Until such time as the Senior Liabilities have been unconditionally repaid in full, the Security Agent will enforce the Luxco Security only at the request of the Facility Agent. After the Senior Liabilities have been unconditionally repaid in full, the Facility Agent will enforce the Luxco Security only at the request of Luxco.

The Hedge Counterparties shall promptly terminate or close out any hedging transaction under the Hedging Agreements prior to its stated maturity following a request by the Security Agent if the Facility Agent has accelerated the Senior Liabilities or declared them prematurely due and payable in accordance with the Senior Finance Documents.

A Hedge Counterparty may not take any enforcement action at any time except that it may terminate or close out any hedging transaction under the Hedging Agreements prior to its stated maturity if:

- (i) the Facility Agent has accelerated the Senior Liabilities or declared them prematurely due and payable in accordance with the Senior Finance Documents;
- (ii) an Obligor has defaulted on a payment due under the Hedging Agreements (after allowing any applicable notice or grace periods) and the default has continued unwaived for more than 21 days after notice of that default has been given to the Facility Agent; or
- (iii) the prior consent of the Facility Agent is obtained.

So long as any Senior Liabilities (other than liabilities owed to an ancillary lender or issuing bank) are outstanding, an ancillary lender or issuing bank may only take enforcement action in relation to any of the Senior Liabilities owed to it if:

- (i) the Senior Lenders have taken enforcement action; or
- (ii) the consent of the Facility Agent is obtained.

None of the restrictions on the taking of enforcement action specified in the Senior Intercreditor Agreement shall restrict the making or receiving of any “Permitted Payments” expressly contemplated by the Senior Intercreditor Agreement.

Release of the Transaction Security

Each Lender and each Obligor will promptly execute any documents as may be necessary to unconditionally and irrevocably release any of the Transaction Security or any claim over those assets that may, in the discretion of the Security Agent, be considered reasonably necessary in connection with any enforcement action or a disposal by an Obligor after an enforcement action taken by the Security Agent in accordance with the provisions of the Senior Intercreditor Agreement.

Amendments

No term of Senior Intercreditor Agreement may be amended or waived except by the written agreement of the Facility Agent, the Note Trustee, the other Senior Lenders, the Hedge Counterparties, Luxco and the Security Agent.

Unless the provisions of any Senior Finance Document expressly provide otherwise, the Security Agent may, if authorised by the Facility Agent, amend the terms or waive any of the requirements of, or grant consents under, any of the Security Documents (as defined in the Senior Secured Credit Facilities Agreement) or the Luxco Security which shall be binding on each party to the Senior Intercreditor Agreement, except that the prior consent of all the Secured Creditors, Luxco and the Obligor(s) party to the relevant Security Documents is required to authorise any amendment of any Security Document which would affect the nature or the scope of the charged property or the manner in which proceeds of enforcement are distributed.

If the amendment or waiver may impose new or additional obligations on, or withdraw or reduce the rights of, any party the consent of that party is required.

The Senior Intercreditor Agreement contains certain restrictions on the ability of:

- (i) the Senior Lenders (other than the Note Trustee or the Noteholders) to amend the terms of certain Senior Finance Documents (including restrictions on changes to the amount, currency, scheduled repayment dates, interest, fees, commission and any increase in the amount payable by the Obligors under those Senior Finance Documents);
- (ii) the Hedging Counterparties to amend the terms of any Hedging Agreement without the prior consent of the Security Agent (such consent not to be unreasonably withheld or delayed); and
- (iii) Luxco to amend the terms of any agreement under which the Luxco Security arises if those terms relate to the subordination provisions of the Luxco or Senior Liabilities or refer to the Senior Intercreditor Agreement, unless the prior consent of the Facility Agent (and each Note Trustee) is obtained (such consent not to be unreasonably withheld or delayed).

Loss sharing

If any of the Senior Liabilities remains undischarged after the date on which enforcement action was first taken and any resulting losses are not being borne by the relevant Senior Creditors pro rata to the amount which their respective Senior Liabilities bore to the sum of all Senior Liabilities owed to Senior Creditors on the date of the enforcement event, then the relevant Senior Creditors shall make such payments between themselves as the Security Agent directs are necessary to ensure that such losses are borne by the relevant Senior Creditors pro rata to the Senior Liabilities owed to each one of them on the date on which enforcement action was first taken.

Governing Law

The Senior Intercreditor Agreement is governed by English law.

Second Lien and Mezzanine Intercreditor Agreement

On October 16, 2006, Topco, Luxco, the lenders under the Amended Mezzanine Facility Agreement, the lenders under the Amended Second Lien Credit Agreement, ABN Amro Bank N.V. (now The Royal Bank of Scotland plc, Milan Branch) as Second Lien Agent and Security Agent and Mizuho Corporate Bank Ltd. as Mezzanine Agent, among others, entered into the Second Lien and Mezzanine Intercreditor Agreement in connection with the (now amended) Mezzanine Facility Agreement and Second Lien Credit Agreement (the “Second Lien and Mezzanine Intercreditor Agreement”).

The Second Lien and Mezzanine Intercreditor Agreement sets out, among other things:

- the relative ranking of certain debt (including debt incurred under the Mezzanine Facility and the Second Lien Facility) of Luxco and any other subsidiary of Topco acceding to the Second Lien and Mezzanine Intercreditor Agreement (each an “Obligor”);

- when payments can be made in respect of the subordinated debt of the Obligors;
- when enforcement action can be taken in respect of the subordinated debt;
- the terms pursuant to which the subordinated debt will be subordinated upon the occurrence of certain insolvency events;
- turnover provisions; and
- when guarantees and security will be released to permit an enforcement sale.

The following description is a summary of certain provisions contained in the Second Lien and Mezzanine Intercreditor Agreement. It does not restate the Second Lien and Mezzanine Intercreditor Agreement in its entirety and we urge you to read that document.

Ranking and Priority

The Second Lien and Mezzanine Intercreditor Agreement provides that:

- (i) the Liabilities shall rank in right and priority of payment; and
- (ii) any security interest created pursuant to any Second Lien Credit Facility and Mezzanine Facility finance document (the “Transaction Security”) shall rank and secure the liabilities,

in each case in the following order:

- firstly, all liabilities of any Obligor to the lenders (the “Second Lien Lenders”) under the Second Lien Facility and to any Hedge Counterparty (the “Second Lien Hedge Counterparty” and, together with the Second Lien Lenders, the “Second Lien Creditors”) under any hedging agreements (the “Second Lien Hedging Agreements”) (the “Second Lien Liabilities”); and
- secondly, all liabilities of any Obligor to the lenders (the “Mezzanine Lenders”) under the Mezzanine Facility and to any Hedge Counterparty (the “Mezzanine Hedge Counterparty” and, together with the Mezzanine Lenders, the “Mezzanine Creditors”) under any hedging agreements (the “Mezzanine Hedging Agreements”) (the “Mezzanine Liabilities”).

The liabilities owed by Luxco to Topco under certain intercompany loans (the “Topco Liabilities”) are postponed and subordinated to the Second Lien Liabilities and the Mezzanine Liabilities.

Permitted Payments

Each Obligor may make payments to Second Lien Creditors in respect of Second Lien Liabilities then due from such Obligor in accordance with the second lien finance documents; provided that in respect of each Second Lien Hedge Counterparty and Second Lien Hedge Liabilities, at the time of payment no scheduled payments due from that Second Lien Hedge Counterparty to any Obligor under the Second Lien Hedging Agreements to which they are both parties are due and unpaid.

Prior to the date on which the Second Lien Liabilities have been discharged in full and subject to the terms of the Second Lien and Mezzanine Intercreditor Agreement, the Obligors may pay scheduled interest and make certain other payments to the Mezzanine Creditors in respect of the Mezzanine Liabilities then due if at the time of payment no “Stop Notice” (meaning a notice issued following an event of default under the Second Lien Credit Agreement) has been issued and has not been cancelled; provided that, in respect of the Mezzanine Hedging Liabilities and each Mezzanine Hedge Counterparty, at the time of payment no scheduled payments due from that Mezzanine Hedge Counterparty to any Obligor under the Mezzanine Hedging Agreements to which they are both parties are unpaid.

On or after the date on which the Second Lien Liabilities have been discharged in full and the Second Lien Agent has given its consent to payments to the Mezzanine Lenders without restrictions, the Obligors may make payments to the Mezzanine Lenders in respect of the Mezzanine Liabilities then due.

No Obligor may make payments in respect of hedging liabilities unless that action is a permitted payment or if the prior consent of the Second Lien Agent is obtained in respect of second lien hedging liabilities and the prior consent of the Second Lien Agent and Majority Mezzanine Lenders in the case of mezzanine hedging liabilities.

The Second Lien and Mezzanine Intercreditor Agreement provides that, following a “Stop Notice” being issued as a result of an event of default under the Second Lien Credit Agreement, no payments may be made in respect of Mezzanine Liabilities for the duration of the stop period, until (i) the event of default is no longer continuing, if such event of default is due to failure by an Obligor to pay amounts when due under the Second Lien Facility Agreement or the agent for the Second Lien Agent cancels the Stop Notice and (ii) in relation to other events of default, 90 days from the date the Stop Notice was issued.

Entitlement to Enforce

The Mezzanine Lenders may only take any enforcement actions if, *inter alia*:

- (i) the prior consent of the Second Lien Agent is obtained; or
- (ii) the Second Lien Lenders have accelerated their liabilities or declared them prematurely due and payable and provided that the Mezzanine Lenders take the same enforcement action that the Second Lien Lenders have taken (different enforcement actions are permitted only with the prior written consent of the Second Lien Agent); or
- (iii) they have become entitled to do so as a result of the expiry of standstill periods (which is (x) 90 days in respect of a payment default under the Amended Mezzanine Facility Agreement; (y) 120 days in respect of financial covenant breaches and (z) 150 days in respect of other events of default under the Amended Mezzanine Facility Agreement); or
- (iv) if permitted to do so as a result of an insolvency event occurring.

A Mezzanine Hedge Counterparty or Second Lien Hedge Counterparty may not take any enforcement action at any time except that it may terminate or close out any hedging transaction under the Mezzanine Hedging Agreements and the Second Lien Hedging Agreements prior to its stated maturity if:

- (i) in the case of the Second Lien Hedging Agreements, the Second Lien Agent has accelerated the Second Lien Liabilities of the Second Lien Lenders or declared them prematurely due and payable;
- (ii) in the case of the Mezzanine Hedging Agreements, the Mezzanine Agent has accelerated the Mezzanine Liabilities of the Mezzanine Lenders or declared them prematurely due and payable;
- (iii) an Obligor has defaulted on a payment due under the Mezzanine Hedging Agreements and the Second Lien Hedging Agreements (after allowing any applicable notice or grace periods) and the default has continued unwaived for more than 21 days after notice of that default has been given to the Second Lien Agent or, as appropriate, the Mezzanine Agent; or
- (iii) the prior consent of the Second Lien Agent is obtained and, in the case of the Mezzanine Hedging Agreements, the Majority Mezzanine Lenders.

The Second Lien Hedge Counterparties shall promptly terminate or close out any hedging transaction under the Hedging Agreements prior to its stated maturity following a request by the Security Agent if the Second Lien Agent has accelerated the Second Lien Liabilities or declared them prematurely due and payable.

The Mezzanine Hedge Counterparties shall promptly terminate or close out any hedging transaction under the Hedging Agreements prior to its stated maturity following a request by the Security Agent if the Mezzanine Agent has accelerated the Mezzanine Liabilities or declared them prematurely due and payable.

Topco may only take enforcement action if:

- (i) it has been instructed to do so by the Second Lien Agent or, if the Second Lien Agent has ceased to be a party hereto, the Mezzanine Agent in which case Topco will take enforcement action in accordance with such instructions; or
- (ii) all the Liabilities of the Second Lien Creditors and the Mezzanine Creditors have been repaid and discharged in full and the Second Lien Agent has confirmed that Topco is entitled to exercise its rights without restrictions.

No restriction on the taking of any enforcement action shall restrict the making or receiving of any “Permitted Payments” permitted under the payment permitted under the Second Lien and Mezzanine Intercreditor Agreement.

Effect of Insolvency Event

If an insolvency event occurs to or in respect of any Obligor, each lender is entitled to exercise any right it may otherwise have in respect of that Obligor to:

- (i) accelerate any of its liabilities or declare them prematurely due and payable or payable on demand or prematurely close out or terminate any hedging liabilities;
- (ii) make a demand under any guarantee, indemnity or other assurance against loss in respect of any liabilities of that Obligor;
- (iii) exercise any right of set off or take or receive any payment in respect of any liabilities; or
- (iv) claim and prove in the liquidation of that Obligor for the liabilities owing to it.

After the occurrence of an insolvency event in relation to any Obligor, the person responsible for the distribution of the assets of that Obligor shall be directed to pay (to the extent permitted by the applicable law) any distributions in respect of any of the Liabilities to the Security Agent.

Turnover

If, at any time prior to the discharge in full of the liabilities of the Second Lien Creditors and the Mezzanine Creditors, any lender receives or recovers:

- (i) any payment or distribution of, or on account of or in relation to, any of the liabilities which is not permitted by the Second Lien and Mezzanine Intercreditor Agreement;
- (ii) any amount by way of set-off in respect of any of the liabilities owed to them which does not give effect to a payment permitted by the Second Lien and Mezzanine Intercreditor Agreement;
- (iii) the proceeds of any enforcement of any security for the liabilities except in accordance with the Second Lien and Mezzanine Intercreditor Agreement; or
- (iv) any distribution in cash or in kind made as a result of the occurrence of an insolvency event in respect of any Obligor,

that Lender will hold that amount on trust for the Security Agent and promptly pay that amount to the Security Agent or, if this trust cannot be given effect, that Lender shall hold such sum as agent on behalf of the Security Agent and shall pay an amount equal to that receipt or recovery to the Security Agent, in each case to be held on trust by the Security Agent for application in accordance with the terms of the Second Lien and Mezzanine Intercreditor Agreement.

Application of Proceeds

All amounts from time to time received or recovered by the Security Agent pursuant to the terms of any Finance Documents (as defined in the Amended Second Lien Credit Agreement and the Amended Mezzanine Facility Agreement) (the "Second Lien and Mezzanine Finance Documents") or in connection with the realization or enforcement of all or any part of the Transaction Security shall be held by the Security Agent on trust to apply them at any time the Security Agent sees fit, to the extent permitted by applicable law and, subject to any prior claims, in or towards satisfaction of the Second Lien Liabilities and the Mezzanine Liabilities, provided that the Security Agent may only refrain from applying amounts so long as it is able to demonstrate it is in the course of calculating the appropriate application or there is reasonable likelihood that the relevant payment will be revoked.

Enforcement of Second Lien and Mezzanine Security

The Security Agent will enforce the security interests created in favour of the Second Lien Creditors (the "Second Lien Security") only at the request of the Second Lien Agent.

The Security Agent will enforce the security interests created in favour of the Mezzanine Creditors (the "Mezzanine Security") only at the request of the Mezzanine Agent which will give such instructions only when permitted to do so under the terms of the Second Lien and Mezzanine Intercreditor Agreement.

Amendment

Subject to certain exceptions, an amendment or waiver may be made in respect of the Second Lien and Mezzanine Intercreditor Agreement if it is made with the prior written agreement of the Second Lien Agent, the Mezzanine Lenders, the Hedge Counterparties, Luxco and the Security Agent.

Unless the provisions of any Second Lien and Mezzanine Finance Document expressly provide otherwise, and subject to certain exceptions set out in the Second Lien and Mezzanine Intercreditor Agreement, the Security Agent may, if authorised by the Second Lien Agent or, after discharge in full of the Second Lien Liabilities and with the consent of the Second Lien Agent to unrestricted action by the Mezzanine Lenders, the Mezzanine Agent amend the terms of, waive any of the requirements of, or grant consents under, any of the security documents entered into in connection with the Amended Second Lien Credit Agreement and the Amended Mezzanine Facility Agreement.

If the amendment or waiver may impose new or additional obligations on or withdraw or reduce the rights of any party, the consent of that party is required.

Governing Law

The Second Lien and Mezzanine Intercreditor Agreement is governed by English law.

Voting Agreement

The Issuer has been informed by the Senior Lenders that they have entered into an agreement with creditors of its holding company Gaming Invest (the “Voting Agreement”), which manages the arrangements between them and the decision making processes which each party to the Voting Agreement must abide by in relation to their respective rights under certain other finance documents to which they are party, some of which are described above. Neither the Issuer nor any of its subsidiaries are a party to the Voting Agreement but it is understood that the arrangements and provisions thereof can be summarised as follows.

Overview

The Voting Agreement was entered into on October 16, 2006 between, among others, the financial institutions named therein as Senior Lenders, the financial institutions named therein as Second Lien Lenders, the financial institutions named therein as Mezzanine Lenders, ABN AMRO N.V. (now The Royal Bank of Scotland plc, Milan Branch) as Facility Agent, Second Lien Agent and Security Agent and Mizuho Corporate Bank Ltd. as Mezzanine Agent (and, together with the Facility Agent, Security Agent and Second Lien Agent, the “Agents”) in connection with the Senior Intercreditor Agreement and the Second Lien and Mezzanine Intercreditor Agreement (together, the “Intercreditor Agreements”), the Senior Secured Credit Facilities Agreement, the Second Lien Facilities Agreement and the Mezzanine Facilities Agreement.

The Voting Agreement sets out the creditors from which the Agents shall take instructions when acting under the Intercreditor Agreements. As part of the amendments to the Senior Secured Credit Facilities Agreement, on or about the Issue Date, the Original Notes Trustee will accede to the Voting Agreement on its own behalf and as trustee and agent on behalf of the Noteholders from time to time with the intention of making the Original Notes Trustee and the Noteholders themselves parties to the Senior Secured Credit Facilities Agreement as “Lenders”. Consequently they shall be considered Senior Lenders, Senior Creditors, Finance Parties and Secured Parties with Senior Liabilities and Secured Obligations for the purposes of the Voting Agreement and shall count accordingly.

The Voting Agreement sets out, among other things:

- (i) procedures, levels of required consents and instructions to be given to the Agents in relation to their rights and obligations under the Intercreditor Agreements;
- (ii) when enforcement action can be taken in respect of the Second Lien and Mezzanine Liabilities;
- (iii) enforcement provisions with respect to Common Security (as defined in the Voting Agreement and further described below); and
- (iv) provisions on the order of application of any disposal or enforcement proceeds, with respect to each of the Senior Security, Common Security, Second Lien Security and Mezzanine Security (each as defined herein).

As described above, the following description is what we understand to be a summary of certain provisions contained in the Voting Agreement. The Issuer is not a party to the Voting Agreement and what follows does not seek to restate the Voting Agreement in its entirety. We therefore urge you to read that document. Any capitalised terms used in the following summary and not otherwise defined herein shall have the same meaning as those defined terms in the Voting Agreement itself.

Voting

Except as specifically provided for in the Voting Agreement, there are no separate class rights or rights of consent of the Second Lien Creditors and the commitments of the Second Lien Creditors are included in the calculation of Majority Priority Senior Creditors (as defined in the Voting Agreement and below, but which, for the avoidance of doubt, includes the relevant hedging counterparties under both the Senior Secured Credit Facilities Agreement and the Second Lien Facilities Agreement respectively) and the commitments of the Second Lien Lenders in the calculation of Majority Priority Senior Lenders (as defined in the Voting Agreement and briefly described below) for decision making purposes as set out in the Voting Agreement.

“Majority Priority Senior Lenders” means, at any time a Priority Senior Lender(s) (meaning the Senior Lenders and the Second Lien Lenders) whose commitments under the Senior Secured Credit Facilities Agreement (including for the avoidance of doubt all principal amounts outstanding under the Original Notes and any Notes to be issued in the future) and the Second Lien Credit Agreement aggregate more than 66²/₃ per cent of the aggregate of Total Commitments under the Senior Secured Credit Facilities Agreement and the Second Lien Credit Agreement.

“Majority Priority Senior Creditors” means at any time the Senior Lenders, the Second Lien Lenders, the Senior Hedge Counterparties and the Second Lien Hedge Counterparties whose aggregate commitments (including, for the avoidance of doubt, all principal amounts outstanding under the Original Notes and any Notes to be issued in the future) and hedging obligations to the extent closed out or terminated at that time aggregate more than 66²/₃ per cent of the total Commitments and any settlement amounts.

Accordingly, all references in the Senior Secured Credit Facilities Agreement and the Second Lien Credit Agreement to the “Majority Lenders” are to be read and construed as references to the Majority Priority Senior Lenders.

Under the Voting Agreement if any Senior Lender, Second Lien Lender, Mezzanine Lender or a hedge counterparty does not respond to a request made by a borrower under the applicable facility within ten business days from the date of the relevant request, its “Commitment” will be disregarded in calculating the votes cast. Noteholders will be subject to the same “snooze and lose” period for purposes of certain voting requests. Pursuant to the Senior Secured Credit Facilities Agreement, if the requisite majority of Noteholders approve or disapprove a resolution, all Noteholders will be deemed to have approved or disapproved the resolution in question. In addition, but subject to the Voting Agreement, if the Facility Agent has not received an instruction from the Original Notes Trustee within ten business days from the date of the relevant request i.e., the “snooze or lose period” the votes of the Noteholders will be treated as a rejection.

In addition, under the terms of the Voting Agreement, the Facility Agent will give consents, confirmations or instructions under the Senior Intercreditor Agreement only on the basis of the consent, confirmation or instructions of the Majority Priority Senior Creditors except that, if an event of default due to failure to pay amounts due under the Senior Secured Credit Facilities Agreement occurs, the Facility Agent may act on the instructions from the Majority Lenders under the Senior Secured Credit Facilities Agreement. This event of default does not extend to payment defaults under the Notes. See “Risk Factors—Risks related to the Notes—Under the Senior Intercreditor Agreement and the Voting Agreement, holders of the Notes are subject to limitations on their ability to enforce the Collateral”.

Consents and Instructions

Subject as expressly provided to the contrary in the Voting Agreement:

- (i) the Second Lien Lenders shall only take enforcement action in respect of the Second Lien Security if authorised to do so by the Majority Priority Senior Creditors;
- (ii) the Facility Agent will give any consent, confirmation or instruction it is entitled or required to give under the Senior Intercreditor Agreement only with the consent of the Majority Priority Senior Creditors, except where upon a non-payment event of default under the Senior Secured Credit Facilities Agreement the Facility Agent may act on the instructions from the Majority Senior Lenders only; and
- (iii) the Second Lien Agent will give any consent or confirmation or instruction it is entitled or required to give pursuant to the Second Lien and Mezzanine Intercreditor Agreement, in accordance with the instructions of the Majority Priority Senior Creditors.

The Voting Agreement also contains details of the further consents required including, among others, in respect of:

- (i) the Senior Intercreditor Agreement: in relation to certain increases of principal or margin and certain amendments in relation to the Senior Secured Credit Facilities; and
- (ii) the Second Lien and Mezzanine Intercreditor Agreement: in relation to certain increases of principal or margin by the Second Lien Creditors, certain amendments in relation to the Second Lien Facilities and payments to the Mezzanine Lenders.

Ranking and Priority

Security

The Senior Lenders may take, accept or receive from any member of the Group the benefit of any security, guarantee, indemnity or other assurance against loss in respect of the Senior Liabilities in addition to the Senior Security and, to the extent legally possible, such security shall be treated as Common Security taken for the benefit of all secured parties.

The Second Lien and the Mezzanine Lenders are not permitted to take, accept or receive the benefit of any security other than (in the case of the Second Lien Lenders) the Second Lien Security and (in the case of the Mezzanine Lenders) the Mezzanine Security.

Similar provisions apply in relation to the Senior Hedge Counterparties (who may only take, accept or receive the benefit of Senior Security), the Second Lien Hedge Counterparties (who may only take, accept or receive the benefit of Second Lien Security) and the Mezzanine Hedge Counterparties (who may only take, accept or receive the benefit of Mezzanine Security).

As of the date hereof, Common Security is comprised of:

- (i) a first ranking pledge over the shares in the Issuer in favour of the Senior Creditors, a second ranking pledge over such shares in favour of the Second Lien Creditors and a third ranking pledge over such shares in favour of the Mezzanine Lenders; and
- (ii) a first ranking pledge over the shares in Sisal S.p.A in favour of the Senior Creditors and the rights arising from a first ranking pledge over the Shareholder Loan C and the related security (including second ranking pledges over the shares in favour of the Second Lien Creditors and a second ranking pledge over the Shareholder Loan C and the related security (including the third ranking pledges over the shares in Sisal S.p.A.) held by the Issuer in favour of the Mezzanine Lenders.

Permitted Payments to the Mezzanine Lenders

The Second Lien Agent will not give consent to unrestricted payments to the Mezzanine Creditors in respect of the Mezzanine Liabilities unless the Priority Senior Creditors (meaning the Senior Lenders, the Second Lien Lenders, the Senior Hedge Counterparties and the Second Lien Hedge Counterparties) have been unconditionally repaid in full.

Pursuant to the Voting Agreement, the Facility Agent is entitled to issue “Stop Notices” upon instructions from Majority Priority Senior Lenders if there is an event of default continuing under the Senior Secured Credit Facilities Agreement or the Second Lien Credit Agreement, pursuant to which, from the date of issue of such notice and for the duration of the stop period (i.e., (x) in relation to any failure by the Obligor to pay on the due date any amount payable under a second lien finance document, until the Second Lien Agent cancels the stop notice or until the event is no longer continuing and (y) in relation to any other event of default, 90 days from the date the Stop Notice was issued), no payments may be made in respect of any of the Mezzanine Liabilities unless:

- (i) the event of default (either under the Senior Secured Credit Facilities Agreement or the Amended Second Lien Credit Agreement) in respect of which that stop notice was issued is no longer continuing;
- (ii) the Facility Agent, acting on the instructions of the Majority Priority Senior Lenders, cancels the stop notice; or
- (iii) the Senior Liabilities and the Second Lien Liabilities have been paid in full and their commitments cancelled.

Entitlement to Enforce Security

Common Security

The Senior Security Agent, acting on the instructions of the Majority Priority Senior Creditors, has the right to enforce the Common Security when entitled to do so pursuant to the Senior Secured Credit Facilities Agreement.

The Second Lien Creditors may only enforce the Common Security prior to the date on which the Senior Liabilities have been discharged in full if (i) the prior consent of the Majority Priority Senior Creditors is obtained or (ii) an enforcement request has been issued by the Second Lien Agent (which it may do so (A) where an “event of default” occurs under the terms of the Second Lien Credit Agreement which is (x) a payment default (other than a result of the operation of a standstill provision) or (y) certain events of default relating to insolvency or creditors’ process relating to the borrower under the Amended Second Lien Credit Agreement or (B) if the Liabilities under the Senior Secured Credit Facilities Agreement or the Amended Mezzanine Facility Agreement are accelerated or prematurely due and payable (other than as a result of it becoming unlawful for a Lender to perform its obligations under the Senior Finance Documents or the Mezzanine Finance Documents) or payable on demand), the Standstill Period of 60 days has expired, no enforcement action has been taken by the Senior Lenders and the relevant event of default is continuing.

The Mezzanine Creditors may only enforce the Common Security after the date the Senior Liabilities have been discharged in full but prior to the date on which the Second Lien Liabilities have been discharged in full if (i) the prior consent of the Majority Second Lien Creditors is obtained or (ii) an enforcement request has been issued by the Mezzanine Agent pursuant to an enforcement request, the Standstill Period of 90, 120 or 150 days (as applicable) has expired, the Second Lien Creditors have not taken any enforcement action and the relevant event of default is continuing.

Second Lien Security

The Second Lien Lenders will only take enforcement action prior to the date the Senior Liabilities have been discharged in full in respect of the Second Lien Security if authorised to do so by the Majority Priority Senior Creditors or as

a result of the expiry of any Standstill Period (as defined below) arising as a consequence of an enforcement request issued on their behalf by the Second Lien Agent (which it may do so where an “event of default” occurs under the terms of the Amended Second Lien Credit Agreement (which is a default (other than a result of the operation of a standstill provision) or certain events of default relating to insolvency or creditors’ process relating to the borrower under the Amended Second Lien Credit Agreement or if the Liabilities under the Senior Secured Credit Facilities Agreement or the Amended Mezzanine Facility Agreement are accelerated or prematurely due and payable (other than as a result of it becoming unlawful for a Lender to perform its obligations under the Senior Finance Documents or the Mezzanine Finance Documents) or payable on demand).

“Standstill Period” means (i) in respect of the Amended Second Lien Facility Agreement, the period of 60 days after the issue of an enforcement request by the Second Lien Agent to the Facility Agent; and (ii) in respect of the Mezzanine Facility Agreement, the following periods after the issue of an enforcement request:

- (a) 90 days in respect of a payment default under the Amended Mezzanine Facility Agreement;
- (b) 120 days in respect of a breach of financial covenants of the Amended Mezzanine Facility Agreement; and
- (c) 150 days in respect of any other event of default specified in the Amended Mezzanine Facility Agreement.

Shareholder Loan C

A demand on the Issuer for payment under the Shareholder Loan C may be made by Luxco on the instructions of the Majority Second Lien Lenders or the Majority Mezzanine Lenders if the liabilities of the Senior Lenders have been accelerated or been declared prematurely due and payable.

Application of Proceeds

Application proceeds of disposals and claims before an enforcement action

The proceeds from any sale, conveyance, transfer or assignment of assets or any claim under an insurance policy, which are the subject of the transaction security created in favour of the Senior Liabilities, Second Lien Liabilities or Mezzanine Liabilities, as further described under the relevant Intercreditor Agreement, shall be applied in or towards payment of:

- (i) *firstly*, the Senior Liabilities (other than the liabilities owed by any Obligor to the Senior Hedge Counterparties, the “Senior Hedging Liabilities”) in accordance with the terms of the Senior Secured Credit Facilities Agreement (without any obligation to apply those amounts in or towards payment of the Second Lien Liabilities or the Mezzanine Liabilities);
- (ii) *secondly*, after the discharge in full of the Senior Liabilities (other than the Senior Hedging Liabilities) in mandatory prepayment of the Second Lien Liabilities (other than the liabilities owed by any Obligor to the Second Lien Hedge Counterparties in connection with the Second Lien Hedging Agreements, the “Second Lien Hedging Liabilities”); and
- (iii) *thirdly*, after the discharge in full of the Senior Liabilities and Second Lien Liabilities (other than the Senior Hedging Liabilities and Second Lien Hedging Liabilities) in mandatory prepayment of the Mezzanine Liabilities (other than the liabilities owed by any Obligor to the Second Lien Hedge Counterparties in connection with the Mezzanine Hedging Agreements, the “Mezzanine Hedging Liabilities”).

Senior Security: Order of application

The amounts received or recovered by the Security Agent (other than in respect of the Common Security) in connection with the realisation or enforcement of all or any part of the Senior Security shall be applied in the following order of priority:

- (i) in discharging any sums owing to the Senior Security Agent (in its capacity as agent), any receiver or any delegate;
- (ii) in payment of all costs and expenses reasonably incurred by any Agent or Senior Creditor in connection with any realization or enforcement of the Senior Security taken in accordance with the terms of the Voting Agreement and the Intercreditor Agreements;
- (iii) in payment to the Facility Agent on behalf of the Senior Lenders and Senior Hedge Counterparties for application (in accordance with the terms of the Senior Finance Documents) towards the discharge of the Senior Liabilities and Senior Hedging Liabilities, *pro rata*;

- (iv) in payment to the Second Lien Agent on behalf of the Second Lien Lenders and Second Lien Hedge Counterparties for application (in accordance with the terms of the Mezzanine Finance Documents) towards the discharge of the Second Lien Liabilities and Second Lien Hedging Liabilities, *pro rata*;
- (iv) in payment to the Mezzanine Agent on behalf of the Mezzanine Lenders and Mezzanine Hedge Counterparties for application (in accordance with the terms of the Mezzanine Finance Documents) towards the discharge of the Mezzanine Liabilities and Mezzanine Hedging Liabilities, *pro rata*;
- (v) after the discharge of the Senior Liabilities, in payment to any person to whom the Security Agent is obliged to pay in priority to any Obligor; and
- (vi) the balance, if any, in payment to the relevant Obligor.

Second Lien Security and Mezzanine Security: Order of application

The amounts received or recovered by the Security Agent (other than in respect of the Common Security) in connection with the realisation or enforcement of all or any part of the Second Lien Security or, as the case may be, the Mezzanine Security shall be applied in the following order of priority:

- (i) in discharging any sums owing to the Security Agent (in its capacity as agent), any receiver or any delegate;
- (ii) in payment of all costs and expenses reasonably incurred by any Agent or Priority Creditor (meaning the Senior Creditors, Second Lien Creditors and Mezzanine Creditors, in each case in such capacity only) in connection with any realisation or enforcement of the Second Lien Security taken in accordance with the terms of the Voting Agreement and the Intercreditor Agreements;
- (ii) in payment to the Second Lien Agent on behalf of the Second Lien Lenders and Second Lien Hedge Counterparties for application (in accordance with the terms of the Second Lien Finance Documents) towards the discharge of the Second Lien Liabilities, *pro rata*;
- (iv) in payment to the Mezzanine Agent on behalf of the Mezzanine Lenders and Mezzanine Hedge Counterparties for application (in accordance with the terms of the Senior Finance Documents) towards the discharge of the Mezzanine Liabilities, *pro rata*;
- (v) in payment to the Facility Agent on behalf of the Senior Lenders and Senior Hedge Counterparties for application (in accordance with the terms of the Senior Finance Documents) towards the discharge of the Senior Liabilities, *pro rata*;
- (vi) after the discharge of the Senior Liabilities, the Second Lien Liabilities and the Mezzanine Liabilities, in payment to any person to whom the relevant Security Agent is obliged to pay in priority to any Obligor; and
- (vii) the balance, if any, in payment to the relevant Obligor.

Common Security: Order of application

The amounts received or recovered by the Security Agent in respect of the Common Security shall be applied in the following order of priority:

- (i) in discharging any sums owing to the Security Agent (in its capacity as agent), any receiver or any delegate;
- (ii) in payment of all costs and expenses reasonably incurred by any Agent or Priority Creditor in connection with any realisation or enforcement of the Common Security taken in accordance with the terms of the Voting Agreement and the Intercreditor Agreements;
- (iii) in payment to the Facility Agent on behalf of the Senior Lenders and Senior Hedge Counterparties for application (in accordance with the terms of the Senior Finance Documents) towards the discharge of the Senior Liabilities and Senior Hedging Liabilities, *pro rata*;
- (iv) in payment to the Second Lien Agent on behalf of the Second Lien Lenders and Second Lien Hedge Counterparties for application (in accordance with the terms of the Second Lien Finance Documents) towards the discharge of the Second Lien Liabilities and Second Lien Hedging Liabilities, *pro rata*;
- (v) in payment to the Mezzanine Agent on behalf of the Mezzanine Lenders and Mezzanine Hedge Counterparties for application (in accordance with the terms of the Mezzanine Finance Documents) towards the discharge of the Mezzanine Liabilities and Mezzanine Hedging Liabilities, *pro rata*;

- (vi) after the discharge of the Senior Liabilities, the Second Lien Liabilities and the Mezzanine Liabilities, in payment to any person to whom the Security Agent is obliged to pay in priority to any Obligor; and
- (vii) the balance, if any, in payment to the relevant Obligor.

Loss sharing

The parties will make payments as directed by the Security Agent if necessary after all security has been discharged so as to ensure that, if all liabilities cannot be satisfied in full, any losses are borne pro rata firstly by the Mezzanine Creditors, secondly by the Second Lien Creditors and finally by the Senior Creditors.

Subordination

The Security Agent is authorised to release the Senior Security, the Second Lien Security and the Mezzanine Security in accordance with the provisions dealing with subordination in the Intercreditor Agreements.

Amendment

No term of the Voting Agreement Agreement or the Second Lien and Mezzanine Intercreditor Agreement may be amended or waived except by the written agreement of Luxco, the Senior Lenders (including the Note Trustee and the Noteholders), the Second Lien Lenders, the Mezzanine Lenders, the Hedge Counterparties and the Security Agent.

Unless the provisions of any Finance Document expressly provide otherwise, each Security Agent may, if authorised by the Facility Agent or, after discharge in full of the Senior Liabilities, the Majority Second Lien Lenders, or, after discharge in full of the Senior Liabilities and Second Lien Liabilities, the Majority Mezzanine Lenders and, in each case, only if Luxco shall have given prior written consent, amend the terms of, waive any of the requirements of, or grant consents under, any of their respective Security Documents which shall be binding on each Party, except that the prior consent of all the Priority Creditors is required to authorise any amendment of any Security Document which would affect the nature or the scope of the charged property or the manner in which proceeds of enforcement are distributed.

Governing Law

The Voting Agreement is governed by English law.

Shareholder Loans

On October 16, 2006, Giochi Holding S.p.A. (which is now the Issuer) entered into Shareholder Loan C with Gaming Invest, the parent company of Giochi Holding S.p.A. Concurrently Gaming Invest issued unsecured subordinated preference certificates and unsecured subordinated convertible bonds to its shareholders. Shareholder Loan C is a secured subordinated shareholder loan, originally in the amount of €451.8 million, and is repayable on demand. Shareholder Loan C carries a cash interest rate of 10.5% per annum, of which 4.5% per annum is payable in cash and 6.0% is compounded at the option of the borrower. Gaming Invest has the option to increase or decrease the cash and payment in kind components by up to 0.5% per annum, subject to the total interest rate at all times being equal to 10.5% per annum. Interest is payable every three months. Shareholder Loan C is secured on a second-ranking basis by a pledge over the shares of Sisal S.p.A. held by the Issuer. Shareholder Loan C is subject to the terms of the Senior Intercreditor Agreement. The Second Lien Facilities and the Mezzanine Facilities are secured on a first-ranking and second-ranking basis, respectively, by a pledge over the shares of Gaming Invest and a pledge over the receivables of Gaming Invest under Shareholder Loan C. The principal outstanding amount due under Shareholder Loan C as of December 31, 2012 was €343.5 million. Shareholder Loan C is governed by Luxembourg law. Solely for purposes of certain provisions, and definitions used in the Indenture, Shareholder Loan C will be “Subordinated Shareholder Funding” in the Indenture.

On June 25, 2009, Sisal Holding Finanziaria S.p.A. (which is now the Issuer) entered into Shareholder Loan ZC with Gaming Invest, the parent company of Sisal Holding Finanziaria S.p.A. Shareholder Loan ZC is an unsecured subordinated shareholder loan, originally in the amount of €60.0 million, and is repayable on demand. Funds from Shareholder Loan ZC, along with equity from our shareholders, were used to finance the upfront cash payment required in connection with the award of our existing NTNG concession. Shareholder Loan ZC carries an interest rate of 11.0% per annum on a zero coupon basis. Shareholder Loan ZC is subject to the terms of the Senior Intercreditor Agreement. The principal amount outstanding amount due under Shareholder Loan ZC as of December 31, 2012 was €79.8 million. Shareholder Loan ZC is governed by Luxembourg law. Solely for purposes of certain provisions, and definitions used in the Indenture, Shareholder Loan ZC will be “Subordinated Shareholder Funding” in the Indenture. See “*Description of the Notes—Certain Definitions—Subordinated Shareholder Funding.*”

Other Debt

In addition to the indebtedness described above, we currently have €10.0 million of debt under finance leases, factoring of VAT receivables and other sundry financial liabilities.

DESCRIPTION OF THE NOTES

The following is a description of the €275.0 million in aggregate principal amount of 7.250% senior secured notes due 2017 (the “Notes”). The Notes have been issued by Sisal Holding Istituto di Pagamento S.p.A., a *società per azioni* incorporated under the laws of Italy (the “Company”), pursuant to an indenture to be entered into on the Issue Date (the “Indenture”) among, *inter alios*, the Company, certain subsidiaries of the Company that will guarantee the Notes, as guarantors, The Law Debenture Trust Corporation p.l.c., as trustee and legal representative of the holders of the Notes (*mandatario con rappresentanza*) and common representative (*rappresentante comune*) of the holders of the Notes pursuant to articles 2417 and 2418 of the Italian civil code (the “Trustee”) and The Royal Bank of Scotland plc, Milan Branch, as security agent (the “Security Agent”). The issuance of the Notes will not be subject to the registration requirements of the Securities Act. See “*Notice to Investors*.”

In this “*Description of the Notes*,” references to the “Company” refer only to Sisal Holding Istituto di Pagamento S.p.A., and any successor obligor to Sisal Holding Istituto di Pagamento S.p.A. on the Notes, and not to any of its subsidiaries. The definitions of certain terms used in this “*Description of the Notes*” are set forth below under the caption “—*Certain Definitions*”. Certain defined terms used in this “*Description of the Notes*” but not defined under the caption “—*Certain Definitions*” have the meanings assigned to them in the Indenture.

The terms of the Notes include those set forth in the Indenture. The Indenture will not be qualified under, incorporate provisions by reference to, or be subject to, the Trust Indenture Act. Consequently, the Holders will not be entitled to the protections provided under the Trust Indenture Act to holders of debt securities issued under a qualified indenture, including those requiring the Trustee to resign in the event of certain conflicts of interest and to inform the Holders of certain relationships between it and the Company or the Guarantors. The Security Documents referred to below under the caption “—*Collateral*” define the terms of the security that will secure the Notes.

The proceeds of the offering of the Notes sold on the Issue Date will be used to discharge a portion of the indebtedness outstanding under the Senior Credit Agreement as set forth in this Offering Memorandum under the caption “*Use of Proceeds*.” In connection therewith, the Senior Credit Agreement, the Mezzanine Credit Agreement, the Second Lien Credit Agreement and the Senior Intercreditor Agreement will be amended and restated on or about the Issue Date. In addition, on or about the Issue Date, the Trustee will accede to the Voting Agreement and the Senior Credit Agreement on its own behalf and as trustee and agent on behalf of the holders of the Notes. Upon accession to the Senior Credit Agreement, the Trustee and the holders of the Notes will be deemed to be a party to that agreement for the purposes and solely to the extent provided therein. The Senior Credit Facilities Agreement provides that, with respect to certain “Notes Related Provisions”, the Senior Intercreditor Agreement and the Voting Agreement, as well as any other intercreditor arrangement between the creditors of Holdco and the Finance Parties (as defined in the Senior Credit Agreement), the Trustee and the holders of the Notes will be deemed a “Lender” and will therefore be entitled to exercise the rights and remedies granted to “Lenders” with respect to such provisions and certain provisions of the relevant intercreditor agreements, through the Facility Agent. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities*”.

For a description of the Senior Credit Agreement, the Mezzanine Credit Agreement, the Second Lien Credit Agreement, the Senior Intercreditor Agreement, the Voting Agreement and other agreements affecting the rights of the Holders, see “*Description of Certain Financing Arrangements*.”

This “*Description of the Notes*” provides a summary of the material provisions of the Indenture, the Notes and the Security Documents and also refers to the Senior Credit Agreement, the Senior Intercreditor Agreement and the Voting Agreement. However, this “*Description of the Notes*” does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all provisions of the aforementioned documents in their entirety. Because this “*Description of the Notes*” is a summary, it may not contain all the information that is important to you. You should read the Indenture, the form of Notes, the Security Documents, the Senior Credit Agreement, the Senior Intercreditor Agreement, the Voting Agreement and any other applicable agreement in their entirety because they, and not this description, will define your rights as a holder of the Notes. Copies of the Indenture, the form of the Global Notes, the Security Documents, the Senior Credit Agreement, the Senior Intercreditor Agreement, the Second Lien and Mezzanine Intercreditor Agreement, any Additional Intercreditor Agreement and the Voting Agreement will be made available to you as described under the heading “*Where You Can Find Additional Information*” and “*Listing and General Information*”.

The Company has made an application to list the Notes on the Official List of the Luxembourg Stock Exchange and for the Notes to be admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange (the “Euro MTF Market”).

The registered holder of a Note will be treated as the owner of it for all purposes. Only registered holders will have rights under the Indenture.

General

The Notes

The Notes will:

- be a general senior obligation of the Company;
- be secured on a first-priority basis along with obligations under the Senior Credit Agreement as set forth below under the caption “—*Security—Collateral*”;
- rank *pari passu* in right of payment to any existing or future obligations of the Company that are not subordinated in right of payment to the Notes, including the obligations of the Company under the Senior Credit Agreement;
- rank senior in right of payment to any existing or future obligations of the Company that are expressly subordinated in right of payment to the Notes, if any;
- be effectively subordinated to any existing and future obligations of the Company that are secured by property and assets that do not secure the Notes, to the extent of the value of the property and assets securing such obligations; and
- be unconditionally guaranteed on a senior basis by the Guarantors, subject to the limitations described herein and in “*Risk Factors—Risks Related to the Notes—Each Guarantee and the Collateral will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defences that may limit its validity and enforceability*” and “*Limitations on Validity and Enforceability of the Guarantees and the Security Interests and Certain Insolvency Law Considerations*”.

The Guarantees

Each Guarantee will:

- be a general senior obligation of the applicable Guarantor;
- be secured on a first-priority basis along with obligations under the Senior Credit Agreement as set forth below under the caption “—*Security—Collateral*”;
- rank *pari passu* in right of payment to any existing or future obligations of the applicable Guarantor that are not subordinated in right of payment to the applicable Guarantee, including its obligations under the Senior Credit Agreement;
- rank senior in right of payment to any existing or future obligations of the applicable Guarantor that are expressly subordinated in right of payment to the applicable Guarantee, if any;
- be effectively subordinated to any existing or future obligations of the applicable Guarantor that are secured by property or assets that do not secure the Guarantee, to the extent of the value of the property and assets securing such obligations; and
- be subject to the limitations described herein and in “*Risk Factors—Risks Related to the Notes—Each Guarantee and the Collateral will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defences that may limit its validity and enforceability*” and “*Limitations on Validity and Enforceability of the Guarantees and the Security Interests and Certain Insolvency Law Considerations*”.

Principal and Maturity

The Company issued €275.0 million in aggregate principal amount of Notes on the Issue Date. The Notes will mature on September 30, 2017 and will be redeemed on such date at a price equal to 100% of the principal amount of the Notes. The Notes will be issued in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof.

The rights of holders of beneficial interests in the Notes to receive the payments on such Notes are subject to applicable procedures of Euroclear and Clearstream. If the due date for any payment in respect of any Notes is not a Business Day at the place at which such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount due until the next succeeding Business Day at such place, and will not be entitled to any further interest or other payment as a result of any such delay.

Interest

Interest on the Notes will accrue at a rate equal to 7.250% per annum.

Interest on the Notes will:

- accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid;
- be payable in cash semi-annually in arrears on each March 31 and September 30, commencing on September 30, 2013;
- be payable to the holder of record of such Notes on the March 15 and September 15 immediately preceding the related interest payment date; and
- be computed on the basis of a 360-day year and the actual number of days elapsed.

Additional Notes

From time to time, subject to the Company's compliance with the covenants described under the heading "*Certain Covenants—Limitation on Indebtedness*" and "*Certain Covenants—Limitation on Liens*", the Company is permitted to issue additional Notes, which shall have the terms set out in an Officer's Certificate supplied to the Trustee (the "Additional Notes"). Such Additional Notes will be treated, along with all other Notes, as a single class for all purposes under the Indenture with respect to waivers, amendments, redemptions and all other matters which are not specifically distinguished for such series. Unless the context otherwise requires, for all purposes of the Indenture and this "*Description of the Notes*," references to the "Notes" shall be deemed to include references to the Notes initially issued on the Issue Date as well as any Additional Notes that are issued in the future. For a discussion of the U.S. federal income tax implications of such an issuance of Additional Notes, see "*Certain Tax Considerations—Certain U.S. Federal Income Tax Considerations Additional Notes*".

Methods of Receiving Payments on the Notes

Principal, premium, if any, interest and Additional Amounts, if any, on the Global Notes will be payable at the specified office or agency of one or more Paying Agents; *provided* that all such payments with respect to Notes represented by one or more Global Notes registered in the name of or held by the common depository (or its nominee, as applicable) for Euroclear or Clearstream will be made by wire transfer of immediately available funds to the account specified by the Holder or Holders thereof.

Principal, premium, if any, interest and Additional Amounts, if any, on any certificated securities ("Definitive Registered Notes") will be payable at the specified office or agency of one or more Paying Agents in the City of London maintained for such purposes. In addition, interest on the Definitive Registered Notes may be paid by check mailed to the person entitled thereto as shown on the register for the Definitive Registered Notes. See "*Paying Agent and Registrar for the Notes*".

Paying Agent and Registrar for the Notes

The Company will maintain one or more paying agents (each, a "Paying Agent") for the Notes in the City of London. The Company will also undertake to maintain a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to the European Council Directive 2003/48/EC regarding the taxation of savings income (the "Directive"). The initial Paying Agent for the Notes will be Deutsche Bank AG, London Branch.

The Company will also maintain one or more registrars (each, a "Registrar") with offices in Luxembourg for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and its rule so require. The Company will also maintain a transfer agent. The initial Registrar and the initial transfer agent will be Deutsche Bank Luxembourg S.A. in Luxembourg. The Registrar will maintain a register for the Notes reflecting ownership of Definitive Registered Notes outstanding from time to time and will make payments on and facilitate transfer of Definitive Registered Notes on behalf of the Company.

The Company may change any Paying Agent, Registrar or transfer agent for the Notes without prior notice to the Holders. For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, the Company will publish a notice of any change of Paying Agent, Registrar or transfer agent in a newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notice on the official website of the Luxembourg Stock Exchange (www.bourse.lu).

Transfer and Exchange

The Notes will initially be issued in the form of registered notes in global form without interest coupons, as follows:

- Notes sold within the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the “144A Global Notes”). The 144A Global Notes will, upon issuance, be deposited with and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.
- Notes sold outside the United States pursuant to Regulation S under the Securities Act will initially be represented by one or more global notes in registered form without interest coupons attached (the “Regulation S Global Notes” and, together with the 144A Global Notes, the “Global Notes”). The Regulation S Global Notes will, upon issuance, be deposited with and registered in the name of the nominee of the common depositary for the accounts of Euroclear and Clearstream.

Ownership of interests in the Global Notes (“Book-Entry Interests”) will be limited to persons that have accounts with Euroclear or Clearstream or persons that may hold interests through such participants. Ownership of interests in the Book-Entry Interests and transfers thereof will be subject to the restrictions on transfer and certification requirements summarized below and described more fully under “*Notice to Investors*.” In addition, transfers of Book-Entry Interests between participants in Euroclear or Clearstream will be effected by Euroclear or Clearstream, as applicable, pursuant to customary procedures and subject to the applicable rules and procedures established by Euroclear or Clearstream, as applicable, and their respective participants.

Book-Entry Interests in the 144A Global Notes may be transferred to a person who takes delivery in the form of Book-Entry Interests in the Regulation S Global Notes only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S under the Securities Act.

Prior to 40 days after the date of initial issuance of the Notes, ownership of Book-Entry Interests in Regulation S Global Notes will be limited to persons that have accounts with Euroclear or Clearstream or persons who hold interests through Euroclear or Clearstream, and any sale or transfer of such interest to U.S. persons shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A under the Securities Act. Subject to the foregoing, Regulation S Book-Entry Interests may be transferred to a person who takes delivery in the form of 144A Book-Entry Interests only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made to a person who the transferor reasonably believes is a “qualified institutional buyer” within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under “*Notice to Investors*” and in accordance with any applicable securities law of any other jurisdiction.

Any Book-Entry Interest that is transferred as described in the immediately preceding paragraphs will, upon transfer, cease to be a Book-Entry Interest in the Global Note from which it was transferred and will become a Book-Entry Interest in the Global Note to which it was transferred. Accordingly, from and after such transfer, it will become subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in the Global Note to which it was transferred.

If Definitive Registered Notes are issued, they will be issued only in minimum denominations of €100,000 aggregate principal amount and integral multiples of €1,000 in excess thereof upon receipt by the Registrar of instructions relating thereto and any certificates, opinions and other documentation required by the Indenture (including any transfer certificates and other documents as may be required by the Senior Intercreditor Agreement and the Voting Agreement and any Additional Intercreditor Agreement). It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, as applicable, from the participant that owns the relevant Book-Entry Interests. Definitive Registered Notes issued in exchange for a Book-Entry Interest will, except as set forth in the Indenture or as otherwise determined by the Company to be in compliance with applicable law, be subject to, and will have a legend with respect to, the restrictions on transfer summarized below and described more fully under “*Transfer Restrictions*.”

Subject to the restrictions on transfer referred to above, Notes issued as Definitive Registered Notes may be transferred or exchanged, in whole or in part, in minimum denominations of €100,000 in aggregate principal amount and integral multiples of €1,000 in excess thereof. In connection with any such transfer or exchange, the Indenture will require the transferring or exchanging holder to, among other things, furnish appropriate endorsements and transfer documents, to furnish information regarding the account of the transferee at Euroclear or Clearstream, as applicable, to furnish certain certificates and opinions, and to pay any Taxes in connection with such transfer or exchange. Any such transfer or exchange will be made without charge to the Holder, other than any Taxes payable in connection with such transfer.

Notwithstanding the foregoing, the Company is not required to register the transfer or exchange of any Notes:

- (1) for a period of 15 days prior to any date fixed for the redemption of such Notes;
- (2) for a period of 15 days immediately prior to the date fixed for selection of such Notes to be redeemed in part;
- (3) for a period of 15 days prior to the record date with respect to any interest payment date applicable to such Notes; or
- (4) which the Holder has tendered (and not withdrawn) for repurchase in connection with a Change of Control Offer or an Asset Disposition Offer.

The Company, the Trustee, the Registrar and the Paying Agents will be entitled to treat the Holder of a Note as the owner of it for all purposes.

Restricted Subsidiaries and Unrestricted Subsidiaries

Upon issuance of the Notes, all the Company's Subsidiaries will be Restricted Subsidiaries. In the circumstances described below under "*Certain Definitions—Unrestricted Subsidiary*," the Company will be permitted to designate Restricted Subsidiaries as Unrestricted Subsidiaries. Unrestricted Subsidiaries will not be subject to any of the restrictive covenants in the Indenture.

Guarantees

On the Issue Date, the obligations of the Company pursuant to the Notes, including any payment obligation resulting from a Change of Control, will (subject to the Agreed Security Principles) be guaranteed, jointly and severally on a senior basis, by each subsidiary of the Company that is a guarantor under the Senior Credit Agreement (each, a "Guarantor" and such guarantee, a "Guarantee").

The obligations of the Guarantors will be contractually limited under the applicable Guarantees to reflect limitations under applicable law with respect to maintenance of share capital, corporate benefit, fraudulent conveyance and other legal restrictions applicable to the Guarantors and their respective shareholders, directors and general partners. For a description of such contractual limitations, see "*Risk Factors—Risks Related to the Notes—The insolvency laws of Italy may not be as favourable to you as U.S. bankruptcy laws*", "*Fraudulent conveyance and similar laws may adversely affect the validity and enforceability of the Notes, the Guarantees and the Collateral*", and "*Limitations on Validity and Enforceability of the Guarantees and the Security Interests and Certain Insolvency Law Considerations*".

The initial Guarantors will consist of Sisal S.p.A., Sisal Entertainment S.p.A. and Sisal Match Point S.p.A., each of which is organized under the laws of Italy. As of and for the twelve months ended December 31, 2012, the Company and the Guarantors, collectively, accounted for 99.4% of the revenues and income, 98.8% of the EBITDA and 99.5% of the total assets of the Company and its consolidated subsidiaries.

In addition, as described below under "*Certain Covenants—Additional Guarantees*" and subject to the Senior Intercreditor Agreement and the Agreed Security Principles, each Restricted Subsidiary that guarantees the Senior Credit Agreement, Public Debt or certain other indebtedness shall also enter into a supplemental indenture as a Guarantor of the Notes and accede to the Senior Intercreditor Agreement.

The Agreed Security Principles apply to the granting of guarantees and security in favor of obligations under the Senior Credit Agreement and the Notes. The Agreed Security Principles include restrictions on the granting of guarantees where, among other things, such grant would be restricted by general statutory or other legal limitations or requirements, financial assistance, corporate benefit, fraudulent preference, "thin capitalization" rules, retention of title claims and similar principles.

Each Guarantee will be limited to the maximum amount that would not render the Guarantor's obligations subject to avoidance under applicable fraudulent conveyance provisions of the United States Bankruptcy Code or any comparable provision of foreign or state law, or as otherwise required under the Agreed Security Principles to comply with corporate benefit, financial assistance and other laws. By virtue of this limitation, a Guarantor's obligation under its Guarantee could be significantly less than amounts payable with respect to the Notes, or a Guarantor may have effectively no obligation under its Guarantee. See "*Risk Factors—Risks Related to the Notes—Each Guarantee and the Collateral will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defences that may limit its validity and enforceability*", "*The insolvency laws of Italy may not be as favourable to you as U.S. bankruptcy laws*", "*Fraudulent conveyance and similar laws may adversely affect the validity and enforceability of the Notes*" and "*Limitations on Validity and Enforceability of the Guarantees and the Security Interests and Certain Insolvency Law Considerations*".

The Guarantee of a Guarantor will terminate and release:

- (1) upon a sale or other disposition (including by way of consolidation or merger) of ownership interests in the Guarantor (directly or through a parent company) such that the Guarantor does not remain a Restricted Subsidiary, or the sale or disposition of all or substantially all the assets of the Guarantor (other than to the Company or a Restricted Subsidiary), in each case, otherwise not prohibited by the Indenture;
- (2) if the Company designates any Restricted Subsidiary that is a Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture;
- (3) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture, as provided below under the headings “—*Defeasance*” and “—*Satisfaction and Discharge*,”
- (4) with respect to a Guarantor that is not a Significant Subsidiary, so long as no Event of Default has occurred and is continuing, to the extent that such Guarantor (i) is unconditionally released and discharged from its liability with respect to the Senior Credit Agreement and (ii) does not guarantee any other Credit Facility or Public Debt;
- (5) in accordance with certain enforcement actions pursuant to the Senior Intercreditor Agreement or any Additional Intercreditor Agreement and the Voting Agreement;
- (6) upon the full and final payment of the Notes; or
- (7) as described under “—*Amendments and Waivers*.”

A significant portion of the operations of the Company are conducted through its Subsidiaries. Claims of creditors of non-Guarantor Subsidiaries, including trade creditors, secured creditors and creditors holding debt and guarantees issued by those Subsidiaries, and claims of preferred and minority stockholders (if any) of those Subsidiaries generally will have priority with respect to the assets and earnings of those Subsidiaries over the claims of creditors of the Company and the Guarantors, including Holders of the Notes. The Notes and each Guarantee therefore will be effectively subordinated to creditors (including trade creditors) and preferred and minority stockholders (if any) of Subsidiaries of the Company (other than the Guarantors). As of December 31, 2012, the Subsidiaries of the Company that did not guarantee the Notes had no financial indebtedness and had €0.8 million of other liabilities outstanding. Although the Indenture limits the incurrence of Indebtedness, Disqualified Stock and Preferred Stock of Restricted Subsidiaries, the limitation is subject to a number of significant exceptions. Moreover, the Indenture does not impose any limitation on the incurrence by Restricted Subsidiaries of liabilities that are not considered Indebtedness, Disqualified Stock or Preferred Stock under the Indenture. See “—*Certain Covenants—Limitation on Indebtedness*.”

Security

Collateral

As of the Issue Date, each of the Company and Holdco, as the case may be, will grant liens and security interests for the benefit of the holders of the Notes on an equal and ratable first-priority basis, subject to the operation of the Agreed Security Principles, certain perfection requirements and any Permitted Collateral Liens, over those of its assets listed below:

- 100.00% of the shares of capital stock of the Company (the “Company Share Pledge”);
- 99.81% of the shares of capital stock of Sisal S.p.A.;
- 100.00% of the shares of capital stock of Sisal Match Point S.p.A.;
- 100.00% of the shares of capital stock of Sisal Entertainment S.p.A.; and
- receivables of the Company, Sisal S.p.A. and Sisal Entertainment S.p.A., respectively, arising pursuant to the Proceeds Loans

(together, the “Collateral”).

Notwithstanding the foregoing, certain assets will not be pledged (or the Liens not perfected) in accordance with the Agreed Security Principles, including:

- if after using reasonable endeavors to overcome such limitations, providing such security would nevertheless be prohibited by general statutory limitations, financial assistance, corporate benefit, fraudulent preference, “thin capitalisation” rules, retention of title claims and similar principles;

- the security and extent of its perfection will take into account the cost (including, for the avoidance of doubt, tax costs and any notarial fees) to the Issuer and its subsidiaries of providing security and the proportionate benefit accruing to the Holders;
- assets subject to third party arrangements which are permitted by the Senior Credit Agreement and the Indenture and which prevent those assets from being charged will be excluded from the fixed charge in any relevant security document;
- if it would conflict with the fiduciary duties of directors or contravene any legal prohibition or result in a risk of personal or criminal liability on the part of any officer;
- perfection of security granted will not be required if it would have a material adverse effect on the ability of the relevant company to conduct its operations and business in the ordinary course as otherwise permitted by the Indenture;
- where a class of assets to be secured includes material and immaterial assets, if the cost of granting security over the immaterial assets is disproportionate to the benefit of such security, security will be granted over the material assets only;
- no perfection action will be required in jurisdictions where a Guarantor is not located but perfection action may be required in the jurisdiction of one Guarantor in relation to security granted by another Guarantor located in a different jurisdiction; and
- no security will be granted over any hedging agreements entered into by the Issuer and its subsidiaries.

As of the Issue Date, the obligations under the Senior Credit Agreement are secured on a first-ranking basis by the same assets that secure our obligations under the Notes and the Guarantees. The Second Lien Facilities and the Mezzanine Facilities are secured on a first-ranking and second-ranking basis, respectively, by a pledge over the shares of Holdco and a pledge over the receivables of Holdco under Shareholder Loan C. The liabilities under the Second Lien Credit Agreement and the Mezzanine Facility Agreement are also secured on a second-ranking and third-ranking basis, respectively, by a pledge over the shares of the Company. Shareholder Loan C is secured on a second-ranking basis by a pledge over the 99.81% of the shares of Sisal S.p.A. owned by the Company. Subject to certain conditions, including compliance with the covenant described under “—*Certain Covenants—Impairment of Security Interest*,” security is permitted to be granted over the Collateral in connection with future issuances of the Indebtedness of the Company or the Restricted Subsidiaries and certain Indebtedness of Holdco, including obligations under Hedging Agreements and any Additional Notes, in each case, as permitted under the Indenture and the Senior Intercreditor Agreement.

Voting Rights and Enforcement Actions under the Senior Intercreditor Agreement and the Voting Agreement

On or about the Issue Date, the Trustee will accede to the Voting Agreement, the Senior Intercreditor Agreement and the Senior Credit Agreement on its own behalf and as trustee and agent on behalf of the holders of the Notes. Upon such accession, the Trustee and the holders of the Notes will be a party to those agreements for the purposes and solely to the extent provided therein. The Senior Credit Agreement provides that, with respect to “Notes Related Provisions”, the Senior Intercreditor Agreement and the Voting Agreement, as well as any other intercreditor arrangement between the creditors of Holdco and the Finance Parties (as defined in the Senior Credit Agreement), the Trustee will be deemed to be a “Lender” under and as defined in the Senior Credit Agreement and a “Senior Lender” under and as defined in each of the Voting Agreement and the Senior Intercreditor Agreement and will therefore be entitled to exercise the rights and remedies granted to “Lenders” or “Senior Lenders”, as the case may be, with respect to such provisions and certain provisions of the relevant intercreditor agreements, through the Facility Agent under the Senior Credit Agreement.

Although the Trustee will be a party to the Senior Intercreditor Agreement and the Voting Agreement, the rights and remedies of the holders of Notes against the Company and the Guarantors upon any breach of their respective obligations under the Indenture, the Notes and the Guarantees, as applicable, will be limited to a right to instruct, through the Trustee, the Facility Agent under the Senior Credit Agreement with a view to the Security Agent enforcing the Collateral in accordance with the Senior Intercreditor Agreement and the Voting Agreement. The Trustee, as representative of the holders of the Notes, will not have a right to enforce the Collateral or take any other action with respect to Collateral under the Senior Intercreditor Agreement or the Voting Agreement other than through the Facility Agent. In addition, in certain limited circumstances, in connection with voting requests under the Senior Credit Agreement relating to amendments to Notes Related Provisions will require the Trustee to approve such decisions. See “*Description of Certain Financing Arrangements—Senior Secured Credit Facilities*”.

Furthermore, under the Senior Intercreditor Agreement and the Voting Agreement, the Trustee will have a right to vote in respect of certain matters that require consent by each lender. See “*Description of Certain Financing Arrangements—Senior Intercreditor Agreement*” and “*Description of Certain Financing Arrangements—Voting Agreement*”.

Administration of Security and Enforcement of Liens

The Security Documents and the Collateral will be administered by the Security Agent, in each case pursuant to the Senior Credit Agreement, the Senior Intercreditor Agreement, the Second Lien and Mezzanine Intercreditor Agreement and the Voting Agreement for the benefit of all holders of secured obligations. The enforcement of the Security Documents will be subject to the procedures set forth in the Senior Credit Agreement, the Senior Intercreditor Agreement, the Second Lien and Mezzanine Intercreditor Agreement and the Voting Agreement. For a description of these agreements, see “*Description of Certain Financing Arrangements—Senior Intercreditor Agreement*” and “*—Voting Agreement*”.

The ability of holders of the Notes to realize upon the Collateral will be subject to various bankruptcy law limitations in the event of the Company’s or another grantor’s bankruptcy. See “*Risk Factors—Risks Related to the Notes—The insolvency laws of Italy may not be as favourable to you as U.S. bankruptcy laws*”, “*—Fraudulent conveyance and similar laws may adversely affect the validity and enforceability of the Notes*” and “*Limitations on Validity and Enforceability of the Guarantees and the Security Interests and Certain Insolvency Law Considerations*”. In addition, the enforcement of the Collateral will be limited to the maximum amount required under the Agreed Security Principles to comply with corporate benefit, financial assistance and other laws. As a result of these limitations, the enforceable amounts of the Company’s obligation under the Notes and a Guarantor’s obligation under its Guarantee could be significantly less than the total amounts payable with respect to the Notes, or a Guarantor may have effectively no obligation under its Guarantee. See “*Risk Factors—Risks Related to the Notes—Each Guarantee and the Collateral will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defences that may limit its validity and enforceability*”.

Subject to the terms of the Security Documents, the Company and the Guarantors will have the right to remain in possession and retain exclusive control of the Collateral (other than as set forth in the Security Documents), to freely operate the Collateral and to collect, invest and dispose of any income therefrom. No appraisals of any of the Collateral have been prepared by or on behalf of the Company in connection with the issuance of the Notes. There can be no assurance that the proceeds from the sale of the Collateral would be sufficient to satisfy the obligations owed to the Holders of the Notes or the payment of obligations under the Senior Credit Agreement and the Hedging Agreements. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral can be sold in a short period of time or at all. In addition, the Senior Intercreditor Agreement, the Second Lien and Mezzanine Intercreditor Agreement and the Voting Agreement place limitations on the ability of the Security Agent to cause the sale of some of the Collateral. See “*Description of Certain Financing Arrangements—Senior Intercreditor Agreement*” and “*—Voting Agreement*.”

The Trustee for the Notes has, and by accepting a Note, each Holder will be deemed to have irrevocably:

- appointed The Royal Bank of Scotland plc, Milan Branch, as Security Agent, to act as its agent under the Senior Intercreditor Agreement and the other relevant documents to which it is a party (including the Security Documents);
- authorized the Security Agent to (i) perform the duties and exercise the rights, powers and discretions that are specifically given to it under the Senior Intercreditor Agreement, the Voting Agreement or other documents to which it is a party (including the Security Documents), together with any other incidental rights, power and discretions; and (ii) execute each document, waiver, modification, amendment, renewal or replacement expressed to be executed by the Security Agent on its behalf;
- accepted to become a party to the Senior Credit Agreement, the Senior Intercreditor Agreement and the Voting Agreement, accepted the terms and conditions of the Senior Credit Agreement, the Senior Intercreditor Agreement, the Voting Agreement and any Additional Intercreditor Agreement (as defined below); and
- authorized the Trustee to (i) instruct the Facility Agent pursuant to the terms of the Senior Credit Agreement, the Senior Intercreditor Agreement and the Voting Agreement; (ii) perform the duties and exercise the rights, powers and discretions that are specifically given to it under the Senior Credit Agreement, the Senior Intercreditor Agreement and the Voting Agreement or other documents, together with any other incidental rights, power and discretions; (iii) enter into any such Additional Intercreditor Agreement; and (iv) execute each document, waiver, modification, amendment, renewal or replacement expressed to be executed by the Trustee on its behalf.

Priority

The relative priority with regard to the Collateral as between (a) the lenders under the Senior Credit Agreement, (b) the lenders under the Mezzanine Facility Agreement and the Second Lien Credit Agreement, (c) the counterparties under certain Hedging Agreements, if any, (d) Holdco under Shareholder Loan C; (e) the Trustee and the Holders under the Indenture and (f) any future Indebtedness secured by the Collateral, is established by the terms of the Senior Credit Agreement, the Senior Intercreditor Agreement, the Second Lien and Mezzanine Intercreditor Agreement, the Voting

Agreement and the Security Documents, which provide that the obligations under the Notes, the Guarantees, the Senior Credit Agreement and the Hedging Agreements will receive proceeds or enforcement of security over the Collateral equally and ratably on a first-priority basis. See “*Description of Certain Financing Arrangements—Intercreditor Agreement.*” In addition, pursuant to the Senior Intercreditor Agreement, the Voting Agreement or Additional Intercreditor Agreements entered into after the Issue Date, the Collateral may be pledged to secure other Indebtedness and obligations under Hedging Agreements. In addition, pursuant to the Indenture, the Company and its Restricted Subsidiaries may in certain circumstances incur Indebtedness which may be secured on a super-priority basis. See “—*Release of Liens,*” “—*Certain Covenants—Impairment of Security Interest*” and “—*Certain Definitions—Permitted Collateral Liens.*”

Release of Liens

The Security Agent will take any action required to effectuate any release of Collateral that is required by a Security Document:

- (1) in connection with any disposition of Collateral (other than the Company Share Pledge), directly or indirectly, to (a) any Person other than the Company or any of the Restricted Subsidiaries, other than a Receivables Subsidiary (but excluding any transaction subject to “—*Certain Covenants—Merger and Consolidation—The Company*”) that is not prohibited by the Indenture or (b) the Company or any Restricted Subsidiary, provided the relevant Collateral remains subject to, or otherwise becomes subject to, a Lien in favor of the Notes;
- (2) upon payment in full of principal, interest and all other obligations in respect of the Notes issued under the Indenture or discharge or defeasance thereof in accordance with the Indenture;
- (3) in the case of a Guarantor that is released from its Guarantee (with respect to the Liens securing such Guarantee granted by such Guarantor) in accordance with the Indenture;
- (4) if the Company designates any of its Restricted Subsidiaries to be an Unrestricted Subsidiary in accordance with the applicable provisions of the Indenture, the release of the property, assets and Capital Stock of such Restricted Subsidiary;
- (5) upon legal defeasance, covenant defeasance or satisfaction and discharge of the Indenture as provided below under the headings “—*Defeasance*” and “—*Satisfaction and Discharge,*”
- (6) upon the full and final payment of the Notes;
- (7) as described under “—*Amendments and Waivers,*”
- (8) as described under “—*Certain Covenants—Impairment of Security Interest,*”
- (9) automatically without any action by the Trustee, if the Lien granted in favor of the Senior Credit Agreement, Public Debt or such other Indebtedness that gave rise to the obligation to grant the Lien over such Collateral pursuant to clause (a)(2) of the second paragraph of the covenant described under “—*Certain Covenants—Limitation on Liens*” is released (other than pursuant to the repayment and discharge thereof); provided that such release would otherwise be permitted by another clause above; or
- (10) as otherwise provided in the Senior Intercreditor Agreement and the Voting Agreement.

Each of these releases shall be effected by the Security Agent and the Trustee (to the extent required) without the consent of the Holders.

The Company and its Restricted Subsidiaries may also, among other things, without any release or consent by the Trustee or the Security Agent, conduct ordinary course activities with respect to Collateral, including (i) selling or otherwise disposing of, in any transaction or series of related transactions, any property subject to the Lien under the Security Documents which has become worn out, defective or obsolete or not used or useful in the business; (ii) selling, transferring or otherwise disposing of current assets in the ordinary course of business; and (iii) any other action not prohibited by the Security Documents, the Senior Intercreditor Agreement, the Voting Agreement or any Additional Intercreditor Agreement.

Amendments to the Senior Intercreditor Agreement, Voting Agreement and Additional Intercreditor Agreements

In connection with the Incurrence of any Indebtedness by the Company or any of the Restricted Subsidiaries that is permitted to share the Collateral, the Trustee and the Security Agent shall, at the request of the Company, enter into with the Company, the relevant Restricted Subsidiaries and the holders of such Indebtedness (or their duly authorized representatives) one or more intercreditor agreements or deeds (including a restatement, replacement, amendment or other modification of the

Senior Intercreditor Agreement or the Voting Agreement) (an “Additional Intercreditor Agreement”), on substantially the same terms as the Senior Intercreditor Agreement and the Voting Agreement, as applicable, (or terms that are not materially less favorable to the Holders) and substantially similar as applies to sharing of the proceeds of security and enforcement of security, priority and release of security; *provided* that such Additional Intercreditor Agreement will not impose any personal obligations on the Trustee or Security Agent or adversely affect the personal rights, duties, liabilities, indemnification or immunities of the Trustee or the Security Agent under the Indenture, the Senior Intercreditor Agreement and the Voting Agreement. In connection with the foregoing, the Company shall furnish to the Trustee such documentation in relation thereto as it may reasonably require. As used herein, a reference to the “Senior Intercreditor Agreement” and “Voting Agreement” will also include (i) any Additional Intercreditor Agreement and (ii) the Senior Credit Agreement to the extent of the Notes Related Provisions, including as described above under “—*Voting Rights and Enforcement Actions*” under the Senior Intercreditor Agreement and the Voting Agreement.

In relation to the Senior Intercreditor Agreement and the Voting Agreement, the Trustee shall consent on behalf of the Holders to the payment, repayment, purchase, repurchase, defeasance, acquisition, retirement or redemption of any obligations subordinated to the Notes thereby; *provided, however*, that such transaction would comply with the covenant described herein under “—*Certain Covenants—Limitation on Restricted Payments*.” The Indenture will also provide that, at the written direction of the Company and without the consent of Holders, the Trustee and the Security Agent shall from time to time enter into one or more amendments to any Senior Intercreditor Agreement and the Voting Agreement to: (1) cure any ambiguity, omission, defect or inconsistency of any such agreement, (2) increase the amount or types of Indebtedness covered by any such Senior Intercreditor Agreement and the Voting Agreement that may be Incurred by the Company or its Restricted Subsidiaries that is subject to any such Senior Intercreditor Agreement or Voting Agreement (*provided* that such Indebtedness is Incurred in compliance with the Indenture), (3) add Guarantors or other Restricted Subsidiaries to the Senior Intercreditor Agreement, (4) further secure the Notes (including Additional Notes), (5) make provision for equal and ratable pledges of the Collateral to secure Additional Notes or to implement any Permitted Collateral Liens or (6) make any other change to any such agreement that does not adversely affect the rights of Holders of Notes in any material respect. The Company shall not otherwise direct the Trustee or the Security Agent to enter into any amendment to any Senior Intercreditor Agreement and the Voting Agreement without the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding, except as otherwise permitted below under “—*Amendments and Waivers*” or as permitted by the terms of such Senior Intercreditor Agreement or the Voting Agreement, as the case may be, and the Company may only direct the Trustee or the Security Agent to enter into any amendment to the extent such amendment does not impose any personal obligations on the Trustee or Security Agent or, in the opinion of the Trustee or Security Agent, adversely affect their respective rights, duties, liabilities or immunities under the Indenture, any Senior Intercreditor Agreement or Voting Agreement.

The Indenture will also provide that each Holder, by accepting a Note, will be deemed to have agreed to and accepted the terms and conditions of, and become a party to, the Senior Intercreditor Agreement and the Voting Agreement (whether then entered into or entered into in the future pursuant to the provisions described herein) and to have authorized the Trustee and the Security Agent to enter into the Senior Intercreditor Agreement, the Voting Agreement and any Additional Intercreditor Agreement on each Holder’s behalf. A copy of the Senior Intercreditor Agreement, the Voting Agreement or any Additional Intercreditor Agreement shall be made available to the Holders upon request and will be made available for inspection during normal business hours on any Business Day upon prior written request at the office of the Company.

Optional Redemption

Except as set forth herein and under “—*Redemption for Taxation Reasons*”, the Notes are not redeemable at the option of the Company.

At any time prior to November 1, 2014, the Company may redeem the Notes in whole or in part, at its option, upon not less than 10 days’ nor more than 60 days’ prior notice, at a redemption price equal to 100% of the principal amount thereof plus the Applicable Premium and accrued and unpaid interest and Additional Amounts, if any, to, but not including, the applicable redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

At any time and from time to time on or after November 1, 2014, the Company may redeem the Notes in whole or in part, at its option, upon not less than 10 days’ nor more than 60 days’ prior notice, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the applicable redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date):

	Redemption Prices
From November 1, 2014 to April 30, 2015	102.0%
From May 1, 2015 to April 30, 2016	101.0%
From May 1, 2016 and thereafter	100.0%

At any time and from time to time prior to November 1, 2014, the Company may redeem up to 40% of the aggregate principal amount of the Notes (including Additional Notes), upon not less than 10 days' nor more than 60 days' prior notice, with funds in an aggregate amount not exceeding the Net Cash Proceeds of one or more Equity Offerings at a redemption price equal to 107.250% of the principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the applicable redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided* that:

- (1) at least 60% of the aggregate principal amount of the Notes initially issued remains outstanding immediately after each such redemption; and
- (2) the redemption occurs within 120 days after the closing of such Equity Offering.

Notice of any redemption upon any Equity Offering may be given prior to the completion thereof.

Any redemption and notice of redemption may, at the Company's discretion, be subject to the satisfaction of one or more conditions precedent (including, in the case of a redemption related to an Equity Offering, the consummation of such Equity Offering). If the Company effects an optional redemption of the Notes, it will, for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, inform the Luxembourg Stock Exchange of such optional redemption and confirm the aggregate principal amount of the Notes that will remain outstanding immediately after such redemption.

If the optional redemption date is on or after an interest record date and on or before the related interest payment date, the accrued and unpaid interest will be paid to the Person in whose name the Note is registered at the close of business on such record date, and no additional interest will be payable to Holders whose Notes will be subject to redemption by the Company.

Sinking Fund; Open Market Purchases

The Company will not be required to make mandatory redemption payments or sinking fund payments with respect to the Notes. The Company and its Restricted Subsidiaries may at any time and from time to time effect purchases of the Notes in the open market, negotiated transactions or otherwise.

Selection and Notice

If less than all of the Notes are to be redeemed at any time, the Registrar will select the Notes for redemption in compliance with the requirements of the principal securities exchange, if any, on which the Notes are listed, as certified to the Registrar by the Company, and in compliance with the requirements of Euroclear or Clearstream, or if the Notes are not so listed or such exchange prescribes no method of selection and the Notes are not held through Euroclear or Clearstream or Euroclear or Clearstream prescribes no method of selection, on a *pro rata* basis, by use of a pool factor or by lot; *provided, however*, that no Note of €100,000 in aggregate principal amount or less shall be redeemed in part and only Notes in integral multiples of €1,000 will be redeemed. The Registrar will not be liable for any selections made by it in accordance with this paragraph.

So long as any Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, any such notice to the Holders of the relevant Notes shall to the extent and in the manner permitted by such rules be posted on the official website of the Luxembourg Stock Exchange (www.bourse.lu) and in addition to such release, not less than 10 days nor more than 60 days prior to the redemption date, the Company will mail, or at the expense of the Company, cause to be mailed, such notice to Holders by first-class mail, postage prepaid, at their respective addresses as they appear on the registration books of the relevant Registrar. Such notice of redemption may also be posted on the website of the Luxembourg Stock Exchange (www.bourse.lu), to the extent and in the manner permitted by the rules of the Luxembourg Stock Exchange.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note shall state the portion of the principal amount thereof to be redeemed, in which case a portion of the original Note will be issued in the name of the Holder thereof upon cancellation of the original Note. In the case of a Global Note, an appropriate notation will be made on such Note to decrease the principal amount thereof to an amount equal to the unredeemed portion thereof. Subject to the terms of the applicable redemption notice (including any conditions contained therein), Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of them called for redemption.

Redemption for Taxation Reasons

The Company may redeem the Notes in whole, but not in part, at any time upon giving not less than 10 days' nor more than 60 days' notice to the Holders (which notice will be irrevocable) at a redemption price equal to 100% of the

outstanding principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed for redemption (a “Tax Redemption Date”) (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date) and all Additional Amounts (see “—Withholding Taxes”), if any, then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise, if the Company determines in good faith that, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) or treaties of a Relevant Taxing Jurisdiction (as defined below) affecting taxation; or
- (2) any change in, amendment to an official position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including pursuant to a holding, judgment or order by a court of competent jurisdiction) of a Relevant Taxing Jurisdiction (each of the foregoing in clauses (1) and (2), a “Change in Tax Law”),

the Payor (as defined under “—Withholding Taxes”) is, or on the next interest payment date in respect of the Notes would be, required to pay any Additional Amounts, and such obligation cannot be avoided by taking reasonable measures available to such Payor (including, for the avoidance of doubt, the appointment of a new Paying Agent where this would be reasonable), *provided* that no Payor shall be required to take any measures that in such Payor’s good-faith determination would result in the imposition on such person of any legal or regulatory burden. In the case of redemption due to withholding as a result of a Change in Tax Law in a jurisdiction that is a Relevant Taxing Jurisdiction at the date of this Offering Memorandum, such Change in Tax Law must be publicly announced and become effective on or after the date of this Offering Memorandum. In the case of redemption due to withholding as a result of a Change in Tax Law in a jurisdiction that becomes a Relevant Taxing Jurisdiction after the date of this Offering Memorandum, such Change in Tax Law be publicly announced and must become effective on or after the date the jurisdiction becomes a Relevant Taxing Jurisdiction. Notice of redemption for taxation reasons will be published in accordance with the procedures described under “—*Selection and Notice*”. Notwithstanding the foregoing, no such notice of redemption will be given (a) earlier than 60 days prior to the earliest date on which the Payor would be obliged to make such payment of Additional Amounts if a payment in respect of the Notes were then due and (b) unless at the time such notice is given, such obligation to pay such Additional Amounts remains in effect. Prior to the publication or mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company will deliver to the Trustee (a) an Officer’s Certificate stating that it is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to its right so to redeem have been satisfied and that it would not be able to avoid the obligation to pay Additional Amounts by taking reasonable measures available to it and (b) a written opinion of an independent tax counsel of recognized standing to the effect that the Payor has been or will become obligated to pay Additional Amounts as a result of a Change in Tax Law. The Trustee will accept and shall be entitled to rely on such Officer’s Certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, without further inquiry, in which event it will be conclusive and binding on the Holders.

The foregoing will apply *mutatis mutandis* to any jurisdiction in which any successor to a Payor is incorporated or organized or any political subdivision or Governmental Authority thereof or therein having the power to tax. Any redemption and notice described above will be subject to the receipt by any Paying Agent of sufficient funds from a Payor to pay the full redemption price payable to Holders on or before the Tax Redemption Date.

Withholding Taxes

All payments made by or on behalf of the Company or any Guarantor (each, a “Payor”) in respect of the Notes or any Guarantee, as applicable, will be made free and clear of and without withholding or deduction for, or on account of, any Taxes unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of:

- (1) Italy or any political subdivision or Governmental Authority thereof or therein having power to tax;
- (2) any jurisdiction from or through which payment on any such Note or Guarantee is made by or on behalf of the Company, any Guarantor or their respective agents, or any political subdivision or Governmental Authority thereof or therein having the power to tax; or
- (3) any other jurisdiction in which the Company or any Guarantor is incorporated, engaged in business, organized or otherwise considered to be a resident for tax purposes, or any political subdivision or Governmental Authority thereof or therein having the power to tax (each of clause (1), (2) and (3), a “Relevant Taxing Jurisdiction”),

will at any time be required to be made from any payments made with respect to any Note or Guarantee, as applicable, including payments of principal, redemption price, premium, if any, or interest, the Payor will pay (together with such payments) such additional amounts (the “Additional Amounts”) as may be necessary in order that the net amounts received in respect of such payments by the Holders or the Trustee, as the case may be, after such withholding or deduction (including

any such deduction or withholding from such Additional Amounts), will equal the amounts which would have been received by the Holders or the Trustee, as the case may be, in respect of such payments on any such Note in the absence of such withholding or deduction; *provided, however*, that no such Additional Amounts will be payable for or on account of:

- (1) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant Holder or the beneficial owner of a Note (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over the relevant Holder or beneficial owner, if the relevant Holder or beneficial owner is an estate, nominee, trust, partnership, limited liability company or corporation) and the jurisdiction by which such Taxes have been imposed (including being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, such jurisdiction) but excluding, in each case, any connection arising solely from the acquisition, ownership or holding of such Note or the receipt of any payment or the exercise or enforcement of rights under such Note, any Guarantee or the Indenture;
- (2) any Taxes that are imposed or withheld by reason of the failure by the Holder or the beneficial owner of the Note to comply (to the extent it is legally entitled to do so) with a written request of the Company addressed to the Holder, after reasonable notice, to provide certification, information, documents or other evidence concerning the nationality, residence or identity of the Holder or such beneficial owner or to make any declaration or similar claim or satisfy any other reporting requirement relating to such matters, in each case, that is required by a statute, treaty, regulation or administrative practice of the Relevant Taxing Jurisdiction as a precondition to exemption from all or part of such Taxes;
- (3) any Taxes that are payable otherwise than by deduction or withholding from a payment of the principal of, premium, if any, or interest, if any, on the Notes or with respect to any Guarantee;
- (4) any estate, inheritance, gift, sales, transfer, personal property or similar Tax, assessment or other governmental charge;
- (5) any Taxes that are required to be deducted or withheld on a payment to an individual and that are required to be made pursuant to Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directives;
- (6) any Taxes imposed in connection with a Note presented for payment (where presentation is permitted or required for payment) by or on behalf of a Holder or beneficial owner who would have been able to avoid such Tax by presenting the relevant Note to, or otherwise accepting payment from, another paying agent;
- (7) any Taxes that are imposed or withheld pursuant to Sections 1471 through 1474 of the Code (or any amended or successor version of such sections), any regulations promulgated thereunder, any official interpretations thereof or any agreements entered into in connection with the implementation thereof;
- (8) any Taxes to the extent such Taxes are on account of *imposta sostitutiva* (pursuant to Italian Legislative Decree No. 239 of April 1, 1996, as amended or supplemented from time to time ("Legislative Decree No. 239")) and any related implementing regulations, and pursuant to Italian Legislative Decree No. 461 of November 21, 1997; provided that:
 - (i) Additional Amounts shall be payable in circumstances in which the procedures required under Legislative Decree No. 239 in order to benefit from an exemption from *imposta sostitutiva* have not been complied with due to the actions or omissions of the Company or the Guarantors or their agents (including, without limitation, any failure by the Company to list the Notes by the Issue Date on at least one of the following: (x) the Official List of the Luxembourg Stock Exchange for admission to trading on the Euro MTF Market of the Luxembourg Stock Exchange, or (y) the ExtraMOT for admission to trading on the exchange regulated market of *Borsa Italiana*); and
 - (ii) for the avoidance of doubt, (A) no Additional Amounts shall be payable with respect to any Taxes to the extent such Taxes result from payment to a non-Italian resident legal entity or a non-Italian resident individual which are subject to *imposta sostitutiva* by reason of not being resident in a country which allows for a satisfactory exchange of information with Italy (white list) and (B) no Additional Amounts shall be payable with respect to Taxes to the extent such Taxes are on account of *imposta sostitutiva* if the Holder becomes subject to *imposta sostitutiva* after the Issue Date by reason of the approval of the ministerial Decree to be issued under art. 168-bis D.P.R. No. 917 of 22nd December 1986 which may amend the list of the countries which allow for a satisfactory exchange of information with Italy, whereby such Holder's country of residence does not appear on the new list; or

- (9) any combination of the above.

Such Additional Amounts will also not be payable (x) if the applicable payment made by the Company with respect to any Note could have been made without such deduction or withholding if the Holder or beneficial owner had presented the Note for payment (where presentation is permitted or required for payment) within 30 days after the relevant payment was first made available for payment to the Holder (except to the extent that the Holder would have been entitled to Additional Amounts had the Notes been presented on the last day of such 30-day period) or (y) where, had the beneficial owner of the Note been the Holder, such beneficial owner would not have been entitled to payment of Additional Amounts by reason of any of clauses (1) to (9) inclusive above.

In addition, no Additional Amounts shall be paid with respect to any payment to any Holder who is a fiduciary or a partnership or other than the sole beneficial owner of such Notes to the extent that the beneficiary or settlor with respect to such fiduciary, the member of such partnership or the beneficial owner of such Notes would not have been entitled to Additional Amounts had such beneficiary, settlor, member or beneficial owner held such Notes directly.

The Payor will (i) make any required withholding or deduction and (ii) remit the full amount deducted or withheld to the relevant taxing authority in accordance with applicable law. Upon request, the Payor will use all reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any Taxes so deducted or withheld from each Relevant Taxing Jurisdiction imposing such Taxes, in such form as provided in the ordinary course by the Relevant Taxing Jurisdiction and as is reasonably available to the Payor and will provide such certified copies to the Paying Agent or Registrar or directly to the Holders. Such copies shall be made available by the Paying Agent or Registrar to the Holders upon request.

If any Payor will be obligated to pay Additional Amounts under or with respect to any payment made on any Note or Guarantee, then, at least 30 days prior to the date of such payment, the Payor will deliver to the Trustee an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount so payable and such other information necessary to enable the Paying Agent to pay Additional Amounts to Holders on the relevant payment date (unless such obligation to pay Additional Amounts arises less than 45 days prior to the relevant payment date, in which case the Payor may deliver such Officer's Certificate as promptly as practicable after the date that is 30 days prior to the payment date). The Trustee will be entitled to rely solely on such Officer's Certificate as conclusive proof that such payments are necessary.

Wherever in the Indenture or this "*Description of the Notes*" there are mentioned, in any context:

- (1) the payment of principal;
- (2) purchase or redemption prices in connection with a purchase or redemption of Notes;
- (3) interest; or
- (4) any other amount payable on or with respect to any of the Notes or any Guarantee,

such reference shall be deemed to include payment of Additional Amounts as described under this heading to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Payor will pay (and indemnify the Holder for) any present or future stamp, court or documentary taxes, or any other property or similar taxes, charges or levies (including any interest and penalties related thereto) that arise in and are levied by any Relevant Taxing Jurisdiction on the execution, delivery, issuance, registration or enforcement of any Notes, the Guarantee, the Indenture, the Security Documents or any other document or instrument in relation thereto (other than a transfer of the Notes other than the initial resale by the initial purchasers) excluding any such taxes, charges or levies imposed by any jurisdiction that is not a Relevant Taxing Jurisdiction. The foregoing obligations of this paragraph will survive any termination, defeasance or discharge of the Indenture and will apply *mutatis mutandis* to any jurisdiction in which any successor to a Payor is organized, engaged in business or otherwise resident for tax purposes, or any jurisdiction from or through which payment on the Notes or Guarantees is made, or any political subdivision or Governmental Authority thereof or therein having the power to tax.

Change of Control

If a Change of Control occurs, subject to the terms hereof, each Holder will have the right to require the Company to repurchase all or part (equal to €100,000 aggregate principal amount and integral multiples of €1,000 in excess thereof) of such Holder's Notes at a purchase price in cash equal to 101% of the principal amount of the Notes, plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided, however*, that the Company shall not be obliged to repurchase Notes as described under this "*Change of Control*" section in the event and to the extent that it has unconditionally exercised its right to redeem all of the Notes as described under "*Optional Redemption*" and has not defaulted in the payment of the applicable redemption price or all conditions to such redemption have been satisfied or waived.

Unless the Company has unconditionally exercised its right to redeem all the Notes as described under “—*Optional Redemption*” and has not defaulted in the payment of the applicable redemption price or all conditions to such redemption have been satisfied or waived, no later than the date that is 60 days after any Change of Control, the Company will mail a notice (the “Change of Control Offer”) to each Holder of any such Notes, with a copy to the Trustee:

- (1) stating that a Change of Control has occurred or may occur and that such Holder has the right to require the Company to purchase such Holder’s Notes at a purchase price in cash equal to 101% of the principal amount of such Notes plus accrued and unpaid interest and Additional Amounts, if any, to, but not including, the date of purchase (subject to the right of Holders of record on a record date to receive interest on the relevant interest payment date) (the “Change of Control Payment”);
- (2) stating the repurchase date (which shall be no earlier than 10 days nor later than 60 days from the date such notice is mailed) (the “Change of Control Payment Date”);
- (3) describing the circumstances and relevant facts regarding the transaction or transactions that constitute the Change of Control;
- (4) describing the procedures determined by the Company, consistent with the Indenture, that a Holder must follow in order to have its Notes repurchased; and
- (5) if such notice is mailed prior to the occurrence of a Change of Control, stating that the Change of Control Offer is conditional on the occurrence of such Change of Control.

On the Change of Control Payment Date, if the Change of Control shall have occurred, the Company will, to the extent lawful:

- (1) accept for payment all Notes properly tendered pursuant to the Change of Control Offer;
- (2) deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes so tendered;
- (3) deliver or cause to be delivered to the Trustee an Officer’s Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Company in the Change of Control Offer;
- (4) in the case of Global Notes, deliver, or cause to be delivered, to the Paying Agent the Global Notes in order to reflect thereon the portion of such Notes or portions thereof that have been tendered to and purchased by the Company; and
- (5) in the case of Definitive Registered Notes, deliver, or cause to be delivered, to the relevant Registrar for cancellation all Definitive Registered Notes accepted for purchase by the Company.

If any Definitive Registered Notes have been issued, the relevant Paying Agent will promptly mail to each Holder of Definitive Registered Notes so tendered the Change of Control Payment for such Notes, and the Trustee or an authenticating agent will promptly authenticate (or cause to be authenticated) and mail (or cause to be transferred by book entry) to each Holder of Definitive Registered Notes a new Note equal in aggregate principal amount to the unpurchased portion of the Notes surrendered, if any; *provided* that each such new Note will be in an aggregate principal amount that is at least €100,000 and integral multiples of €1,000 in excess thereof.

If and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, the Company will publish notices relating to the Change of Control Offer as soon as reasonably practicable after the Change of Control Payment Date in a leading newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, post such notices on the official website of the Luxembourg Stock Exchange (www.bourse.lu).

The Change of Control provisions described above will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders to require that the Company repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction. The existence of a Holder’s right to require the Company to repurchase such Holder’s Notes upon the occurrence of a Change of Control may deter a third party from seeking to acquire the Company or its Subsidiaries in a transaction that would constitute a Change of Control.

The Company will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations (or rules of any exchange on which the Notes are then listed) in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any securities laws or regulations (or exchange rules) conflict with provisions of the Indenture, the Company will comply with the applicable securities laws and regulations (or exchange rules) and will not be deemed to have breached its obligations, or require a repurchase of the Notes, under the Change of Control provisions of the Indenture by virtue of the conflict.

Under the Senior Credit Agreement, the Mezzanine Credit Agreement and the Second Lien Credit Agreement, the occurrence of a change of control would require the repayment of such debt. Future debt of the Company or its Subsidiaries may prohibit the Company from purchasing Notes in the event of a Change of Control or provide that a Change of Control is a default or requires repurchase upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under, or require a repurchase of, other debt, even if the Change of Control itself does not, due to the financial effect of the purchase on the Company.

Finally, the Company's ability to pay cash to the Holders following the occurrence of a Change of Control may be limited by the Company's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See *"Risk Factors—Risks Related to the Notes—Future liquidity and cash flow difficulties could prevent us from repaying the Notes when due or repurchasing the Notes when we are required to do so pursuant to certain events constituting a change of control or otherwise, and the change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events."*

The definition of "Change of Control" includes a disposition of all or substantially all of the property and assets of the Company and its Restricted Subsidiaries taken as a whole to specified other Persons. Although there is limited case law interpreting the phrase "substantially all", there is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the property or assets of a Person. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder may require the Company to make an offer to repurchase the Notes as described above.

The provisions of the Indenture relating to the Company's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the written consent of Holders of a majority in outstanding aggregate principal amount of the Notes under the Indenture.

Certain Covenants

Limitation on Indebtedness

The Company will not, and will not permit any of its Restricted Subsidiaries to, Incur any Indebtedness (including Acquired Indebtedness); *provided, however*, that the Company and any of the Guarantors may Incur Indebtedness if on the date of such Incurrence and after giving *pro forma* effect thereto (including *pro forma* application of the proceeds thereof), the Fixed Charge Coverage Ratio for the Company and its Restricted Subsidiaries is at least 2.0 to 1.0.

The first paragraph of this covenant will not prohibit the Incurrence of the following Indebtedness:

- (1) Indebtedness Incurred pursuant to any Credit Facility (including letters of credit or bankers' acceptances issued or created under any Credit Facility), and any Refinancing Indebtedness in respect thereof and Guarantees in respect of such Indebtedness in a maximum aggregate principal amount at any time outstanding not exceeding €440.0 million *plus* (i) the greater of (x) €50.0 million and (y) 30.0% of Consolidated EBITDA *plus* (ii) in the case of any refinancing of any Indebtedness permitted under this clause (1) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing, *less* (iii) the aggregate amount of all Net Available Cash from Asset Dispositions since the Issue Date applied by the Company or any Restricted Subsidiary pursuant to the covenant described under "*—Limitation on Sales of Assets and Subsidiary Stock*" to repay any Indebtedness under any Credit Facility Incurred pursuant to this clause (1) (and to permanently reduce commitments thereunder);
- (2)
 - (a) Guarantees by the Company or any Restricted Subsidiary of Indebtedness of the Company or any Restricted Subsidiary, in each case, so long as the Incurrence of such Indebtedness is permitted under the terms of the Indenture (other than pursuant to this clause (2)); *provided* that, if the Indebtedness being guaranteed is subordinated to or *pari passu* with the Notes or a Guarantee, then the guarantee must be subordinated or *pari passu*, as applicable, to the same extent as the Indebtedness guaranteed; or
 - (b) without limiting the covenant described under "*—Limitation on Liens*," Indebtedness arising by reason of any Lien granted by or applicable to such Person securing Indebtedness of the Company or any Restricted Subsidiary so long as the Incurrence of such Indebtedness is permitted under the terms of the Indenture (other than pursuant to this clause (2));

- (3) Indebtedness of the Company owing to and held by any Restricted Subsidiary or Indebtedness of a Restricted Subsidiary owing to and held by the Company or any Restricted Subsidiary; *provided, however*, that:
- (a) (1) any subsequent issuance or transfer of Capital Stock or any other event which results in any such Indebtedness being beneficially held by a Person other than the Company or a Restricted Subsidiary; and
 - (2) any sale or other transfer of any such Indebtedness to a Person other than the Company or a Restricted Subsidiary,
- shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (3) by the Company or such Restricted Subsidiary, as the case may be; and
- (b) if the Company or a Guarantor is the obligor on such Indebtedness and the payee is not the Company or a Guarantor, such Indebtedness must be (i) except in respect of the intercompany current liabilities Incurred in the ordinary course of business in connection with cash management positions of the Company and the Restricted Subsidiaries and (ii) only to the extent legally permitted, unsecured and expressly subordinated to the prior payment in full in cash of all obligations with respect to the Notes or the relevant Guarantee, as applicable;
- (4) Indebtedness represented by (a) the Notes (other than any Additional Notes), (b) any Indebtedness of the Company or any of its Restricted Subsidiaries (other than Indebtedness described in clauses (1), (3) and (4)(a) of this paragraph) outstanding on the Issue Date, (c) Refinancing Indebtedness Incurred in respect of any Indebtedness described in this clause (4) or clause (5) of this paragraph or Incurred pursuant to the first paragraph of this covenant, (d) Management Advances and (e) proceeds loans (including the Proceeds Loans) with respect to Indebtedness Incurred pursuant to the first or second paragraph of this covenant;
- (5) Indebtedness outstanding on the date on which any Person becomes a Restricted Subsidiary or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Company or any Restricted Subsidiary (other than Indebtedness incurred to provide all or any portion of the funds used to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary of the Company or was otherwise acquired by the Company or any of the Restricted Subsidiaries); *provided, however*, that at the time of such acquisition or other transaction (x) the Company would have been able to Incur €1.00 of additional Indebtedness pursuant to the first paragraph of this covenant after giving effect to the Incurrence of such Indebtedness pursuant to this clause (5) or (y) the Fixed Charge Coverage Ratio of the Company would not be less than it was immediately prior to giving effect to such acquisition or other transaction;
- (6) Indebtedness under Currency Agreements and Interest Rate Agreements entered into for *bona fide* hedging purposes of the Company or its Restricted Subsidiaries and not for speculative purposes (as determined in good faith by the Board of Directors or Senior Management of the Company);
- (7) Indebtedness represented by Capitalized Lease Obligations or Purchase Money Obligations, and in each case any Refinancing Indebtedness in respect thereof, in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (7) and then outstanding, will not exceed at any time outstanding €40.0 million;
- (8) Indebtedness in respect of (a) workers' compensation claims, self-insurance obligations, performance, indemnity, surety, judgment, appeal, advance payment, customs, VAT or other tax or other guarantees or other similar bonds, instruments or obligations and completion guarantees and warranties provided by the Company or a Restricted Subsidiary or relating to liabilities, obligations or guarantees Incurred in the ordinary course of business or in respect of any governmental requirement, (b) letters of credit, bankers' acceptances, guarantees or other similar instruments or obligations issued or relating to liabilities or obligations Incurred in the ordinary course of business or in respect of any governmental requirement; *provided, however*, that upon the drawing of such letters of credit or similar instruments, the obligations are reimbursed within 30 days following such drawing, (c) the financing of insurance premiums in the ordinary course of business and (d) any customary cash management, cash pooling or netting or setting off arrangements in the ordinary course of business;
- (9) Indebtedness arising from agreements providing for customary guarantees, indemnification, obligations in respect of earn-outs or other adjustments of purchase price or, in each case, similar obligations, in each case, Incurred or assumed in connection with the acquisition or disposition of any business or assets or

Person or any Capital Stock of a Subsidiary (other than Guarantees of Indebtedness Incurred by any Person acquiring or disposing of such business or assets or such Subsidiary for the purpose of financing such acquisition or disposition); *provided* that, in the case of a disposition, the maximum liability of the Company and its Restricted Subsidiaries in respect of all such Indebtedness shall at no time exceed the gross proceeds, including the fair market value of non-cash proceeds (measured at the time received and without giving effect to any subsequent changes in value), actually received by the Company and its Restricted Subsidiaries in connection with such disposition;

- (10) (a) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided, however*, that such Indebtedness is extinguished within five Business Days of Incurrence;
- (b) customer deposits and advance payments received in the ordinary course of business from customers for goods purchased in the ordinary course of business;
- (c) Indebtedness owed on a short-term basis of no longer than 30 days to banks and other financial institutions incurred in the ordinary course of business of the Company and its Restricted Subsidiaries with such banks or financial institutions that arises in connection with ordinary banking arrangements to manage cash balances of the Company and its Restricted Subsidiaries; and
- (d) Indebtedness incurred by the Company or a Restricted Subsidiary in connection with bankers acceptances, discounted bills of exchange or the discounting or factoring of receivables for credit management of bad debt purposes, in each case incurred or undertaken in the ordinary course of business on arm's length commercial terms on a recourse basis;
- (11) Indebtedness in an aggregate outstanding principal amount which, when taken together with any Refinancing Indebtedness in respect thereof and the aggregate principal amount of all other Indebtedness Incurred pursuant to this clause (11) and then outstanding, will not exceed the greater of (x) €75.0 million and (y) 42.5% of Consolidated EBITDA, *provided that* not more than €40.0 million may be incurred by Restricted Subsidiaries that are not Guarantors;
- (12) Indebtedness of the Company or a Guarantor in an aggregate outstanding principal amount which, when taken together with any Refinancing Indebtedness in respect thereof and the principal amount of all other Indebtedness Incurred pursuant to this clause (12) and then outstanding, will not exceed 100% of the Net Cash Proceeds received by the Company from the issuance or sale (other than to a Restricted Subsidiary) of its Subordinated Shareholder Funding or its Capital Stock (other than Disqualified Stock, Designated Preference Shares or an Excluded Contribution) or otherwise contributed to the equity (other than through the issuance of Disqualified Stock, Designated Preference Shares or an Excluded Contribution) of the Company; *provided, however*, that (i) any such Net Cash Proceeds that are so received or contributed shall be excluded for purposes of making Restricted Payments under the first paragraph and clauses (1), (6) and (10) of the third paragraph of the covenant described below under "*—Limitation on Restricted Payments*" to the extent the Company and the Restricted Subsidiaries incur Indebtedness in reliance thereon and (ii) any Net Cash Proceeds that are so received or contributed shall be excluded for purposes of Incurring Indebtedness pursuant to this clause (12) to the extent the Company or any of the Restricted Subsidiaries makes a Restricted Payment under the first paragraph and clauses (1) and (6)(c) of the third paragraph of the covenant described below under "*—Limitation on Restricted Payments*" in reliance thereon;
- (13) Indebtedness Incurred by a Receivables Subsidiary in a Qualified Receivables Financing;
- (14) Indebtedness under daylight borrowing facilities incurred in connection with the Refinancing Transactions or any refinancing of Indebtedness (including by way of set-off or exchange) so long as any such Indebtedness is repaid within three days of the date on which such Indebtedness is Incurred; and
- (15) Indebtedness in connection with Investments in Associates not exceeding €10.0 million outstanding at one time.

For purposes of determining compliance with, and the outstanding principal amount of any particular Indebtedness Incurred pursuant to and in compliance with, this covenant:

- (1) in the event that Indebtedness meets the criteria of more than one of the types of Indebtedness described in the first and second paragraphs of this covenant, the Company, in its sole discretion, will classify, and may from time to time reclassify, such item of Indebtedness and only be required to include the amount and type of such Indebtedness in one of the clauses of the third paragraph or the second paragraph of this covenant;

- (2) all Indebtedness outstanding on the Issue Date under the Senior Credit Agreement shall be deemed initially Incurred on the Issue Date under clause (1) of the second paragraph of this covenant and not the first paragraph or clause (4)(b) of the second paragraph of the description of this covenant and may not be reclassified;
- (3) Guarantees of, or obligations in respect of letters of credit, bankers' acceptances or other similar instruments relating to, or Liens securing, Indebtedness that is otherwise included in the determination of a particular amount of Indebtedness shall not be included;
- (4) if obligations in respect of letters of credit, bankers' acceptances or other similar instruments are Incurred pursuant to any Credit Facility and are being treated as Incurred pursuant to clause (1), (7), (11) or (12) of the second paragraph above or the first paragraph above and the letters of credit, bankers' acceptances or other similar instruments relate to other Indebtedness, then such other Indebtedness shall not be included;
- (5) the principal amount of any Disqualified Stock of the Company or a Restricted Subsidiary, or Preferred Stock of a Restricted Subsidiary, will be equal to the greater of the maximum mandatory redemption or repurchase price (not including, in either case, any redemption or repurchase premium) or the liquidation preference thereof;
- (6) Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness but may be permitted in part by one such provision and in part by one or more other provisions of this covenant permitting such Indebtedness; and
- (7) the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined on the basis of IFRS.

Accrual of interest, accrual of dividends, the accretion of accreted value, the accretion or amortization of original issue discount, the payment of interest in the form of additional Indebtedness, the payment of dividends in the form of additional shares of Preferred Stock or Disqualified Stock or the reclassification of commitments or obligations not treated as Indebtedness due to a change in IFRS will not be deemed to be an Incurrence of Indebtedness for purposes of the covenant described under this "*—Limitation on Indebtedness.*" The amount of any Indebtedness outstanding as of any date shall be (a) the accreted value thereof in the case of any Indebtedness issued with original issue discount and (b) the principal amount, or liquidation preference thereof, in the case of any other Indebtedness.

If at any time an Unrestricted Subsidiary becomes a Restricted Subsidiary, any Indebtedness of such Subsidiary shall be deemed to be Incurred by a Restricted Subsidiary as of such date.

For purposes of determining compliance with any euro-denominated restriction on the Incurrence of Indebtedness, the Euro Equivalent of the aggregate principal amount of Indebtedness denominated in another currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or, at the option of the Company, first committed, in the case of Indebtedness Incurred under a revolving credit facility; *provided that* (a) if such Indebtedness is Incurred to refinance other Indebtedness denominated in a currency other than euro, and such refinancing would cause the applicable euro-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such euro-denominated restriction shall be deemed not to have been exceeded so long as the aggregate principal amount of such Refinancing Indebtedness does not exceed the aggregate principal amount of such Indebtedness being refinanced; (b) the Euro Equivalent of the aggregate principal amount of any such Indebtedness outstanding on the Issue Date shall be calculated based on the relevant currency exchange rate in effect on the Issue Date; and (c) if and for so long as any such Indebtedness is subject to a Currency Agreement with respect to the currency in which such Indebtedness is denominated covering principal and interest on such Indebtedness, the amount of such Indebtedness, if denominated in euro, will be the amount of the principal payment required to be made under such Currency Agreement and, otherwise, the Euro Equivalent of such amount plus the Euro Equivalent of any premium which is at such time due and payable but is not covered by such Currency Agreement.

Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Company or a Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

Limitation on Restricted Payments

The Company will not, and will not permit any of its Restricted Subsidiaries, directly or indirectly, to:

- (1) declare or pay any dividend or make any distribution on or in respect of the Company's or any Restricted Subsidiary's Capital Stock (including any payment in connection with any merger or consolidation involving the Company or any of its Restricted Subsidiaries) except:
 - (a) dividends or distributions payable in Capital Stock of the Company (other than Disqualified Stock) or in options, warrants or other rights to purchase such Capital Stock of the Company or in Subordinated Shareholder Funding; and
 - (b) dividends or distributions payable to the Company or a Restricted Subsidiary (and, in the case of any such Restricted Subsidiary making such dividend or distribution, to holders of its Capital Stock other than the Company or another Restricted Subsidiary on no more than a *pro rata* basis, measured by value);
- (2) purchase, redeem, retire or otherwise acquire for value any Capital Stock of the Company or any direct or indirect Parent of the Company held by Persons other than the Company or a Restricted Subsidiary (other than in exchange for Capital Stock of the Company (other than Disqualified Stock));
- (3) make any principal payment on, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment, any Subordinated Indebtedness (other than (a) any such payment, purchase, repurchase, redemption, defeasance or other acquisition or retirement or in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case, due within one year of the date of purchase, repurchase, redemption, defeasance or other acquisition or retirement and (b) any Indebtedness Incurred pursuant to clause (3) of the second paragraph of the covenant described under "*—Limitation on Indebtedness*");
- (4) make any payment (other than by capitalization of interest) on or with respect to, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value, any Subordinated Shareholder Funding; or
- (5) make any Restricted Investment in any Person;

(any such dividend, distribution, payment, purchase, redemption, repurchase, defeasance, other acquisition, retirement or Restricted Investment referred to in clauses (1) through (5) are referred to herein as a "Restricted Payment"), if at the time the Company or such Restricted Subsidiary makes such Restricted Payment:

- (a) a Default shall have occurred and be continuing (or would result immediately thereafter therefrom);
- (b) the Company is not able to Incur an additional €1.00 of Indebtedness pursuant to the first paragraph under the "*—Limitation on Indebtedness*" covenant after giving effect, on a *pro forma* basis, to such Restricted Payment; or
- (c) the aggregate amount of such Restricted Payment and all other Restricted Payments made subsequent to the Issue Date (and not returned or rescinded) (including Permitted Payments permitted below by clauses (6), (10), (11) and (18) of the second succeeding paragraph, but excluding all other Restricted Payments permitted by the second succeeding paragraph) would exceed the sum of (without duplication):
 - (i) 50% of Consolidated Net Income for the period (treated as one accounting period) from the first day of the first fiscal quarter commencing January 1, 2013 to the end of the most recent fiscal quarter ending prior to the date of such Restricted Payment for which internal consolidated financial statements of the Company are available (or, in the case such Consolidated Net Income is a deficit, minus 100% of such deficit);
 - (ii) 100% of the aggregate Net Cash Proceeds, and the fair market value (as determined in accordance with the next succeeding paragraph) of property or assets or marketable securities, received by the Company from the issue or sale of its Capital Stock (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding subsequent to the Issue Date or otherwise contributed to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares) of the Company subsequent to the Issue Date (other than (x) Net Cash Proceeds or property or assets or marketable securities received from an issuance or sale of such Capital Stock to a Restricted Subsidiary or an employee stock ownership plan or trust established by the Company or any Subsidiary of the Company for the benefit of its employees to the extent funded by the Company or any Restricted Subsidiary,

(y) Net Cash Proceeds or property or assets or marketable securities to the extent that any Restricted Payment has been made from such proceeds in reliance on clause (6) of the second succeeding paragraph and (z) Excluded Contributions);

(iii) 100% of the aggregate Net Cash Proceeds, and the fair market value (as determined in accordance with the next succeeding paragraph) of property or assets or marketable securities, received by the Company or any Restricted Subsidiary from the issuance or sale (other than to the Company or a Restricted Subsidiary or an employee stock ownership plan or trust established by the Company or any Subsidiary of the Company for the benefit of its employees to the extent funded by the Company or any Restricted Subsidiary) by the Company or any Restricted Subsidiary subsequent to the Issue Date of any Indebtedness that has been converted into or exchanged for Capital Stock of the Company (other than Disqualified Stock or Designated Preference Shares) or Subordinated Shareholder Funding (plus the amount of any cash, and the fair market value (as determined in accordance with the next succeeding paragraph) of property or assets or marketable securities, received by the Company or any Restricted Subsidiary upon such conversion or exchange);

(iv) an amount equal to:

(A) 100% of the aggregate Net Cash Proceeds, and the fair market value (as determined in accordance with the next succeeding paragraph) of property or assets or marketable securities, received by the Company or any Restricted Subsidiary in connection with any repurchases, redemptions or other acquisitions or retirements of any such Restricted Investment, proceeds realized upon the sale or other disposition to a Person other than the Company or a Restricted Subsidiary of any such Restricted Investment, repayments of loans or advances or other transfers of assets (including by way of dividend, distribution, interest payments or returns of capital) to the Company or any Restricted Subsidiary;

(B) 100% of the fair market value (as determined in accordance with the next succeeding paragraph) of the Investment in an Unrestricted Subsidiary as of the date such entity becomes a Restricted Subsidiary (valued as provided in the definition of "Investment") upon the redesignation of such Unrestricted Subsidiary as a Restricted Subsidiary or its merger, consolidation, amalgamation with or into, or liquidation into, the Company or a Restricted Subsidiary; and

(C) 100% of the fair market value (as determined in accordance with the next succeeding paragraph) of property or assets received by the Company or any Restricted Subsidiary upon the transfer or conveyance of substantially all the assets of an Unrestricted Subsidiary to the Company or a Restricted Subsidiary;

provided, however, that no amount will be included in Consolidated Net Income for purposes of the preceding clause (i) to the extent that it is (at the Company's option) included under this clause (iv); and

(v) 100% of the aggregate Net Cash Proceeds, and the fair market value (as determined in accordance with the next succeeding paragraph) of property or assets or of marketable securities received by the Company or any of its Restricted Subsidiaries in connection with:

(A) the sale or other disposition (other than to the Company or a Restricted Subsidiary or an employee stock ownership plan or trust established by the Company or any Subsidiary of the Company for the benefit of its employees to the extent funded by the Company or any Restricted Subsidiary) of Capital Stock of an Unrestricted Subsidiary of the Company; and

(B) any dividend or distribution made by an Unrestricted Subsidiary or Affiliate to the Company or a Restricted Subsidiary;

provided, however, that no amount will be included in Consolidated Net Income for purposes of the preceding clause (i) to the extent that it is (at the Company's option) included under this clause (v).

The fair market value of property or assets other than cash covered by the preceding sentence shall be the fair market value thereof as determined in good faith by the Board of Directors of the Company.

The foregoing provisions will not prohibit any of the following (collectively, “Permitted Payments”):

- (1) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Capital Stock, Disqualified Stock, Designated Preference Shares, Subordinated Shareholder Funding or Subordinated Indebtedness made by exchange (including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares) for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of the Company (other than Disqualified Stock or Designated Preference Shares), Subordinated Shareholder Funding or a substantially concurrent contribution to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution) of the Company; *provided, however*, that to the extent so applied, the Net Cash Proceeds, or fair market value (as determined in accordance with the preceding sentence) of property or assets or of marketable securities, from such sale of Capital Stock, Subordinated Shareholder Funding or such contribution will be excluded from clause (c)(ii) of the preceding paragraph and will not be considered Excluded Contributions or to be net cash proceeds from an Equity Offering for the purposes of “Optional Redemption” provisions of the Notes;
- (2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness made by exchange for, or out of the proceeds of the substantially concurrent sale of (other than to a Subsidiary), Refinancing Indebtedness permitted to be Incurred pursuant to the covenant described under “—*Limitation on Indebtedness*” above;
- (3) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Preferred Stock of the Company or a Restricted Subsidiary made by exchange for or out of the proceeds of the substantially concurrent sale of Preferred Stock of the Company or a Restricted Subsidiary, as the case may be, that, in each case, is permitted to be Incurred pursuant to the covenant described under “—*Limitation on Indebtedness*” above, and that in each case, constitutes Refinancing Indebtedness;
- (4) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Indebtedness:
 - (a) (i) from Net Available Cash to the extent permitted under “—*Limitation on Sales of Assets and Subsidiary Stock*” below, but only if the Company shall have first complied with the terms described under “—*Limitation on Sales of Assets and Subsidiary Stock*” and purchased all Notes tendered pursuant to any offer to repurchase all the Notes required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Indebtedness and (ii) at a purchase price not greater than 100% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest;
 - (b) to the extent required by the agreement governing such Subordinated Indebtedness, following the occurrence of a Change of Control (or other similar event described therein as a “change of control”), but only (i) if the Company shall have first complied with the terms described under “—*Change of Control*” and purchased all Notes tendered pursuant to the offer to repurchase all the Notes required thereby, prior to purchasing, repurchasing, redeeming, defeasing or otherwise acquiring or retiring such Subordinated Indebtedness and (ii) at a purchase price not greater than 101% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest; or
 - (c) (i) consisting of Acquired Indebtedness (other than Indebtedness Incurred (A) to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was otherwise acquired by the Company or a Restricted Subsidiary or (B) otherwise in connection with or contemplation of such acquisition) and (ii) at a purchase price not greater than 100% of the principal amount of such Subordinated Indebtedness plus accrued and unpaid interest and any premium required by the terms of any Acquired Indebtedness;
- (5) any dividends paid within 60 days after the date of declaration if at such date of declaration such dividend would have complied with this covenant;
- (6) the purchase, repurchase, redemption, defeasance or other acquisition, cancellation or retirement for value of Capital Stock of any Parent (including any options, warrants or other rights in respect thereof) and loans, advances, dividends or distributions by the Company to any Parent to permit any Parent to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of any Parent (including any options, warrants or other rights in respect thereof), or payments to purchase, repurchase, redeem, defease or otherwise acquire, cancel or retire for value Capital Stock of any Parent (including any options, warrants or other rights in respect thereof), in each case from Management Investors; *provided* that such payments, loans, advances, dividends or distributions do not exceed an

amount (net of repayments of any such loans or advances) equal to (a) €5.0 million *plus* (b) €2.0 million multiplied by the number of calendar years that have commenced since the Issue Date *plus* (c) the Net Cash Proceeds received by the Company or its Restricted Subsidiaries since the Issue Date (including through receipt of proceeds from the issuance or sale of its Capital Stock or Subordinated Shareholder Funding to a Parent) from, or as a contribution to the equity (in each case under this clause (6), other than through the issuance of Disqualified Stock or Designated Preference Shares) of the Company from, the issuance or sale to Management Investors of Capital Stock (including any options, warrants or other rights in respect thereof), to the extent such Net Cash Proceeds have not otherwise been designated as Excluded Contributions and are not included in any calculation under clause (c)(ii) of the first paragraph describing this covenant;

- (7) the declaration and payment of dividends to holders of any class or series of Disqualified Stock, or of any Preferred Stock of a Restricted Subsidiary, Incurred in accordance with the terms of the covenant described under “—*Limitation on Indebtedness*” above;
- (8) purchases, repurchases, redemptions, defeasances or other acquisitions or retirements of Capital Stock deemed to occur upon the exercise of stock options, warrants or other rights in respect thereof if such Capital Stock represents a portion of the exercise price thereof;
- (9) dividends, loans, advances or distributions to any Parent or other payments by the Company or any Restricted Subsidiary in amounts equal to (without duplication):
 - (a) the amounts required for any Parent to pay any Parent Expenses or any Related Taxes; or
 - (b) amounts constituting or to be used for purposes of making payments (i) of fees and expenses Incurred in connection with the Refinancing Transactions or disclosed in this Offering Memorandum or (ii) to the extent specified in clauses (2), (3), (5), (7), (11) and (12) of the second paragraph under “—*Limitation on Affiliate Transactions*”;
- (10) so long as no Default or Event of Default has occurred and is continuing (or would result from), the declaration and payment by the Company of, or loans, advances, dividends or distributions to any Parent to pay, dividends on the common stock or common equity interests of the Company or any Parent following a Public Offering of such common stock or common equity interests, in an amount not to exceed in any fiscal year the greater of (a) 6% of the Net Cash Proceeds received by the Company from such Public Offering or contributed to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares or through an Excluded Contribution) of the Company or loaned as Subordinated Shareholder Funding to the Company and (b) following any Initial Public Offering, an amount equal to the greater of (i) 5% of the Market Capitalization and (ii) 5% of the IPO Market Capitalization; *provided* that after giving *pro forma* effect to such loans, advances, dividends or distributions, the Consolidated Leverage Ratio shall be equal to or less than 3.0 to 1.0;
- (11) so long as no Default or Event of Default has occurred and is continuing (or would result from), Restricted Payments (including loans or advances) in an aggregate amount outstanding at any time not to exceed €25.0 million;
- (12) payments by the Company, or loans, advances, dividends or distributions to any Parent to make payments, to holders of Capital Stock of the Company or any Parent in lieu of the issuance of fractional shares of such Capital Stock, *provided, however*, that any such payment, loan, advance, dividend or distribution shall not be for the purpose of evading any limitation of this covenant or otherwise to facilitate any dividend or other return of capital to the holders of such Capital Stock (as determined in good faith by the Board of Directors);
- (13) the making of any payments and any reimbursements as contemplated in the section entitled “*Use of Proceeds*” in this Offering Memorandum;
- (14) (i) dividends, distributions or other payments to Holdco in respect of Eligible Holdco Debt for purposes of making regularly scheduled cash interest payments on Eligible Holdco Debt (including through, but without duplication of, any corresponding cash interest payments on the Shareholder Loan C); *provided* that (x) such payments are permitted under the Senior Intercreditor Agreement and any Additional Intercreditor Agreement and (y) Holdco applies such amounts in respect of the cash interest payments owing on such Eligible Holdco Debt with the receipt of such amounts; and (ii) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Eligible Holdco Debt made in exchange for, or out of the proceeds of, Subordinated Indebtedness permitted to be Incurred under the covenant “—*Certain Covenants—Limitation on Indebtedness*”; *provided* that, in the case of (ii), the aggregate principal amount of any Shareholder Loan C then outstanding is reduced by the principal amount of any Subordinated Indebtedness so Incurred;

- (15) Investments in an aggregate amount outstanding at any time not to exceed the aggregate cash amount of Excluded Contributions, or consisting of non-cash Excluded Contributions, or Investments to the extent made in exchange for or using as consideration Investments previously made under this clause (14);
- (16) (i) the declaration and payment of dividends to holders of any class or series of Designated Preference Shares of the Company issued after the Issue Date; and (ii) the declaration and payment of dividends to any Parent or any Affiliate thereof, the proceeds of which will be used to fund the payment of dividends to holders of any class or series of Designated Preference Shares of such Parent issued after the Issue Date; *provided, however*, that, in the case of clauses (i) and (ii), the amount of all dividends declared or paid pursuant to this clause (16) shall not exceed the Net Cash Proceeds received by the Company or the aggregate amount contributed in cash to the equity (other than through the issuance of Disqualified Stock or an Excluded Contribution or, in the case of Designated Preference Shares by a Parent or an Affiliate, the issuance of Designated Preference Shares) of the Company or loaned as Subordinated Shareholder Funding to the Company, from the issuance or sale of such Designated Preference Shares;
- (17) dividends or other distributions of Capital Stock of Unrestricted Subsidiaries;
- (18) payment of any Receivables Fees and purchases of Receivables Assets pursuant to a Receivables Repurchase Obligation in connection with a Qualified Receivables Financing; and
- (19) so long as no Default or Event of Default has occurred and is continuing (or would result therefrom), any Restricted Payment; *provided that* the Consolidated Leverage Ratio on a *pro forma* basis after giving effect to any such dividend, distribution, advance, loan or other payment does not exceed 3.0 to 1.0.

The amount of all Restricted Payments (other than cash) shall be the fair market value on the date of such Restricted Payment of the asset(s) or securities proposed to be paid, transferred or issued by the Company or such Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment. The fair market value of any cash Restricted Payment shall be its face amount, and the fair market value of any non-cash Restricted Payment shall be determined conclusively by the Board of Directors of the Company acting in good faith.

Limitation on Liens

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, incur or suffer to exist any Lien (other than Permitted Liens) upon any of its property or assets (including Capital Stock of a Restricted Subsidiary), whether owned on the Issue Date or acquired after that date, or any interest therein or any income or profits therefrom, which Lien is securing any Indebtedness (such Lien, the “Initial Lien”), except (a) in the case of any property or asset that does not constitute Collateral, (1) Permitted Liens or (2) Liens on property or assets that are not Permitted Liens if the Notes and the Indenture (or a Guarantee in the case of Liens of a Guarantor) are directly secured equally and ratably with, or prior to, the Indebtedness secured by such Initial Lien for so long as such Indebtedness is so secured, and (b) in the case of any property or asset that constitutes Collateral, Permitted Collateral Liens.

Any such Lien created pursuant to clause (a)(2) of the preceding paragraph will be released and discharged upon (i) the release and discharge of the Initial Lien to which it relates, and (ii) otherwise as set forth under “—*Security—Release of Liens*”.

Limitation on Restrictions on Distributions from Restricted Subsidiaries

The Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Restricted Subsidiary to:

- (A) pay dividends or make any other distributions in cash or otherwise on its Capital Stock or pay any Indebtedness or other obligations owed to the Company or any Restricted Subsidiary;
- (B) make any loans or advances to the Company or any Restricted Subsidiary; or
- (C) sell, lease or transfer any of its property or assets to the Company or any Restricted Subsidiary,

provided that (x) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (y) the subordination of (including the application of any standstill requirements to) loans or advances made to the Company or any Restricted Subsidiary to other Indebtedness Incurred by the Company or any Restricted Subsidiary shall not be deemed to constitute such an encumbrance or restriction.

The provisions of the preceding paragraph will not prohibit:

- (1) any encumbrance or restriction pursuant to (a) any Credit Facility (including the Senior Facility Finance Documents) or (b) any other agreement or instrument, in each case, in effect at or entered into on the Issue Date;
- (2) any encumbrance or restriction pursuant to an agreement or instrument of a Person or relating to any Capital Stock or Indebtedness of a Person, entered into on or before the date on which such Person was acquired by or merged, consolidated or otherwise combined with or into the Company or any Restricted Subsidiary, or was designated as a Restricted Subsidiary or on which such agreement or instrument is assumed by the Company or any Restricted Subsidiary in connection with an acquisition of assets (other than Capital Stock or Indebtedness Incurred as consideration in, or to provide all or any portion of the funds utilized to consummate, the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was acquired by the Company or was merged, consolidated or otherwise combined with or into the Company or any Restricted Subsidiary entered into or in connection with such transaction) and outstanding on such date; *provided* that, for the purposes of this clause (2), if another Person is the Successor Company, any Subsidiary thereof or agreement or instrument of such Person or any such Subsidiary shall be deemed acquired or assumed by the Company or any Restricted Subsidiary when such Person becomes the Successor Company;
- (3) any encumbrance or restriction:
 - (a) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, or the assignment or transfer of any lease, license or other contract;
 - (b) contained in mortgages, pledges, charges or other security agreements permitted under the Indenture or securing Indebtedness of the Company or a Restricted Subsidiary permitted under the Indenture to the extent such encumbrances or restrictions restrict the transfer of the property or assets subject to such mortgages, pledges, charges or other security agreements; or
 - (c) pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easement agreements of the Company or any Restricted Subsidiary;
- (4) any encumbrance or restriction pursuant to Purchase Money Obligations and Capitalized Lease Obligations permitted under the Indenture, in each case, that impose encumbrances or restrictions on the property so acquired or any encumbrance or restriction pursuant to a joint venture agreement that imposes restrictions on the transfer of the assets of the joint venture;
- (5) any encumbrance or restriction with respect to a Restricted Subsidiary (or any of its property or assets) imposed pursuant to an agreement entered into for the direct or indirect sale or disposition to a Person of all or substantially all the Capital Stock or assets of such Restricted Subsidiary (or the property or assets that are subject to such restriction) pending the closing of such sale or disposition;
- (6) customary provisions in leases, licenses, joint venture agreements and other similar agreements and instruments entered into in the ordinary course of business;
- (7) encumbrances or restrictions arising or existing by reason of applicable law or any applicable rule, regulation or order, or required by any regulatory authority, including pursuant to the terms of any license, concession, authorization, franchise, permit or similar arrangement;
- (8) any encumbrance or restriction on cash or other deposits or net worth imposed by customers under agreements entered into in the ordinary course of business;
- (9) any encumbrance or restriction pursuant to Currency Agreements or Interest Rate Agreements;
- (10) any encumbrance or restriction arising pursuant to an agreement or instrument relating to any Indebtedness permitted to be Incurred subsequent to the Issue Date pursuant to the provisions of the covenant described under “—*Limitation on Indebtedness*” if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favorable to the Holders than (i) the encumbrances and restrictions contained in the Senior Credit Agreement and the Senior Intercreditor Agreement, together with the security documents associated therewith as in effect on the Issue Date or (ii) in comparable financings (as determined in good faith by the Company) or where the Company determines when such Indebtedness is Incurred that such encumbrances or restrictions will not adversely affect, in any material respect, the Company’s ability to make principal or interest payments on the Notes;

- (11) any encumbrance or restriction existing by reason of any lien permitted under “—*Limitation on Liens*”;
- (12) restrictions effected in connection with a Qualified Receivables Financing that, in the good faith determination of the Board of Directors of the Company, are necessary or advisable to effect such Qualified Receivables Financing; or
- (13) any agreement, encumbrance or restriction that extends, renews, refinances or replaces any of the encumbrance or restriction referred to in clauses (1) through (12) of this paragraph or this clause (13) (an “Initial Agreement”) or contained in any amendment, supplement or other modification to an agreement referred to in clauses (1) through (12) of this paragraph or this clause (13); *provided, however*, that such encumbrances and restrictions contained in any such agreement, encumbrance or restriction are no less favorable in any material respect to the Holders taken as a whole than the encumbrances and restrictions so extended, refinanced, replaced, amended, supplemented or modified, or will not adversely affect, in any material respect, the Company’s ability to make principal or interest payments on the Notes (in each case, as determined in good faith by the Company).

Limitation on Sales of Assets and Subsidiary Stock

The Company will not, and will not permit any of its Restricted Subsidiaries to, make any Asset Disposition unless:

- (1) the Company or such Restricted Subsidiary, as the case may be, receives consideration (including by way of relief from, or by any other Person assuming responsibility for, any liabilities, contingent or otherwise) at least equal to the fair market value (such fair market value to be determined on the date of contractually agreeing to such Asset Disposition), as determined in good faith by the Board of Directors of the Company, of the shares and assets subject to such Asset Disposition (including, for the avoidance of doubt, if such Asset Disposition is a Permitted Asset Swap);
- (2) in any such Asset Disposition, or series of related Asset Dispositions (except to the extent the Asset Disposition is a Permitted Asset Swap), at least 75% of the consideration from such Asset Disposition (excluding any consideration by way of relief from, or by any other Person assuming responsibility for, any liabilities, contingent or otherwise, other than Indebtedness) received by the Company or such Restricted Subsidiary, as the case may be, is in the form of cash, Cash Equivalents or Temporary Cash Investments; and
- (3) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by the Company or such Restricted Subsidiary, as the case may be:
 - (a) to the extent the Company or any Restricted Subsidiary, as the case may be, elects (or is required by the terms of any Indebtedness of the Company or a Restricted Subsidiary), (i) to prepay, repay or purchase any Indebtedness of a non-Guarantor Restricted Subsidiary or Indebtedness that is secured by assets that do not constitute Collateral (in each case, other than Subordinated Indebtedness of the Company or a Guarantor or Indebtedness owed to the Company or any Restricted Subsidiary) or Indebtedness that is secured by a Lien on the Collateral, which Lien ranks *pari passu* with or senior to the Liens securing the Notes and the Guarantees, under clause (1) of the second paragraph of the covenant described under “—*Limitation on Indebtedness*” (or any Refinancing Indebtedness in respect thereof) within 365 days from the later of (A) the date of such Asset Disposition and (B) the receipt of such Net Available Cash; *provided, however*, that, in connection with any prepayment, repayment or purchase of Indebtedness pursuant to this clause (a)(i), the Company or such Restricted Subsidiary will retire such Indebtedness; (ii) unless included in (a)(i), to prepay, repay or purchase *Pari Passu* Indebtedness that is secured in whole or in part by a Lien on the Collateral which Lien ranks *pari passu* with the Liens securing the Notes and the Guarantees at a price of no more than 100% of the principal amount of such *Pari Passu* Indebtedness plus accrued and unpaid interest to the date of such prepayment, repayment or purchase; *provided* that the Company shall redeem, repay or repurchase *Pari Passu* Indebtedness that is Public Debt pursuant to this clause (ii) only if the Company makes (at such time or subsequently in compliance with this covenant) an offer to the Holders to purchase their Notes in accordance with the provisions set forth below for an Asset Disposition Offer for an aggregate principal amount of Notes at least equal to the proportion that (x) the total aggregate principal amount of Notes outstanding bears to (y) the sum of the total aggregate principal amount of Notes outstanding plus the total aggregate principal amount outstanding of such *Pari Passu* Indebtedness; or (iii) to purchase the Notes pursuant to an offer to all Holders of Notes at a purchase price equal to at least 100% of the principal amount of the Notes, plus accrued and unpaid interest to, but not including, the date of purchase (subject to the right of Holders of record on the relevant date to receive interest due on the relevant interest payment date); or

- (b) to the extent the Company or such Restricted Subsidiary elects, to make a capital expenditure or invest in or commit to invest in Additional Assets (including by means of an investment in Additional Assets by a Restricted Subsidiary with Net Available Cash received by the Company or another Restricted Subsidiary) within 365 days from the later of (i) the date of such Asset Disposition and (ii) the receipt of such Net Available Cash; *provided, however*, that any such reinvestment in Additional Assets made pursuant to a definitive binding agreement or a commitment approved by the Board of Directors of the Company that is executed or approved within such time will satisfy this requirement, so long as such investment is consummated within 180 days of such 365th day

(or any combination on the foregoing); *provided* that, pending the final application of any such Net Available Cash in accordance with clause (a) or clause (b) above, the Company and its Restricted Subsidiaries may temporarily reduce Indebtedness or otherwise invest such Net Available Cash in any manner not prohibited by the Indenture.

Any Net Available Cash from Asset Dispositions that is not applied or invested or committed to be applied or invested as provided in the preceding paragraph will be deemed to constitute “Excess Proceeds” under the Indenture. On the 366th day after an Asset Disposition, or at such earlier date that the Company elects, if the aggregate amount of Excess Proceeds under the Indenture exceeds €15.0 million, the Company will be required within 30 days thereof to make an offer (“Asset Disposition Offer”) to all Holders of Notes, and, to the extent the Company elects, to all holders of other outstanding Pari Passu Indebtedness, to purchase, prepay or redeem the maximum aggregate principal amount of Notes and any such Pari Passu Indebtedness to which the Asset Disposition Offer applies that may be purchased out of the Excess Proceeds, at an offer price in respect of the Notes in an amount equal to (and, in the case of any such Pari Passu Indebtedness, an offer price of no more than) 100% of the principal amount of the Notes and 100% of the principal amount of such Pari Passu Indebtedness, as applicable (or, if issued with original issue discount, the accreted value of the Notes or such Pari Passu Indebtedness, as applicable), plus, in each case, accrued and unpaid interest, if any (and in the case of the Notes, Additional Amounts, if any), to, but not including, the date of purchase, in accordance with the procedures set forth in the Senior Credit Agreement and the Indenture or the agreements governing such Pari Passu Indebtedness, as applicable, and in the case of the Notes, in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof.

To the extent that the aggregate amount of the Notes and any such Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to an Asset Disposition Offer is less than the Excess Proceeds, the Company may use any remaining Excess Proceeds for general corporate purposes, subject to other covenants contained in the Indenture. If the aggregate principal amount of the Notes surrendered in any Asset Disposition Offer by Holders and such other Pari Passu Indebtedness surrendered by holders or lenders, collectively, exceeds the amount of Excess Proceeds, the Excess Proceeds shall be allocated among the Notes and Pari Passu Indebtedness to be purchased on a *pro rata* basis on the basis of the aggregate principal amount of tendered Notes and such Pari Passu Indebtedness. For the purposes of calculating the aggregate principal amount of any such Indebtedness not denominated in euro, such Indebtedness shall be calculated by converting any such aggregate principal amounts into their Euro Equivalent determined as of a date selected by the Company that is within the Asset Disposition Offer Period (as defined below). Upon completion of any Asset Disposition Offer, the amount of Excess Proceeds shall be reset at zero.

To the extent that any portion of Net Available Cash payable in respect of the Notes is denominated in a currency other than euro, the amount thereof payable in respect of such Notes shall not exceed the net amount of funds in the currency in which such Notes are denominated that is actually received by the Company upon converting such portion into such currency.

The Asset Disposition Offer, in so far as it relates to the Notes, will remain open for a period of not less than 20 Business Days following its commencement (the “Asset Disposition Offer Period”). No later than five Business Days after the termination of the Asset Disposition Offer Period (the “Asset Disposition Purchase Date”), the Company will purchase the aggregate principal amount of Notes, and, to the extent it elects, Pari Passu Indebtedness required to be purchased pursuant to this covenant (the “Asset Disposition Offer Amount”) or, if less than the Asset Disposition Offer Amount has been so validly tendered, all Notes and Pari Passu Indebtedness validly tendered in response to the Asset Disposition Offer.

On or before the Asset Disposition Purchase Date, the Company will, to the extent lawful, accept for payment, on a *pro rata* basis to the extent necessary, the Asset Disposition Offer Amount of Notes and Pari Passu Indebtedness or portions of Notes and such Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to the Asset Disposition Offer, or if less than the Asset Disposition Offer Amount has been validly tendered and not properly withdrawn, all Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn and, in the case of the Notes, in minimum denominations of €100,000 and in integral multiples of €1,000 in excess thereof.

The Company will deliver to the Trustee an Officer’s Certificate stating that such Notes or portions thereof were accepted for payment by the Company in accordance with the terms of this covenant. The Company or the Paying Agent, as the case may be, will promptly (but in any case not later than five Business Days after termination of the Asset Disposition Offer Period) mail or deliver to each tendering Holder of Notes an amount equal to the purchase price of the Notes so validly

tendered and not properly withdrawn by such Holder, and accepted by the Company for purchase, and the Company will promptly issue a new Note (or amend the Global Note), and the Registrar, upon delivery of an Officer's Certificate from the Company, will authenticate and mail or deliver (or cause to be transferred by book entry) such new Note to such Holder, in an aggregate principal amount equal to any unpurchased portion of the Note surrendered; *provided* that each such new Note will be in an aggregate principal amount with a minimum denomination of €100,000 and in integral multiples of €1,000 in excess thereof. Any Note not so accepted will be promptly mailed or delivered (or transferred by book entry) by the Company to the Holder thereof.

For the purposes of clause (2) of the first paragraph of this covenant, the following will be deemed to be cash:

- (1) the assumption by the transferee of Indebtedness of the Company or Indebtedness of a Restricted Subsidiary (other than Subordinated Indebtedness of the Company or a Guarantor) and the release of the Company or such Restricted Subsidiary from, or its indemnification against, all liability on such Indebtedness in connection with such Asset Disposition;
- (2) securities, notes or other obligations received by the Company or any Restricted Subsidiary from the transferee that are converted by the Company or such Restricted Subsidiary into cash or Cash Equivalents within 180 days following the closing of such Asset Disposition;
- (3) Indebtedness of any Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Disposition, to the extent that the Company and each other Restricted Subsidiary are released from, or indemnified against any liability under, any Guarantee of payment of such Indebtedness in connection with such Asset Disposition;
- (4) consideration consisting of Indebtedness of the Company or any Restricted Subsidiary (other than Subordinated Indebtedness) received after the Issue Date from Persons who are not the Company or any Restricted Subsidiary; and
- (5) any Designated Non-Cash Consideration received by the Company or any Restricted Subsidiary in such Asset Dispositions having an aggregate fair market value, taken together with all other Designated Non-Cash Consideration received pursuant to this covenant that is at that time outstanding, not to exceed €15.0 million (with the fair market value of each item of Designated Non-Cash Consideration being measured at the time received and without giving effect to subsequent changes in value).

The Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations (or rules of any exchange on which the Notes are then listed) in connection with the repurchase of Notes pursuant to the Indenture. To the extent that the provisions of any securities laws or regulations (or exchange rules) conflict with provisions of this covenant, the Company will comply with the applicable securities laws and regulations (or exchange rules) and will not be deemed to have breached its obligations under the Indenture by virtue of any conflict.

Limitation on Affiliate Transactions

The Company will not, and will not permit any of the Restricted Subsidiaries to, directly or indirectly, enter into or conduct any transaction or series of transactions (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of the Company (any such transaction or series of transactions being an "Affiliate Transaction") involving aggregate value in excess of €2.5 million unless:

- (1) the terms of such Affiliate Transaction taken as a whole are not materially less favorable to the Company or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable transaction at the time of such transaction or the execution of the agreement providing for such transaction in arm's length dealings with a Person who is not such an Affiliate; and
- (2) in the event such Affiliate Transaction involves an aggregate value in excess of €10.0 million, the terms of such transaction or series of transactions have been approved by a majority of the members of the Board of Directors.

Any Affiliate Transaction shall be deemed to have satisfied the requirements set forth in clause (2) of this paragraph if such Affiliate Transaction is approved by a majority of the Disinterested Directors. If there are no Disinterested Directors, any Affiliate Transaction shall be deemed to have satisfied the requirements set forth in this covenant if the Company or any of its Restricted Subsidiaries, as the case may be, delivers to the Trustee a letter from an Independent Financial Advisor stating that such transaction is fair to the Company or such Restricted Subsidiary from a financial point of view or stating that the terms are not materially less favorable to the Company or its relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or such Restricted Subsidiary with an unrelated Person on an arm's length basis.

The provisions of the preceding paragraph will not apply to:

- (1) any Restricted Payment permitted to be made pursuant to the covenant described under “—*Limitation on Restricted Payments*,” any Permitted Payments (other than pursuant to clause (9)(b)(ii) of the third paragraph of the covenant described under “—*Limitation on Restricted Payments*”) or any Permitted Investment (other than Permitted Investments as defined in paragraphs (1)(b), (2), (11) and (17) of the definition thereof);
- (2) any issuance or sale of Capital Stock, options, other equity-related interests or other securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, or entering into, or maintenance of, any employment, consulting, collective bargaining or benefit plan, program, agreement or arrangement, related trust or other similar agreement and other compensation arrangements, options, warrants or other rights to purchase Capital Stock of the Company, any Restricted Subsidiary or any Parent, restricted stock plans, long-term incentive plans, stock appreciation rights plans, participation plans or similar employee benefits or consultants’ plans (including valuation, health, insurance, deferred compensation, severance, retirement, savings or similar plans, programs or arrangements) or indemnities provided on behalf of officers, employees, directors or consultants approved by the Board of Directors of the Company, in each case in the ordinary course of business;
- (3) any Management Advances and any waiver or transaction with respect thereto;
- (4) any transaction between or among the Company and any Restricted Subsidiary (or entity that becomes a Restricted Subsidiary as a result of such transaction), or between or among Restricted Subsidiaries;
- (5) the payment of reasonable fees and reimbursement of expenses to, and customary indemnities (including under customary insurance policies) and employee benefit and pension expenses provided on behalf of, directors, officers, consultants or employees of the Company, any Restricted Subsidiary or any Parent (whether directly or indirectly and including through any Person owned or controlled by any of such directors, officers or employees);
- (6) the Refinancing Transactions and the entry into and performance of obligations of the Company or any of its Restricted Subsidiaries under the terms of any transaction arising out of, and any payments pursuant to or for purposes of funding, any agreement or instrument in effect as of or on the Issue Date, as these agreements and instruments may be amended, modified, supplemented, extended, renewed or refinanced from time to time in accordance with the other terms of this covenant or to the extent not more disadvantageous to the Holders in any material respect and the entry into and performance of any registration rights or other listing agreement in connection with any Public Offering;
- (7) execution, delivery and performance of any Tax Sharing Agreement or the formation and maintenance of any consolidated group for tax, accounting or cash pooling or management purposes in the ordinary course of business;
- (8) transactions with customers, clients, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business, which are fair to the Company or the relevant Restricted Subsidiary in the reasonable determination of the Board of Directors or the Senior Management of the Company or the relevant Restricted Subsidiary, or are on terms no less favorable than those that could reasonably have been obtained at such time from an unaffiliated party;
- (9) any transaction in the ordinary course of business between or among the Company or any Restricted Subsidiary and any Affiliate of the Company or an Associate or similar entity that would constitute an Affiliate Transaction solely because the Company or a Restricted Subsidiary or any Affiliate of the Company or a Restricted Subsidiary or any Affiliate of any Permitted Holder owns an equity interest in or otherwise controls such Affiliate, Associate or similar entity;
- (10) (a) issuances or sales of Capital Stock (other than Disqualified Stock or Designated Preference Shares) of the Company or options, warrants or other rights to acquire such Capital Stock or Subordinated Shareholder Funding; *provided* that the interest rate and other financial terms of such Subordinated Shareholder Funding are approved by a majority of the members of the Board of Directors in their reasonable determination and (b) any amendment, waiver or other transaction with respect to any Subordinated Shareholder Funding is in compliance with the other provisions of the Indenture and the Senior Intercreditor Agreement and the Voting Agreement;
- (11) without duplication in respect of payments made pursuant to clause (12) hereof, (a) payments by the Company or any Restricted Subsidiary to any Permitted Holder (whether directly or indirectly, including through any Parent) of annual customary management, consulting, monitoring or advisory fees and related expenses in an aggregate amount not to exceed €2.0 million per year and (b) customary payments by the Company or any Restricted Subsidiary to any Permitted Holder (whether directly or indirectly, including

through any Parent) for financial advisory, financing, underwriting or placement services or in respect of other investment banking activities, including in connection with acquisitions or divestitures, which payments in respect of this clause (b) are approved by a majority of the Board of Directors in good faith;

- (12) payment to any Permitted Holder of all reasonable out-of-pocket expenses Incurred by such Permitted Holder in connection with its direct or indirect investment in the Company and its Subsidiaries;
- (13) any transaction effected as part of a Qualified Receivables Financing; and
- (14) any participation in a public tender or exchange offers for securities or debt instruments issued by the Company or any of its Subsidiaries that are conducted on arms' length terms and provide for the same price or exchange ratio, as the case may be, to all holders accepting such tender or exchange offer.

Reports

For so long as any Notes are outstanding, the Company will provide to the Trustee the following reports:

- (1) within 120 days after the end of the Company's fiscal year beginning with the first fiscal year ending after the Issue Date, annual reports containing, to the extent applicable, the following information: (a) audited consolidated balance sheets of the Company as of the end of the two most recent fiscal years and audited consolidated income statements and statements of cash flow of the Company for the two most recent fiscal years, including complete footnotes to such financial statements and the report of the independent auditors on the financial statements; (b) unaudited pro forma income statement information and balance sheet information of the Company (which, for the avoidance of doubt, shall not include the provision of a full income statement or balance sheet to the extent not reasonably available), together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the most recently completed fiscal year; (c) an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition, EBITDA, and liquidity and capital resources of the Company (including a summary description of the Senior Credit Agreement), and a discussion of material commitments and contingencies and critical accounting policies; (d) a summary description of the business and material affiliate transactions; and (e) a summary description of material recent developments;
- (2) within 60 days following the end of the first and third fiscal quarters in each fiscal year of the Company (or 90 days for the quarter ending March 31, 2013) and within 75 days for the second fiscal quarter of each fiscal year, all quarterly reports of the Company containing the following information: (a) an unaudited condensed consolidated balance sheet as of the end of such quarter and unaudited condensed statements of income and cash flow for the most recent quarter year-to-date period ending on the unaudited condensed balance sheet date, and the comparable prior year periods, together with condensed footnote disclosure; (b) unaudited pro forma income statement information and balance sheet information (which, for the avoidance of doubt, shall not include the provision of a full income statement or balance sheet to the extent not reasonably available), together with explanatory footnotes, for any material acquisitions, dispositions or recapitalizations that have occurred since the beginning of the relevant quarter; (c) an operating and financial review of the unaudited financial statements, including a discussion of the results of operations, financial condition, EBITDA and material changes in liquidity and capital resources, and a discussion of material changes not in the ordinary course of business in commitments and contingencies since the most recent report; and (d) material recent developments; and
- (3) promptly after the occurrence of any material acquisition, disposition or restructuring or any senior executive officer changes at the Company or change in auditors of the Company or any other material event that the Company or any of its Restricted Subsidiaries announces publicly, a report containing a description of such event.

All financial statement and pro forma financial information shall be prepared in accordance with IFRS as in effect on the date of such report or financial statement (or otherwise on the basis of IFRS as then in effect) and on a consistent basis for the periods presented; *provided, however*, that the reports set forth in clauses (1), (2) and (3) above may, in the event of a change in applicable IFRS, present earlier periods on a basis that applied to such periods. Except as provided for above, no report need include separate financial statements for any Subsidiaries of the Company. The filing of an Annual Report on Form 20-F within the time period specified in (1) will satisfy such provision. To the extent that any Eligible Holdco Debt is outstanding during the reporting period of any report set forth in clauses (1) and (2) above and provided hereunder, such report shall include information in respect of the aggregate principal amount, interest expense and any changes to the material terms of such Indebtedness during the applicable reporting period.

Notwithstanding the foregoing, the Company may satisfy its obligations under clauses (1) and (2) of the first paragraph of this covenant by delivering the corresponding consolidated annual and quarterly reports of any Parent. To the

extent that material differences exist between the management, business, assets, shareholding or results of operations or financial condition of the Parent that is the reporting entity, the annual and quarterly reports shall include an explanation and an unaudited reconciliation of such material differences.

At any time that any of the Company's Subsidiaries are Unrestricted Subsidiaries and any such Unrestricted Subsidiary or group of Unrestricted Subsidiaries, if taken together as one Subsidiary, constitutes a Significant Subsidiary of the Company, then the annual and quarterly financial information required by clauses (1) and (2) of the first paragraph of this covenant shall include either (i) a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Company and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries or (ii) stand-alone audited or unaudited financial statements, as the case may be, of such Unrestricted Subsidiary or Unrestricted Subsidiaries (as a group or otherwise) together with an unaudited reconciliation to the financial information of the Company and its Subsidiaries, which reconciliation shall include the following items: revenues, EBITDA, net income, cash, total assets, total debt, shareholders equity, capital expenditures and interest expense.

Substantially concurrently with the issuance to the Trustee of the reports specified in clauses (1), (2) and (3) of the first paragraph of this covenant, the Company shall also (a) use its commercially reasonable efforts (i) to post copies of such reports on such website as may be then maintained by the Company and its Subsidiaries or (ii) otherwise to provide substantially comparable availability of such reports (as determined by the Company in good faith) or (b) to the extent the Company determines in good faith that it cannot make such reports available in the manner described in the preceding clause (a) owing to applicable law or after the use of its commercially reasonable efforts, furnish such reports to the Holders and, upon request, prospective purchasers of the Notes. The Company will also make available copies of all reports required by clauses (1) through (3) of the first paragraph of this covenant, if and so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted for trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange so require, to the extent and in the manner permitted by such rules, by posting such reports on the official website of the Luxembourg Stock Exchange (www.bourse.lu).

In addition, so long as the Notes remain outstanding and during any period during which Company is not subject to Section 13 or 15(d) of the Exchange Act nor exempt therefrom pursuant to Rule 12g3-2(b), the Company shall furnish to the Holders and, upon their request, prospective purchasers of the Notes, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Merger and Consolidation

The Company

The Company will not consolidate with or merge with or into, or convey, transfer, lease or otherwise dispose of all or substantially all its assets to, any Person, unless:

- (1) the resulting, surviving or transferee Person (the "Successor Company") will be a Person organized and existing under the laws of any member state of the European Union or the United States of America, any State of the United States or the District of Columbia, Canada or any province of Canada, Norway or Switzerland and the Successor Company (if not the Company) expressly assumes (a) by supplemental indenture, executed and delivered to the Trustee, in form reasonably satisfactory to the Trustee, all the obligations of the Company under the Notes and the Indenture and (b) all obligations of the Company under the Security Documents (and, to the extent required by the Senior Credit Agreement and the Senior Intercreditor Agreement, the Senior Credit Agreement and the Senior Intercreditor Agreement, as the case may be);
- (2) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the Successor Company or any Subsidiary of the Successor Company as a result of such transaction as having been Incurred by the Successor Company or such Subsidiary at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction, either (a) the Successor Company would be able to Incur at least an additional €1.00 of Indebtedness pursuant to the first paragraph of the covenant described under "*—Limitation on Indebtedness*" or (b) the Fixed Charge Coverage Ratio of the Company would not be less than it was immediately prior to giving effect to such transaction; and
- (4) the Company shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each to the effect that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the Indenture and an Opinion of Counsel to the effect that such supplemental indenture (if any) has been duly authorized, executed and delivered and is a legal, valid and binding agreement enforceable against the Successor Company (in each case, in form and substance reasonably satisfactory to the Trustee), *provided* that in giving an Opinion of Counsel, counsel may rely on an Officer's Certificate as to any matters of fact, including as to satisfaction of clauses (1) and (2) above.

Any Indebtedness that becomes an obligation of the Company or any Restricted Subsidiary (or that is deemed to be Incurred by any Subsidiary that becomes a Restricted Subsidiary) as a result of any such transaction undertaken in compliance with this covenant, and any Refinancing Indebtedness with respect thereto, shall be deemed to have been Incurred in compliance with the covenant described under “—*Limitation on Indebtedness.*”

For purposes of this covenant, the sale, lease, conveyance, assignment, transfer, or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of the Company, which properties and assets, if held by the Company instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Company on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

The Successor Company will succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture but in the case of a lease of all or substantially all its assets, the predecessor company will not be released from its obligations under the Indenture or the Notes.

Notwithstanding the preceding clauses (2), (3) and (4) and the provisions described below under “—*Guarantors*” (which do not apply to transactions referred to in this sentence), (a) any Restricted Subsidiary may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to the Company or a Guarantor and (b) any Restricted Subsidiary that is not a Guarantor may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to the Company or any Restricted Subsidiary. Notwithstanding the preceding clauses (2), (3) and (4) (which do not apply to the transactions referred to in this sentence), the Company may consolidate or otherwise combine with or merge into an Affiliate incorporated or organized for the purpose of changing the legal domicile of the Company, reincorporating the Company in another jurisdiction or changing the legal form of the Company.

There is no precise established definition of the phrase “substantially all” under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

The foregoing provisions (other than the requirements of clause (2) of the first paragraph of this covenant) will not apply to the creation of a new Restricted Subsidiary of the Company that becomes a parent of one or more of the Company’s Subsidiaries.

Guarantors

No Guarantor may:

- (1) consolidate with or merge with or into any Person;
- (2) sell, convey, transfer, lease or dispose of, all or substantially all its assets as an entirety or substantially as an entirety, in one transaction or a series of related transactions, to any Person; or
- (3) permit any Person to merge with or into such Guarantor, unless
 - (A) the other Person is the Company or any Restricted Subsidiary that is a Guarantor (or becomes a Guarantor concurrently with the transaction); or
 - (B) (1) either (x) a Guarantor is the continuing Person or (y) the resulting, surviving or transferee Person expressly assumes all of the obligations of the Guarantor under its Guarantee, the Indenture and the Security Documents (and, to the extent required by the Senior Credit Agreement and the Senior Intercreditor Agreement, the Senior Credit Agreement and the Senior Intercreditor Agreement, as the case may be); and (2) immediately after giving effect to the transaction, no Default or Event of Default has occurred and is continuing; or
 - (C) the transaction constitutes a sale or other disposition (including by way of consolidation or merger) of the Guarantor or the sale or disposition of all or substantially all the assets of such Guarantor (in each case other than to the Company or a Restricted Subsidiary) otherwise permitted by the Indenture.

Notwithstanding the preceding clause B(2) and the provisions described above under “—*The Company*” (which do not apply to transactions referred to in this sentence), (a) any Restricted Subsidiary may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to the Company or a Guarantor and (b) any Guarantor may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to the Company or any other Guarantor. Notwithstanding the preceding clause B(2) (which does not apply to the transactions referred to in this sentence), a Guarantor may consolidate or otherwise combine with or merge into an Affiliate incorporated or organized for the purpose of changing the legal domicile of the Guarantor, reincorporating the Guarantor in another jurisdiction or changing the legal form of the Guarantor.

Any Indebtedness that becomes an obligation of the Guarantor or any Restricted Subsidiary (or that is deemed to be Incurred by any Subsidiary that becomes a Restricted Subsidiary) as a result of any such transaction undertaken in compliance with this covenant, and any Refinancing Indebtedness with respect thereto, shall be deemed to have been Incurred in compliance with the covenant described under “—*Limitation on Indebtedness*.”

There is no precise established definition of the phrase “substantially all” under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the property or assets of a Person.

Payments for Consent

The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid and is paid to all Holders that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Notwithstanding the foregoing, the Company and its Restricted Subsidiaries shall be permitted, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes, to exclude holders in any jurisdiction where (1) the solicitation of such consent, waiver or amendment, including in connection with an exchange offer or offer to purchase for cash, or (2) the payment of the consideration therefor (i) would require the Company or any of the Restricted Subsidiaries to file a registration statement, prospectus or similar document under any applicable securities laws (including, but not limited to, the United States federal securities laws and the laws of the European Union or its member states), which the Company in its sole discretion determines (acting in good faith) would be materially burdensome; or (ii) such solicitation would otherwise not be permitted under applicable law in such jurisdiction.

Additional Guarantees

The Company will not cause or permit any of its Restricted Subsidiaries that are not Guarantors, directly or indirectly to borrow or Guarantee any Indebtedness under the Senior Credit Agreement (or other Indebtedness that is Incurred under clause (1) of the second paragraph of the covenant described under “—*Limitation on Indebtedness*”) or Public Debt and any refinancing thereof in whole or in part unless such Restricted Subsidiary becomes a Guarantor on the date on which such other Guarantee is Incurred and, if applicable, executes and delivers to the Trustee a supplemental indenture in the form attached to the Indenture pursuant to which such Restricted Subsidiary will provide a Guarantee, which Guarantee will be senior to or rank *pari passu* with such Restricted Subsidiary’s Guarantee of such other Indebtedness.

A Restricted Subsidiary that is not a Guarantor may become a Guarantor if it executes and delivers to the Trustee a supplemental indenture in the form attached to the Indenture pursuant to which such Restricted Subsidiary will provide a Guarantee.

Each additional Guarantee will be limited as consistent with the Agreed Security Principles as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, thin capitalization, distributable reserves, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

Notwithstanding the foregoing, the Company shall not be obligated to cause such Restricted Subsidiary to Guarantee the Notes to the extent and for so long as the Incurrence of such Guarantee could reasonably be expected to give rise to or result in: (1) any violation of applicable law or regulation; (2) any liability for the officers, directors or (except in the case of a Restricted Subsidiary that is a partnership) shareholders of such Restricted Subsidiary (or, in the case of a Restricted Subsidiary that is a partnership, directors or shareholders of the partners of such partnership); (3) any cost, expense, liability or obligation (including with respect to any Taxes) other than reasonable out-of-pocket expenses and other than reasonable expenses incurred in connection with any governmental or regulatory filings required as a result of, or any measures pursuant to clause (1) of this paragraph undertaken in connection with, such Guarantee, which in any case under any of clauses (1), (2) and (3) of this paragraph cannot be avoided through measures reasonably available to the Company or a Restricted Subsidiary or (4) an inconsistency with the Senior Intercreditor Agreement.

Impairment of Security Interest

The Company shall not, and shall not permit any Restricted Subsidiary to, take or omit to take any action that would have the result of materially impairing the security interest with respect to the Collateral (it being understood that, subject to the proviso below, the Incurrence of Permitted Collateral Liens shall under no circumstances be deemed to materially impair the security interest with respect to the Collateral) for the benefit of the Trustee and the Holders, and the Company shall not, and shall not permit any Restricted Subsidiary to, grant to any Person other than the Security Agent, for the benefit of the

Trustee and the Holders and the other beneficiaries described in the Security Documents, any Lien over any of the Collateral that is prohibited by the covenant entitled “*Limitation on Liens*”; *provided* that the Company and the Restricted Subsidiaries may Incur Permitted Collateral Liens and the Collateral may be amended, extended, renewed, restated, supplemented, transferred, discharged or released in accordance with the Indenture, the Senior Credit Agreement, the Senior Intercreditor Agreement, the Voting Agreement or the applicable Security Documents.

Notwithstanding the above, nothing in this covenant shall restrict the discharge and release of any Lien in accordance with the Indenture, the Senior Credit Agreement and the Senior Intercreditor Agreement. Subject to the foregoing, the Security Documents may be amended, extended, renewed, restated, supplemented or otherwise modified or released (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets) to (i) cure any ambiguity, omission, defect or inconsistency therein; (ii) provide for Permitted Collateral Liens; (iii) add to the Collateral; or (iv) make any other change thereto that does not adversely affect the Holders in any material respect; *provided, however*, that (except with respect to any amendment, extension, renewal, restatement, supplement, replacement, transfer, discharge or release in accordance with the applicable Security Document, the Indenture and the Senior Intercreditor Agreement or to effect or facilitate the creation of Permitted Collateral Liens for the benefit of the Trustee and the Holders), no Security Document may be amended, extended, renewed, restated, supplemented or otherwise modified or released (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets), unless contemporaneously with such amendment, extension, renewal, restatement, supplement or modification or release (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets), the Company delivers to the Trustee, either (1) a solvency opinion, in form and substance reasonably satisfactory to the Trustee, from an independent financial advisor or appraiser or investment bank of international standing which confirms the solvency of the Company and its Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or release (followed by an immediate retaking of a Lien of at least equivalent ranking over the same assets), (2) a certificate from the Chief Financial Officer or the Board of Directors of the relevant Person which confirms the solvency of the person granting security interest after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or release (followed by an immediate retake of a Lien of at least equivalent ranking over the same assets), or (3) an Opinion of Counsel (subject to any qualifications customary for this type of opinion of counsel) confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or release (followed by an immediate retaking of a lien of at least equivalent ranking over the same assets), the Lien or Liens created under the Security Document, so amended, extended, renewed, restated, supplemented, modified or released and replaced are valid and perfected Liens not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law, that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification or release (followed by an immediate retake of a Lien of at least equivalent ranking over the same assets) and to which the new Indebtedness secured by the Permitted Collateral Lien is not subject.

In the event that the Company complies with the requirements of this covenant, the Company or the Security Agent shall take all actions necessary to effect such amendment, extension, renewal, restatement, supplement, modification or release.

Limitations on Amendments to Senior Facility Finance Documents

Except pursuant to the provisions of the Indenture described under “—*Amendment, Supplement and Waiver*”, the Issuer shall not, and shall not permit any of its Restricted Subsidiaries to:

- (1) amend, modify, supplement, waive or alter any of the Notes Related Provisions in a manner that materially reduces or adversely affects the rights of the Trustee or the holders of the Notes; and
- (2) otherwise amend, modify or waive any provisions of any Senior Facility Finance Document relating to any other rights and obligations of the Trustee and the holders of the Notes in a manner that materially reduces or adversely affects the rights of the Trustee or the holders of the Notes; *provided* that the amendment or modification of the Senior Intercreditor Agreement, the Voting Agreement and any Additional Intercreditor Agreement in accordance with the terms of the covenant described under “—*Amendments to the Senior Intercreditor Agreement, Voting Agreement and Additional Intercreditor Agreements*” will not be deemed to materially reduce or adversely affect the interests of the holders of the Notes or Trustee.

Suspension of Covenants on Achievement of Investment Grade Status

If on any date following the Issue Date, the Notes have achieved Investment Grade Status and no Default or Event of Default has occurred and is continuing under the Indenture (a “Suspension Event”), then, the Company shall notify the Trustee of this fact and beginning on that day and continuing until the Reversion Date, the provisions of the Indenture summarized under the following captions will not apply to the Notes: “—*Limitation on Indebtedness*,” “—*Limitation on Restricted Payments*,” “—*Limitation on Restrictions on Distributions from Restricted Subsidiaries*,” “—*Limitation on Sales of Assets and Subsidiary Stock*,” “—*Limitation on Affiliate Transactions*,” “—*Additional Guarantees*,” “—*Impairment of Security Interests*” and the provisions of clause (3) of the first paragraph of the covenant described under “—*Merger and*

Consolidation—The Company,” and, in each case, any related default provision of the Indenture will cease to be effective and will not be applicable to the Company and the Restricted Subsidiaries. Such covenants and any related default provisions will again apply according to their terms from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company properly taken during the continuance of the Suspension Event, and the “*—Limitation on Restricted Payments*” covenant will be interpreted as if it has been in effect since the date of such Indenture except that no default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. On the Reversion Date, all Indebtedness Incurred during the continuance of the Suspension Event will be classified, at the Company’s option, as having been Incurred pursuant to the first paragraph of the covenant described under “*—Limitation on Indebtedness*” or one of the clauses set forth in the second paragraph of such covenant (to the extent such Indebtedness would be permitted to be Incurred thereunder as of the Reversion Date and after giving effect to Indebtedness Incurred prior to the Suspension Event and outstanding on the Reversion Date). To the extent such Indebtedness would not be so permitted to be incurred under the first paragraph of the covenant described under “*—Limitation on Indebtedness*,” such Indebtedness will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (4)(b) of the second paragraph of the covenant described under “*—Limitation on Indebtedness*.”

Events of Default

Each of the following is an Event of Default under the Indenture:

- (1) default in any payment of interest or Additional Amounts, if any, on any Note when due and payable, continued for 30 days;
- (2) default in the payment of the principal amount of or premium, if any, on any Note issued under the Indenture when due at its Stated Maturity, upon optional redemption, upon required repurchase, upon declaration or otherwise;
- (3) failure by the Company or the relevant Guarantor to comply with its obligations under the covenant described under “*—Certain Covenants—Merger and Consolidation*” above;
- (4) failure to comply for 30 days after written notice by the Trustee on behalf of the Holders or by the Holders of 30% in aggregate principal amount of the outstanding Notes with the Company’s obligation to make a Change of Control Offer under the covenant described under “*—Change of Control*” above;
- (5) failure by the Company or any of its Restricted Subsidiaries to comply for 60 days after written notice by the Trustee on behalf of the Holders or by the Holders of 30% in aggregate principal amount of the outstanding Notes with its other agreements contained in the Indenture or the Notes (in each case, other than a default in performance, or breach of, a covenant or agreement specifically addressed in clauses (1) through (4) above);
- (6) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company or any of its Restricted Subsidiaries (or the payment of which is Guaranteed by the Company or any of its Restricted Subsidiaries) other than Indebtedness owed to the Company or a Restricted Subsidiary whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, which default:
 - (a) is caused by a failure to pay principal at stated maturity on such Indebtedness, immediately upon the expiration of the grace period provided in such Indebtedness (“payment default”); or
 - (b) results in the acceleration of such Indebtedness prior to its maturity (the “cross acceleration provision”),

and, in each case, the aggregate principal amount of any such Indebtedness, together with the aggregate principal amount of any other such Indebtedness under which there has been a payment default or the maturity of which has been so accelerated, aggregates €25.0 million or more;
- (7) certain events of bankruptcy, insolvency or court protection with respect to the Company or a Significant Subsidiary or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Company and its Restricted Subsidiaries), would constitute a Significant Subsidiary (the “bankruptcy default provisions”);
- (8) failure by the Company or any Significant Subsidiary or group of Restricted Subsidiaries that, taken together (as of the latest audited consolidated financial statements for the Company and its Restricted Subsidiaries), would constitute a Significant Subsidiary to pay final judgments currently due for payment aggregating in excess of €25.0 million (exclusive of any amounts that a solvent insurance company has acknowledged liability for), which judgments are not paid, discharged or stayed for a period of 60 days after the judgment becomes final (the “judgment default provision”);

- (9) any security interest under the Security Documents shall, at any time, cease to be in full force and effect (other than in accordance with the terms of the relevant Security Document, the Senior Intercreditor Agreement or the Indenture) with respect to Collateral having a fair market value in excess of €25.0 million for any reason other than the satisfaction in full of all obligations under the Indenture or the release or amendment of any such security interest in accordance with the terms of the Indenture, Senior Intercreditor Agreement or Security Document or any such security interest created thereunder shall be declared invalid or unenforceable or the Company or any grantor of such Lien shall assert in writing that any such security interest is invalid or unenforceable and any such Default continues for 10 days (the “security default provision”);
- (10) any Guarantee ceases to be in full force and effect (other than in accordance with the terms of such Guarantee or the Indenture) or is declared invalid or unenforceable in a judicial proceeding or any Guarantor denies or disaffirms in writing its obligations under its Guarantee and any such Default continues for 10 days (the “guarantee provision”); and
- (11) the material Notes Related Provisions of the Senior Credit Agreement cease to be in full force and effect (other than in accordance with their terms) or are declared null and void or unenforceable or are found to be invalid.

However, a default under clause (3), (4), (5), (6) or (8) of this paragraph will not constitute an Event of Default until the Trustee or the Holders of 30% in aggregate principal amount of the outstanding Notes notify the Company of the default and, with respect to clauses (3), (4), (5), (6) and (8) the Company does not cure such default within the time specified in clause (3), (4), (5), (6) or (8), as applicable, of this paragraph after receipt of such notice.

If an Event of Default (other than an Event of Default with respect to the Company described in clause (7) above) occurs and is continuing, the Trustee by notice to the Company or the Holders of at least 30% in aggregate principal amount of the outstanding Notes by written notice to the Company and the Trustee, may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest, including Additional Amounts, if any, on all the Notes to be due and payable. Upon such a declaration, such principal, premium and accrued and unpaid interest, including Additional Amounts, if any, will be due and payable immediately. In the event of a declaration of acceleration of the Notes because an Event of Default described in clause (6) under “*Events of Default*” has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the event of default or payment default triggering such Event of Default pursuant to clause (6) shall be remedied or cured, or waived by the holders of the Indebtedness, or the Indebtedness that gave rise to such Event of Default shall have been discharged in full, within 30 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, except nonpayment of principal, premium or interest, including Additional Amounts, if any, on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived.

If an Event of Default with respect to the Company described in clause (7) above occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest, including Additional Amounts, if any, on all the Notes will become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holders.

The Holders of a majority in aggregate principal amount of the outstanding Notes under the Indenture may waive all past or existing Defaults or Events of Default (except with respect to nonpayment of principal, premium or interest, or Additional Amounts, if any) and rescind any such acceleration with respect to such Notes and its consequences if rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders unless such Holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. Except to enforce the right to receive payment of principal or interest when due, no Holder may pursue any remedy with respect to the Indenture or the Notes unless:

- (1) such Holder has previously given the Trustee written notice that an Event of Default is continuing;
- (2) Holders of at least 30% in aggregate principal amount of the outstanding Notes have requested in writing the Trustee to pursue the remedy;
- (3) such Holders have offered in writing the Trustee security and/or indemnity against any loss, liability or expense;
- (4) the Trustee has not complied with such request within 60 days after the receipt of the written request and the offer of security and/or indemnity; and
- (5) the Holders of a majority in aggregate principal amount of the outstanding Notes have not given the Trustee a written direction that, in the opinion of the Trustee, is inconsistent with such request within such 60-day period.

Subject to certain restrictions, the Holders of a majority in aggregate principal amount of the outstanding Notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The Indenture will provide that, in the event an Event of Default has occurred and is continuing, the Trustee will be required in the exercise of its powers to use the degree of care that a prudent person would use in the conduct of its own affairs. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other Holder or that would involve the Trustee in personal liability. Prior to taking any action under the Indenture, the Trustee will be entitled to indemnification and/or security satisfactory to it against all losses and expenses caused by taking or not taking such action.

The Indenture will provide that if a Default occurs and is continuing and the Trustee is informed of such occurrence by the Company, the Trustee must give notice of the Default to the Holders within 60 days after being notified by the Company. Except in the case of a Default in the payment of principal of, or premium, if any, or interest on any Note, the Trustee may withhold notice if and so long as the Trustee in good faith determines that withholding notice is in the interests of the Holders. The Company is required to deliver to the Trustee, within 120 days after the end of each fiscal year, an Officer's Certificate indicating whether the signers thereof know of any Default that occurred during the previous year. The Company is required to deliver to the Trustee, within 30 days after the occurrence thereof, written notice of any events of which it is aware which would constitute a Default, their status and what action the Company is taking or proposes to take in respect thereof.

The Notes provide for the Trustee to take action on behalf of the Holders in certain circumstances, but only if the Trustee is indemnified or secured to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and, accordingly, in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for Holders to take action directly.

Holders may not enforce the Indenture or the Notes except as provided in the Indenture and the Senior Credit Agreement and may not enforce the Security Documents except as provided in such Security Documents, the Senior Credit Agreement, the Senior Intercreditor Agreement, the Voting Agreement or any Additional Intercreditor Agreement.

The Indenture will provide that upon an Event of Default or an acceleration of the Notes under the Indenture, the Trustee will notify the Facility Agent of such Event of Default and acceleration, respectively, pursuant to the terms of the Senior Credit Agreement.

Amendments and Waivers

Subject to certain exceptions, the Notes Documents may be amended, supplemented or otherwise modified with the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, such Notes) and, subject to certain exceptions, any default or compliance with any provisions thereof may be waived with the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, such Notes). However, without the consent of Holders holding not less than 75% of the then outstanding aggregate principal amount of Notes affected (including consents obtained in connection with a purchase of, or tender offer or exchange offer for, such Notes), an amendment or waiver may not, with respect to any such Notes held by a non-consenting Holder:

- (1) reduce the principal amount of such Notes whose Holders must consent to an amendment or waiver;
- (2) reduce the stated rate of or extend the stated time for payment of interest on any such Note;
- (3) reduce the principal of or extend the Stated Maturity of any such Note;
- (4) reduce the premium payable upon the redemption of any such Note or change the time at which any such Note may be redeemed, in each case as described above under “—*Optional Redemption*”;
- (5) make any such Note payable in currency other than that stated in such Note (except to the extent the currency stated in the Notes has been succeeded or replaced pursuant to applicable law);
- (6) impair the right of any Holder to receive payment of principal of and interest or Additional Amounts, if any, on such Holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any such payment on or with respect to such Holder's Notes;
- (7) make any change in the provision of the Indenture described under “—*Withholding Taxes*” that adversely affects the right of any Holder of such Notes in any material respect or amends the terms of such Notes in a way that would result in a loss of an exemption from any of the Taxes described thereunder or an exemption from any obligation to withhold or deduct Taxes so described thereunder unless the Company agrees to pay Additional Amounts, if any, in respect thereof;

- (8) release (i) the security interest in the Collateral granted for the benefit of the Holders or (ii) any Guarantor from any of its obligations under its Guarantee, in each case, other than pursuant to the terms of the Indenture or the relevant Security Document and the Senior Intercreditor Agreement;
- (9) change the ranking of the Notes;
- (10) waive a Default or Event of Default with respect to the nonpayment of principal, premium or interest or Additional Amounts, if any, on the Notes (except pursuant to a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of such Notes and a waiver of the payment default that resulted from such acceleration); or
- (11) make any change in the amendment or waiver provisions which require the Holders' consent described in this sentence.

Notwithstanding the foregoing, without the consent of any Holder, the Company, the Trustee and the other parties thereto, as applicable, may amend or supplement any Notes Document to:

- (1) cure any ambiguity, omission, defect, error or inconsistency, conform any provision to this "*Description of the Notes*," or reduce the minimum denomination of the Notes;
- (2) provide for the assumption by a successor Person of the obligations of the Company or any Guarantor under any Notes Document;
- (3) provide for uncertificated Notes in addition to or in place of certificated Notes (provided that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code);
- (4) add to the covenants or provide for a Guarantee for the benefit of the Holders or surrender any right or power conferred upon the Company or any Restricted Subsidiary;
- (5) make any change that does not adversely affect the rights of any Holder in any material respect;
- (6) at the Company's election, comply with any requirement of the SEC in connection with the qualification of the Indenture under the Trust Indenture Act, if such qualification is required;
- (7) make such provisions as necessary (as determined in good faith by the Company) for the issuance of Additional Notes;
- (8) to provide for any Restricted Subsidiary to provide a Guarantee in accordance with the Covenant described under "*Certain Covenants—Limitation on Indebtedness*" and "*Certain Covenants—Additional Guarantees*," to add, directly or indirectly, Guarantees with respect to the Notes, to add, directly or indirectly, security to or for the benefit of the Notes, or to confirm and evidence the release, termination, discharge or retaking of any Guarantee or Lien (including the Collateral and the Security Documents) with respect to or securing the Notes, directly or indirectly, when such release, termination, discharge or retaking is provided for under the Indenture, the relevant Security Documents or the Senior Intercreditor Agreement;
- (9) to evidence and provide for the acceptance and appointment under the Indenture and the Senior Intercreditor Agreement of a successor Trustee or Security Agent pursuant to the requirements thereof or to provide for the accession by the Trustee or Security Agent to any Notes Document;
- (10) in the case of the Security Documents, to mortgage, pledge, hypothecate or grant a security interest in favor of the Security Agent for the benefit of the Holders and the Trustee, in any property which is required by the Indenture to be mortgaged, pledged or hypothecated, or in which a security interest is required to be granted to the Security Agent, or to the extent necessary to grant a security interest for the benefit of any Person; *provided* that the granting of such security interest is not prohibited by the Indenture and the covenant described under "*Certain Covenants—Impairment of Security Interest*" is complied with;
- (11) to add to the covenants or to provide for a Guarantee for the benefit of the Holders, directly or indirectly, or surrender any right or power conferred upon the Company or any Restricted Subsidiary; or
- (12) to add security to or for the benefit of the Notes, directly or indirectly, or to effectuate or confirm and evidence the release, termination, discharge or retaking of any Guarantee or Lien or any amendment in respect thereof with respect to or securing the Notes when such release, termination, discharge or retaking or amendment is provided for under the Indenture.

In formulating its decisions on such matters, the Trustee shall be entitled to rely on such evidence as it deems appropriate including Officer's Certificates and Opinions of Counsel.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment of any Notes Document. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment or waiver under the Indenture by any Holder of Notes given in connection with a tender of such Holder's Notes will not be rendered invalid by such tender.

Acts by Holders

In determining whether the Holders of the required aggregate principal amount of the Notes have concurred in any direction, waiver or consent, any Notes owned by the Company or by any Person directly or indirectly controlled, or controlled by, or under direct or indirect common control with, the Company will be disregarded and deemed not to be outstanding.

Defeasance

The Company may at any time terminate all its obligations under the Notes and the Indenture ("legal defeasance") and cure all then existing Defaults and Events of Default, except for certain obligations, including those respecting the defeasance trust, the rights, powers, trusts, duties, immunities and indemnities of the Trustee and the obligations of the Company in connection therewith and obligations concerning issuing temporary Notes, registrations of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust. Subject to the foregoing, if the Company exercises its legal defeasance option, the Security Documents in effect at such time will terminate (other than with respect to the defeasance trust).

The Company may at any time terminate all its obligations under the covenants described under "*Certain Covenants*" (other than with respect to clauses (1) and (2) of the covenant described under "*Certain Covenants—Merger and Consolidation—The Company*" and clause (3)(B)(2) of the covenant described under "*Certain Covenants—Merger and Consolidation—Guarantors*") and "*Change of Control*" and the default provisions relating to such covenants described under "*Events of Default*" above, the operation of the cross-default upon a payment default, the cross acceleration provisions, the bankruptcy default provisions with respect to the Company and its Significant Subsidiaries, the judgment default provision, the guarantee provision and the security default provision described under "*Events of Default*" above ("covenant defeasance").

The Company at its option at any time may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If the Company exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect to the Notes. If the Company exercises its covenant defeasance option with respect to the Notes, payment of the Notes may not be accelerated because of an Event of Default specified in clauses (3) (other than with respect to clauses (1) and (2) of the covenant described under "*Certain Covenants—Merger and Consolidation—The Company*" and clause (3)(B)(2) of the covenant described under "*Certain Covenants—Merger and Consolidation—Guarantors*"), (4), (5), (6), (7), (8), (9) or (10) under "*Events of Default*" above.

In order to exercise either defeasance option, the Company must irrevocably deposit in trust (the "defeasance trust") with the Trustee (or such entity designated by the Trustee for this purpose) for the benefit of the Holders, cash in euro, European Government Obligations denominated in euro or a combination thereof, in such amounts as will be sufficient, in the good faith opinion of the Company, to pay and discharge the principal of, premium, if any, and interest, on the outstanding Notes to redemption or maturity and must comply with certain other conditions, including delivery to the Trustee of:

- (1) an Opinion of Counsel in the United States to the effect that Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and in the case of legal defeasance only, such Opinion of Counsel in the United States must be based on a ruling of the U.S. Internal Revenue Service or other change in applicable U.S. federal income tax law since the issuance of the Notes);
- (2) an Officer's Certificate stating that the deposit was not made by the Company with the intent of defeating, hindering, delaying, defrauding or preferring any creditors of the Company; and
- (3) an Officer's Certificate and an Opinion of Counsel (which opinion of counsel may be subject to customary assumptions and exclusions), each stating that that all conditions precedent provided for or relating to legal defeasance or covenant defeasance, as the case may be, have been complied with.

Satisfaction and Discharge

The Indenture, and the rights of the Trustee and the Holders under the Security Document will be discharged and cease to be of further effect (except as to surviving rights of conversion or transfer or exchange of the Notes, as expressly

provided for in the Indenture) as to all outstanding Notes when (1) either (a) all the Notes previously authenticated and delivered (other than certain lost, stolen or destroyed Notes and certain Notes for which provision for payment was previously made and thereafter the funds have been released to the Company) have been delivered to the Paying Agent or Registrar for cancellation; or (b) all Notes not previously delivered to the Trustee for cancellation (i) have become due and payable, (ii) will become due and payable at their Stated Maturity within one year or (iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption in the name, and at the expense, of the Company; (2) the Company has deposited or caused to be deposited with the Trustee (or such entity designated by the Trustee for this purpose) for the benefit of the Holders, cash in euro, European Government Obligations denominated in euro or a combination thereof or in such amounts in an amount sufficient, in the good faith opinion of the Company, to pay and discharge the entire indebtedness on Notes not previously delivered to the Trustee for cancellation, for principal, premium, if any, and interest to the date of deposit (in the case of Notes that have become due and payable), or to the Stated Maturity or redemption date, as the case may be; (3) the Company has paid or caused to be paid all other sums payable under the Indenture; (4) the Company has delivered irrevocable instructions under the Indenture to apply the deposited money towards payment of the Notes at maturity or on the redemption date, as the case may be; and (5) the Company has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel each to the effect that all conditions precedent under the "*Satisfaction and Discharge*" section of the Indenture relating to the satisfaction and discharge of the Indenture have been complied with, provided that any such counsel may rely on any Officer's Certificate as to matters of fact (including as to compliance with the foregoing clauses (1), (2) and (3)).

Meeting of Holders of Notes

All meetings of Holders of the Notes will be held in accordance with Italian applicable laws and regulations.

In addition to and without prejudice to the provisions described above under the caption "*Amendments and Waivers*," in accordance with the provisions set forth under the Italian Civil Code, the Indenture will include provisions for the convening of meetings of the Holders of the Notes to consider any matter affecting their interests, including any amendment, supplement or waiver described above in the first paragraph under the caption "*Amendments and Waivers*". A meeting may be convened either (i) by the board of directors of the Company, (ii) by the Noteholders' Representative (as defined below) or (iii) upon request by Holders of at least 5.0% of the aggregate principal amount of the outstanding Notes.

According to the Italian Civil Code, the vote required to pass a resolution by a meeting of Holders of the Notes will be (a) in the case of the first meeting, one or more persons that hold or represent Holders of more than one half of the aggregate principal amount of the outstanding Notes, and (b) in the case of the second and any further adjourned meeting, one or more persons that hold or represent Holders of at least two-thirds of the aggregate principal amount of the Notes so present or represented at such meeting. Any such second or further adjourned meeting will be validly held if there are one or more persons present that hold or represent Holders of more than one-third of the aggregate principal amount of the outstanding Notes; *provided, however*, that the Company's bylaws may provide for a higher quorum (to the extent permitted under Italian law). Certain proposals, as set out under Article 2415 paragraph 1, item 2, and paragraph 3 of the Italian Civil Code (namely, the amendment of the economic terms and conditions of the Notes) may only be approved by a resolution passed at a meeting of Holders of the Notes (including any adjourned meeting) by one or more persons present that hold or represent Holders of not less than one-half of the aggregate principal amount of the outstanding Notes.

With respect to the matters set forth in the first paragraph under "*Amendments and Waivers*," and to the extent permitted under Italian law, the Indenture will contractually increase the percentage of the aggregate principal amount of Notes otherwise required by Article 2415 of the Italian Civil Code to pass a resolution with respect to such matters from 50% to 75% of the aggregate principal amount of the outstanding Notes. See "*Risk Factors—Risks Relating to the Notes—The Issuer may amend the economic terms and conditions of the Notes with the vote of either 75% or 50% of the aggregate principal amount of the outstanding Notes.*" Any resolution duly passed at any such meeting shall be binding on all the Holders of the Notes, whether or not such Holder was present at such meeting or voted to approve such resolution. To the extent provided by the Italian Civil Code, the resolutions passed by a meeting of Holders of the Notes can be challenged by Holders pursuant to Articles 2377 and 2379 of the Italian Civil Code.

The Indenture will provide that the provisions described under this "*Meeting of Holders of Notes*" will be in addition to, and not in substitution of, the provisions described under the caption "*Amendments and Waivers*." As such and notwithstanding the foregoing, any amendment, supplement and/or waiver, in addition to complying with the provisions described under this "*Meeting of Holders of Notes*" must also comply with the other provisions described under "*Amendments and Waivers*."

Noteholders' Representative

A representative of the Holders of the Notes (*rappresentante comune*) (the "Noteholders' Representative") may be appointed pursuant to Articles 2415 and 2417 of the Italian Civil Code by the Holders of the Notes in order to represent the interests of the Holders of the Notes pursuant to Article 2418 of the Italian Civil Code as well as give effect to resolutions passed at a meeting of the Holders of the Notes. Pursuant to the terms of the Indenture, the execution of the Indenture and the issuance and purchase of the Notes on the Issue Date shall be deemed to constitute the authorization and agreement on behalf of the Holders of the Notes of the initial appointment as of the Issue Date of the Trustee as the Noteholders' Representative. If

the Noteholders' Representative is not appointed by a meeting of the Holders of the Notes, the Noteholders' Representative shall be appointed by a decree of the Court where the Company has its registered office upon the request of one or more Holders of the Notes or upon the request of the directors of the Company. The Noteholders' Representative remains appointed for a maximum period of three years but may be reappointed again thereafter.

No Personal Liability of Directors, Officers, Employees and Shareholders

No director, officer, employee, incorporator or shareholder of the Company, the Guarantors or any of their respective Subsidiaries or Affiliates, as such, shall have any liability for any obligations of the Company or the other Guarantors under the Notes, the Security Documents, the Indenture, the Senior Credit Agreement, the Guarantees or the Senior Intercreditor Agreement or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive liabilities under the U.S. federal securities laws and it is the view of the SEC that such a waiver is against public policy.

Concerning the Trustee

The Law Debenture Trust Corporation p.l.c. is to be appointed as Trustee under the Indenture. The Indenture will provide that, except during the continuance of an Event of Default, the Trustee will perform only such duties as are set forth specifically in the Indenture. During the existence of an Event of Default, the Trustee will exercise such of the rights and powers vested in it under the Indenture and use the same degree of care that a prudent Person would use in conducting its own affairs. The permissive rights of the Trustee to take or refrain from taking any action enumerated in the Indenture will not be construed as an obligation or duty.

The Indenture will contain limitations on the rights of the Trustee under the Indenture in the event the Trustee becomes a creditor of the Company or any Guarantor. The Trustee will be permitted to engage in other transactions with the Company and its Affiliates and Subsidiaries.

The Indenture will set out the terms under which the Trustee may retire or be removed, and replaced. Such terms will include, among others, (1) that the Trustee may be removed at any time by the Holders of a majority in principal amount of the then outstanding Notes, or may resign at any time by giving written notice to the Company and (2) that if the Trustee at any time (a) fails to meet certain eligibility criteria or (b) becomes incapable of acting as Trustee or becomes insolvent or bankrupt, then the Company may remove the Trustee, or any Holder who has been a *bona fide* Holder for not less than 6 months may petition any court for removal of the Trustee and appointment of a successor Trustee.

Any removal or resignation of the Trustee shall not become effective until the acceptance of appointment by the successor Trustee.

The Indenture will contain provisions for the indemnification of the Trustee by the Company and the Guarantors on a joint and several basis for any loss, liability, taxes and expenses incurred without gross negligence, willful misconduct or fraud on its part, arising out of or in connection with the acceptance or administration of the Indenture.

Notices

All notices to Holders will be validly given if mailed to them at their respective addresses in the register of the Holders, if any, maintained by the Registrar. In addition, for so long as any of the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange shall so require, notices with respect to the Notes will be published in a newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, posted on the official website of the Luxembourg Stock Exchange (www.bourse.lu). In addition, for so long as any Notes are represented by Global Notes, all notices to Holders will be delivered to Euroclear and Clearstream, which will give such notices to the holders of Book-Entry Interests. Such notices may also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu), to the extent and in the manner permitted by the rules of the Luxembourg Stock Exchange.

Each such notice shall be deemed to have been given on the date of such publication or, if published more than once on different dates, on the first date on which publication is made; *provided* that, if notices are mailed, such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed. Any notice or communication mailed to a Holder shall be mailed to such Person by first-class mail or other equivalent means and shall be sufficiently given to such Holder if so mailed within the time prescribed. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

Prescription

Claims against the Company or any Guarantor for the payment of principal, or premium, if any, on the Notes will be prescribed five years after the applicable due date for payment thereof. Claims against the Company or any Guarantor for the payment of interest on the Notes will be prescribed three years after the applicable due date for payment of interest.

Currency Indemnities and Calculation of Euro-Denominated Restrictions

The euro is the sole currency of account and payment for all sums payable by the Company and the Guarantors under or in connection with the Notes and the Guarantees, including damages. Any amount received or recovered in a currency other than euro or, whether as a result of, or the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Company, any Guarantor or otherwise by any Holder or by the Trustee, in respect of any sum expressed to be due to it from the Company or a Guarantor will only constitute a discharge to the Company or such Guarantor, as applicable, to the extent of the euro amount, which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that euro amount is less than the euro amount expressed to be due to the recipient or the Trustee under any Note, the Company and the Guarantors will indemnify them against any loss sustained by such recipient or the Trustee as a result. In any event, the Company and the Guarantors will indemnify the recipient or the Trustee on a joint or several basis against the cost of making any such purchase. For the purposes of this currency indemnity provision, it will be *prima facie* evidence of the matter stated therein for the Holder of a Note or the Trustee to certify in a manner reasonably satisfactory to the Company (indicating the sources of information used) the loss it Incurred in making any such purchase. These indemnities constitute a separate and independent obligation from the Company's and the Guarantors' other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any waiver granted by any Holder of a Note or the Trustee (other than a waiver of the indemnities set out herein) and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, any Guarantee or to the Trustee.

Except as otherwise specifically set forth herein, for purposes of determining compliance with any euro-denominated restriction herein, the Euro Equivalent amount for purposes hereof that is denominated in a non-euro currency shall be calculated based on the relevant currency exchange rate in effect on the date such non-euro amount is Incurred or made, as the case may be.

Enforceability of Judgments

Since substantially all the assets of the Company are held by Subsidiaries of the Company located outside the United States, any judgment obtained in the United States against the Company or any Guarantor, including judgments with respect to the payment of principal, premium, if any, interest, Additional Amounts, if any, and any redemption price and any purchase price with respect to the Notes or the Guarantees, may not be collectable within the United States.

Consent to Jurisdiction and Service

In relation to any legal action or proceedings arising out of or in connection with the Indenture and the Notes, the Company and the Guarantors will in the Indenture irrevocably submit to the jurisdiction of the federal and state courts in the Borough of Manhattan in the City of New York, County and State of New York, United States.

Governing Law

The Indenture and the Notes, and the rights and duties of the parties thereunder, will be governed by and construed in accordance with the laws of the State of New York.

Certain Definitions

"*Acquired Indebtedness*" means Indebtedness (1) of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary, or (2) assumed in connection with the acquisition of assets from such Person, in each case whether or not Incurred by such Person in connection with such Person becoming a Restricted Subsidiary or such acquisition or (3) of a Person at the time such Person merges with or into or consolidates or otherwise combines with the Company or any Restricted Subsidiary. Acquired Indebtedness shall be deemed to have been Incurred, with respect to clause (1) of the preceding sentence, on the date such Person becomes a Restricted Subsidiary and, with respect to clause (2) of the preceding sentence, on the date of consummation of such acquisition of assets and, with respect to clause (3) of the preceding sentence, on the date of the relevant merger, consolidation or other combination.

"*Additional Assets*" means:

- (1) any property or assets (other than Indebtedness and Capital Stock) used or to be used by the Company, a Restricted Subsidiary or otherwise useful in a Similar Business (it being understood that capital expenditures on property or assets already used in Similar Business or to replace any property or assets that are the subject of such Asset Disposition shall be deemed an investment in Additional Assets);
- (2) the Capital Stock of a Person that is engaged in a Similar Business and becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or a Restricted Subsidiary; or

- (3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary.

“*Affiliate*” of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control” when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“*Agreed Security Principles*” means the principles as set out in the agreed form of term sheet dated August 30, 2006, as applied *mutatis mutandis* with respect to the Notes in good faith by the Company.

“*Applicable Premium*” means, with respect to a Note on any date of redemption, the greater of:

- (A) 1% of the principal amount of such Note; and
- (B) the excess (to the extent positive) of:
 - (i) the present value at such redemption date of (i) the redemption price of such Note at November 1, 2014 (such redemption price (expressed in percentage of principal amount) being set forth in the table under “—*Optional Redemption*” (excluding accrued but unpaid interest to the redemption date)), plus (ii) all required interest payments due on such Note to and including such date (excluding accrued but unpaid interest and assuming that the rate of interest on such Note applicable on the date on which notice of redemption was given was in effect for the entire period), computed upon the redemption date using a discount rate equal to the Bund Rate at such redemption date plus 50 basis points; over
 - (ii) the outstanding principal amount of such Note,

as calculated by the Company or on behalf of the Company by such Person as the Company shall designate. For the avoidance of doubt, calculation of the Applicable Premium shall not be a duty or obligation of the Trustee or Paying Agent.

“*Asset Disposition*” means any direct or indirect sale, lease (other than an operating lease entered into in the ordinary course of business), transfer, issuance or other disposition, or a series of related sales, leases (other than operating leases entered into in the ordinary course of business), transfers, issuances or dispositions that are part of a common plan, of shares of Capital Stock of a Subsidiary (other than directors’ qualifying shares), property or other assets (each referred to for the purposes of this definition as a “disposition”) by the Company or any of its Restricted Subsidiaries, including any disposition by means of a merger, consolidation or similar transaction. Notwithstanding the preceding provisions of this definition, the following items shall not be deemed to be Asset Dispositions:

- (1) a disposition by a Restricted Subsidiary to the Company or by the Company or a Restricted Subsidiary to a Restricted Subsidiary;
- (2) a disposition of cash, Cash Equivalents, Temporary Cash Investments or Investment Grade Securities;
- (3) a disposition of inventory or other assets in the ordinary course of business;
- (4) a disposition of obsolete, surplus or worn out equipment or other assets or equipment or other assets that are no longer useful in the conduct of the business of the Company and its Restricted Subsidiaries;
- (5) transactions permitted under “—*Certain Covenants—Merger and Consolidation—The Company*” or a transaction that constitutes a Change of Control;
- (6) an issuance of Capital Stock by a Restricted Subsidiary to the Company or to another Restricted Subsidiary or as part of or pursuant to an equity incentive or compensation plan approved by the Board of Directors;
- (7) any dispositions of Capital Stock, properties or assets in a single transaction or series of related transactions with a fair market value (as determined in good faith by the Company) of less than €15.0 million;
- (8) any Restricted Payment that is permitted to be made, and is made, under the covenant described above under “—*Certain Covenants—Limitation on Restricted Payments*” and the making of any Permitted Payment or Permitted Investment or, solely for purposes of clause (3) of the first paragraph under “—*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*,” asset sales, the proceeds of which are used to make such Restricted Payments or Permitted Investments;

- (9) dispositions in connection with Permitted Liens;
- (10) dispositions of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;
- (11) the licensing or sub-licensing of intellectual property or other general intangibles and licenses, sub-licenses, leases or subleases of other property, in each case, in the ordinary course of business;
- (12) foreclosure, condemnation or any similar action with respect to any property or other assets;
- (13) the sale or discount (with or without recourse, and on customary or commercially reasonable terms and for credit management purposes) of accounts receivable or notes receivable arising in the ordinary course of business, or the conversion or exchange of accounts receivable for notes receivable;
- (14) any disposition of Capital Stock, Indebtedness or other securities of an Unrestricted Subsidiary;
- (15) any disposition of Capital Stock of a Restricted Subsidiary pursuant to an agreement or other obligation with or to a Person (other than the Company or a Restricted Subsidiary) from whom such Restricted Subsidiary was acquired, or from whom such Restricted Subsidiary acquired its business and assets (having been newly formed in connection with such acquisition), made as part of such acquisition and in each case comprising all or a portion of the consideration in respect of such sale or acquisition;
- (16) any surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;
- (17) any disposition with respect to property built, owned or otherwise acquired by the Company or any Restricted Subsidiary pursuant to customary sale and lease-back transactions, asset securitizations and other similar financings permitted by the Indenture;
- (18) sales or dispositions of receivables in connection with any Qualified Receivables Financing or any factoring transaction or in the ordinary course of business; and
- (19) any disposition pursuant to a contractual arrangement existing at the Issue Date.

“Associate” means (i) any Person engaged in a Similar Business of which the Company or its Restricted Subsidiaries are the legal and beneficial owners of between 20% and 50% of all outstanding Voting Stock and (ii) any joint venture entered into by the Company or any Restricted Subsidiary.

“Board of Directors” means (1) with respect to the Company or any corporation, the board of directors or managers, as applicable, of the corporation, or any duly authorized committee thereof; (2) with respect to any partnership, the board of directors or other governing body of the general partner of the partnership or any duly authorized committee thereof; and (3) with respect to any other Person, the board or any duly authorized committee of such Person serving a similar function; *provided* that the board of directors of a Parent may also act as the “Board of Directors” of the Company for purposes of this definition pursuant to a delegation of powers by such Board of Directors. Whenever any provision requires any action or determination to be made by, or any approval of, a Board of Directors, such action, determination or approval shall be deemed to have been taken or made if approved by a majority of the directors (excluding employee representatives, if any) on any such Board of Directors (whether or not such action or approval is taken as part of a formal board meeting or as a formal board approval).

“Bund Rate” means the yield to maturity at the time of computation of direct obligations of the Federal Republic of Germany (*Bunds* or *Bundesanleihen*) with a constant maturity (as officially compiled and published in the most recent financial statistics that has become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such financial statistics are not so published or available, any publicly available source of similar market data selected by the Company in good faith)) most nearly equal to the period from the redemption date to November 1, 2014; *provided, however*, that if the period from the redemption date to November 1, 2014 is not equal to the constant maturity of a direct obligation of the Federal Republic of Germany for which a weekly average yield is given, the Bund Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of direct obligations of the Federal Republic of Germany for which such yields are given, except that if the period from such redemption date to November 1, 2014 is less than one year, the weekly average yield on actually traded direct obligations of the Federal Republic of Germany adjusted to a constant maturity of one year shall be used.

“Business Day” means each day that is not a Saturday, Sunday or other day on which banking institutions in Rome, Italy or London, United Kingdom are authorized or required by law to close; *provided, however*, that for any payments to be made under the Indenture, such day shall also be a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (“TARGET”) payment system is open for the settlement of payments.

“*Capital Stock*” of any Person means any and all shares of, rights to purchase, warrants or options for, or other equivalents of or partnership or other interests in (however designated), equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity.

“*Capitalized Lease Obligations*” means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes and reflected as a liability on a balance sheet (other than in the footnotes thereto), in each case on the basis of IFRS. The amount of Indebtedness represented by such obligation will be the amount of such obligation that is required to be capitalized at the time any determination thereof is to be made as determined on the basis of IFRS, and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty.

“*Cash Equivalents*” means:

- (1) securities issued or directly and fully Guaranteed or insured by the United States or Canadian governments, a Permissible Jurisdiction, Switzerland or Norway or, in each case, any agency or instrumentality of thereof (*provided* that the full faith and credit of such country or such member state is pledged in support thereof), having maturities of not more than two years from the date of acquisition;
- (2) certificates of deposit, time deposits, euro time deposits, overnight bank deposits or bankers’ acceptances having maturities of not more than one year from the date of acquisition thereof (a “Deposit”) or cash in credit balance or deposit which are freely transferable or convertible within 90 days issued or held by any lender party to the Senior Credit Agreement or by any bank or trust company (a) at any time since January 1, 2007, the Company or any Subsidiary held Deposits with such bank or trust company (or any branch, subsidiary or affiliate thereof), (b) whose commercial paper is rated at least “A-3” or the equivalent thereof by S&P or at least “P-3” or the equivalent thereof by Moody’s (or if at the time neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) or (c) (in the event that the bank or trust company does not have commercial paper which is rated) having combined capital and surplus in excess of €250 million;
- (3) Deposits in connection with the gaming or payment services business of the Company or its Subsidiaries in the ordinary course of business and consistent with past practice issued by a bank or a trust company organized, or authorized to operate as a bank or trust company, under the laws of a Permissible Jurisdiction;
- (4) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clauses (1) and (2) entered into with any bank meeting the qualifications specified in clause (2) above;
- (5) commercial paper rated at the time of acquisition thereof at least “A-3” or the equivalent thereof by S&P or “P-3” or the equivalent thereof by Moody’s or carrying an equivalent rating by a Nationally Recognized Statistical Rating Organization, if both of the two named rating agencies cease publishing ratings of investments or, if no rating is available in respect of the commercial paper, the issuer of which has an equivalent rating in respect of its long-term debt, and in any case maturing within one year after the date of acquisition thereof;
- (6) readily marketable direct obligations issued by any state of the United States of America, any province of Canada, any Permissible Jurisdiction, Switzerland or Norway or any political subdivision thereof, in each case, having one of the two highest rating categories obtainable from either Moody’s or S&P (or, if at the time, neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) with maturities of not more than two years from the date of acquisition;
- (7) Indebtedness or preferred stock issued by Persons with a rating of “BBB-” or higher from S&P or “Baa3” or higher from Moody’s (or, if at the time, neither is issuing comparable ratings, then a comparable rating of another Nationally Recognized Statistical Rating Organization) with maturities of 12 months or less from the date of acquisition;
- (8) bills of exchange issued in the United States, Canada, a Permissible Jurisdiction, Switzerland, Norway or Japan eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent);
- (9) interests in any investment company, money market or enhanced high yield fund which invests 95% or more of its assets in instruments of the type specified in clauses (1) through (7) above; and
- (10) for purposes of clause (2) of the definition of “Asset Disposition,” the marketable securities portfolio owned by the Company and its Subsidiaries on the Issue Date.

“*Change of Control*” means:

- (1) the Company becomes aware of (by way of a report or any other filing pursuant to Section 13(d) of the Exchange Act, proxy, vote, written notice or otherwise) any “person” or “group” of related persons (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act as in effect on the Issue Date), other than one or more Permitted Holders, is or becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act as in effect on the Issue Date), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Company, *provided* that for the purposes of this clause, (x) no Change of Control shall be deemed to occur by reason of the Company becoming a Subsidiary of a Successor Parent and (y) any Voting Stock of which any Permitted Holder is the “beneficial owner” (as so defined) shall not be included in any Voting Stock of which any “person” or “group of related persons” is the “beneficial owner” (as so defined) unless that person or group is not an Affiliate of a Permitted Holder and has greater voting power with respect to that Voting Stock;
- (2) following the Initial Public Offering of the Company or any Parent, during any period of two consecutive years, individuals who at the beginning of such period constituted the majority of the directors (excluding any employee representatives, if any) on the Board of Directors of the Company or any Parent (together with any new directors whose election by the majority of such directors on such Board of Directors of the Company or any Parent or whose nomination for election by shareholders of the Company or any Parent, as applicable, was approved by a vote of the majority of such directors on the Board of Directors of the Company or any Parent then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) ceased for any reason to constitute the majority of the directors (excluding any employee representatives, if any) on the Board of Directors of the Company or any Parent, then in office; or
- (3) the sale, lease, transfer, conveyance or other disposition (other than by way of merger, consolidation or other business combination transaction), in one or a series of related transactions, of all or substantially all the assets of the Company and its Restricted Subsidiaries taken as a whole to a Person, other than a Restricted Subsidiary or one or more Permitted Holders.

“*Clearstream*” means Clearstream Banking, a *société anonyme* as currently in effect or any successor securities clearing agency.

“*Code*” means the United States Internal Revenue Code of 1986, as amended.

“*Collateral*” means the property and assets of the Company or any other Person over which a Lien has been granted to secure the obligations of the Company or any Guarantor under the Notes, the Guarantees and the Indenture pursuant to the Security Documents.

“*Consolidated EBITDA*” for any period means with respect to the Company, without duplication, the Consolidated Net Income of the Company for such period, plus the following to the extent deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense and Receivables Fees;
- (2) Consolidated Income Taxes;
- (3) consolidated depreciation expense;
- (4) consolidated amortization or impairment expense;
- (5) any expenses, charges or other costs related to any Equity Offering, Investment, acquisition (including one-time amounts paid in connection with the acquisition or retention of one or more individuals comprising part of a management team retained to manage the acquired business; *provided* that such payments are made in connection with such acquisition and are consistent with the customary practice in the industry at the time of such acquisition), disposition, recapitalization or the Incurrence of any Indebtedness permitted by the Indenture (in each case whether or not successful) (including any such fees or charges related to the Refinancing Transactions) in each case, as determined in good faith by an Officer of the Company;
- (6) any minority interest expense (whether paid or not) consisting of income attributable to minority equity interests of third parties in such period;

- (7) the amount of management, monitoring, consulting and advisory fees and related expenses paid in such period to the Permitted Holders to the extent permitted by the covenant described under “—*Certain Covenants—Limitation of Affiliate Transactions*”;
- (8) fines, penalties or similar amounts owed or paid to AAMS, other regulators or authorities or pursuant to court orders, judgments or decisions (excluding, for the avoidance of doubt, any taxes paid to AAMS or similar authorities in the ordinary course of business); and
- (9) other non-cash charges, write-downs or items reducing Consolidated Net Income (excluding any such non-cash charge, write-down or item to the extent it represents an accrual of or reserve for cash outlays in any future period) or other non-cash items classified by the Company as extraordinary, exceptional, unusual or nonrecurring items less other non-cash items of income increasing Consolidated Net Income (other than non-cash items increasing Consolidated Net Income pursuant to clauses (1) through (13) of the definition of Consolidated Net Income and excluding any such non-cash item of income to the extent it represents a receipt of cash in any future period).

Notwithstanding the foregoing, the provision for taxes and the depreciation, amortization, non-cash items, charges and write-downs of a Restricted Subsidiary shall be added to Consolidated Net Income to compute Consolidated EBITDA only to the extent (and in the same proportion, including by reason of minority interests) that the net income (loss) of such Subsidiary was included in calculating Consolidated Net Income for the purposes of this definition.

Unless otherwise specified, Consolidated EBITDA shall be determined on a *pro forma* basis, including the *pro forma* application of proceeds of Indebtedness being incurred in connection with such determination, as per the most recent four fiscal quarters for which financial statements are available immediately preceding such determination.

“*Consolidated Income Taxes*” means taxes or other payments, including deferred Taxes, based on income, profits or capital (including withholding taxes) of any of the Company and its Restricted Subsidiaries whether or not paid, estimated, accrued or required to be remitted to any Governmental Authority.

“*Consolidated Interest Expense*” means, for any period (in each case, determined on the basis of IFRS), the consolidated net interest income/expense of the Company and its Restricted Subsidiaries, whether paid or accrued, including any pension liability interest cost, plus or including (without duplication) any interest, costs and charges consisting of:

- (1) interest expense attributable to Capitalized Lease Obligations;
- (2) non-cash interest expense (excluding any non-cash interest expense attributable under IFRS to foreign exchange translations or movement in the mark-to-market valuation of Hedging Obligations or other derivative instruments and any deemed finance charge under IFRS in respect of any pension liabilities and other provisions);
- (3) dividends on other distributions in respect of all Disqualified Stock of the Company and all Preferred Stock of any Restricted Subsidiary (other than dividend and other distributions payable solely in Capital Stock of the Company (other than Disqualified Stock)), to the extent held by Persons other than the Company or a Subsidiary of the Company;
- (4) the consolidated interest expense that was capitalized during such period; and
- (5) interest actually paid by the Company or any Restricted Subsidiary under any Guarantee of Indebtedness or other obligation of any other Person,

but excluding amortization of debt discount, premium, issuance costs, commissions, fees and expenses and any non-cash interest or other expense associated with Subordinated Shareholder Funding. Consolidated Interest Expense for any period shall also include the cash component of gross interest expense of Holdco in respect of Eligible Holdco Debt.

“*Consolidated Leverage*” means the sum of the aggregate outstanding Indebtedness of the Company and the Restricted Subsidiaries on a consolidated basis (excluding Hedging Obligations except to the extent provided in clause (c) of the penultimate paragraph of the covenant described under “—*Certain Covenants—Limitation on Indebtedness*”), less cash and Cash Equivalents (excluding Restricted Cash Accounts), as of the relevant date of calculation on a consolidated basis on the basis of IFRS, plus outstanding Eligible Holdco Debt.

“*Consolidated Leverage Ratio*” means, as of any date of determination, the ratio of (x) Consolidated Leverage on such date to (y) the Consolidated EBITDA for the period of the most recent four consecutive fiscal quarters ending prior to the date of such determination for which internal consolidated financial statements of the Company are available; *provided, however*, that for the purposes of calculating Consolidated EBITDA for such period, if, as of such date of determination:

- (1) since the beginning of such period the Company or any Restricted Subsidiary has disposed of any company, any business, or any group of assets constituting an operating unit of a business (any such

disposition, a “Sale”) or if the transaction giving rise to the need to calculate the Consolidated Leverage Ratio is such a Sale, Consolidated EBITDA for such period will be reduced by an amount equal to the Consolidated EBITDA (if positive) attributable to the assets which are the subject of such Sale for such period or increased by an amount equal to the Consolidated EBITDA (if negative) attributable thereto for such period; *provided* that if any such sale constitutes “discontinued operations” in accordance with IFRS, Consolidated Net Income shall be reduced by an amount equal to the Consolidated Net Income (if positive) attributable to such operations for such period or increased by an amount equal to the Consolidated Net Income (if negative) attributable thereto for such period;

- (2) since the beginning of such period, the Company or any Restricted Subsidiary (by merger or otherwise) has made an Investment in any Person that thereby becomes a Restricted Subsidiary, or otherwise has acquired any company, any business, or any group of assets constituting an operating unit of a business (any such Investment or acquisition, a “Purchase”), including any such Purchase occurring in connection with a transaction causing a calculation to be made hereunder, Consolidated EBITDA for such period will be calculated after giving *pro forma* effect thereto as if such Purchase occurred on the first day of such period; and
- (3) since the beginning of such period, any Person (that became a Restricted Subsidiary or was merged or otherwise combined with or into the Company or any Restricted Subsidiary since the beginning of such period) will have made any Sale or any Purchase that would have required an adjustment pursuant to clause (1) or (2) above if made by the Company or a Restricted Subsidiary since the beginning of such period, Consolidated EBITDA for such period will be calculated after giving *pro forma* effect thereto as if such Sale or Purchase occurred on the first day of such period.

For the purposes of this definition and the definitions of Consolidated EBITDA, Consolidated Income Taxes, Consolidated Interest Expense and Consolidated Net Income, (a) calculations will be as determined in good faith by a responsible financial or chief accounting officer of the Company (including in respect of cost savings and synergies) and (b) in determining the amount of Indebtedness outstanding on any date of determination, *pro forma* effect shall be given to any Incurrence, repayment, repurchase, defeasance or other acquisition, retirement or discharge of Indebtedness (other than ordinary working capital borrowings) and the use of the proceeds therefrom as if such transaction had occurred on the first day of the relevant period; *provided, however*, that the *pro forma* calculation pursuant to clause (b) shall not give effect to (i) any Indebtedness incurred on the date of determination pursuant to the provisions described in the second paragraph under the caption “—*Certain Covenants—Limitation on Indebtedness*” or (ii) the discharge on the date of determination of any Indebtedness to the extent that such discharge results from the proceeds incurred pursuant to the provisions described in the second paragraph under the caption “—*Certain Covenants—Limitation on Indebtedness*.”

“*Consolidated Net Income*” means, for any period, the net income (loss) of the Company and its Restricted Subsidiaries determined on a consolidated basis on the basis of IFRS; *provided, however*, that there will not be included in such Consolidated Net Income:

- (1) subject to the limitations contained in clause (3) below, any net income (loss) of any Person if such Person is not a Restricted Subsidiary, except that the Company’s equity in the net income of any such Person for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution or return on investment or could have been distributed, as reasonably determined by an Officer of the Company (subject, in the case of a dividend or other distribution or return on investment to a Restricted Subsidiary, to the limitations contained in clause (2) below);
- (2) solely for the purpose of determining the amount available for Restricted Payments under clause (c)(i) of the first paragraph of the covenant described under “—*Certain Covenants—Limitation on Restricted Payments*,” any net income (loss) of any Restricted Subsidiary (other than Guarantors) if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Company or a Guarantor that holds the Equity Interests of such Restricted Subsidiary by operation of the terms of such Restricted Subsidiary’s charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its shareholders (other than (a) restrictions that have been waived or otherwise released, (b) restrictions pursuant to the Notes or the Indenture, and (c) restrictions not prohibited by the covenant described under “—*Certain Covenants—Limitation on Restrictions on Distributions from Restricted Subsidiaries*,” except that the Company’s equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to the Company or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this clause);

- (3) any net gain (or loss) realized upon the sale or other disposition of any asset or disposed operations of the Company or any of the Restricted Subsidiaries (including pursuant to any sale/leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by an Officer or the Board of Directors of the Company);
- (4) any extraordinary, exceptional, unusual or nonrecurring gain, loss or charge or any charges or reserves in respect of any restructuring, redundancy or severance expense or other costs related to the Refinancing Transactions, in each case, as determined in good faith by the Company;
- (5) the cumulative effect of a change in accounting principles;
- (6) any non-cash compensation charge or expense arising from any grant of stock, stock options or other equity based awards and any non-cash deemed finance charges in respect of any pension liabilities or other provisions;
- (7) all deferred financing costs written off and premiums paid or other expenses incurred directly in connection with any early extinguishment of Indebtedness and any net gain (loss) from any write-off or forgiveness of Indebtedness;
- (8) any unrealized gains or losses in respect of Hedging Obligations or any ineffectiveness recognized in earnings related to qualifying hedge transactions or the fair value of changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Obligations;
- (9) any unrealized foreign currency transaction gains or losses in respect of Indebtedness of any Person denominated in a currency other than the functional currency of such Person and any unrealized foreign exchange gains or losses relating to translation of assets and liabilities denominated in foreign currencies;
- (10) any unrealized foreign currency translation or transaction gains or losses in respect of Indebtedness or other obligations of the Company or any Restricted Subsidiary owing to the Company or any Restricted Subsidiary;
- (11) (i) any purchase accounting effects including adjustments to inventory, property and equipment, software and other intangible assets and deferred revenues in component amounts required or permitted by IFRS and related authoritative pronouncements (including the effects of such adjustments pushed down to the Company and the Restricted Subsidiaries), as a result of any consummated acquisition or the amortization or write-off of any amounts thereof (including any write-off of in process research and development) and (ii) Consolidated Income Taxes to the extent in excess of cash payments made in respect of such Consolidated Income Taxes;
- (12) any goodwill or other intangible asset impairment charge, amortization or write-off; and
- (13) the impact of capitalized, accrued or accreting or pay-in-kind interest or principal on Subordinated Shareholder Funding.

“*Consolidated Secured Leverage Ratio*” means the Consolidated Leverage Ratio, but calculated by excluding all Indebtedness other than Secured Indebtedness.

“*Contingent Obligations*” means, with respect to any Person, any obligation of such Person guaranteeing in any manner, whether directly or indirectly, any operating lease, dividend or other obligation that does not constitute Indebtedness (“primary obligations”) of any other Person (the “primary obligor”), including any obligation of such Person, whether or not contingent:

- (1) to purchase any such primary obligation or any property constituting direct or indirect security therefor;
- (2) to advance or supply funds:
 - (a) for the purchase or payment of any such primary obligation; or
 - (b) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or
- (3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

“*Credit Facility*” means, with respect to the Company or any of its Subsidiaries, one or more debt facilities, indentures or other arrangements (including the Senior Credit Agreement or commercial paper facilities and overdraft facilities) with banks, other financial institutions or investors providing for revolving credit loans, term loans, notes, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables), letters of credit or other Indebtedness, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or other banks or institutions and whether provided under the original Senior Credit Agreement or one or more other credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any Guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other Guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term “*Credit Facility*” shall include any agreement or instrument (1) changing the maturity of any Indebtedness Incurred thereunder or contemplated thereby, (2) adding Subsidiaries of the Company as additional borrowers or guarantors thereunder, (3) increasing the amount of Indebtedness Incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

“*Currency Agreement*” means, in respect of a Person, any foreign exchange contract, currency swap agreement, currency futures contract, currency option contract, currency derivative or other similar agreement to which such Person is a party or beneficiary.

“*Default*” means any event which is, or after notice or passage of time or both would be, an Event of Default.

“*Designated Non-Cash Consideration*” means the fair market value (as determined in good faith by the Company) of non-cash consideration received by the Company or one of its Restricted Subsidiaries in connection with an Asset Disposition that is so designated as Designated Non-Cash Consideration pursuant to an Officer’s Certificate, setting forth the basis of such valuation, less the amount of cash, Cash Equivalents or Temporary Cash Investments received in connection with a subsequent payment, redemption, retirement, sale or other disposition of such Designated Non-Cash Consideration. A particular item of Designated Non-Cash Consideration will no longer be considered to be outstanding when and to the extent it has been paid, redeemed or otherwise retired or sold or otherwise disposed of in compliance with the covenant described under “—*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock.*”

“*Designated Preference Shares*” means, with respect to the Company or any Parent, Preferred Stock (other than Disqualified Stock) (a) that is issued for cash (other than to the Company or a Subsidiary of the Company or an employee stock ownership plan or trust established by the Company or any such Subsidiary for the benefit of their employees to the extent funded by the Company or such Subsidiary) and (b) that is designated as “*Designated Preference Shares*” pursuant to an Officer’s Certificate of the Company at or prior to the issuance thereof, the Net Cash Proceeds of which are excluded from the calculation set forth in clause (c)(ii) of the first paragraph of the covenant described under “—*Certain Covenants—Limitation on Restricted Payments.*”

“*Disinterested Director*” means, with respect to any Affiliate Transaction, a member of the Board of Directors of the Company having no material direct or indirect financial interest in or with respect to such Affiliate Transaction. A member of the Board of Directors of the Company shall be deemed not to have such a financial interest by reason of such member’s holding Capital Stock of the Company or any Parent or any options, warrants or other rights in respect of such Capital Stock.

“*Disqualified Stock*” means, with respect to any Person, any Capital Stock of such Person which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event:

- (1) matures or is mandatorily redeemable for cash or in exchange for Indebtedness pursuant to a sinking fund obligation or otherwise;
- (2) is convertible or exchangeable for Indebtedness or Disqualified Stock (excluding Capital Stock which is convertible or exchangeable solely at the option of the Company or a Restricted Subsidiary); or
- (3) is or may become (in accordance with its terms) upon the occurrence of certain events or otherwise redeemable or repurchasable for cash or in exchange for Indebtedness at the option of the holder of the Capital Stock in whole or in part,

in each case on or prior to the earlier of (a) the Stated Maturity of the Notes and (b) the date on which there are no Notes outstanding; *provided, however*, that (i) only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such date will be deemed to be Disqualified Stock and (ii) any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require the Company to repurchase such Capital Stock upon the occurrence of a change of control or asset sale (howsoever defined or referred to) shall not constitute Disqualified Stock if any such redemption or repurchase obligation is subject to compliance by the relevant Person with the covenant described under “—*Certain Covenants—Limitation on Restricted Payments.*”

“*Eligible Holdco Debt*” means (x) Indebtedness of Holdco under the Second Lien Credit Agreement and Mezzanine Facility Agreement outstanding on the Issue Date; and (y) Indebtedness of Holdco incurred to Refinance, in whole or in part, Indebtedness referred to in clause (x) of this definition; *provided* that the final maturity of such Indebtedness referred to in clause (y) is at least six months after the final maturity of the Notes; *provided further* that:

- (1) Indebtedness referred to in clause (y) of this definition will only qualify as Eligible Holdco Debt for purposes of the Indenture if such Eligible Holdco Debt is in an aggregate principal amount (or if incurred with original issue discount, an aggregate issue price) not in excess of the sum of (i) the aggregate principal amount (or if incurred with original issue discount, the aggregate accreted value and in the case of pay-in-kind Debt, the amount of such Indebtedness including any interest paid in the form of additional Indebtedness) then outstanding of the Eligible Holdco Debt or Indebtedness being Refinanced and (ii) an amount necessary to pay any fees and expenses, including premiums and defeasance costs, related to such Refinancing; and
- (2) the outstanding aggregate principal amount of Eligible Holdco Debt for the purposes of the Indenture shall be adjusted to take into account (a) compounding interest payable in kind in respect of the aggregate principal amount of Indebtedness under the Mezzanine Facility Agreement as of the Issue Date and (b) reductions in the aggregate principal amount of Eligible Holdco Debt resulting from purchases, repurchases, redemptions, defeasance, acquisition or retirement for value whether pursuant to clause (14)(ii) of the third paragraph of the covenant described under “—*Certain Covenants—Limitation on Restricted Payments*” or otherwise.

“*Equity Offering*” means (x) a sale of Capital Stock of the Company (other than Disqualified Stock) other than offerings registered on Form S-8 (or any successor form) under the Securities Act or any similar offering in other jurisdictions, or (y) the sale of Capital Stock or other securities of a Parent, the proceeds of which are contributed to the equity of, or as Subordinated Shareholder Funding to, the Company or any of the Restricted Subsidiaries (other than contribution to equity through the issuance of Disqualified Stock or Designated Preference Shares, through an Excluded Contribution or any such sale the proceeds of which are utilized pursuant to clause (12) of the second paragraph of the covenant described under “—*Certain Covenants—Limitation on Indebtedness*”).

“*Escrowed Proceeds*” means the proceeds from the offering of any debt securities or other Indebtedness paid into an escrow account with an independent escrow agent on the date of the applicable offering or Incurrence pursuant to escrow arrangements that permit the release of amounts on deposit in such escrow account upon satisfaction of certain conditions or the occurrence of certain events. The term “Escrowed Proceeds” shall include any interest earned on the amounts held in escrow.

“*Euro Equivalent*” means, with respect to any monetary amount in a currency other than euro, at any time of determination thereof, the amount of euro obtained by converting such currency other than euro involved in such computation into euro at the spot rate for the purchase of euro with the applicable currency other than euro as published in *The Financial Times* in the “Currency Rates” section (or, if *The Financial Times* is no longer published, or if such information is no longer available in *The Financial Times*, such source as may be selected in good faith by the Company) on the date of such determination.

“*euro*” or “*€*” means the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union.

“*Euroclear*” means Euroclear Bank SA/NV, or any successor securities clearing agency.

“*European Government Obligations*” means any security that is (1) a direct obligation of Belgium, the Netherlands, France, Germany or any Permissible Jurisdiction, for the payment of which the full faith and credit of such country is pledged or (2) an obligation of a person controlled or supervised by and acting as an agency or instrumentality of any such country the payment of which is unconditionally Guaranteed as a full faith and credit obligation by such country, which, in either case under the preceding clause (1) or (2), is not callable or redeemable at the option of the issuer thereof.

“*European Union*” means all members of the European Union as of January 1, 2004.

“*Exchange Act*” means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder, as amended.

“*Excluded Contribution*” means Net Cash Proceeds or property or assets received by the Company as capital contributions to the equity (other than through the issuance of Disqualified Stock or Designated Preference Shares) of the Company after the Issue Date or from the issuance or sale (other than to a Restricted Subsidiary or an employee stock ownership plan or trust established by the Company or any Subsidiary of the Company for the benefit of its employees to the extent funded by the Company or any Restricted Subsidiary) of Capital Stock (other than Disqualified Stock or Designated Preference Shares) of the Company, in each case, to the extent designated as an Excluded Contribution pursuant to an Officer’s Certificate of the Company.

“Facility Agent” means The Royal Bank of Scotland plc, Milan Branch, as facility agent under the Senior Credit Agreement, as may be replaced or substituted from time to time.

“fair market value” wherever such term is used in this “Description of the Notes” or the Indenture (except in relation to an enforcement action or certain distressed disposals pursuant to the Senior Intercreditor Agreement, the Voting Agreement or any Additional Intercreditor Agreement and except as otherwise specifically provided in this “Description of the Notes” or the Indenture), means, with respect to any asset or property, the sale value that would be obtained in an arm’s length free market transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by an Officer or the Board of Directors of the Company pursuant to an Officer’s Certificate or a resolution of the Board of Directors of the Company, respectively.

“Fixed Charge Coverage Ratio” means, with respect to any specified Person on any determination date, the ratio of the Consolidated EBITDA of such Person for the period of the most recent four consecutive fiscal quarters ending prior to the date of such determination for which internal consolidated financial statements of the Company are available to the Consolidated Interest Expense of such Person for such period. In the event that the specified Person or any of its Subsidiaries which are Restricted Subsidiaries Incurs, repays, repurchases, defeases or otherwise acquires, retires or discharges any Indebtedness (other than ordinary working capital borrowings) subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and prior to or, except as provided in the proviso below, on the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the “Calculation Date”), then the Fixed Charge Coverage Ratio will be calculated giving *pro forma* effect (as determined in good faith by a responsible financial or chief accounting officer of the Company (including in respect of cost savings and synergies)) to such Incurrence, repayment, repurchase, defeasance or other acquisition, retirement or discharge of Indebtedness and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable four-quarter reference period; *provided, however*, that the *pro forma* calculation of the Fixed Charge Coverage Ratio shall not give effect to (i) any Indebtedness incurred on the date of determination pursuant to the provisions described in the second paragraph under the caption “—Certain Covenants—Limitation on Indebtedness” or (ii) the discharge on the date of determination of any Indebtedness to the extent that such discharge results from the proceeds incurred pursuant to the provisions described in the first paragraph under the caption “—Certain Covenants—Limitation on Indebtedness.”

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

- (1) if since the beginning of such period the Company or any Restricted Subsidiary has disposed of any company, any business, or any group of assets constituting an operating unit of a business (any such disposition, a “Sale”) or if the transaction giving rise to the need to calculate the Fixed Charge Coverage Ratio is such a Sale, (a) Consolidated EBITDA for such period will be reduced by an amount equal to the Consolidated EBITDA (if positive) attributable to the assets which are the subject of such Sale for such period or increased by an amount equal to the Consolidated EBITDA (if negative) attributable thereto for such period; *provided* that if any such sale constitutes “discontinued operations” in accordance with IFRS, Consolidated Net Income shall be reduced by an amount equal to the Consolidated Net Income (if positive) attributable to such operations for such period or increased by an amount equal to the Consolidated Net Income (if negative) attributable thereto for such period; and (b) the Consolidated Interest Expense for such period shall be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of the Company or any of the Restricted Subsidiaries repaid, repurchased, defeased or otherwise discharged with respect to the Company and the continuing such Restricted Subsidiaries in connection with such Asset Disposition for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent the Company and the continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale);
- (2) if since the beginning of such period, the Company or any Restricted Subsidiary (by merger or otherwise) has made an Investment in any Person that thereby becomes a Restricted Subsidiary, or otherwise has acquired any company, any business, or any group of assets constituting an operating unit of a business (any such Investment or acquisition, a “Purchase”), including any such Purchase occurring in connection with a transaction causing a calculation to be made hereunder, Consolidated EBITDA and Consolidated Interest Expense for such period will be calculated after giving *pro forma* effect thereto as if such Purchase occurred on the first day of such period;
- (3) if since the beginning of such period, any Person (that became a Restricted Subsidiary or was merged or otherwise combined with or into the Company or any Restricted Subsidiary since the beginning of such period) will have made any Sale or any Purchase that would have required an adjustment pursuant to clause (1) or (2) above if made by the Company or a Restricted Subsidiary since the beginning of such period, Consolidated EBITDA and Consolidated Interest Expense for such period will be calculated after giving *pro forma* effect thereto as if such Sale or Purchase occurred on the first day of such period;
- (4) if any Indebtedness bears a floating rate of interest, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period

(taking into account any Hedging Obligation applicable to such Indebtedness if such Hedging Obligation has a remaining term as at the Calculation Date in excess of 12 months, or, if shorter, at least equal to the remaining term of such Indebtedness); and

- (5) in making such computation, the Consolidated Interest Expense of such Person attributable to interest or any Indebtedness under a revolving credit facility computed on a *pro forma* basis shall be computed based on the average daily balance of such Indebtedness during the applicable period.

“*Governmental Authority*” means any nation, sovereign or government, any state, province, territory or other political subdivision thereof, and any entity or authority exercising executive, legislative, judicial, regulatory, self-regulatory or administrative functions of or pertaining to government, including a central bank or stock exchange.

“*Guarantee*” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person, including any such obligation, direct or indirect, contingent or otherwise, of such Person:

- (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or
- (2) entered into primarily for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part);

provided, however, that the term “Guarantee” will not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“*Hedging Agreement*” means any Interest Rate Agreement or Currency Agreement.

“*Hedging Obligations*” of any Person means the obligations of such Person pursuant to any Hedging Agreement.

“*Holdco*” means Gaming Invest S.à.r.l, a *société à responsabilité limitée* incorporated under the laws of Luxembourg, and any successor thereto.

“*Holdco Shareholder Loans*” means, collectively, the Shareholder Loan C and the Shareholder Loan ZC.

“*Holder*” means the registered holder of the Notes.

“*IFRS*” means International Financial Reporting Standards (formerly International Accounting Standards) endorsed from time to time by the European Union or any variation thereof with which the Company or its Restricted Subsidiaries are, or may be, required to comply; *provided* that at any date after the Issue Date the Company may make an irrevocable election to establish that “IFRS” shall mean, except as otherwise specified herein, IFRS as in effect on a date that is on or prior to the date of such election.

“*Incur*” means issue, create, assume, enter into any Guarantee of, incur, extend or otherwise become liable for; *provided, however*, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and the terms “*Incurred*” and “*Incurrence*” have meanings correlative to the foregoing and any Indebtedness pursuant to any revolving credit or similar facility shall only be “Incurred” at the time any funds are borrowed thereunder.

“*Indebtedness*” means, with respect to any Person on any date of determination (without duplication):

- (1) the principal of indebtedness of such Person for borrowed money;
- (2) the principal of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all reimbursement obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments (the amount of such obligations being equal at any time to the aggregate then undrawn and unexpired amount of such letters of credit or other instruments plus the aggregate amount of drawings thereunder that have been reimbursed) (except to the extent such reimbursement obligations relate to trade payables and such obligations are satisfied within 30 days of Incurrence), in each case only to the extent that the underlying obligation in respect of which the instrument was issued would be treated as Indebtedness;

- (4) the principal component of all obligations of such Person to pay the deferred and unpaid purchase price of property (except trade payables), where the deferred payment is arranged primarily as a means of raising finance, which purchase price is due more than one year after the date of placing such property in service or taking final delivery and title thereto, unless such arrangements are entered into customarily by customers of the Company or its Subsidiaries;
- (5) Capitalized Lease Obligations of such Person;
- (6) the principal component of all obligations, or liquidation preference, of such Person with respect to any Disqualified Stock or, with respect to any Restricted Subsidiary, any Preferred Stock (but excluding, in each case, any accrued dividends);
- (7) the principal component of all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided, however*, that the amount of such Indebtedness will be the lesser of (a) the fair market value of such asset at such date of determination (as determined in good faith by the Company) and (b) the amount of such Indebtedness of such other Persons;
- (8) Guarantees by such Person of the principal component of Indebtedness of other Persons to the extent Guaranteed by such Person; and
- (9) to the extent not otherwise included in this definition, net obligations of such Person under Currency Agreements and Interest Rate Agreements (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time).

The term “Indebtedness” shall not include Subordinated Shareholder Funding or any lease, concession or license of property (or Guarantee thereof) which would be considered an operating lease under IFRS as in effect on the Issue Date, any asset retirement obligations, any prepayments of deposits received from clients or customers in the ordinary course of business, or obligations under any license, permit or other approval (or guarantees given in respect of such obligations) Incurred prior to the Issue Date or in the ordinary course of business. For the avoidance of doubt and notwithstanding the above, the term “Indebtedness” excludes any accrued expenses and trade payables.

The amount of Indebtedness of any Person at any time in the case of a revolving credit or similar facility shall be the total amounts of funds borrowed and then outstanding. The amount of Indebtedness of any Person at any date shall be determined as set forth above or otherwise provided in the Indenture, and (other than with respect to letters of credit or Guarantees or Indebtedness specified in clause (7) or (8) above) shall equal the amount thereof that would appear on a balance sheet of such Person (excluding any notes thereto) prepared on the basis of IFRS.

Notwithstanding the above provisions, in no event shall the following constitute Indebtedness:

- (i) Contingent Obligations Incurred in the ordinary course of business, obligations under or in respect of Qualified Receivables Financings and accrued liabilities Incurred in the ordinary course of business that are not more than 90 days past due;
- (ii) in connection with the purchase by the Company or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided, however*, that if, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 30 days thereafter;
- (iii) for the avoidance of doubt, any obligations in respect of workers’ compensation claims, early retirement or termination obligations, pension fund obligations or contributions or similar claims, obligations or contributions or social security or wage Taxes; or
- (iv) deferred payments or similar amounts owed in respect of gaming taxes.

“*Independent Financial Advisor*” means an investment banking or accounting firm of international standing or any third party appraiser of international standing; *provided, however*, that such firm or appraiser is not an Affiliate of the Company.

“*Initial Investors*” means (i) Permira Advisers LLP and any funds or partnerships managed or advised, directly or indirectly, by Permira Advisers LLP or an Affiliate thereof, and, solely in their capacity as such, any limited partner of any such partnership or fund, (ii) Apax Partners LLP and any funds or partnerships managed or advised, directly or indirectly, by Apax Partners LLP or an Affiliate thereof, and, solely in their capacity as such, any limited partner of any such partnership or fund and (iii) Clessidra Capital Partners and any funds or partnerships managed or advised, directly or indirectly, by Clessidra SGR S.p.A. or an Affiliate thereof, and, solely in their capacity as such, any limited partner of any such partnership or fund.

“Initial Public Offering” means a Public Offering of common stock or other common equity interests of the Company or any Parent or any successor of the Company or any Parent (the “IPO Entity”) following which there is a Public Market and, as a result of which, the shares of common stock or other common equity interests of the IPO Entity in such offering are listed on an internationally recognized exchange or traded on an internationally recognized market.

“Interest Rate Agreement” means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement to which such Person is party or a beneficiary.

“Investment” means, with respect to any Person, all investments by such Person in other Persons (including Affiliates) in the form of any direct or indirect advance, loan or other extensions of credit (other than advances or extensions of credit to customers, suppliers, directors, officers or employees of any Person in the ordinary course of business, and excluding any debt or extension of credit represented by a bank deposit other than a time deposit) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or the Incurrence of a Guarantee of any obligation of, or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by, such other Persons and all other items that are or would be classified as investments on a balance sheet prepared on the basis of IFRS; *provided, however*, that endorsements of negotiable instruments and documents in the ordinary course of business will not be deemed to be an Investment. If the Company or any Restricted Subsidiary issues, sells or otherwise disposes of any Capital Stock of a Person that is a Restricted Subsidiary such that, after giving effect thereto, such Person is no longer a Restricted Subsidiary, any Investment by the Company or any Restricted Subsidiary in such Person remaining after giving effect thereto will be deemed to be a new Investment at such time.

For purposes of “*Certain Covenants—Limitation on Restricted Payments:*”

- (1) *“Investment”* will include the portion (proportionate to the Company’s equity interest in a Restricted Subsidiary to be designated as an Unrestricted Subsidiary) of the fair market value of the net assets of such Restricted Subsidiary at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary; *provided, however*, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, the Company will be deemed to continue to have a permanent “Investment” in an Unrestricted Subsidiary in an amount (if positive) equal to (a) the Company’s “Investment” in such Subsidiary at the time of such redesignation less (b) the portion (proportionate to the Company’s equity interest in such Subsidiary) of the fair market value of the net assets (as conclusively determined by the Board of Directors of the Company in good faith) of such Subsidiary at the time that such Subsidiary is so re-designated a Restricted Subsidiary; and
- (2) any property transferred to or from an Unrestricted Subsidiary will be valued at its fair market value at the time of such transfer, in each case as determined in good faith by the Board of Directors of the Company.

The amount of any Investment outstanding at any time shall be the original cost of such Investment, reduced (at the Company’s option) by any dividend, distribution, interest payment, return of capital, repayment or other amount or value received in respect of such Investment.

“Investment Grade” means (i) BBB- or higher by S&P, (ii) Baa3 or higher by Moody’s, or (iii) the equivalent of such ratings by S&P or Moody’s, or of another Nationally Recognized Statistical Ratings Organization.

“Investment Grade Securities” means:

- (1) securities issued or directly and fully Guaranteed or insured by the United States or Canadian government or any agency or instrumentality thereof (other than Cash Equivalents);
- (2) securities issued or directly and fully guaranteed or insured by a Permissible Jurisdiction or Switzerland, Norway or any agency or instrumentality thereof (other than Cash Equivalents);
- (3) debt securities or debt instruments with a rating of “A-” or higher from S&P or “A3” or higher by Moody’s or the equivalent of such rating by such rating organization or, if no rating of Moody’s or S&P then exists, the equivalent of such rating by any other Nationally Recognized Statistical Ratings Organization, but excluding any debt securities or instruments constituting loans or advances among the Company and its Subsidiaries; and
- (4) investments in any fund that invests exclusively in investments of the type described in clauses (1), (2) and (3) above which fund may also hold cash and Cash Equivalents pending investment or distribution.

“Investment Grade Status” shall occur when the Notes receive both of the following:

- (1) a rating of “BBB-” or higher from S&P; and
- (2) a rating of “Baa3” or higher from Moody’s;

or the equivalent of such rating by either such rating organization or, if no rating of Moody’s or S&P then exists, the equivalent of such rating by any other Nationally Recognized Statistical Ratings Organization.

“IPO Market Capitalization” means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interests of the IPO Entity at the time of closing of the Initial Public Offering multiplied by (ii) the price per share at which such shares of common stock or common equity interests are sold in such Initial Public Offering.

“Issue Date” means May 15, 2013.

“Italian Civil Code” means the Italian civil code, enacted by Royal Decree No. 262 of March 16, 1942, as subsequently amended and supplemented.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

“Management Advances” means loans or advances made to, or Guarantees with respect to loans or advances made to, directors, officers, employees or consultants of any Parent, the Company or any Restricted Subsidiary:

- (1) (a) in respect of travel, entertainment or moving related expenses Incurred in the ordinary course of business or (b) for purposes of funding any such person’s purchase of Capital Stock or Subordinated Shareholder Funding (or similar obligations) of the Company, its Subsidiaries or any Parent with (in the case of this sub-clause (b)) the approval of the Board of Directors;
- (2) in respect of moving related expenses Incurred in connection with any closing or consolidation of any facility or office; or
- (3) not exceeding €5.0 million in the aggregate outstanding at any time.

“Management Investors” means the officers, directors, employees and other members of the management of or consultants to any Parent, the Company or any of their respective Subsidiaries, or spouses, family members or relatives thereof, or any trust, partnership or other entity for the benefit of or the beneficial owner of which (directly or indirectly) is any of the foregoing, or any of their heirs, executors, successors and legal representatives, who at any date beneficially own or have the right to acquire, directly or indirectly, Capital Stock of the Company, any Restricted Subsidiary or any Parent.

“Market Capitalization” means an amount equal to (i) the total number of issued and outstanding shares of common stock or common equity interests of the IPO Entity on the date of the declaration of the relevant dividend multiplied by (ii) the arithmetic mean of the closing prices per share of such common stock or common equity interests for the 30 consecutive trading days immediately preceding the date of declaration of such dividend.

“Mezzanine Facility Agreement” means the Mezzanine Facility Agreement dated October 16, 2006, among, *inter alios*, Gaming Invest S.à r.l., as borrower, the original lenders (as named therein) and ABN Amro Bank N.V., as agent, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time.

“Moody’s” means Moody’s Investors Service, Inc. or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

“Nationally Recognized Statistical Rating Organization” means a nationally recognized statistical rating organization within the meaning of 3(c)(62) under the Exchange Act.

“*Net Available Cash*” from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and net proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other non-cash form) therefrom, in each case net of:

- (1) all legal, accounting, investment banking, title and recording tax expenses, commissions and other fees and expenses Incurred, and all Taxes paid or required to be paid or accrued as a liability under IFRS (after taking into account any available tax credits or deductions and any tax sharing agreements), as a consequence of such Asset Disposition;
- (2) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon such assets, or which by its terms or by applicable law are required to be repaid out of the proceeds from such Asset Disposition;
- (3) all distributions and other payments required to be made to minority interest holders (other than any Parent, the Company or any of their respective Subsidiaries) in Subsidiaries or joint ventures as a result of such Asset Disposition; and
- (4) the deduction of appropriate amounts required to be provided by the seller as a reserve, on the basis of IFRS, against any liabilities associated with the assets disposed of in such Asset Disposition and retained by the Company or any Restricted Subsidiary after such Asset Disposition.

“*Net Cash Proceeds*,” with respect to any issuance or sale of Capital Stock or Subordinated Shareholder Funding, means the cash proceeds of such issuance or sale net of attorneys’ fees, accountants’ fees, underwriters’ or placement agents’ fees, listing fees, discounts or commissions and brokerage, consultant and other fees and charges actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result of such issuance or sale (after taking into account any available tax credit or deductions and any tax sharing arrangements).

“*Notes Documents*” means the Indenture, the Notes (including Additional Notes), the Security Documents, the Senior Credit Agreement (but only insofar as related to the Notes Related Provisions), the Senior Intercreditor Agreement and the Voting Agreement and any transfer certificates with respect thereto.

“*Notes Related Provisions*” means the “Notes Related Provisions” as defined in the Senior Credit Agreement.

“*Offering Memorandum*” means the offering memorandum in relation to the Notes.

“*Officer*” means, with respect to any Person, (1) the Chairman of the Board of Directors, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Treasurer, any Managing Director, or the Secretary (a) of such Person or (b) if such Person is owned or managed by a single entity, of such entity, or (2) any other individual designated as an “Officer” for the purposes of the Indenture by the Board of Directors of such Person.

“*Officer’s Certificate*” means, with respect to any Person, a certificate signed by one Officer of such Person.

“*Opinion of Counsel*” means a written opinion from legal counsel reasonably satisfactory to the Trustee. The counsel may be an employee of or counsel to the Company or its Subsidiaries.

“*Parent*” means any Person of which the Company at any time is or becomes a Subsidiary after the Issue Date and any holding companies established by any Permitted Holder for purposes of holding its investment in any Parent.

“*Parent Expenses*” means:

- (1) costs (including all professional fees and expenses) Incurred by any Parent in connection with reporting obligations under or otherwise Incurred in connection with compliance with applicable laws, rules or regulations of any governmental, regulatory or self-regulatory body or stock exchange, the Indenture or any other agreement or instrument relating to Indebtedness of the Company or any Restricted Subsidiary, including in respect of any reports filed with respect to the Securities Act, Exchange Act or the respective rules and regulations promulgated thereunder;
- (2) customary indemnification obligations of any Parent owing to directors, officers, employees or other Persons under its charter or by-laws or pursuant to written agreements with any such Person to the extent relating to the Company and its Subsidiaries;
- (3) obligations of any Parent in respect of director and officer insurance (including premiums therefor) to the extent relating to the Company and its Subsidiaries;

- (4) fees and expenses payable by any Parent in connection with the Refinancing Transactions;
- (5) general corporate overhead expenses, including (a) professional fees and expenses and other operational expenses of any Parent related to the ownership or operation of the business of the Company or any of its Restricted Subsidiaries or (b) costs and expenses with respect to any litigation or other dispute relating to the Refinancing Transactions or the ownership, directly or indirectly, by any Parent;
- (6) other fees, expenses and costs relating directly or indirectly to activities of the Company and its Subsidiaries or any Parent or any other Person which holds directly or indirectly any Capital Stock or Subordinated Shareholder Funding of the Company, in an amount not to exceed €2.0 million in any fiscal year; and
- (7) expenses Incurred by any Parent in connection with any Public Offering or other sale of Capital Stock or Indebtedness:
 - (x) where the net proceeds of such offering or sale are intended to be received by or contributed to the Company or a Restricted Subsidiary;
 - (y) in a pro-rated amount of such expenses in proportion to the amount of such net proceeds intended to be so received or contributed; or
 - (z) otherwise on an interim basis prior to completion of such offering so long as any Parent shall cause the amount of such expenses to be repaid to the Company or the relevant Restricted Subsidiary out of the proceeds of such offering promptly if completed.

“*Pari Passu Indebtedness*” means any Indebtedness of the Company or any Guarantor that ranks equally in right of payment to the Notes or the Guarantees, as the case may be.

“*Paying Agent*” means any Person authorized by the Company to pay the principal of (and premium, if any) or interest on any Note on behalf of the Company.

“*Permissible Jurisdiction*” means any member state of the European Union (other than Greece).

“*Permitted Asset Swap*” means the concurrent purchase and sale or exchange of assets used or useful in a Similar Business or a combination of such assets and cash, Cash Equivalents or Temporary Cash Investments between the Company or any of its Restricted Subsidiaries and another Person; *provided* that any cash or Cash Equivalents received in excess of the value of any cash or Cash Equivalents sold or exchanged must be applied in accordance with the covenant described under “—*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock.*”

“*Permitted Collateral Liens*” means (a) Liens on the Collateral (i) that are described in one or more of clauses (2) through (6), (8), (9), (11), (12), (18), (19) and (23) of the definition of “*Permitted Liens*” and that, in each case, would not materially interfere with the ability of the Security Agent to enforce the security interest in the Collateral or (ii) that are Liens in accounts equally and ratably granted to cash management banks securing cash management obligations; (b) Liens on the Collateral to secure Indebtedness of the Company or a Restricted Subsidiary that is permitted to be Incurred under clauses (1), (2) (in the case of (2), to the extent such Guarantee is in respect of Indebtedness otherwise permitted to be secured and specified in this definition of Permitted Collateral Liens), (4)(a), 4(b) (if the original Indebtedness was so secured), 4(e), (5), (6), (7), (11), (12) or (15) of the second paragraph of the covenant described under “—*Certain Covenants—Limitation on Indebtedness*” and any Refinancing Indebtedness in respect of such Indebtedness; *provided, however*, that (i) such Lien will not give an entitlement to be repaid with proceeds of enforcement of the Collateral in a manner which is inconsistent with the Intercreditor Agreement and any Additional Intercreditor Agreement and (ii) notwithstanding the terms of the Senior Intercreditor Agreement, any Additional Intercreditor Agreement and the Voting Agreement; no Indebtedness shall be given super priority status, except that super priority status may be incurred with respect to a super priority credit facility or other indebtedness (limited to an aggregate amount of commitments not to exceed the greater of (x) €50.0 million and (y) 30.0% of Consolidated EBITDA (measured at the time of commitment of such facility)) and to Hedging Obligations; (c) Liens on the Collateral securing Indebtedness incurred under the first paragraph of “—*Certain Covenants—Limitation on Indebtedness*” and any Refinancing Indebtedness in respect of such Indebtedness; *provided* that in the case of clauses (5) and (12) of the second paragraph of the covenant described under “—*Certain Covenants—Limitation on Indebtedness*” and any Refinancing Indebtedness in respect of such Indebtedness or this clause (c), after giving effect to such Incurrence on that date, the Consolidated Secured Leverage Ratio does not exceed 3.0 to 1.0; and (d) Liens on the Collateral that secure Indebtedness on a basis junior to the Notes or the Guarantees, as applicable; *provided* that, in the case of this clause (d), such property and assets (including the Collateral), also secures the Notes or the Guarantees on a senior basis; *provided further* that the holders of such Indebtedness (or their representative) accede to the Senior Intercreditor Agreement or an Additional Intercreditor Agreement that ranks such Liens junior to the Liens securing the Notes regardless of the time such Liens are granted.

“*Permitted Holders*” means, collectively, (1) the Initial Investors and any Affiliate thereof, (2) Senior Management and Related Persons and (3) any Person who is acting as an underwriter in connection with a public or private offering of Capital Stock of any Parent or the Company, acting in such capacity. Any person or group whose acquisition of beneficial ownership constitutes a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture will thereafter, together with its Affiliates, constitute an additional Permitted Holder.

“*Permitted Investment*” means (in each case, by the Company or any of its Restricted Subsidiaries):

- (1) Investments in (a) a Restricted Subsidiary (including the Capital Stock of a Restricted Subsidiary) or the Company or (b) a Person (including the Capital Stock of any such Person) that is engaged in any Similar Business and such Person will, upon the making of such Investment, become a Restricted Subsidiary;
- (2) Investments in another Person if such Person is engaged in any Similar Business and as a result of such Investment such other Person is merged, consolidated or otherwise combined with or into, or transfers or conveys all or substantially all its assets to, the Company or a Restricted Subsidiary;
- (3) Investments in cash, Cash Equivalents, Temporary Cash Investments or Investment Grade Securities;
- (4) Investments in receivables owing to the Company or any Restricted Subsidiary created or acquired in the ordinary course of business;
- (5) Investments in payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;
- (6) Management Advances;
- (7) Investments in Capital Stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary, or as a result of foreclosure, perfection or enforcement of any Lien, or in satisfaction of judgments or pursuant to any plan of reorganization or similar arrangement including upon the bankruptcy or insolvency of a debtor;
- (8) Investments made as a result of the receipt of non-cash consideration from a sale or other disposition of property or assets, including an Asset Disposition (but excluding a Permitted Asset Swap), in each case, that was made in compliance with “—*Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock*;”
- (9) Investments in existence on, or made pursuant to legally binding commitments in existence on, the Issue Date;
- (10) Currency Agreements, Interest Rate Agreements and related Hedging Obligations, which transactions or obligations are Incurred in compliance with “—*Certain Covenants—Limitation on Indebtedness*;”
- (11) Investments, taken together with all other Investments made pursuant to this clause (11) and at any time outstanding, in an aggregate amount at the time of such Investment not to exceed the greater of (x) €25.0 million and (y) 15.0% of Consolidated EBITDA; *provided* that, if an Investment is made pursuant to this clause in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to the covenant described under “—*Certain Covenants—Limitation on Restricted Payments*,” such Investment shall thereafter be deemed to have been made pursuant to clause (1) or (2) of the definition of “Permitted Investments” and not this clause;
- (12) Investments in Associates in an aggregate amount when taken together with all other Investments made pursuant to this clause (12) that are at the time outstanding not to exceed €25.0 million; *provided* that, if an Investment is made pursuant to this clause in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary pursuant to the Indenture, such Investment shall thereafter be deemed to have been made pursuant to clause (1) or (2) of the definition of “Permitted Investments” and not this clause;
- (13) pledges or deposits with respect to leases or utilities provided to third parties in the ordinary course of business or Liens otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “—*Certain Covenants—Limitation on Liens*;”
- (14) any Investment to the extent made using Capital Stock of the Company (other than Disqualified Stock) or Capital Stock of any Parent as consideration;

- (15) any transaction to the extent constituting an Investment that is permitted and made in accordance with the provisions of the second paragraph of the covenant described under “—*Certain Covenants—Limitation on Affiliate Transactions*” (except those described in clauses (1), (3), (6), (8), (9) and (12) of that paragraph);
- (16) Investments consisting of purchases and acquisitions of inventory, supplies, materials and equipment or licenses or leases of intellectual property, in any case, in the ordinary course of business and in accordance with the Indenture;
- (17) guarantees, keepwells and similar arrangements not prohibited by the covenant described under “—*Certain Covenants—Limitation on Indebtedness*”;
- (18) loans or advances to gaming machine site owners or gaming machine sub-operators in the ordinary course of business;
- (19) Investments in licenses, concessions, authorizations, franchises, permits or similar arrangements that are related to the Company’s or any Restricted Subsidiary’s business; and
- (20) Investments in the Notes or other Indebtedness.

“*Permitted Liens*” means, with respect to any Person:

- (1) Liens on assets or property of a Restricted Subsidiary that is not a Guarantor securing Indebtedness of any Restricted Subsidiary that is not a Guarantor;
- (2) pledges, deposits or Liens under workmen’s compensation laws, unemployment insurance laws, social security laws or similar legislation, or insurance related obligations (including pledges or deposits securing liability to insurance carriers under insurance or self-insurance arrangements), or in connection with bids, tenders, completion guarantees, contracts (other than for borrowed money) or leases, or to secure utilities, licenses, public or statutory obligations, trade obligations or to secure surety, indemnity, judgment, appeal or performance bonds or guarantees, guarantees of government or regulatory contracts or obligations (or other similar bonds, instruments or obligations), or as security for contested taxes or import or customs duties or for the payment of rent, or other obligations of like nature, in each case Incurred in the ordinary course of business (including, in each case, to secure letters of credit or similar instruments to assure payment of such obligation);
- (3) Liens imposed by law, including carriers’, warehousemen’s, mechanics’, landlords’, materialmen’s and repairmen’s or other like Liens, in each case for sums not yet overdue for a period of more than 60 days or that are bonded or being contested in good faith by appropriate proceedings;
- (4) Liens for taxes, assessments or other governmental charges not yet delinquent or which are being contested in good faith by appropriate proceedings; *provided* that appropriate reserves required pursuant to IFRS have been made in respect thereof;
- (5) Liens in favor of the issuer of surety, performance or other bonds, guarantees or letters of credit or bankers’ acceptances (not issued to support Indebtedness for borrowed money) issued pursuant to the request of and for the account of the Company or any Restricted Subsidiary in the ordinary course of its business;
- (6) encumbrances, ground leases, easements (including reciprocal easement agreements), survey exceptions, or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning, building codes or other restrictions (including minor defects or irregularities in title and similar encumbrances) as to the use of real properties or Liens incidental to the conduct of the business of the Company and its Restricted Subsidiaries or to the ownership of its properties which do not materially impair their use in the operation of the business of the Company and the Restricted Subsidiaries;
- (7) Liens on assets or property of the Company or any Restricted Subsidiary securing Hedging Obligations permitted under the Indenture;
- (8) licenses, subleases and sublicenses of assets (including real property and intellectual property rights), in each case entered into in the ordinary course of business;
- (9) Liens arising out of judgments, decrees, orders or awards not giving rise to an Event of Default so long as any appropriate legal proceedings which may have been duly initiated for the review of such judgment, decree, order or award have not been finally terminated or the period within which such proceedings may be initiated has not expired;

- (10) Liens on assets or property of the Company or any Restricted Subsidiary for the purpose of securing Capitalized Lease Obligations or Purchase Money Obligations, or securing the payment of all or a part of the purchase price of, or securing other Indebtedness Incurred to finance or refinance the acquisition, improvement or construction of, assets or property acquired or constructed in the ordinary course of business; *provided* that (a) the aggregate principal amount of Indebtedness secured by such Liens is otherwise permitted to be Incurred under the Indenture and (b) any such Lien may not extend to any assets or property of the Company or any Restricted Subsidiary other than assets or property acquired, improved, constructed or leased with the proceeds of such Indebtedness and any improvements or accessions to such assets and property;
- (11) Liens arising by virtue of any statutory or common law provisions relating to banker's liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depository or financial institution;
- (12) Liens arising from Uniform Commercial Code financing statement filings (or similar filings in other applicable jurisdictions) regarding operating leases entered into by the Company and its Restricted Subsidiaries in the ordinary course of business;
- (13) Liens existing on the Issue Date;
- (14) Liens on property, other assets or shares of stock of a Person at the time such Person becomes a Restricted Subsidiary (or at the time the Company or a Restricted Subsidiary acquires such property, other assets or shares of stock, including any acquisition by means of a merger, consolidation or other business combination transaction with or into the Company or any Restricted Subsidiary); *provided, however*, that such Liens are not created, Incurred or assumed in anticipation of or in connection with such other Person becoming a Restricted Subsidiary (or such acquisition of such property, other assets or stock); *provided, further*, that such Liens are limited to all or part of the same property, other assets or stock (plus improvements, accession, proceeds or dividends or distributions in connection with the original property, other assets or stock) that secured (or, under the written arrangements under which such Liens arose, could secure) the obligations to which such Liens relate;
- (15) Liens on assets or property of the Company or any Restricted Subsidiary securing Indebtedness or other obligations of the Company or such Restricted Subsidiary owing to the Company or any Restricted Subsidiary, or Liens in favor of the Company or any Restricted Subsidiary;
- (16) Liens (other than Permitted Collateral Liens) securing Refinancing Indebtedness Incurred to refinance Indebtedness that was previously so secured, and permitted to be secured under the Indenture; *provided* that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness being refinanced or is in respect of property that is or could be the security for or subject to a Permitted Lien hereunder;
- (17) any interest or title of a lessor under any Capitalized Lease Obligation or operating lease;
- (18) (a) mortgages, liens, security interests, restrictions, encumbrances or any other matters of record that have been placed by any government, statutory or regulatory authority, developer, landlord or other third party on property over which the Company or any Restricted Subsidiary has easement rights or on any leased property and subordination or similar arrangements relating thereto and (b) any condemnation or eminent domain proceedings affecting any real property;
- (19) any encumbrance or restriction (including put and call arrangements) with respect to Capital Stock of any joint venture or similar arrangement pursuant to any joint venture or similar agreement;
- (20) Liens on cash accounts securing Indebtedness incurred under clause (10) of the second paragraph of the covenant described under "*—Certain Covenants—Limitation on Indebtedness*" with local financial institutions;
- (21) Liens on Escrowed Proceeds for the benefit of the related holders of debt securities or other Indebtedness (or the underwriters or arrangers thereof) or on cash set aside at the time of the Incurrence of any Indebtedness or government securities purchased with such cash, in either case to the extent such cash or government securities prefund the payment of interest on such Indebtedness and are held in an escrow account or similar arrangement to be applied for such purpose;
- (22) Liens securing or arising by reason of any netting or set-off arrangement entered into in the ordinary course of banking or other trading activities, or liens over cash accounts securing cash management services (including overdrafts), to implement cash pooling arrangements or to cash-collateralize letters of credit;

- (23) Liens arising out of conditional sale, title retention, hire purchase, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business;
- (24) Liens Incurred in the ordinary course of business with respect to obligations which do not exceed €15.0 million at any one time outstanding;
- (25) Permitted Collateral Liens;
- (26) Liens on Capital Stock or other securities or assets of any Unrestricted Subsidiary that secure Indebtedness of such Unrestricted Subsidiary;
- (27) any security granted over the marketable securities portfolio described in clause (9) of the definition of “Cash Equivalents” in connection with the disposal thereof to a third party;
- (28) Liens on Receivables Assets Incurred in connection with a Qualified Receivables Financing;
- (29) Liens on Indebtedness permitted to be Incurred pursuant to clause (15) of the second paragraph of the covenant described under “—*Certain Covenants—Limitation on Indebtedness*”;
- (30) Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness;
- (31) Liens over cash paid into an escrow account pursuant to any purchase price retention arrangement as part of any permitted disposal by the Company or a Restricted Subsidiary on condition that the cash paid into such escrow account in relation to a disposal does not represent more than 25% of the net proceeds of such disposal;
- (32) Liens created on any asset of the Company or a Restricted Subsidiary established to hold assets of any stock option plan or any other management or employee benefit or incentive plan or unit trust of the Company or a Restricted Subsidiary securing any loan to finance the acquisition of such assets;
- (33) Liens over treasury stock of the Company or a Restricted Subsidiary purchased or otherwise acquired for value by the Company or such Restricted Subsidiary pursuant to a stock buy-back scheme or other similar plan or arrangement; and
- (34) Liens created for the benefit of (or to secure) the Notes and the Guarantees.

“*Person*” means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company, government or any agency or political subdivision thereof or any other entity.

“*Preferred Stock*,” as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“*Proceeds Loans*” means the proceeds loan agreements to be entered into in connection with the Refinancing Transactions between (i) the Company, as lender, and Sisal S.p.A. as borrower, (ii) Sisal S.p.A., as lender, and Sisal Entertainment S.p.A., as borrower and (iii) Sisal Entertainment S.p.A., as lender, and Sisal Match Point S.p.A., as borrower, pursuant to which the Company will lend, and Sisal S.p.A. and Sisal Entertainment S.p.A. will further on-lend, certain of the proceeds of the Notes to Sisal S.p.A., Sisal Entertainment S.p.A. and Sisal Match Point S.p.A.

“*Public Debt*” means any Indebtedness consisting of bonds, debentures, notes or other similar debt securities issued in (1) a public offering registered under the Securities Act or (2) a private placement to institutional investors that is underwritten for resale in accordance with Rule 144A or Regulation S under the Securities Act, whether or not it includes registration rights entitling the holders of such debt securities to registration thereof with the SEC for public resale.

“*Public Market*” means any time after:

- (1) a Public Offering has been consummated; and
- (2) shares of common stock or other common equity interests of the IPO Entity having a market value in excess of €100 million on the date of such Equity Offering have been distributed pursuant to such Public Offering.

“*Public Offering*” means any offering, including an Initial Public Offering, of shares of common stock or other common equity interests that are listed on an exchange or publicly offered (which shall include an offering pursuant to Rule 144A and/or Regulation S under the Securities Act to professional market investors or similar persons).

“Purchase Money Obligations” means any Indebtedness Incurred to finance or refinance the acquisition, leasing, construction or improvement of property (real or personal) or assets (including Capital Stock), and whether acquired through the direct acquisition of such property or assets or the acquisition of the Capital Stock of any Person owning such property or assets, or otherwise.

“Qualified Receivables Financing” means any Receivables Financing of a Receivables Subsidiary that meets the following conditions: (1) the Board of Directors of the Company shall have determined in good faith that such Qualified Receivables Financing (including financing terms, covenants, termination events and other provisions) is in the aggregate economically fair and reasonable to the Company and the Receivables Subsidiary, (2) all sales of accounts receivable and related assets to the Receivables Subsidiary are made at fair market value (as determined in good faith by the Company), and (3) the financing terms, covenants, termination events and other provisions thereof shall be on market terms (as determined in good faith by the Company) and may include Standard Securitization Undertakings.

The grant of a security interest in any accounts receivable of the Company or any of its Restricted Subsidiaries (other than a Receivables Subsidiary) to secure Indebtedness under a Credit Facility or Indebtedness in respect of the Notes shall not be deemed a Qualified Receivables Financing.

“Receivables Assets” means any assets that are or will be the subject of a Qualified Receivables Financing.

“Receivables Fees” means distributions or payments made directly or by means of discounts with respect to any participation interest issued or sold in connection with, and other fees paid to a Person that is not a Restricted Subsidiary in connection with, any Receivables Financing.

“Receivables Financing” means any transaction or series of transactions that may be entered into by the Company or any of its Subsidiaries pursuant to which the Company or any of its Subsidiaries may sell, convey or otherwise transfer to (a) a Receivables Subsidiary (in the case of a transfer by the Company or any of its Subsidiaries), or (b) any other Person (in the case of a transfer by a Receivables Subsidiary), or may grant a security interest in, any accounts receivable (whether now existing or arising in the future) of the Company or any of its Subsidiaries, and any assets related thereto, including all collateral securing such accounts receivable, all contracts and all guarantees or other obligations in respect of such accounts receivable, proceeds of such accounts receivable and other assets which are customarily transferred or in respect of which security interest are customarily granted in connection with asset securitization transactions involving accounts receivable and any Hedging Obligations entered into by the Company or any such Subsidiary in connection with such accounts receivable.

“Receivables Repurchase Obligation” means any obligation of a seller of receivables in a Qualified Receivables Financing to repurchase receivables arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof becoming subject to any asserted defense, dispute, off-set or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

“Receivables Subsidiary” means a Wholly Owned Subsidiary of the Company (or another Person formed for the purposes of engaging in a Qualified Receivables Financing with the Company in which the Company or any Subsidiary of the Company makes an Investment and to which the Company or any Subsidiary of the Company transfers accounts receivable and related assets) which engages in no activities other than in connection with the financing of accounts receivable of the Company and its Subsidiaries, all proceeds thereof and all rights (contractual or other), collateral and other assets relating thereto, and any business or activities incidental or related to such business, and which is designated by the Board of Directors of the Company (as provided below) as a Receivables Subsidiary and:

- (1) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which (i) is guaranteed by the Company or any Restricted Subsidiary (excluding guarantees of obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings), (ii) is subject to terms that are substantially equivalent in effect to a guarantee of any losses on securitized or sold receivables by the Company or any Restricted Subsidiary, (iii) is recourse to or obligates the Company or any Restricted Subsidiary in any way other than pursuant to Standard Securitization Undertakings, or (iv) subjects any property or asset of the Company or any Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings;
- (2) with which neither the Company nor any Restricted Subsidiary has any contract, agreement, arrangement or understanding other than on terms which the Company reasonably believes to be no less favorable to the Company or such Restricted Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Company; and
- (3) to which neither the Company nor any Restricted Subsidiary has any obligation to maintain or preserve such entity’s financial condition or cause such entity to achieve certain levels of operating results.

Any such designation by the Board of Directors of the Company shall be evidenced to the Trustee by filing with the Trustee a copy of the resolution of the Board of Directors of the Company giving effect to such designation and an Officer's Certificate certifying that such designation complied with the foregoing conditions.

"Refinance" means refinance, refund, replace, renew, repay, modify, restate, defer, substitute, amend, extend, supplement, reissue, resell, extend or increase (including pursuant to any defeasance or discharge mechanism) and the terms *"refinances," "refinanced"* and *"refinancing"* as used for any purpose in the Indenture shall have a correlative meaning.

"Refinancing Indebtedness" means Indebtedness that is Incurred to refund, refinance, replace, exchange, renew, repay or extend (including pursuant to any defeasance or discharge mechanism) any Indebtedness existing on the date of the Indenture or Incurred in compliance with the Indenture (including Indebtedness of the Company that refinances Indebtedness of any Restricted Subsidiary and Indebtedness of any Restricted Subsidiary that refinances Indebtedness of the Company or another Restricted Subsidiary) including Indebtedness that refinances Refinancing Indebtedness; *provided, however*, that:

- (1) if the Indebtedness being refinanced constitutes Subordinated Indebtedness, the Refinancing Indebtedness has a final Stated Maturity at the time such Refinancing Indebtedness is Incurred that is the same as or later than the final Stated Maturity of the Indebtedness being refinanced or, if shorter, the Notes;
- (2) such Refinancing Indebtedness is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the sum of the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value and in the case of pay-in-kind Indebtedness, the value of such Indebtedness including any interest paid in the form of additional Indebtedness) then outstanding of the Indebtedness being refinanced (plus, without duplication, any additional Indebtedness Incurred to pay interest or premiums required by the instruments governing such existing Indebtedness and costs, expenses and fees Incurred in connection therewith); and
- (3) if the Indebtedness being refinanced is expressly subordinated to the Notes or the Guarantees, such Refinancing Indebtedness is subordinated to the Notes or the Guarantees on terms at least as favorable to the Holders as those contained in the documentation governing the Indebtedness being refinanced or on terms customary at such time for senior subordinated Indebtedness as determined in good faith by the Company,

provided, however, that Refinancing Indebtedness shall not include (x) Indebtedness of the Company or a Restricted Subsidiary that refinances Indebtedness of an Unrestricted Subsidiary and (y) Indebtedness of a Restricted Subsidiary that is not a Guarantor that refinances Indebtedness of the Issuer or a Guarantor.

Refinancing Indebtedness in respect of any Credit Facility or any other Indebtedness may be Incurred from time to time after the termination, discharge or repayment of any such Credit Facility or other Indebtedness.

"Refinancing Transactions" means the issuance and sale of the Notes, the application of the proceeds therefrom (including the repayment and discharge of certain existing indebtedness under the Senior Credit Agreement), the amendment and restatement of each of the Senior Credit Agreement, the Mezzanine Facility Agreement and the Senior Intercreditor Agreement, the closing out or replacement of certain Hedging Obligations pursuant to any of the foregoing, the payment or incurrence of any fees, expense, taxes or charges associated with any of the foregoing and any transactions related or incidental thereto.

"Related Person" means, with respect to any Permitted Holder:

- (1) any controlling equityholder or Subsidiary of such Person; or
- (2) in the case of an individual, any spouse, family member or relative of such individual, any trust or partnership for the benefit of one or more of such individual and any such spouse, family member or relative, or the estate, executor, administrator, committee or beneficiaries of any thereof; or
- (3) any trust, corporation, partnership or other Person for which one or more of the Permitted Holders and other Related Persons of any thereof constitute the beneficiaries, stockholders, partners or owners thereof, or Persons beneficially holding in the aggregate a majority (or more) controlling interest therein; or
- (4) in the case of any Initial Investor, any investment fund or vehicle managed, sponsored or advised by such Person or any successor thereto, or by any Affiliate of such Person or any such successor.

“*Related Taxes*” means, without duplication:

- (1) any Taxes, including sales, use, transfer, rental, *ad valorem*, value added, stamp, property, consumption, franchise, license, capital, registration, business, customs, net worth, gross receipts, excise, occupancy, intangibles or similar Taxes (other than (x) Taxes measured by income and (y) withholding Taxes), required to be paid (provided such Taxes are in fact paid) by any Parent by virtue of its:
 - (a) being organized or having Capital Stock outstanding (but not by virtue of owning stock or other equity interests of any corporation or other entity other than, directly or indirectly, the Company or any of the Company’s Subsidiaries);
 - (b) issuing or holding Subordinated Shareholder Funding;
 - (c) being a holding company parent, directly or indirectly, of the Company or any of the Company’s Subsidiaries;
 - (d) receiving dividends from or other distributions in respect of the Capital Stock of, directly or indirectly, the Company or any of the Company’s Subsidiaries; or
 - (e) having made any payment in respect to any of the items for which the Company is permitted to make payments to any Parent pursuant to “—*Certain Covenants—Limitation on Restricted Payments*”; or
- (2) if and for so long as the Company is a member of a group filing a consolidated or combined tax return with any Parent, any Taxes measured by income for which such Parent is liable up to an amount not to exceed with respect to such Taxes the amount of any such Taxes that the Company and its Subsidiaries would have been required to pay on a separate company basis or on a consolidated basis if the Company and its Subsidiaries had paid tax on a consolidated, combined, group, affiliated or unitary basis on behalf of an affiliated group consisting only of the Company and its Subsidiaries.

“*Restricted Cash Accounts*” means accounts or deposits containing amounts related to prizes won or accrued and not paid out or to taxes (in relation to games) which are already payable to the applicable tax authorities or to gaming concessionaires or similar authorities.

“*Restricted Investment*” means any Investment other than a Permitted Investment.

“*Restricted Subsidiary*” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“*Reversion Date*” means, after the Notes have achieved Investment Grade Status, the date, if any, that such Notes shall cease to have such Investment Grade Status.

“*S&P*” means Standard & Poor’s Investors Ratings Services or any of its successors or assigns that is a Nationally Recognized Statistical Rating Organization.

“*SEC*” means the U.S. Securities and Exchange Commission or any successor thereto.

“*Second Lien Credit Agreement*” means the Second Lien Credit Agreement dated October 16, 2006, as amended and restated on or about the Issue Date, among, *inter alios*, Gaming Invest S.à r.l., as borrower, the original lenders (as named therein) and ABN Amro Bank N.V., as agent, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time.

“*Second Lien and Mezzanine Intercreditor Agreement*” means the intercreditor agreement dated as of October 16, 2006, by and among, *inter alios*, Holdco, as borrower, ABN Amro Bank N.V., as second lien agent, Mizuho Corporate Bank, Ltd., as mezzanine agent and the Security Agent, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time.

“*Secured Indebtedness*” means any Indebtedness secured by a Lien on a basis *pari passu* with or senior to the security in favor of the Notes or any Guarantee.

“*Securities Act*” means the U.S. Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder, as amended.

“*Security Documents*” means any security documents and other instruments and documents executed and delivered pursuant to the Indenture or any of the foregoing, as the same may be amended, supplemented or otherwise modified from time to time and pursuant to which Collateral is pledged, assigned or granted to or for the ratable benefit of the Holders and the Trustee or notice of such pledge, assignment or grant is given.

“*Senior Credit Agreement*” means the Senior Credit Agreement dated October 16, 2006, among, *inter alios*, Sisal Holding Istituto di Pagamento S.p.A. (formerly known as Sisal Holding Finanziaria S.p.A.), Sisal S.p.A. and certain of its Subsidiaries, as borrowers and guarantors, the original lenders (as named therein) and The Royal Bank of Scotland plc, Milan Branch, as agent, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time.

“*Senior Credit Facilities*” means the term and revolving credit facilities under the Senior Credit Agreement.

“*Senior Facility Finance Document*” means any document or agreement defined as a “Finance Document” under the Senior Credit Agreement as of the Issue Date and any other document or agreement designated as such after the Issue Date in accordance with the terms of the Senior Credit Agreement.

“*Senior Intercreditor Agreement*” means the Senior Intercreditor Agreement dated October 16, 2006, as amended and restated on or about the Issue Date, among, *inter alios*, The Royal Bank of Scotland plc, Milan Branch, as senior agent and security agent, the lenders named therein and Giochi Holding S.p.A. and Sisal S.p.A., as borrowers, as further amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time.

“*Senior Management*” means the officers, directors, and other members of senior management of the Company or any of its Subsidiaries.

“*Shareholder Loan C*” means the loan made pursuant to the Subordinated Shareholder Loan C Agreement dated 16 October 2006, between Holdco and the Company, as restated, modified, renewed, refunded, replaced, restructured, amended, refinanced, repaid, increased or extended in whole or in part from time to time;

“*Shareholder Loan ZC*” means the Subordinated Zero Coupon Shareholder Loan dated June 25, 2009, between Holdco and the Company, as restated, modified, renewed, refunded, replaced, restructured, amended, refinanced, repaid, increased or extended in whole or in part from time to time.

“*Significant Subsidiary*” means any Restricted Subsidiary that meets any of the following conditions:

- (1) the Company’s and its Restricted Subsidiaries’ investments in and advances to the Restricted Subsidiary exceed 10% of the total assets of the Company and its Restricted Subsidiaries on a consolidated basis as of the end of the most recently completed fiscal year;
- (2) the Company’s and its Restricted Subsidiaries’ proportionate share of the total assets (after intercompany eliminations) of its Restricted Subsidiary exceeds 10% of the total assets of the Company and its Restricted Subsidiaries on a consolidated basis as of the end of the most recently completed fiscal year; or
- (3) the Company’s and its Restricted Subsidiaries’ equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principle of the Restricted Subsidiary exceeds 10% of such income of the Company and its Restricted Subsidiaries on a consolidated basis for the most recently completed fiscal year.

“*Similar Business*” means (a) any businesses, services or activities engaged in by the Company or any of its Subsidiaries or any Associates on the Issue Date, and (b) any businesses, services and activities engaged in by the Company or any of its Subsidiaries or any Associates that are related, complementary, incidental, ancillary or similar to any of the foregoing or are extensions or developments of any thereof.

“*Standard Securitization Undertakings*” means representations, warranties, covenants, indemnities and guarantees of performance entered into by the Company or any Subsidiary of the Company which the Company has determined in good faith to be customary in a Receivables Financing, including those relating to the servicing of the assets of a Receivables Subsidiary, it being understood that any Receivables Repurchase Obligation shall be deemed to be a Standard Securitization Undertaking.

“*Stated Maturity*” means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision, but shall not include any contingent obligations to repay, redeem or repurchase any such principal prior to the date originally scheduled for the payment thereof.

“*Subordinated Indebtedness*” means, with respect to any Person, any Indebtedness (whether outstanding on the Issue Date or thereafter Incurred) which is expressly subordinated in right of payment to the Notes or the Guarantees pursuant to a written agreement.

“*Subordinated Shareholder Funding*” means, collectively, any funds provided to the Company by a Parent or a Permitted Holder in exchange for or pursuant to any security, instrument or agreement other than Capital Stock, in each case issued to and held by a Parent or a Permitted Holder, together with any such security, instrument or agreement and any other security or instrument other than Capital Stock issued in payment of any obligation under any Subordinated Shareholder Funding; *provided, however*, that such Subordinated Shareholder Funding:

- (1) does not mature or require any amortization, redemption or other repayment of principal or any sinking fund payment prior to the first anniversary of the Stated Maturity of the Notes (other than through conversion or exchange of such funding into Capital Stock (other than Disqualified Stock) of the Company or any funding meeting the requirements of this definition);
- (2) does not require, prior to the first anniversary of the Stated Maturity of the Notes, payment of cash interest, cash withholding amounts or other cash gross-ups, or any similar cash amounts;
- (3) contains no change of control or similar provisions and does not accelerate and has no right to declare a default or event of default or take any enforcement action or otherwise require any cash payment, in each case, prior to the first anniversary of the Stated Maturity of the Notes;
- (4) does not provide for or require any security interest or encumbrance over any asset of the Company or any of its Subsidiaries; and
- (5) pursuant to its terms is fully subordinated and junior in right of payment to the Notes pursuant to subordination, payment blockage and enforcement limitation terms which are customary in all material respects for similar funding;

provided that, notwithstanding the foregoing, solely for purposes of the first paragraph of the covenant described under “—*Limitation on Restricted Payments*” and the definitions of “*Consolidated EBITDA*”, “*Consolidated Interest Expense*”, “*Consolidated Leverage*”, “*Consolidated Leverage Ratio*”, “*Fixed Charge Coverage Ratio*”, “*Indebtedness*” and “*Secured Indebtedness*”, the Holdco Shareholder Loans, in each case, as may be amended, restated, modified, renewed, replaced or restructured from time to time so long as such amendment, restatement, modification, renewal, replacement or restructuring is made pursuant to the terms thereof (or alternatively pursuant to the foregoing definition of “*Subordinated Shareholder Funding*”) and, in each case, in accordance with the Senior Intercreditor Agreement, any Additional Intercreditor Agreement and the Voting Agreement, shall be deemed to be Subordinated Shareholder Funding; *provided, however*, that no amendment, restatement or modification to the Holdco Shareholder Loans may increase the amount of Restricted Payments permitted to be paid pursuant to clause (13) of the third paragraph of the covenant described under “—*Limitation on Restricted Payments*”.

“*Subsidiary*” means, with respect to any Person:

- (1) any corporation, association, or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time of determination owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof; or
- (2) any partnership, joint venture, limited liability company or similar entity of which:
 - (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof whether in the form of membership, general, special or limited partnership interests or otherwise; and
 - (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

“*Successor Parent*” with respect to any Person means any other Person with more than 50% of the total voting power of the Voting Stock of which is, at the time the first Person becomes a Subsidiary of such other Person, “beneficially owned” (as defined below) by one or more Persons that “beneficially owned” (as defined below) more than 50% of the total voting power of the Voting Stock of the first Person immediately prior to the first Person becoming a Subsidiary of such other Person. For purposes hereof, “beneficially own” has the meaning correlative to the term “beneficial owner,” as such term is defined in Rules 13d-3 and 13d-5 under the Exchange Act (as in effect on the Issue Date).

“*Taxes*” means all present and future taxes, levies, imposts, deductions, charges, duties, assessments and withholdings and any charges of a similar nature (including interest, penalties and other liabilities with respect thereto) that are imposed or levied by any government or other taxing authority.

“*Tax Sharing Agreement*” means any tax sharing or profit and loss pooling or similar agreement with customary or arm’s-length terms entered into with any Parent or Unrestricted Subsidiary, as the same may be amended, supplemented, waived or otherwise modified from time to time in accordance with the terms thereof and of the Indenture.

“*Temporary Cash Investments*” means any of the following:

- (1) any investment in
 - (a) direct obligations of, or obligations Guaranteed by, (i) the United States of America or Canada, (ii) any Permissible Jurisdiction, (iii) Switzerland or Norway, (iv) any country in whose currency funds are being held specifically pending application in the making of an investment or capital expenditure by the Company or a Restricted Subsidiary in that country with such funds or (v) any agency or instrumentality of any such country or member state; or
 - (b) direct obligations of any country recognized by the United States of America rated at least “A” by S&P or “A2” by Moody’s (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody’s then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);
- (2) overnight bank deposits, and investments in time deposit accounts, certificates of deposit, bankers’ acceptances and money market deposits (or, with respect to foreign banks, similar instruments) maturing not more than one year after the date of acquisition thereof issued by:
 - (a) any lender under the Senior Credit Agreement;
 - (b) any institution authorized to operate as a bank in any of the countries or member states referred to in subclause (1)(a) above; or
 - (c) any bank or trust company organized under the laws of any such country or member state or any political subdivision thereof,

in each case, having capital and surplus aggregating in excess of €250 million (or the foreign currency equivalent thereof) and whose long-term debt is rated at least “A” by S&P or “A2” by Moody’s (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody’s then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;

- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) or (2) above entered into with a Person meeting the qualifications described in clause (2) above;
- (4) Investments in commercial paper, maturing not more than 270 days after the date of acquisition, issued by a Person (other than the Company or any of its Subsidiaries), with a rating at the time as of which any Investment therein is made of “P-2” (or higher) according to Moody’s or “A-2” (or higher) according to S&P (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody’s then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);
- (5) Investments in securities maturing not more than one year after the date of acquisition issued or fully Guaranteed by any state, commonwealth or territory of the United States of America, Canada, any Permissible Jurisdiction or Switzerland, Norway or by any political subdivision or taxing authority of any such state, commonwealth, territory, country or member state, and rated at least “BBB” by S&P or “Baa3” by Moody’s (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody’s then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization);
- (6) bills of exchange issued in the United States, Canada, a Permissible Jurisdiction, Switzerland, Norway or Japan eligible for rediscount at the relevant central bank and accepted by a bank (or any dematerialized equivalent);

- (7) any money market deposit accounts issued or offered by a commercial bank organized under the laws of a country that is a member of the Organization for Economic Co-operation and Development, in each case, having capital and surplus in excess of €250 million (or the foreign currency equivalent thereof) or whose long term debt is rated at least “A” by S&P or “A2” by Moody’s (or, in either case, the equivalent of such rating by such organization or, if no rating of S&P or Moody’s then exists, the equivalent of such rating by any Nationally Recognized Statistical Rating Organization) at the time such Investment is made;
- (8) investment funds investing 95% of their assets in securities of the type described in clauses (1) through (7) above (which funds may also hold reasonable amounts of cash pending investment and/or distribution); and
- (9) investments in money market funds complying with the risk limiting conditions of Rule 2a-7 (or any successor rule) of the SEC under the U.S. Investment Company Act of 1940, as amended.

“*Total Assets*” means the consolidated total assets of the Company and its Restricted Subsidiaries in accordance with IFRS as shown on the most recent balance sheet of such Person.

“*Trust Indenture Act*” means the U.S. Trust Indenture Act of 1939, as amended.

“*Uniform Commercial Code*” means the New York Uniform Commercial Code.

“*Unrestricted Subsidiary*” means:

- (1) any Subsidiary of the Company that at the time of determination is an Unrestricted Subsidiary (as designated by the Board of Directors of the Company in the manner provided below); and
- (2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors of the Company may designate any Subsidiary of the Company (including any newly acquired or newly formed Subsidiary or a Person becoming a Subsidiary through merger, consolidation or other business combination transaction, or Investment therein but not including the Company) to be an Unrestricted Subsidiary only if:

- (1) such Subsidiary or any of its Subsidiaries does not own any Capital Stock or Indebtedness of, or own or hold any Lien on any property of, the Company or any other Subsidiary of the Company which is not a Subsidiary of the Subsidiary to be so designated or otherwise an Unrestricted Subsidiary; and
- (2) such designation and the Investment of the Company in such Subsidiary complies with “—*Certain Covenants—Limitation on Restricted Payments.*”

Any such designation by the Board of Directors of the Company shall be evidenced to the Trustee by filing with the Trustee a resolution of the Board of Directors of the Company giving effect to such designation and an Officer’s Certificate certifying that such designation complies with the foregoing conditions.

The Board of Directors of the Company may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that immediately after giving effect to such designation (1) no Default or Event of Default would result therefrom and (2)(x) the Company could Incur at least €1.00 of additional Indebtedness pursuant to the first paragraph under the “—*Limitation on Indebtedness*” covenant or (y) the Fixed Charge Coverage Ratio would not be less than it was immediately prior to giving effect to such designation, in each case, on a *pro forma* basis taking into account such designation. Any such designation by the Board of Directors shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors giving effect to such designation or an Officer’s Certificate certifying that such designation complied with the foregoing provisions.

“*Voting Agreement*” means the voting agreement dated as of October 16, 2006, by and among, *inter alios*, the Security Agent, ABN Amro Bank N.V., as senior agent, Mizuho Corporate Bank, Ltd., as mezzanine agent, and to which the Trustee will accede on or about the Issue Date, as further amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time.

“*Voting Stock*” of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled to vote in the election of directors.

“*Wholly Owned Subsidiary*” means a Restricted Subsidiary, all of the Voting Stock of which (other than directors’ qualifying shares or shares required by any applicable law or regulation to be held by a Person other than the Company or another Wholly Owned Subsidiary) is owned by the Company or another Wholly Owned Subsidiary.

BOOK-ENTRY, DELIVERY AND FORM

General

Notes sold within the United States to QIBs in reliance on Rule 144A (the “Rule 144A Notes”) under the U.S. Securities Act will be represented by one or more global notes in registered form without interest coupons attached (collectively, the “Rule 144A Global Notes”). The Rule 144A Global Notes will be deposited with, or on behalf of, a common depositary (the “Common Depositary”) for the accounts of Euroclear Bank SA./NV, as operator of the Euroclear system (“Euroclear”), and Clearstream Banking, *société anonyme* (“Clearstream”) and registered in the name of the nominee of the Common Depositary.

Notes sold outside the United States in reliance on Regulation S (the “Regulation S Notes”) under the U.S. Securities Act will be represented by one or more global notes in registered form without interest coupons attached (collectively, the “Regulation S Global Notes” and, together with the Rule 144A Global Notes, the “Global Notes”). The Regulation S Global Notes will be deposited with, or on behalf of, the Common Depositary and registered in the name of the nominee of the Common Depositary.

Except as set forth below, the Notes will be issued in registered, global form in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof. Notes will be issued at the closing of this offering only against payment in immediately available funds.

Ownership of interests in the Rule 144A Global Notes (the “Restricted Book-Entry Interests”) and in the Regulation S Global Notes (the “Regulation S Book-Entry Interests” and, together with the Restricted Book-Entry Interests, the “Book-Entry Interests”) will be limited to persons that have accounts with Euroclear and/or Clearstream, or persons that hold interests through such participants or otherwise in accordance with applicable transfer restrictions set out in the Indenture governing the Notes and any applicable securities laws of any state of the United States or any other jurisdiction. Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositaries. Except under the limited circumstances described below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of certificated Notes.

Book-Entry Interests will be shown on, and transfers thereof will be done only through, records maintained in book-entry form by Euroclear and Clearstream and their respective participants. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive certificated form. The foregoing limitations may impair your ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, holders of Book-Entry Interests will not be considered the owners or “holders” of Notes for any purpose.

So long as the Notes are held in global form, the common depositary for Euroclear and/or Clearstream (or its nominees), as applicable, will be considered the sole holders of Global Notes for all purposes under the Indenture. In addition, participants in Euroclear and/or Clearstream must rely on the procedures of Euroclear and/or Clearstream, as the case may be, and indirect participants must rely on the procedures of Euroclear, Clearstream and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders under the Indenture.

Neither the Issuer nor the Trustee nor any of their respective agents and neither the Registrar nor the Transfer Agent will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

Redemption of the Global Notes

In the event any Global Note (or any portion thereof) is redeemed, Euroclear and/or Clearstream (or their respective nominee), as applicable, will redeem an equal amount of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The Common Depositary will surrender such Global Note to the Registrar for a cancellation or, in the case of a partial redemption, the Common Depositary will request the Registrar or the Trustee to mark down, endorse and return the applicable Global Note to reflect the reduction in the principal amount of such Global Note as a result of such partial redemption. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear and Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Issuer understands that, under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants’ accounts on a proportionate basis (with adjustments to prevent fractions) or on such other basis as they deem fair and appropriate; *provided, however*, that no Book-Entry Interest of less than €100,000 in principal amount may be redeemed in part.

Payments on Global Notes

The Issuer will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, interest and additional interest, if any) to the Common Depositary or its nominee for Euroclear and Clearstream, which

will distribute such payments to participants in accordance with their customary procedures. The Issuer will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “*Description of the Notes—Additional Amounts*”. If any such deduction or withholding is required to be made, then, to the extent described under “*Description of the Notes—Additional Amounts*”, the Issuer will pay additional amounts as may be necessary in order that the net amounts received by any holder of the Global Notes or owner of Book-Entry Interests after such deduction or withholding will equal the net amounts that such holder or owner would have otherwise received in respect of such Global Note or Book-Entry Interest, as the case may be, absent such withholding or deduction. The Issuer expects that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Under the terms of the Indenture, the Issuer and the Trustee will treat the registered holders of the Global Notes (i.e., the common depositary Euroclear or Clearstream (or its nominee)) as the owners thereof for the purpose of receiving payments and for all other purposes. Consequently, neither the Issuer nor the Trustee nor any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest or for maintaining, supervising or reviewing the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants.

Currency of Payment for the Global Notes

Except as may otherwise be agreed between Euroclear and/or Clearstream and any holder, the principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid to holders of interests in such Notes through Euroclear and/or Clearstream in euros.

Payments will be subject in all cases to any fiscal or other laws and regulations (including any regulations of the applicable clearing system) applicable thereto. Neither the Issuer nor the Trustee nor the Initial Purchasers nor any of their respective agents will be liable to any holder of a Global Note or any other person for any commissions, costs, losses or expenses in relation to or resulting from any currency conversion or rounding effected in connection with any such payment.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised the Issuer that they will take any action permitted to be taken by a holder of Notes only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an event of default under the Notes, each of Euroclear and Clearstream reserves the right to exchange the Global Notes for definitive registered Notes in certificated form (the “Definitive Registered Notes”), and to distribute such Definitive Registered Notes to its participants.

Transfers

Transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of Euroclear and Clearstream and their respective direct or indirect participants, which rules and procedures may change from time to time.

The Global Notes will bear a legend to the effect set forth in “*Transfer Restrictions*”. Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers as discussed in “*Transfer Restrictions*”.

Transfers of Restricted Book-Entry Interests to persons wishing to take delivery of Restricted Book-Entry Interests will at all times be subject to the transfer restrictions contained in the legend appearing on the face of the Rule 144A Global Note, as set forth in “*Transfer Restrictions*”.

Restricted Book-Entry Interests may be transferred to a person who takes delivery in the form of a Regulation S Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S or Rule 144A or any other exemption (if available) under the U.S. Securities Act.

In connection with transfers involving an exchange of a Regulation S Book-Entry Interest for a Restricted Book-Entry Interest, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note.

Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first mentioned Global Note and become a Book-Entry Interest in such other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

The Notes represented by the Global Notes are listed on the Euro MTF Market. Transfers of interests in the Global Notes between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures, which rules and operating procedures may change from time to time.

Although Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of the Issuer, the Trustee, the Paying Agent or any of their respective agents will have any responsibility for the performance by Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Definitive Registered Notes

Under the terms of the Indenture, owners of Book-Entry Interests will receive Definitive Registered Notes if:

- Euroclear or Clearstream notifies the Issuer that it is unwilling or unable to continue as depository for the Global Notes, and the Issuer fails to appoint a successor;
- Euroclear or Clearstream so requests following an event of default under the Indenture; or
- the owner of a Book-Entry Interest requests such exchange in writing delivered through either Euroclear or Clearstream, as applicable, following an event of default under the Indenture.

Euroclear has advised the Issuer that upon request by an owner of a Book-Entry Interest, its current procedure is to request that the Issuer issue or cause to be issued Notes in definitive registered form to all owners of Book-Entry Interests.

In such an event, the Registrar will issue Definitive Registered Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of Euroclear and/or Clearstream, as applicable (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Registered Notes will bear the restrictive legend set forth in “*Transfer Restrictions*”, unless that legend is not required by the Indenture or applicable law.

To the extent permitted by law, the Issuer, the Trustee, the Paying Agents, the Registrars and the Transfer Agents shall be entitled to treat the registered holder of any Global Note as the absolute owner thereof.

In the case of the issuance of Definitive Registered Notes, the holder of a Definitive Registered Note may transfer such Note by surrendering it to the Registrar. In the event of a partial transfer or a partial redemption of a holding of Definitive Registered Notes represented by one Definitive Registered Note, a Definitive Registered Note will be issued to the transferee in respect of the part transferred, and a new Definitive Registered Note in respect of the balance of the holding not transferred or redeemed will be issued to the transferor or the holder, as applicable; *provided* that no Definitive Registered Note in a denomination less than €100,000 and in integral multiples of €1,000, in excess thereof, will be issued. The Issuer will bear the cost of preparing, printing, packaging and delivering the Definitive Registered Notes. Holders of the Book-Entry Interests may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and/or Clearstream.

If Definitive Registered Notes are issued and a holder thereof claims that such Definitive Registered Notes have been lost, destroyed or wrongfully taken or if such Definitive Registered Notes are mutilated and are surrendered to the Registrar or at the office of a Transfer Agent, the Issuer will issue and the Trustee will authenticate a replacement Definitive Registered Note if the Trustee’s and the Issuer’s requirements are met. The Issuer or the Trustee may require a holder requesting replacement of a Definitive Registered Note to furnish an indemnity bond sufficient in the judgment of both the Trustee and the Issuer to protect the Issuer, the Trustee or the Paying Agent appointed pursuant to the Indenture from any loss which any of them may suffer if a Definitive Registered Note is replaced. The Issuer may charge for the expenses of replacing a Definitive Registered Note.

In case any such mutilated, destroyed, lost or stolen Definitive Registered Note has become or is about to become due and payable, or is about to be redeemed or purchased by the Issuer pursuant to the provisions of the Indenture, the Issuer in its discretion may, instead of issuing a new Definitive Registered Note, pay, redeem or purchase such Definitive Registered Note, as the case may be.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests in a Global Note only in accordance with the Indenture and, if required, only after the transferor first delivers to the Transfer Agent a written certification (in the form provided in the Indenture) to the effect that such transfer will comply with the transfer restrictions applicable to such Notes. See “*Transfer Restrictions*”.

So long as the Notes are listed on the Official List of and the rules of the Luxembourg Stock Exchange so require, the Issuer will publish a notice of any issuance of Definitive Registered Notes in a newspaper having general circulation in Luxembourg (which is expected to be the d’Wort). Payment of principal, any repurchase price, premium and interest on Definitive Registered Notes will be payable at the office of the Paying Agent in Luxembourg so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require.

Global Clearance and Settlement Under the Book-Entry System

Initial Settlement

Initial settlement for the Notes will be made in euros. Book-Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional euro bonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value of the settlement date.

Secondary Market Trading

The Book-Entry Interests will trade through participants of Euroclear or Clearstream and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser’s and the seller’s accounts are located to ensure that settlement can be made on the desired value date.

Special Timing Considerations

You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving Notes through Euroclear or Clearstream on days when those systems are open for business.

In addition, because of time-zone differences, there may be complications with completing transactions involving Clearstream and/or Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the Notes, or to receive or make a payment or delivery of Notes, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg if Clearstream is used, or Brussels if Euroclear is used.

Clearing Information

The Notes have been accepted for clearance through the facilities of Euroclear and Clearstream. The international securities identification numbers, common codes and CUSIP numbers for the Notes are set out under “*Listing and General Information*”.

Information Concerning Euroclear and Clearstream

The following description of the operations and procedures of Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. Neither the Issuer nor the Initial Purchasers take any responsibility for these operations and procedures and the Issuer urges investors to contact the systems or their participants directly to discuss these matters.

The Issuer understands as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organisations. They also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream also interface with domestic securities markets in several countries. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Euroclear and Clearstream have no record of or relationship with persons holding through their account holders. Since Euroclear and Clearstream only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear or Clearstream systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definite certificate for that interest. The Issuer understands that, under existing industry practices, if either the Issuer or the Trustee requests any action by owners of Book-Entry Interests or if an owner of a Book-Entry Interest desires to give or take any action that a holder is entitled to give or take under the Indenture, Euroclear and Clearstream would authorise participants owning the relevant Book-Entry Interest to give or take such action, and such participants would authorise indirect participants to give or take such action or would otherwise act upon the instructions of such indirect participants.

The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the Euroclear or Clearstream systems will receive distributions attributable to the Rule 144A Global Notes only through Euroclear or Clearstream participants.

CERTAIN ERISA CONSIDERATIONS

General

ERISA imposes certain requirements on employee benefit plans subject to Title I of ERISA and on entities that are deemed to hold the assets of such plans within the meaning of 29 C.F.R. Section 2510.3-101, as modified by Section 3(42) of ERISA, or otherwise (“ERISA Plans”), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA’s general fiduciary requirements, including, but not limited to, the requirement of investment prudence and diversification and the requirement that an ERISA Plan’s investments be made in accordance with the documents governing the plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, (“Plans”)) and certain persons (referred to as “parties in interest” or “disqualified persons”) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and/or other penalties and liabilities under ERISA and the Code.

Any Plan fiduciary which proposes to cause a Plan to purchase the Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such purchase and holding will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA.

Non-U.S. plans, governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of ERISA and Section 4975 of the Code, may nevertheless be subject to non-U.S., state, local or other federal laws or regulations that are substantially similar to the foregoing provisions of ERISA and the Code (“Similar Law”). Fiduciaries of any such plans should consult with their counsel before purchasing the Notes to determine the need for, and the availability, if necessary, of any exemptive relief under any such law or regulations.

Prohibited Transaction Exemptions

The fiduciary of a Plan that proposes to purchase and hold any Notes should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a party in interest or a disqualified person, (ii) the sale or exchange of any property between a Plan and a party in interest or a disqualified person, or (iii) the transfer to, or use by or for the benefit of, a party in interest or disqualified person, of any Plan assets. Depending on the satisfaction of certain conditions which may include the identity of the Plan fiduciary making the decision to acquire or hold the Notes on behalf of a Plan, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code or Prohibited Transaction Class Exemption (“PTCE”) 84-14 (relating to transactions effected by a “qualified professional asset manager”), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by insurance company general accounts) or PTCE 96-23 (relating to transactions directed by an in-house asset manager) (collectively, the “Class Exemptions”) could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. However, there can be no assurance that any of these Class Exemptions or any other exemption will be available with respect to any particular transaction involving the Notes.

Accordingly, by acceptance of a Note, each purchaser and subsequent transferee of a Note will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the Notes constitutes assets of any ERISA Plan or (ii) the acquisition and holding of the Notes by such purchaser or transferee will not constitute or result in a non-exempt prohibited transaction under ERISA and the Code or similar violation under any applicable Similar Law.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that each Plan fiduciary (and each fiduciary for non-U.S., governmental or church plans subject to Similar Law) consult with its legal advisor concerning the potential consequences to the plan under ERISA, the Code or such Similar Laws of an investment in the Notes.

CERTAIN TAX CONSIDERATIONS

EU DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such person for, an individual resident or certain limited types of entity established in that other Member State.

For a transitional period, however, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent on the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories, including Switzerland, have adopted similar measures (a withholding system in the case of Switzerland).

In addition, the EU Savings Directive has been the subject of a review which has resulted in a series of proposals being put forward to amend it. Any changes resulting from any such amendment of the EU Savings Directive could apply to Notes that have already been issued at the date of such announcement.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the ownership of the Notes. Prospective purchasers of the Notes should consult their own tax advisers concerning the tax consequences of their particular situations.

CERTAIN ITALIAN TAX CONSIDERATIONS

The statements herein regarding Italian taxation are based on the laws and published practices of the Italian tax authorities in effect in Italy as of the date of this offering memorandum and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following is a summary only of the material Italian tax consequences of the purchase, ownership and disposition of Notes for Italian resident and non-Italian resident beneficial owners only and it is not intended to be, nor should it be constructed to be, legal or tax advice. The following summary does not purport to be a comprehensive description of all tax considerations which may be relevant to make a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to additional or special rules. Prospective purchasers of the Notes are advised to consult their own tax advisors concerning the overall tax consequences of their acquiring, holding and disposing of Notes and receiving payments on interest, principal and/or other amounts under the Notes, including, in particular, the effect of any state, regional and local tax laws.

Tax Treatment of the Notes issued by the Issuer

Tax Treatment of Interest

Italian Legislative Decree No. 239 of 1 April 1996 (“Decree 239”) sets out the applicable regime regarding the tax treatment of interest, premium and other income (including the difference between the redemption amount and the issue price, hereinafter collectively referred to as “Interest”) deriving from Notes falling within the category of bonds (*obbligazioni*) and similar securities, pursuant to Article 44 of Presidential Decree No. 917 of 22 December 1986, as amended and supplemented (“Decree 917”), issued, *inter alia*, by:

- (a) companies whose shares are listed on a regulated market or on a multi-lateral trading platform of EU Member States and of the States party to the European Economic Area Agreement included in the approved list provided for by Article 168-*bis* of Decree (“Approved List State”); or
- (b) companies whose shares are not listed, issuing Notes traded on the aforementioned regulated markets or platforms.

Italian resident Noteholders

Noteholders not engaged in an entrepreneurial activity

Where an Italian resident beneficial owner of the Notes (a “Noteholder”) is:

- (a) an individual not engaged in an entrepreneurial activity to which the Notes are connected (unless he has opted for the application of the *risparmio gestito* regime—see “—Tax treatment of capital gains” below);
- (b) a non-commercial partnership (*società semplice*);
- (c) a non-commercial private or public institution; or
- (d) an investor exempt from Italian corporate income taxation,

then Interest derived from the Notes, and paid during the relevant holding period, is subject to a withholding tax, referred to as “*imposta sostitutiva*”, levied at the rate of 20 percent.

Noteholders Engaged in an Entrepreneurial Activity

In the event that the Noteholders described under clauses (a) and (c) above are engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* applies as a provisional tax.

Where an Italian resident Noteholder is a company or similar commercial entity, or a permanent establishment in Italy of a foreign company to which the Notes are effectively connected, and the Notes are deposited with an authorised intermediary, Interest from the Notes will not be subject to *imposta sostitutiva*. They must, however, be included in the relevant Noteholder’s income tax return and are therefore subject to general Italian corporate taxation and, in certain circumstances, depending on the “status” of the Noteholder, the Italian regional tax on productive activities (“IRAP”).

Real Estate Investment Funds

Under the current regime provided by Law Decree 25 September 2001, n. 351 (“Decree 351”), as clarified by the Italian Revenue Agency through the Circular dated 8 August 2003, n. 47/E payments of Interest deriving from the Notes made to Italian resident real estate collective investment funds established pursuant to Article 37 of the Legislative Decree of 25 January 1994, n. 58 are subject neither to *imposta sostitutiva* nor to any other income tax at the level of the real estate investment fund. However, a withholding or substitute tax of 20% will apply, in certain circumstances, to income realised by unitholders or shareholders in the event of distributions, redemption or sale of the units or shares.

Funds and SICAV

Where an Italian resident Noteholder is an open-ended or a closed-ended collective investment fund (“Fund”) or *Società di Investimento a Capitale Variabile* (“SICAV”) established in Italy and either (i) the Fund or SICAV or (ii) their manager is subject to the supervision of a regulatory authority and the Notes are deposited with an authorised intermediary, Interest accrued during the holding period on the Notes will not be subject to *imposta sostitutiva*, but must be included in the management results of the Fund or the SICAV. The Fund or SICAV will not be subject to taxation on such results, but a withholding or substitute tax of 20% will instead apply, in certain circumstances, to distributions made in favour of unitholders or shareholders (as applicable).

Pension Funds

Where an Italian resident Noteholder is a pension fund (subject to the regime provided for by article 17 of the Legislative Decree of 5 December 2005, n. 252) and the Notes are deposited with an authorised intermediary, Interest relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but must instead be included in the results of the relevant portfolio accrued at the end of the tax period (which will be subject to an 11 percent substitute tax).

Enforcement of Imposta Sostitutiva

Pursuant to Decree 239, *imposta sostitutiva* is applied by banks, società di intermediazione mobiliare (“SIM”), fiduciary companies, *società di gestione del Risparmio* (“SGR”), stockbrokers and other entities identified by a decree of the Ministry of Finance (each, an “Intermediary”).

An Intermediary must:

- (a) be resident in Italy, or be a permanent establishment in Italy of a non-Italian resident financial intermediary, and
- (b) intervene, in any way, in the collection of Interest or in the transfer of the Notes. For the purpose of the application of the *imposta sostitutiva*, a transfer of Notes includes any assignment or other act, either with or without consideration, which results in a change in ownership of the relevant Notes or in a change in Intermediary with which the Notes are deposited.

Where the Notes are not deposited with an Intermediary, the *imposta sostitutiva* is applied and withheld by any Italian financial intermediary paying interest to a Noteholder or, absent that, by the Issuer.

Non-Italian Resident Noteholders

Where the Noteholder is a non-Italian resident, an exemption from the *imposta sostitutiva* applies provided that the non-Italian Noteholder is:

- (a) resident, for tax purposes, in a country which allows for a satisfactory exchange of information with Italy, included in the list provided for by Article 168-*bis* of Decree 917;
- (b) an international body or entity set up in accordance with international agreements which have entered into force in Italy;

- (c) an “institutional investor”, whether or not subject to tax, which is established in a country which allows for a satisfactory exchange of information with Italy, even if it does not possess the status of a taxpayer in its own country of establishment; or
- (d) a central bank or an entity which manages, *inter alia*, the official reserves of a foreign State.

In order to ensure gross payment, non-Italian resident Noteholders must be the beneficial owners of the payments of Interest and must:

- (a) deposit, directly or indirectly, the Notes with a resident bank or a SIM or a permanent establishment in Italy of a non-Italian resident bank or a SIM or with a non-Italian resident entity or company participating in a centralised securities management system which is in contact, via computer, with the Ministry of Economy and Finance (Euroclear is such a depository); and
- (b) file with the relevant depository, prior to or concurrently with the deposit of the Notes, a statement of the relevant Noteholder (*auto-certificazione*), which remains valid until withdrawn or revoked, in which the Noteholder declares to be eligible to benefit from the applicable exemption from *imposta sostitutiva*. This statement, which is not required for international bodies or entities set up in accordance with international agreements which have entered into force in Italy nor in the case of foreign central banks or entities which manage, *inter alia*, the official reserves of a foreign State, must comply with the requirements set forth by the Ministerial Decree of 12 December 2001.
- (c) The *imposta sostitutiva* will be applicable at the rate of 20 percent to Interest paid to Noteholders who do not qualify for the foregoing exemption.

Noteholders who are subject to the *imposta sostitutiva* might, nevertheless, be eligible for full or partial relief under an applicable tax treaty.

Payments Made by an Italian Resident Guarantor

With respect to payments on the Notes made to Italian resident Noteholders by an Italian resident Guarantor of the Notes, in accordance with one interpretation of Italian tax law, any payment of liabilities equal to Interest and other proceeds from the Notes may be subject to a provisional withholding tax at a rate of 20 percent pursuant to the Presidential Decree of 29 September 1973, n. 600. In case of payments to non-Italian resident Noteholders, the final withholding tax may be applied at a rate of 20 percent.

Double taxation treaties entered into by Italy may also apply, allowing for a lower (or, in certain cases, nil) rate of withholding tax.

However, in accordance with an alternative interpretation, any such payment made by the Italian resident Guarantor will be treated, in certain circumstances, as a payment by the Issuer and will thus be subject to the Italian tax regime described above.

Tax Treatment of Capital Gains

Italian Resident Noteholders

Noteholders Not Engaged in an Entrepreneurial Activity

Where an Italian resident Noteholder is an individual not engaged in an entrepreneurial activity to which the Notes are connected, any capital gain realised by such Noteholder from the sale or redemption of the Notes would be subject to an *imposta sostitutiva*, levied at the rate of 20 percent. Noteholders may set off any capital losses with their capital gains.

In respect of the application of *imposta sostitutiva*, taxpayers may opt for any of the three regimes described below.

Tax Declaration Regime

Under the “tax declaration regime” (*regime della dichiarazione*), which is the default regime for Italian resident individuals not engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains (net of any incurred capital loss) realised by the Italian resident individual holding the Notes, during any given tax year. Italian resident individuals holding the Notes not in connection with an entrepreneurial activity must indicate the overall capital gains realised in any tax year, net of any relevant incurred capital loss, in their annual tax return and pay the *imposta sostitutiva* on such gains together with any balance of income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains realised in any of the four succeeding tax years. Capital losses realised before January 1, 2012 may be carried forward to be offset against subsequent capital gains of the same nature realised from January 1, 2012 in an amount equal to 62.5 percent of the relevant capital loss.

Risparmio Amministrato Regime

As an alternative to the tax declaration regime, Italian resident individual Noteholders holding the Notes not in connection with an entrepreneurial activity may elect to pay the *imposta sostitutiva* separately on capital gains realised on each sale or redemption of the Notes (*risparmio amministrato* regime). Such separate taxation of capital gains is allowed subject to:

- i. the Notes being deposited with an Italian bank, SIM or certain authorised financial intermediary; and
- ii. an express election for the *risparmio amministrato* regime being timely made in writing by the relevant Noteholder.

The depository must account for the *imposta sostitutiva* in respect of capital gains realised on each sale or redemption of the Notes (as well as in respect of capital gains realised upon the revocation of its mandate), net of any incurred capital loss. The depository must also pay the *imposta sostitutiva* to the Italian tax authorities on behalf of the Noteholder, deducting a corresponding amount from the proceeds to be credited to the Noteholder or using funds provided by the Noteholder for this purpose. Under the *risparmio amministrato* regime, any possible capital loss resulting from a sale or redemption of the Notes may be deducted from capital gains subsequently realised, within the same securities management, in the same tax year or in the following tax years up to the fourth. Under the *risparmio amministrato* regime, the Noteholder is not required to declare the capital gains in the annual tax return.

Risparmio Gestito Regime

In the *risparmio gestito* regime, any capital gains realised by Italian resident individuals holding the Notes not in connection with an entrepreneurial activity and who have entrusted the management of their financial assets (including the Notes) to an authorised intermediary, will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at tax year-end, subject to a 20 percent substitute tax, to be paid by the managing authorised intermediary. Any depreciation of the managed assets accrued at the tax year-end may be carried forward against any increase in value of the managed assets accrued in any of the four succeeding tax years. The Noteholder is not required to declare the capital gains realised in its annual tax return.

Noteholders Engaged in an Entrepreneurial Activity

Any gain obtained from the sale or redemption of the Notes would be treated as part of taxable income (and, in certain circumstances, depending on the “status” of the Noteholder, also as part of net value of the production for IRAP purposes) if realised by an Italian company, a similar commercial entity (including the Italian permanent establishment of foreign entities to which the Notes are connected) or Italian resident individuals engaged in an entrepreneurial activity to which the Notes are connected.

Real Estate Investment Funds

Any capital gains realised by a Noteholder which is an Italian real estate investment fund accrues to the tax year-end appreciation of the managed assets, which is exempt from any income tax. A withholding tax may apply in certain circumstances at the rate of 20 percent on distributions made by Italian real estate funds.

Funds and SICAV

Any capital gains realised by a Noteholder who is an Italian Fund or a SICAV will be included in the result of the relevant portfolio accrued at the end of the relevant tax period. A 20 percent withholding tax will apply in certain circumstances, to distributions by the Italian Fund or SICAV to unitholders or shareholders (as applicable).

Pension Funds

Any capital gains realised by a Noteholder who is an Italian pension fund (subject to the regime provided for by Article 17 of Legislative Decree of 5 December 2005, n. 252) will be included in the result of the relevant portfolio accrued at the end of the relevant tax period, and subject to an 11 percent substitute tax.

Non-Italian Resident Noteholders

The 20 percent final *imposta sostitutiva* on capital gains may be payable on capital gains realised upon the sale or redemption of the Notes by non-Italian resident individuals or entities without a permanent establishment in Italy to which the Notes are effectively connected, if the Notes are held in Italy.

However, pursuant to Article 23, letter f), n. 3 of Decree 917, capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes issued by an Italian resident issuer and traded on regulated markets in Italy or abroad are not subject to the *imposta sostitutiva*, subject to timely filing of required documentation (in particular, a self-declaration that the Noteholder is not resident in Italy for tax purposes). As of the date of this offering memorandum, the Italian tax authorities have not been officially confirmed whether a multi-lateral trading platform qualifies for this exemption.

Capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes issued by an Italian resident issuer, even if not traded on regulated markets, are not subject to the *imposta sostitutiva*, provided that the effective beneficiary is:

- (a) resident, for tax purposes, in Approved List States;
- (b) an international body or entity set up in accordance with international agreements which have entered into force in Italy;
- (c) an “institutional investor”, whether or not subject to tax, which is established in a country which allows for a satisfactory exchange of information with Italy, even if it does not possess the status of a taxpayer in its own country of establishment; or
- (d) a central bank or an entity which manages, *inter alia*, the official reserves of a foreign State.

In order to ensure gross payment, non Italian resident Noteholders must be the beneficial owners of the payments of the Interest and must:

- (a) deposit, directly or indirectly, the Notes with a resident bank or a SIM or a permanent establishment in Italy of a non-Italian resident bank or SIM or with a non-Italian resident entity or company participating in a centralised securities management system which is in contact, via computer, with the Ministry of Economy and Finance; and
- (b) file with the relevant depository, prior to or concurrently with the deposit of the Notes, a statement of the relevant Noteholder, which remains valid until withdrawn or revoked, in which the Noteholder declares to be eligible to benefit from the applicable exemption from *imposta sostitutiva*. This statement itself, which is not required for international bodies or entities set up in accordance with international agreements which have entered into force in Italy nor in the case of foreign central banks or entities which manage, *inter alia*, the official reserves of a foreign State, must comply with the requirements set forth by the Ministerial Decree of 12 December 2001.

If none of the above conditions above is met, capital gains realised by non-Italian resident Noteholders from the sale or redemption of Notes issued by an Italian resident issuer and not traded on regulated markets may be subject to the *imposta sostitutiva* at the current rate of 20 percent. However, Noteholders might benefit from an applicable tax treaty with Italy providing that capital gains realised upon the sale or redemption of the Notes are to be taxed only in the tax resident tax country of the recipient.

The *risparmio amministrato* regime is the ordinary regime automatically applicable to non-Italian resident persons and entities holding Notes deposited with an Intermediary, but non-Italian resident Noteholders retain the right to waive this regime.

Italian Inheritance Tax and Gift Tax

The transfer of Notes by reason of gift, donation or succession proceedings is subject to Italian gift and inheritance tax as follows:

- (a) 4% for transfers in favour of the spouse or direct relatives exceeding, for each beneficiary, a threshold of €1.0 million;
- (b) 6% for transfers in favour of siblings exceeding, for each beneficiary, a threshold of €0.1 million;
- (c) 6% for transfers in favour of relatives up to the fourth degree and to all relatives in law in direct line and to other relatives in law up to the third degree, on the entire value of the inheritance or the gift; and
- (d) 8% for transfers in favour of any other person or entity, on the entire value of the inheritance or the gift.

If the heir/heirress and/or the donee is a person with a severe disability pursuant to Law n. 104 of February 5, 1992, inheritance tax or gift tax is applied to the extent that the value of the inheritance or gift exceeds €1.5 million.

With respect to Notes listed on a regulated market, the value for inheritance and gift tax purposes is the average stock exchange price of the last quarter preceding the date of the succession or of the gift (including any accrued interest). With respect to unlisted Notes, the value for inheritance tax and gift tax purposes is generally determined by reference to the value of listed debt securities having similar features or based on certain elements as presented in the Italian tax law.

Italian inheritance tax and gift tax applies to non-Italian resident individuals for bonds issued by Italian resident companies.

Wealth Tax

According to Article 19 of Decree of 6 December, 2011, No. 201 (“Decree 201”), Italian resident individuals holding financial assets—including the Notes—outside Italy are required to pay a wealth tax at the rate of 0.1% for 2012 and, currently, at the rate of 0.15% for subsequent years (the tax being determined in proportion to the period of ownership). The wealth tax applies on the market value at the end of the relevant year or—in the absence of a market value—on the nominal value or redemption value of such financial assets held outside Italy. Taxpayers are permitted to deduct from the wealth tax a tax credit equal to any wealth taxes paid in the State where the financial assets are held (up to the amount of the Italian wealth tax due).

Stamp Taxes and Duties

According to Article 19 of Decree 201, a proportional stamp duty applies on a yearly basis at the rate of 0.1% for 2012 and, currently, at the rate of 0.15% for subsequent years calculated on the market value or—in the absence of a market value—on the nominal value or the redemption amount of any financial product or financial instruments (including the Notes). The stamp duty cannot be lower than €34.2 and from the year 2013 onwards, the stamp duty should not exceed €4,500 if the Notes are held by Noteholders who are not natural persons. Stamp duty applies both to Italian resident Noteholders and to non-Italian resident Noteholders, to the extent that the Notes are held with an Italian-based financial intermediary.

Transfer tax

Contracts relating to the transfer of securities are subject to the registration tax as follows:

- (a) public deeds and notarised deeds (*atti pubblici e scritture private autenticate*) are subject to fixed registration tax at rate of €168.00, and
- (b) private deeds (*scritture private non autenticate*) are subject to fixed registration tax of €168.00 only in case of use or voluntary registration.

Implementation in Italy of the EU Savings Directive

Italy has implemented the EU Savings Directive through Legislative Decree No. 84 of April 18, 2005 (“Decree No. 84”). Under Decree No. 84, subject to certain conditions being met, for any interest paid on the Notes (including interest accrued on the Notes at the time of their disposal) to individuals who qualify as beneficial owners of the interest paid and are resident for tax purposes in another EU Member State, Italian qualified paying agents shall not apply withholding tax to such interest and shall report to the Italian tax authorities details of the relevant payments and certain information on the individual beneficial owner which is transmitted by the Italian tax authorities to the competent foreign tax authorities of the State of tax residence of the beneficial owner.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

To ensure compliance with U.S. Internal Revenue Service Circular 230, you are hereby notified that any discussion of tax matters set forth in this offering memorandum was written in connection with the promotion or marketing (within the meaning of Circular 230) of the transactions or matters addressed herein and was not intended or written to be used, and cannot be used, for the purpose of avoiding tax-related penalties under federal, state or local tax law. Each prospective investor should seek advice based on its particular circumstances from an independent tax advisor.

The discussion below is a summary of material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes as of the date hereof. The following summary addresses only U.S. Holders (as defined herein) who purchase the Notes at the “issue price” (the first price at which a substantial amount of Notes is sold for money, excluding sales to underwriters, placement agents or wholesalers) in the initial offering and hold the Notes as capital assets within the meaning of Section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”). This summary does not address the tax consequences to subsequent purchasers of the Notes.

As used herein, the term “U.S. Holder” means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organised in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of its source or (iv) a trust (a) that is subject to the primary supervision of a U.S. court and one or more U.S. persons has the authority to control all of the substantial decisions of the trust or (b) that has made a valid election in effect under applicable U.S. Treasury Regulations (“Treasury Regulations”) to be treated as a U.S. person.

This summary is based upon provisions of the Code and Treasury Regulations, rulings and judicial decisions as of the date hereof, all of which are subject to change (possibly with retroactive effect), so as to result in U.S. federal income tax consequences different from those summarised below. The discussion below does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, nor does it address any tax consequences arising under U.S. federal estate and gift tax laws or under the laws of any state, local, non-U.S. or other taxing jurisdiction. In addition, this summary does not address tax consequences to U.S. Holders who may be subject to special tax treatment, such as banks, dealers, traders that elect to mark to market, insurance companies, financial institutions, regulated investment companies, real estate investment trusts, grantor trusts, investors liable for the alternative minimum tax, U.S. expatriates, tax-exempt entities, persons holding the Notes as part of a hedge, straddle, conversion or other integrated financial transaction, investors in partnerships or other pass-through entities for U.S. federal income tax purposes or U.S. Holders whose “functional currency” is not the U.S. dollar. If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A partner of a partnership considering holding the Notes is urged to consult its own tax advisors regarding the U.S. federal income tax consequences to it of the acquisition, ownership and disposition of the Notes by the partnership.

The summary of U.S. federal income tax consequences set out below is for general information only. Prospective investors should consult their own tax advisors concerning the particular U.S. federal income tax consequences to them of owning the Notes, as well as the consequences to them arising under the laws of any other taxing jurisdiction or due to changes in tax law.

Payments of Interest

General

Interest paid by the Issuer on the Notes (including any Additional Amounts) generally will be considered income from sources outside the United States and, for purposes of the U.S. foreign tax credit, generally will be considered passive category income. Prospective investors should consult their tax advisors concerning the applicability of the U.S. foreign tax credit and source of income rules to income attributable to the Notes.

Euro-Denominated Stated Interest

Each payment of “qualified stated interest” (including any amounts withheld and any Additional Amounts paid in respect of withholding taxes imposed on payments on the Notes) will generally be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the U.S. Holder’s method of accounting for U.S. federal income tax purposes. The term “qualified stated interest” generally means stated interest that is unconditionally payable at least annually at a qualifying rate during the entire term of the Note. The Issuer expects that stated interest on the Notes will be treated as qualified stated interest.

The amount of income recognised by a cash basis U.S. Holder with respect to a payment of stated interest denominated in euros will be the U.S. dollar value of the interest payment based on the “spot rate” (as such term is defined in Treasury Regulations) on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. A cash basis U.S. Holder generally will not recognise exchange gain or loss on the interest payment but may recognise exchange gain or loss when it disposes of any euros it receives (as discussed below under “—Disposition of Euros”).

An accrual basis U.S. Holder may determine the amount of income recognised with respect to a payment of stated interest denominated in euros in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average spot rate in effect during the interest accrual period or periods (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within each taxable year). Under the second method, the accrual basis U.S. Holder may elect to determine the amount of income accrued on the basis of the spot rate on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the spot rate on the last day of the portion of the accrual period within each taxable year). Additionally, if the interest payment is actually paid or received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the spot rate on the day of actual payment or receipt. Any such election will apply to all debt instruments held by the U.S. Holder from year to year and cannot be changed without the consent of the Internal Revenue Service (the “IRS”).

Upon an accrual basis U.S. Holder’s receipt of a stated interest payment denominated in euros (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note), the U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount of such stated interest payment previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Disposition of Notes

On a sale, retirement or other taxable disposition of a Note, a U.S. Holder will generally recognise gain or loss equal to the difference between (i) the amount realised on the disposition and (ii) the U.S. Holder’s adjusted tax basis in the Note.

The amount realised by a U.S. Holder on a taxable disposition of a Note for an amount in euros will be the U.S. dollar value of such euros on the date of the disposition (or on the settlement date of the disposition, in the case of Notes traded on an established securities market and taxably disposed of by a cash basis U.S. Holder or an electing accrual basis U.S. Holder). If an accrual method taxpayer makes the election described in this paragraph, such election must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

A U.S. Holder's adjusted tax basis in a Note will generally equal the "U.S. dollar cost" (as defined herein) of the Note to such holder decreased by any cash payments on the Note other than qualified stated interest. The U.S. dollar cost of a Note purchased with euros will generally be the U.S. dollar value of the purchase price on the date of purchase (or on the settlement date of the purchase, in the case of Notes traded on an established securities market that are purchased by a cash basis U.S. Holder or an electing accrual basis U.S. Holder).

Except as discussed below with respect to exchange gain or loss on a Note attributable to currency fluctuations, any gain or loss recognised by a U.S. Holder in excess of exchange gain or loss on a taxable disposition of a Note will generally be treated as U.S.-source capital gain or loss and will be long-term capital gain or loss if, at the time of the disposition, the Note was held by the U.S. Holder for more than one year. In the case of an individual U.S. Holder, any long-term capital gain will generally be subject to preferential U.S. federal income tax rates. The deductibility of capital losses is subject to significant limitations. Prospective investors should consult their own tax advisors as to the foreign tax credit implications of the sale or retirement of the Notes.

The gain or loss that a U.S. Holder realises on the taxable disposition of a Note that is attributable to fluctuations in currency exchange rates will be taxable as ordinary income or loss and generally will be treated as U.S.-source for U.S. foreign tax credit limitation purposes. Such exchange gain or loss will generally equal the difference, if any, between the U.S. dollar value of the purchase price of the Note on (i) the date of the disposition and (ii) the date on which the U.S. Holder acquired the Note. However, a U.S. Holder will only realise exchange gain or loss with respect to the principal amount of a Note to the extent of the total gain or loss realised by such holder on the disposition. Prospective investors should consult their own tax advisors regarding the proper calculation of exchange gain or loss realised in connection with their acquisition and disposition of the Notes.

Disposition of Euros

Euros received as interest on a Note or upon the sale, retirement or other taxable disposition of a Note generally will have a tax basis equal to their U.S. dollar value at the time they are received. Any gain or loss recognised on a sale, retirement or other taxable disposition of the euros (including their use to purchase Notes or upon their exchange for U.S. dollars) will be U.S. source ordinary income or loss.

Additional Notes

The Issuer may issue Additional Notes as described under "*Description of the Notes*". These Additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such case, the Additional Notes may be considered to have been issued with original issue discount for U.S. federal income tax purposes, which may affect the market value of the original Notes if the Additional Notes are not otherwise distinguishable from the original Notes.

Reportable Transactions

Under the Treasury Regulations, certain transactions are required to be reported to the IRS including, in certain circumstances, a sale, exchange, retirement or other taxable disposition of a Note or foreign currency received in respect of a Note to the extent that such disposition results in a tax loss in excess of a threshold amount. Prospective investors should consult with their own tax advisor to determine the tax return obligations, if any, with respect to their acquisition, holding or disposition of the Notes, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

Backup Withholding and Information Reporting

Generally, information reporting requirements will apply to all payments of principal and interest on, or the proceeds from a sale of, a Note, unless the U.S. Holder is an exempt recipient, such as a corporation. Additionally, if a U.S. Holder fails to provide its taxpayer identification number, or in the case of interest payments, fails either to report in full dividend and interest income or to make certain certifications, it may be subject to backup withholding.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a U.S. Holder's U.S. federal income tax liability provided the required information is timely furnished to the IRS. U.S. Holders are urged to consult their own tax advisors regarding backup withholding and information reporting requirements relating to their ownership of the Notes.

Additional Tax Reporting Requirements

Certain U.S. Holders are required to report information relating to interests in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions), by attaching a complete IRS Form 8938 (Statement of Specified Foreign Financial Assets) with their tax return for each year in which they hold an interest in the Notes. Penalties may apply for failure to properly complete and file IRS Form 8938. Prospective investors are urged to consult their tax own advisors regarding information reporting requirements relating to their ownership of the Notes.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement (the “Purchase Agreement”) dated as of the date hereof, the Issuer has agreed to sell to each Initial Purchaser, and each Initial Purchaser has agreed, severally and not jointly, to purchase from the Issuer the entire principal amount of the Notes.

The Purchase Agreement provides that the obligations of the Initial Purchasers to pay for and accept delivery of the Notes are subject to, among other conditions, the delivery of certain legal opinions by counsel.

The Initial Purchasers propose to offer the Notes initially at the price indicated on the cover page hereof. After the initial offering, the offering price and other selling terms of the Notes may from time to time be varied by the Initial Purchasers without notice.

The Issuer has agreed to pay the Initial Purchasers certain customary fees for their services in connection with the Offering and to reimburse them for certain out-of-pocket expenses.

Persons who purchase Notes from the Initial Purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the Offering price set forth on the cover page hereof.

The Purchase Agreement provides that the Issuer will indemnify and hold harmless the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, and will contribute to payments that the Initial Purchasers may be required to make in respect thereof. We have agreed that, except with the consent of Deutsche Bank AG, London Branch, neither the Issuer nor any of the Guarantors will offer, sell, contract to sell or otherwise dispose of any securities issued or guaranteed by the Issuer or any of its subsidiaries or any of their respective affiliates (other than Permira Advisers LLP, Apax Partners LLP and Clessidra Capital Partners or any of their respective affiliates who are not direct or indirect parent holding companies of the Issuer) that are substantially similar to the Notes (other than any non-public securities issued by Gaming Invest to the extent not guaranteed by the Issuer or any of its subsidiaries) for a period of 90 days after the date of this offering memorandum.

The Notes and the Guarantees have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States except to QIBs in reliance on Rule 144A and to non-U.S. persons in offshore transactions in reliance on Regulation S. Any offer or sale of Notes in the United States in reliance on Rule 144A will be made by broker-dealers who are registered as such under the U.S. Exchange Act. Until 40 days after the later of (i) the commencement of this Offering and (ii) the issue date of the Notes, an offer or sale of the Notes initially sold in reliance on Regulation S within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the U.S. Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S. Resales of the Notes are restricted as described under “*Transfer Restrictions*”.

Each Initial Purchaser has represented, warranted and agreed that it:

- has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the UK Financial Services and Markets Act 2000 (the “FSMA”) received by it in connection with the issuance or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and
- has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

No action has been taken in any jurisdiction, including the United States and the United Kingdom, by the Issuer or the Initial Purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of this offering memorandum or any other material relating to the Issuer or the Notes in any jurisdiction where action for this purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This offering memorandum does not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this offering memorandum comes are advised to inform themselves about and to observe any restrictions relating to the Offering, the distribution of this offering memorandum and resale of the Notes. See “*Transfer Restrictions*”.

The Issuer and the Guarantors have also agreed that they will not at any time offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any securities under circumstances in which such offer, sale, pledge, contract or disposition would cause the exemption afforded by Section 4(2) of the U.S. Securities Act or the safe harbours of Rule 144A and Regulation S to cease to be applicable to the offer and sale of the Notes.

We have applied, through our listing agent, to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market thereof; however, we cannot assure you that such listing will be maintained.

The Initial Purchasers have advised us that they intend to make a market in the Notes after completing the Offering. The Initial Purchasers are not obligated, however, to make a market in the Notes, and any market-making activity may be discontinued at any time at the sole discretion of the Initial Purchasers without notice. In addition, any such market-making activity will be subject to the limits imposed by the U.S. Securities Act and the U.S. Exchange Act. Accordingly, we cannot assure you that any market for the Notes will develop, that it will be liquid if it does develop, or that you will be able to sell any Notes at a particular time or at a price which will be favourable to you. See *“Risk Factors—Risks Related to the Notes—An active trading market may not develop for the Notes”*.

The delivery of the Notes was made against payment of the Notes on May 15, 2013, which was five business days (as such term is used for purposes of Rule 15c6-1 of the U.S. Exchange Act) following the date of pricing of the Notes (this settlement cycle is being referred to as “T+5”).

The Initial Purchasers may engage in over-allotment, stabilising transactions, covering transactions and penalty bids in accordance with Regulation M under the U.S. Exchange Act. Over-allotment involves sales in excess of the Offering size, which creates a short position for the relevant Initial Purchasers. Stabilising transactions permit bidders to purchase the underlying security so long as the stabilising bids do not exceed a specified maximum. Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Initial Purchasers to reclaim a selling concession from a broker or dealer when the Notes originally sold by that broker or dealer are purchased in a stabilising or covering transaction to cover short positions. These activities may stabilise or maintain the respective market price of the Notes above market levels that may otherwise prevail. The Stabilising Manager is not required to engage in these activities, and may end these activities at any time. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Notes. See *“Risk Factors—Risks Related to the Notes—An active trading market may not develop for the Notes”*.

The Initial Purchasers or their respective affiliates from time to time have provided in the past, are currently providing and may provide in the future, investment banking, consultancy, financial advisory, commercial banking and cash management services to the Issuer and its affiliates in the ordinary course of business for which they have received or may receive customary fees and commissions, including in connection with the Amend and Extend. The Initial Purchasers or their affiliates may also receive allocations of the Notes.

The proceeds from the Offering will be used to repay a portion of our indebtedness outstanding under the Senior Secured Credit Facilities Agreement. Certain Initial Purchasers or their affiliates are arrangers and lenders under the Senior Secured Credit Facilities Agreement, and, in their capacities as lenders, will receive a portion of the proceeds from the Offering. Banca IMI S.p.A., one of the initial purchasers of the Notes, is a wholly owned subsidiary of Intesa Sanpaolo S.p.A., the parent company of the Intesa Sanpaolo Group whose subsidiaries or affiliates have in the past provided significant financing and continue to provide financing to the Issuer and its parent company, including through the Senior Secured Credit Facilities Agreement. In addition, Deutsche Bank AG, London Branch or its affiliates are acting as transfer agent, paying agent, listing agent and in other agent roles for the Notes. In connection for their services in such capacities, such Initial Purchasers or affiliates will receive customary fees and commissions.

In the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and instruments of the Issuer or its affiliates. If the Initial Purchasers or their respective affiliates have a lending relationship with the Issuer, they routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, the Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer’s securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The Initial Purchasers and their affiliates may also make investment recommendations and publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and short positions in such securities and instruments.

TRANSFER RESTRICTIONS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Notes offered hereby.

The Notes and the Guarantees have not been and will not be registered under the U.S. Securities Act, or any state securities laws, and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and other applicable state securities laws. Accordingly, the Notes offered hereby are being offered and sold only to QIBs (as defined in Rule 144A under the U.S. Securities Act) in reliance on Rule 144A and in offshore transactions in reliance on Regulation S. Accordingly, the Issuer is offering and selling the Notes to the Initial Purchasers for re-offer and resale only:

- (a) in the United States, to “qualified institutional buyers”, commonly referred to as “QIBs”, as defined in Rule 144A in compliance with Rule 144A; and
- (b) outside the United States, to non-U.S. persons in offshore transactions in accordance with Regulation S.

The Issuer uses the terms “offshore transaction”, “U.S. person” and “United States” with the meanings given to them in Regulation S.

Each purchaser of Notes, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Issuer, each Guarantor and the Initial Purchasers as follows:

- (1) It understands and acknowledges that the Notes and the Guarantees have not been registered under the U.S. Securities Act or any other applicable securities laws and that the Notes are being offered for resale in transactions not requiring registration under the Securities Act or any other securities laws, including sales pursuant to Rule 144A and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the U.S. Securities Act or any other applicable securities laws, pursuant to an exemption therefrom or in any transaction not subject thereto and in each case in compliance with the conditions for transfer set out in paragraphs (5) and (6) below.
- (2) It is neither the Issuer’s “affiliate” (as defined in Rule 144), nor acting on its behalf and that either:
 - (a) it is a QIB, within the meaning of Rule 144A and is aware that any sale of these Notes to it will be made in reliance on Rule 144A, and such acquisition will be for its own account or for the account of another QIB; or
 - (b) it is purchasing the Notes in an offshore transaction in accordance with Regulation S.
- (3) It acknowledges that none of the Issuer, the Guarantors or the Initial Purchasers, nor any person representing any of them, has made any representation to it with respect to the Issuer and its subsidiaries or the offer or sale of any of the Notes, other than the information contained in this offering memorandum, which offering memorandum has been delivered to it and upon which it is relying in making its investment decision with respect to the Notes. It acknowledges that neither the Initial Purchasers nor any person representing the Initial Purchasers make any representation or warranty as to the accuracy or completeness of this offering memorandum. It has had access to such financial and other information concerning the Issuer and its subsidiaries and the Notes that it deems necessary in connection with its decision to purchase any of the Notes, including an opportunity to ask questions of, and request information from, the Issuer and the Initial Purchasers.
- (4) It is purchasing the Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the U.S. Securities Act or any state securities laws, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell such Notes pursuant to Rule 144A, Regulation S or any other exemption from registration available under the U.S. Securities Act, or in any transaction not subject to the U.S. Securities Act.
- (5) It agrees on its own behalf and on behalf of any investor account for which it is purchasing the Notes, and each subsequent holder of the Notes by its acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Notes prior to the date (the “Resale Restriction Termination Date”) that is, in the case of the Rule 144A Notes, one year after the later of the date of the original issue and the last date on which the Issuer or any of its affiliates were the owner of such Notes (or any predecessor thereof) or, in the case of the Regulation S Notes, 40 days after the later of the original issue date and the last date on

which the Notes were first offered to persons other than Distributors (as defined in Rule 902 of Regulation S), only (i) to the Issuer; (ii) pursuant to a registration statement that has been declared effective under the U.S. Securities Act; (iii) for so long as the Notes are eligible for resale pursuant to Rule 144A, to a person you reasonably believe is a QIB that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A; (iv) pursuant to offers and sales that occur outside the United States in offshore transactions in compliance with Regulation S; or (v) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and to compliance with any applicable state securities laws, and any applicable local laws and regulations, and further subject to the Issuer and the Trustee's rights prior to any such offer, sale or transfer (I) pursuant to clause (v) above to require the delivery of an opinion of counsel, certification and other information satisfactory to each of them and (II) in each of the foregoing cases, to require that a certificate of transfer is completed and delivered by the transferor to the Trustee. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date.

Each purchaser acknowledges that each Note will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, (THE "U.S. SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT. THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT ("RULE 144A")) OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, AND (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE RESALE RESTRICTION TERMINATION DATE, WHICH IS *[IN THE CASE OF REGULATION S NOTES: 40 DAYS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE DATE ON WHICH THIS SECURITY WAS FIRST OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN RULE 902 OF THE REGULATION S)]* *[IN THE CASE OF RULE 144A NOTES: ONE YEAR AFTER THE LATEST OF THE ORIGINAL ISSUE DATE HEREOF, THE ORIGINAL ISSUE DATE OF THE ISSUANCE OF ANY ADDITIONAL NOTES AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY)]*, ONLY (A) TO THE ISSUER OR THE GUARANTORS, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT, OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS AND FURTHER SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND OTHER INFORMATION SATISFACTORY TO EACH OF THEM.

A purchaser of Notes, will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes as well as to holders of these Notes.

- (6) It understands that the issuance of Additional Notes under the Indenture may have the effect of extending the Resale Restriction Termination Date.
- (7) It agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on the transfer of such Notes.
- (8) It acknowledges that until 40 days after the commencement of the offering, any offer or sale of the Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

- (9) It acknowledges that the Registrar will not be required to accept for registration or transfer any Notes acquired by it except upon presentation of evidence satisfactory to the Issuer and the Registrar that the restrictions set out therein have been complied with.
- (10) It acknowledges that the Issuer, the Guarantors, the Initial Purchasers and others will rely upon the truth and accuracy of the acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by your purchase of the Notes are no longer accurate, it shall promptly notify the Issuer and the Initial Purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such investor account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such investor account.
- (11) It understands that no action has been taken in any jurisdiction (including the United States) by the Issuer, the Guarantors or the Initial Purchasers that would result in a public offering of the Notes or the possession, circulation or distribution of this offering memorandum or any other material relating to the Issuer or the Notes in any jurisdiction where action for such purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set out under “*Plan of Distribution*” and “*Notice to Certain European Investors*”.

LIMITATIONS ON VALIDITY AND ENFORCEABILITY OF THE GUARANTEES AND THE SECURITY INTERESTS AND CERTAIN INSOLVENCY LAW CONSIDERATIONS

The following is a summary of certain limitations on the validity and enforceability of the Guarantees and the security interests being provided for the Notes, and a summary of certain insolvency law considerations in Italy. The description below is only a summary, and does not purport to be complete or to discuss all the limitations or considerations that may affect the validity and enforceability of the Notes or the Guarantees or security interests being provided for the Notes. Prospective investors in the Notes should consult their own legal advisors with respect to such limitations and considerations.

Limitations on Granting Security Interests and Guarantees under Italian Law

Under Italian law, the creation of a security interest is subject to compliance with the rules on corporate benefit and corporate authorisation. If a security interest is being provided in the context of an acquisition, group reorganisation or restructuring, financial assistance issues may also be triggered.

An Italian company granting a security interest must receive a real and adequate benefit in exchange for the security interest. Whilst corporate benefit for down-stream security (i.e., security granted to secure financial obligations of directly or indirectly subsidiaries of the relevant grantor) is usually self-evident, the validity and effectiveness of up-stream or cross-stream security (i.e., security granted to secure financial obligations of the direct or indirect parent or sister companies of the relevant grantor) granted by an entity organised under the laws of Italy depend on the existence of a real and adequate benefit in exchange for the granted security interest. The concept of real and adequate benefit is not defined in the applicable legislation and is determined on a case-by-case basis. In particular, in case of up-stream and cross-stream security for the financial obligations of group companies, examples may include financial consideration in the form of access to cash flows through intercompany loans from other members of the group. Generally, the risk assumed by an Italian grantor of security must not be disproportionate to the direct or indirect economic benefit to it.

Absence of a real and adequate benefit could render the security provided by an Italian company *ultra vires* and potentially affected by a conflict of interest. Civil liabilities may be imposed on the directors of an Italian grantor if a court holds that it did not act in the best interest of the grantor and that the acts carried out do not fall within the corporate purpose of the company. The lack of corporate benefit could also result in the imposition of civil liabilities on those companies or persons ultimately exercising control over an Italian grantor or having knowingly received an advantage or profit from such improper control. Moreover, the security interest granted by an Italian company could be declared null and void if the lack of corporate benefit was known or presumed to be known by the third party and such third party acted intentionally against the interest of the Italian company.

The above principles on corporate benefit apply equally to up-stream and down-stream guarantees granted by Italian companies.

In addition, the granting of a security or a guarantee by an Italian company cannot include any liability which would result in unlawful financial assistance within the meaning of Article 2358 or 2474, as the case may be, of the Italian Civil Code pursuant to which, subject to specific exceptions, it is unlawful for a company to give financial assistance (whether by means of loans, security, guarantees or otherwise) to support the acquisition or subscription by a third party of its own shares or quotas or those of any entity that (directly or indirectly) controls the Italian company. Financial assistance for refinancing indebtedness originally incurred for the purchase or subscription of its own shares or quotes or those of its direct or indirect parent company would also be a violation. Each Guarantee will be limited to the maximum amount that would not render the Guarantor's obligations subject to avoidance under applicable fraudulent conveyance provisions of the United States Bankruptcy Code or any comparable provision of foreign or state law, or as otherwise required under the Agreed Security Principles to comply with corporate benefit, financial assistance and other laws. By virtue of this limitation, a Guarantor's obligation under its Guarantee could be significantly less than amounts payable with respect to the Notes, or a Guarantor may have effectively no obligation under its Guarantee.

Given the above limitation in relation to Italian financial assistance law, each Guarantee and security interest granted by Sisal S.p.A., Sisal Entertainment S.p.A. and Sisal Match Point S.p.A. will not exceed in any case the lower of (i) original principal amount of the Subsidiaries Guaranteed/Secured Tranche, reduced, from time to time, by an amount equal to any repayment, prepayment or redemption of the principal amount of the Notes multiplied by the ratio of (a) the original principal amount of the Subsidiaries Guaranteed/Secured Tranche to (b) the original principal amount of the Notes (unless to the extent the principal amount of the Notes is repaid, prepaid or redeemed with the proceeds of a payment made by the Guarantor under the Guarantee); and (ii) the original principal amount of the Proceeds Loans granted to the Guarantor only. In any event, pursuant to Article 1938 of the Italian Civil Code, the maximum amount that the Guarantors may be required to pay shall not exceed 150% of the Subsidiaries Guaranteed /Secured Tranche. Accordingly the holders of the Notes will be able to recover limited amounts under the relevant Guarantees and security. In addition any amount use to repay the Notes will be applied on a pro-rata basis between the Subsidiaries Guaranteed/Secured Tranche and the remaining proceeds of the Notes.

It is uncertain and untested in the Italian courts whether under Italian law a security can be created and perfected (i) in favour of creditors (such as the holders of the Notes) which are neither directly parties to the relevant security documents nor are specifically identified therein or in the relevant share certificates and corporate documents or public registries; and (ii) in favour of The Law Debenture Corporation p.l.c. as the Trustee of the Notes since there is no established

concept of “trust” or “trustee” under Italian law and the precise nature, effect and enforceability of the duties, rights and powers of the Trustee as agent or trustee for holders of the Notes under security interests on Italian assets is debatable under Italian law.

To address the above potential issue, the Collateral will be created and perfected in favour of the Trustee acting also in its capacity as common representative (*rappresentante comune*) of the holders of the Notes pursuant to Articles 2417 and 2418 of the Italian Civil Code. However, please note that the enforceability of Italian law security granted in favour of a trustee acting as trustee and common representative (*rappresentante comune*) of the holders of the Notes pursuant to Articles 2417 and 2418 of the Italian civil Code has not been tested in the Italian courts and, therefore, the risk of unenforceability by the holders of the Notes of the security documents posed by Italian law cannot be eliminated or mitigated.

Centre of Main Interests

Pursuant to Council Regulation (EC) No. 1346 of May 29, 2000 on insolvency proceedings (the “EU Insolvency Regulation”), the court which shall have jurisdiction to open insolvency proceedings in relation to a company is the court of the Member State (other than Denmark) where the company concerned has its “centre of main interests” (as that term is used in Article 3(1) of the EU Insolvency Regulation). The determination of where any such company has its “centre of main interests” is a question of fact on which the courts of the different Member States may have differing and conflicting views. The term “centre of main interests” is not a static concept and may change from time to time. Although there is a rebuttable presumption under Article 3(1) of the EU Insolvency Regulation that any such company has its “centre of main interests” in the Member State in which it has its registered office, Preamble 13 of the EU Insolvency Regulation states that the “centre of main interests” of a debtor should correspond to the place where the debtor conducts the administration of its interests on a regular basis and is therefore ascertainable by third parties. In that respect, factors such as where board meetings are held, the location where the company conducts the majority of its business and the location where a large majority of the company’s creditors are established may all be relevant in the determination of the place where the company has its “centre of main interests”.

If the “centre of main interests” of a company is and will remain located in the state in which it has its registered office, the main insolvency proceedings in respect of the company under the EU Insolvency Regulation would be commenced in such jurisdiction and, accordingly, a court in such jurisdiction would be entitled to commence the types of insolvency proceedings referred to in Annex A to the EU Insolvency Regulation. Insolvency proceedings opened in one Member State under the EU Insolvency Regulation are to be recognised in the other Member States (other than Denmark), although secondary proceedings may be opened in another Member State. If the “centre of main interests” of a debtor is in one Member State (other than Denmark), under Article 3(2) of the EU Insolvency Regulation, the courts of another Member State (other than Denmark) have jurisdiction to open “territorial proceedings” only in the event that such debtor has an “establishment” (within the meaning of the EU Insolvency Regulation) in the territory of such other Member State. The effects of those territorial proceedings are restricted to the assets of the debtor situated in the territory of such other Member State. If the company does not have an establishment in any other Member State, no court of any other Member State has jurisdiction to open territorial proceedings in respect of such company under the EU Insolvency Regulation.

The Notes will be issued by the Issuer, an entity which has its “centre of main interests” (as defined in the EU Insolvency Regulation) in Italy. Additionally, the Guarantors are entities which have their “centre of main interests” (as defined in the EU Insolvency Regulation) in Italy. As a result, in the event of the insolvency or financial distress of the Issuer and/or the Guarantors, insolvency, reorganisation and debt restructuring proceedings will be initiated in Italy.

Applicable Insolvency Laws

The insolvency laws of Italy may not be as favourable to investors’ interests as those of creditors in other jurisdictions with which investors may be familiar. In Italy, courts play a central role in the insolvency process. Moreover, the enforcement of security interests by creditors in Italy can be time consuming.

The following is a brief description of certain aspects of insolvency law in Italy.

The two primary aims of Royal Decree No. 267 of March 16, 1942 (the main Italian bankruptcy legislation), as reformed and currently in force (the “Italian Bankruptcy Law”) are to maintain employment and to liquidate the debtor’s assets for the satisfaction of creditors. These competing aims often have been balanced by the sale of businesses as going concerns and ensuring that employees are transferred along with the businesses being sold.

Under the Italian Bankruptcy Law, bankruptcy must be declared by a court, based on the insolvency (*insolvenza*) of a company. Insolvency occurs when a debtor is no longer able to regularly meet its obligations as they come due. This must be a permanent rather than a temporary status.

The following debt restructuring and bankruptcy alternatives are available under Italian law for companies facing financial difficulties or in a state of temporary crisis, and for insolvent companies.

Restructuring outside of a judicial process (concordati stragiudiziali)

Restructuring generally takes place through a formal judicial process because it is more favourable for the debtor and because informal arrangements put in place as a result of an out-of-court restructuring are vulnerable to being reviewed

by a court in the event of a subsequent insolvency, and possibly challenged as voidable transactions. However, in cases where a company is solvent, but facing financial difficulties, it may be possible to enter into an out-of-court arrangement with its creditors, which may safeguard the existence of the company.

Out-of-court reorganisation plans (Piani di risanamento) pursuant to Article 67, Paragraph 3(d) of the Italian Bankruptcy Law.

Out-of-court debt restructuring agreements are based upon restructuring plans (“*piani di risanamento attestati*”) and are prepared by companies for the restructuring of their indebtedness and to ensure the recovery of their financial condition, the reasonableness of which must be assessed by an independent expert.

Debt restructuring agreements with creditors (accordi di ristrutturazione dei debiti)

Out-of-court agreements for the restructuring of indebtedness entered into with creditors representing at least 60% of the total amount of the company’s outstanding debts can be ratified by the court. An expert appointed by the debtor must assess that the agreement is feasible and that it ensures that the non-participating creditors can be fully satisfied within the following terms: (a) 120 days from the date of the certification (*omologa*), for debts due prior to or at such date; or (b) 120 days from the contractual payment date, for debts not yet payable at the date of certification (*omologa*). Only a debtor who is insolvent or in a situation of “financial distress” (i.e., facing financial distress which does not yet amount to insolvency) can initiate this process and request the court’s ratification (*omologazione*) of the debt restructuring agreement entered into with its creditors.

The agreement is published in the companies’ register and is effective as of the day of its publication. Starting from the date of such publication and for 60 days thereafter, creditors cannot start or continue any interim relief or enforcement actions over the assets of the debtor in relation to pre-existing receivables. Such moratorium of any interim relief and enforcement actions can be requested by the debtor from the court also prior to the above-mentioned publication of the agreement, subject to the fulfilment of certain conditions. The debt restructuring agreement may also contain a proposed tax settlement for the partial or deferred payment of certain taxes.

Such moratorium can also be requested, pursuant to Article 182-bis, Paragraph 6 of the Italian Bankruptcy Law, by the debtor from the court pending negotiations with creditors (prior to the above-mentioned publication of the agreement), subject to the fulfilment of certain conditions. Such moratorium request must be published in the companies’ register and becomes effective as of the date of publication. The court, having verified the completeness of the documentation, sets the date for a hearing within 30 days of the filing of the request and orders the company to supply the relevant documentation in relation to the moratorium to the creditors. In such hearing, the court assesses whether the conditions for granting the moratorium are in place and, if they are, orders that no interim relief or enforcement action may be started or continued, nor can security interests (unless agreed) be acquired over the assets of the debtor, and sets a deadline (not exceeding 60 days) within which a debt restructuring agreement and the assessment by the expert must be deposited. The court’s order may be challenged within 15 days of its publication. Within the same time frame, an application for the *concordato preventivo* (as described below) may be filed, without prejudice to the effect of the moratorium.

Creditors may oppose the agreement within 30 days from the publication of the agreement in the companies’ register. After having settled the oppositions (if any) the court will validate the agreement by issuing a decree, which can be appealed within 15 days of its publication.

Court-supervised pre-bankruptcy composition with creditors (concordato preventivo)

A company which is insolvent or in a situation of “financial distress” but has not been declared insolvent by the court has the option to seek an arrangement with its creditors under court supervision in order to compose its overall indebtedness and/or reorganize its business, thereby avoiding a declaration of insolvency and the initiation of bankruptcy proceedings. Such arrangement with creditors can be sought by a company which meets any of the following thresholds: (i) assets (*attivo patrimoniale*) in an aggregate amount exceeding €0.3 million in each of the three preceding fiscal years; (ii) gross revenue (*ricavi lordi*) in an aggregate amount exceeding €0.2 million for each of the three preceding fiscal years; or (iii) total indebtedness in excess of €0.5 million. Only the debtor company can file a petition for a *concordato preventivo* (together with, *inter alia*, the proposed agreement and a report prepared by an independent expert appointed by the debtor assessing, *inter alia*, the feasibility of the composition proposal). Between the filing of the *concordato preventivo* proposal with the court and its confirmation by the court, all enforcement actions by the creditors (whose title arose before the confirmation of the court) are stayed. The composition proposal may provide for: (i) the restructuring of debts and the satisfaction of creditors’ claims, in any manner, including for example, through extraordinary transactions such as the granting to creditors and their subsidiaries or affiliated companies of shares, bonds (also convertible into shares), or other financial instruments and debt securities; (ii) the transfer to a receiver (*assuntore*) of the operations of the business involved in the proposed composition agreement; (iii) the division of creditors into classes; and (iv) different treatments for creditors belonging to different classes. The composition agreement may also contain a proposed tax settlement for the partial or deferred payment of certain taxes.

The composition agreement may also propose the continuation of the relevant business activity by the debtor company, the transfer of the business itself or the contribution thereof in one or more companies (even though newly incorporated), without prejudice to the possibility to liquidate the assets which are not necessary to carry out the business (*concordato con continuità aziendale*). In such case, the Italian Bankruptcy Law provides for a specific regime, specifying, *inter alia*, that the relevant composition proposal shall also fully describe the costs and revenues which are expected as a consequence of the continuation of the business activity, of the financial resources which will be necessary and the relevant financial support and that the expert shall certify that the continuation of the business is functional to a better satisfaction of the creditors.

The court determines whether the proposal for the composition is admissible, in which case the court, *inter alia*, delegates a judge (*giudice delegato*) to follow the procedure, appoints one or more judicial officers (*commissari giudiziali*) and calls a creditor meeting. During the implementation of the arrangement, the company is managed by its corporate bodies (generally its board of directors) under the surveillance of such judicial officer(s) and under the supervision of such judge delegated by the court.

The *concordato preventivo* is voted on at a creditors' meeting and must be approved by creditors representing a majority of the unsecured creditors entitled to vote or, where different classes of creditors are formed, by the majority of creditors within each class. Those creditors who, being entitled to vote, did not do so and those who did not express their dissent (including failing to notify their objection via telegraph, fax, mail or certified e-mail) within 20 days of the closure of the minutes of the creditors' meeting are deemed to be consenting to the *concordato preventivo*. Secured creditors do not generally vote on the proposal of *concordato preventivo* unless they waive their security or the *concordato preventivo* provides that they will not receive full satisfaction (in which case they can vote only in respect of the part of the debt affected by such proposal). If a creditor of a dissenting class or, if the plan does not provide for more classes of creditors, a number of dissenting creditors representing 20% of the credits admitted to vote, file an opposition to the certification, the competent court may reject such opposition and sanction the *concordato preventivo* if it deems that the relevant credit may be satisfied, as a result of the *concordato preventivo*, for an amount which is not lower than the amount achievable through the alternatives otherwise.

After the creditors' approval, the court (after having settled possible objections raised by the dissenting creditors, if any) must confirm the *concordato preventivo* proposal by issuing a confirmation order.

If the approval of the *concordato preventivo* fails, the court may, upon request by the public prosecutor or a creditor and after having ascertained the condition for declaration of bankruptcy, declare the company bankrupt.

Pre-application for the composition with creditors (concordato preventivo), even in view of a restructuring agreement (accordo di ristrutturazione dei debiti)

The filing of the application for the certification of a restructuring arrangement (*accordo di ristrutturazione dei debiti*) and the application for a composition with creditors (*concordato preventivo*) may be pre-empted by the filing by the debtor distressed company of a pre-application for a composition with creditors (*concordato preventivo*). In particular, according to Article 161(6) of the Italian Bankruptcy Law, the distressed company may file a pre-application for the composition with creditors together with the financial statements of the last three financial years, asking the competent court to set a deadline, between 60 and 120 days (subject to a further extension of up to 60 days where there are reasonable grounds) for the filing of additional documents required for the filing of a petition at court for a *concordato preventivo*. The debtor company may not file such pre-application where it had already done so in the previous two years without the admission to the composition with creditors (or the certification of a restructuring arrangement (*accordo di ristrutturazione dei debiti*)) having followed. The decree setting the term for the presentation of the documentation contains also the periodical information requirements (relating also to the financial management of the company) that the company has to fulfil until the lapse of the term established by the court. Non-compliance with these requirements results in the application for the composition with creditors being declared inadmissible and, upon request of the creditors or the public prosecutor and provided that the relevant requirements are verified, in the adjudication of the Distressed Company into bankruptcy. Following the filing of the pre-application and until the decree of admission to the composition with creditors, the distressed company may (i) carry out acts pertaining to its ordinary activity and (ii) seek the Court's authorisation to carry out acts pertaining to its extraordinary activity, to the extent they are urgent. Receivables arising from acts lawfully carried out by the distressed company are treated as super-senior (*prededucibili*) pursuant to Article 111 of the Italian Bankruptcy Law and the related acts, payments and security interests granted are exempted from the claw-back action provided under Article 67 of the Italian Bankruptcy Law.

Bankruptcy (fallimento)

A request to declare a debtor bankrupt and to commence bankruptcy proceedings (*fallimento*) for the judicial liquidation of its assets can be filed by the same debtor, any number of creditors and, in certain cases, by the public prosecutor. Bankruptcy is declared by the competent bankruptcy court. The Italian Bankruptcy Law is applicable only if the company meets any of the following thresholds: (i) assets (*attivo patrimoniale*) in an aggregate amount exceeding €0.3 million in each of the three preceding fiscal years; (ii) gross revenue (*ricavi lordi*) in an aggregate amount exceeding €0.2 million for each of the three preceding fiscal years; or (iii) total indebtedness in excess of €0.5 million.

Upon the commencement of bankruptcy proceedings:

- subject to certain exceptions, all actions of creditors are stayed and creditors must file claims within a defined period. In particular, under certain circumstances secured creditors may execute against the secured property as soon as their claims are admitted as preferred claims. Secured claims are paid out of the proceeds of the secured assets, together with interest and expenses. Any outstanding balance will be considered unsecured and rank *pari passu* with all of the bankrupt's other unsecured debt. The secured creditor may sell the secured asset only after it has obtained authorisation from the designated judge (*giudice delegato*). After hearing the bankruptcy trustee and the creditors' committee, the designated judge decides whether to authorise the sale, and sets forth the timing in his or her decision;
- the administration of the debtor and the management of its assets pass from the debtor to the bankruptcy receiver (*curatore fallimentare*); and
- after a declaration of bankruptcy with respect to a creditor, any act (including payments) made by the debtor, other than those made through the receiver, become ineffective. Although the general rule is that the bankruptcy receiver is allowed to terminate contracts where some or all of the obligations have not been performed, certain contracts are subject to specific rules expressly provided for by Italian Bankruptcy Law.

Bankruptcy proceedings are carried out and supervised by a court-appointed bankruptcy receiver, a deputy judge (*giudice delegato*) and a creditors' committee. The bankruptcy receiver is not a representative of the creditors, and is responsible for the liquidation of the assets of the debtor to the satisfaction of creditors. The proceeds from the liquidation are distributed in accordance with statutory priority. The liquidation of a debtor can take a considerable amount of time, particularly in cases where the debtor's assets include real property. The Italian Bankruptcy Law provides for priority of payment to certain preferential creditors, including employees, the Italian treasury, and judicial and social authorities. Additionally, Italian bankruptcy law provides for the following:

- *Bankruptcy composition with creditors (concordato fallimentare)*. A bankruptcy proceeding can terminate prior to liquidation through a bankruptcy composition proposal with creditors. The relevant petition can be filed by one or more creditors, third parties or the receiver starting from the declaration of bankruptcy, whereas the debtor or its subsidiaries are admitted to file such a proposal only after one year following such declaration but before the lapse of two years from the decree giving effectiveness to the bankruptcy's estate. The petition may provide for the division of creditors into classes (thereby proposing different treatments among the classes), the restructuring of debts and the satisfaction of creditors' claims in any manner. The petition may provide the possibility that secured claims are paid only in part. The concordato fallimentare proposal must be approved by the creditors' committee and the creditors holding the majority of claims (and, if classes are formed, by a majority of the claims in a majority of the classes). Final court confirmation is also required.
- *Statutory priorities*. The statutory priority assigned to creditors under the Italian Bankruptcy Law may be different from the priorities in the United States, the United Kingdom and certain other EU jurisdictions. Under Italian law, the highest priority claims (after the costs of the proceedings are paid) are the claims of preferential creditors, including the claims of the Italian tax authorities and social security administrators, and claims for employee wages. The remaining priorities of claims are, in order of priority, those related to secured creditors (*creditori privilegiati*; a preference in payment in most circumstances, but not exclusively, provided for by law), mortgages (*creditori ipotecari*), pledges (*creditori pignoratizi*) and unsecured creditors (*crediti chirografari*). Under Italian law, the proceeds from the sale of the bankrupt's estate are distributed according to legal rules of priority. Neither the debtor nor the court can deviate from these priority rules by proposing their own priorities of claims or by subordinating one claim to another based on equitable subordination principles. The law creates a hierarchy of claims that must be adhered to when distributing the proceeds derived from the sale of the entire bankrupt's estate or part thereof, or from a single asset.
- *Avoidance powers in insolvency*. Similar to other jurisdictions, there are so-called "clawback" or avoidance provisions under Italian law that may give rise, *inter alia*, to the revocation of payments or to the granting of security interests made by the debtor prior to the declaration of bankruptcy. The key avoidance provisions address transactions made below market value, preferential transactions and transactions made with a view to defraud creditors. Clawback rules under Italian law are normally considered to be particularly favourable to the receiver in bankruptcy compared to the rules applicable in other jurisdictions.

In a bankruptcy proceeding, the Italian Bankruptcy Law provides for a clawback period of up to one year (six months in certain circumstances) and a two-year ineffectiveness period for certain other transactions.

In particular, the Italian Bankruptcy Law distinguishes between acts or transactions which are ineffective by operation of law and acts or transactions which are voidable at the request of the bankruptcy receiver/court commissioner:

- (a) *Acts ineffective by operation of law*. (i) Under article 64 of the Italian Bankruptcy Law, all transactions entered into for no consideration are ineffective vis-à-vis creditors if entered into by the bankrupt entity in the two-year period prior to the insolvency declaration, and (ii) under article 65 of the Italian Bankruptcy

Law, payments of receivables falling due on the day of the insolvency declaration or thereafter are deemed ineffective vis-à-vis creditors, if made by the bankrupt entity within the two-year period prior to the insolvency declaration.

- (b) Acts that may be avoided at the bankruptcy receiver's request. These can include the following:
- (i) The following acts and transactions, if made during the vulnerability period or such other period specified below, may be avoided and declared ineffective, unless the other party proves that it had no actual or constructive knowledge of the debtor's insolvency:
- transactions entered into in the year before the insolvency declaration, when the value of the debt or the obligations undertaken by the bankrupt entity exceeds 25% of the value of the consideration received by and/or promised to the debtor;
 - payments of debts, due and payable, made by the bankrupt entity which were not paid in cash or by other customary means of payment in the year prior to the insolvency declaration;
 - pledges and mortgages granted by the bankrupt entity in the year prior to the insolvency declaration in order to secure pre-existing debts which have not yet fallen due; and
 - pledges and mortgages granted by the bankrupt entity in the six months prior to the insolvency declaration in order to secure mature debts.
- (ii) The following acts and transactions, if made during the vulnerability period or such other period specified below, may be avoided and declared ineffective if the bankruptcy receiver proves that the other party knew that the bankrupt entity was insolvent:
- (I) the payments of debts that are immediately due and payable and any onerous transactions entered into or made within six months prior to the insolvency declaration; and
- (II) deeds granting pre-emptive rights in favour of debts (even those of third parties) which are simultaneously created and made within six months prior to the insolvency declaration.
- (iii) The following transactions are exempt from clawback actions:
- (I) a payment for goods or services made in the ordinary course of business according to market practice;
- (II) a remittance on a bank account; *provided that* it does not materially and permanently reduce the bankrupt entity's debt towards the bank;
- (III) the sale, including an agreement for sale registered pursuant to Article 2645-bis of the Royal Decree No. 262 of March 16, 1942 (the "Italian Civil Code"), currently in force, made for a fair value and concerning a residential property that is intended as the main residence of the purchaser or the purchaser's family (within three degrees of kinship) or a non-residential property that is intended as the main seat of the enterprise of the purchaser; *provided that*, as at the date of the insolvency declaration, the activity is actually exercised therein or the investments for the commencement of such activity have been carried out therein;
- (IV) transactions entered into, payments made and guarantees issued with respect to the bankrupt entity's goods, provided that they concern the implementation of a plan (*piano attestato*) which permits for the restructuring of the debt and for the improvement of its financial position; *provided that* an "independent" (in accordance with article 67 of the Italian Bankruptcy Law) expert registered in the legal register and eligible to be appointed as a bankruptcy receiver pursuant to article 28, paragraphs (a) and (b), of the Italian Bankruptcy Law is certifying the accuracy of the business data and the feasibility of the plan;
- (V) a transaction entered into, payment made or guarantee issued to implement a "*concordato preventivo*" or an "*accordo di ristrutturazione dei debiti*" under Article 182-bis of the Italian Bankruptcy Law and transactions entered into, payments made and security interests granted after the filing for the application for a *concordato preventivo* pursuant to Article 161 of the Italian Bankruptcy Law (see above); and

- (VI) remuneration payments to the bankrupt entity's employees and consultants concerning work carried out by them;
- (c) payments of a debt that is immediately due, payable and made on the due date, with respect to services necessary for access to concordato preventivo procedures.

In addition, in certain cases, the bankruptcy receiver can request that certain transactions of the bankrupt entity be declared void within the ordinary clawback period of five years (*revocatoria ordinaria*) provided for by the Italian Civil Code. Under Article 2901 of the Italian Civil Code, a creditor may demand that transactions whereby the bankrupt entity disposed of its assets prejudicially to such creditor's rights be declared ineffective with respect to such creditor, provided that the bankrupt entity was aware of such prejudice (or, if the transaction was entered into prior to the date on which the claim was originated, that such transaction was fraudulently entered into by the bankruptcy entity for the purpose of prejudicing the bankrupt entity) and that, in the case of a transaction entered into for consideration with a third person, the third person was aware of such prejudice (and, if the transaction was entered into prior to the date on which the claim was originated, such third person participated in the fraudulent design).

Extraordinary administration for large insolvent companies (amministrazione straordinaria delle grandi imprese in stato di insolvenza)

An extraordinary administration procedure is available under Italian law for large industrial and commercial enterprises (commonly referred to as the "*Prodi-bis*" procedure). Companies must be insolvent although able to demonstrate serious recovery prospects. To qualify for this procedure, the company must have employed at least 200 employees in the previous year. In addition, it must have debts equal to at least two-thirds of its assets as shown in its financial statements and two-thirds of its income must have been derived from sales and services during its last financial year. The procedure may be commenced by petition of the creditors, the debtor, a court or the public prosecutor. The same rules set forth for bankruptcy proceedings with respect to existing contracts and creditors' claims largely apply to an extraordinary administration proceeding. Extraordinary administration procedures involve two main phases—an administrative phase and a judicial phase.

In the administrative phase, the court determines whether the company meets the admission criteria and whether it is insolvent. It then issues a decision to that effect and appoints a judicial receiver (or up to three such judicial receivers) (*commissario giudiziale*) to investigate whether there are serious prospects for recovery via a business sale or reorganisation. The judicial receiver submits a report to the court (within 30 days) together with an opinion from the Italian Productive Activities Minister (the "Ministry"). The court has 30 days to decide whether to admit the company to the procedure or place it into bankruptcy.

Assuming that the company is admitted to the extraordinary administration procedure, the judicial phase begins and the extraordinary commissioner(s), appointed by the Ministry, prepare a restructuring plan. The plan can provide either for the sale of the business as a going concern within one year (unless extended by the Ministry) (the "Disposal Plan") or a reorganisation leading to the company's economic and financial recovery within two years (unless extended by the Ministry) (the "Recovery Plan"). It may also include an arrangement with creditors (e.g. debt for equity swap, an issue of shares in a new company to whom the assets of the company have been transferred, etc.) (*concordato*). The plan must be approved by the Ministry. The procedure ends upon successful completion of either a Disposal Plan or a Recovery Plan; however, should either plan fail, the company will be declared bankrupt.

Industrial restructuring of large insolvent companies (ristrutturazione industriale di grandi imprese in stato di insolvenza)

Introduced in 2003, the industrial restructuring of large solvent companies is also known as the "*Marzano procedure*". It is complementary to the *Prodi-bis* procedure and, except as otherwise provided, the same provisions apply. The Marzano procedure is intended to work faster than the *Prodi-bis* procedure. For example, although a company must be insolvent, the application to the Ministry can be made before the court commences the administrative phase.

The Marzano procedure only applies to large insolvent companies which, on a consolidated basis, have at least 500 employees in the year before the procedure is commenced and at least €300 million of debt. The decision whether to open a Marzano procedure is taken by the Ministry following the debtor's request (who must also file an application for the declaration of insolvency). The Ministry assesses whether the relevant requirements are met and then appoints the extraordinary commissioner(s) who will manage the company. The court also decides on the company's insolvency.

The extraordinary commissioner(s) has/have 180 days (or 270 days if the Ministry so agrees) to submit a Disposal Plan or Recovery Plan. The restructuring through the Disposal Plan or the Recovery Plan must be completed within, respectively, one year (extendable to two years) and two years. If no Disposal or Recovery Plan is approved by the Ministry, the court will declare the company bankrupt and open bankruptcy proceedings.

Compulsory administrative winding-up (liquidazione coatta amministrativa)

A compulsory administrative winding-up (*liquidazione coatta amministrativa*) is only available for public interest entities such as state-controlled companies, insurance companies, credit institutions and other financial institutions, none of which can be woundup pursuant to bankruptcy proceedings. It is irrelevant whether these companies belong to the public or

the private sector. A compulsory administrative winding-up is a special insolvency proceeding in that the entity is liquidated not by the bankruptcy court but by the relevant administrative authority that oversees the industry in which the entity is active. The procedure may be triggered not only by the insolvency of the relevant entity, but also by other grounds expressly provided for by the relevant legal provisions (e.g., in respect of Italian banks, serious irregularities concerning the management of the bank or serious violations of the applicable legal, administrative or statutory provisions).

The effect of this procedure is that the entity loses control over its assets and a liquidator (*commissario liquidatore*) is appointed to wind up the company. The liquidator's actions are monitored by a steering committee (*comitato di sorveglianza*). The powers assigned to the designated judge and the bankruptcy court under the other insolvency proceedings are assumed by the relevant administrative authority under this procedure. The effect of the forced administrative winding-up on creditors is largely the same as under bankruptcy proceedings and includes, for example, a ban on enforcement measures. The same rules set forth for bankruptcy proceedings with respect to existing contracts and creditors' claims largely apply to a compulsory administrative winding-up.

Fraudulent Transfer Provisions of General Applicability Including During Bankruptcy

Under Italian law, an action can be brought by any creditor of a given debtor within five years from the date in which the latter enters into a guarantee, agreement and any other act by which it disposes of any of its assets, in order to seek a clawback action (*azione revocatoria*) pursuant to Article 2901 of the Italian Civil Code (which results in a declaration of ineffectiveness as to the acting creditor) of the said guarantee, agreement and other act that is purported to be prejudicial to the acting creditor's right of credit. An Italian court could revoke said guarantee, agreement and other act only if it, in addition to ascertaining prejudice (as outlined above), was to make the two following findings:

- that the debtor was aware of the prejudice which the act would cause to the rights of the acting creditor, or, if such act was done prior to the existence of the claim or credit, that the act was fraudulently designed for the purpose of prejudicing the satisfaction of the claim or credit;
- that, in the case of non-gratuitous act, the third party involved was aware of said prejudice and, if the act was done prior to the existence of the claim or credit, that the said third party participated in the fraudulent design.

Under Luxembourg law, financial collateral arrangements within the meaning of the Luxembourg law of 5 August 2005 on financial collateral arrangements, as amended, may not be challenged by a bankruptcy receiver on the basis of insolvency regulations. Although the revocatory action specifically open to the bankruptcy receiver under bankruptcy rules where a transaction has defrauded the creditors of the bankrupt debtor has been clearly set aside by the Luxembourg law of 5 August 2005 on financial collateral arrangements, as amended, even if governed by a foreign law, the general revocatory action open to any creditor who is the victim of an act defrauding its rights, pursuant to article 1167 of the Luxembourg Civil Code (*actio pauliana*) and foreign revocatory actions not founded on insolvency regulations (to the extent applicable under conflict of laws rules), should remain available to such creditor.

SERVICE OF PROCESS AND ENFORCEMENT OF JUDGMENTS

The Issuer is a joint stock company (*società per azioni*) organised under the laws of Italy. All of the directors and executive officers of the Issuer live outside the United States. Substantially all the assets of the directors and executive officers of the Issuer and all the assets of the Issuer are located outside the United States. As a result, although the Issuer has appointed an agent for service of process under the indenture governing the Notes, it may be difficult for you to serve process on those persons or the Issuer in the United States or to enforce judgments obtained in U.S. courts against them or the Issuer based on civil liability provisions of the federal or state securities laws of the United States.

Subject to the qualifications described below, recognition and enforcement in Italy of final judgments of U.S. courts, including judgments obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws, may not require retrial on the merits and will be enforceable in Italy, provided that pursuant to Article 64 of Italian Law No. 218 of May 31, 1995, *inter alia*, the following conditions are met: (i) the relevant U.S. court which rendered the judgment had jurisdiction upon the matter in accordance with Italian law and have rendered a final and binding judgment, not subject to any further appeal (*passato in giudicato*); (ii) summons and complaints have been appropriately served on the defendant in accordance with applicable U.S. law and no fundamental right of the defendant has been violated during the proceedings; (iii) the parties have had an opportunity to be heard in accordance with applicable U.S. law; (iv) there is no conflicting final judgment by an Italian court or an action pending in Italy that commenced prior to the commencement of the proceedings before the U.S. court among the same parties and arising from the same facts and circumstances; and (v) the content of the U.S. judgment does not violate Italian public policy.

Furthermore, according to Article 67 of Italian Law No. 218 of May 31, 1995, if the judgment rendered by the U.S. court is not complied with, its recognition is challenged or it is necessary to enforce such judgment, a proceeding must be instituted in the competent Court of Appeal to this end. The competent Court of Appeal does not consider the merits of the case but reviews exclusively the existence of all the requirements set out above (including that requiring that the judgment rendered by the U.S. federal or New York state court is not contrary to public policy in Italy).

In original actions brought before Italian courts, there is doubt as to the enforceability of liabilities or remedies based solely on the U.S. federal securities laws. In addition, in original actions brought before Italian courts, Italian courts may apply not only Italian rules of civil procedure, but also certain substantive provisions of Italian law that are regarded as mandatory and may refuse to apply U.S. law provisions if the relevant application violates Italian public policy.

LEGAL MATTERS

Certain legal matters in connection with this Offering will be passed upon for us by Cravath, Swaine & Moore LLP as to matters of United States federal and New York law and by Studio Legale Associato in association with Linklaters as to matters of Italian law. Certain legal matters in connection with this offering will be passed upon for the Initial Purchasers by Latham & Watkins (London) LLP as to matters of United States federal and New York law and Latham & Watkins as to matters of Italian law.

INDEPENDENT AUDITORS

The Issuer's consolidated financial statements as of December 31, 2010, 2011, and 2012 and for each of the three years in the period then ended, included in this Offering Memorandum, have been audited by PricewaterhouseCoopers S.p.A., independent accountants, as stated in their reports appearing herein. PricewaterhouseCoopers S.p.A. with registered office in Via Monte Rosa 91, Milan is registered under No. 43 in the Register of Statutory Auditors by the Italian Ministry of Economy and Finance and set out at Article 161 of the Unified Text of the Rules for the Capital Markets (*Testo Unico delle Disposizioni in materia di mercati finanziari*) and under No. 119644 in the Register of Accountancy Auditors (*Registro dei Revisori Contabili*), in compliance with the provisions of the Legislative Decree of 27 January, 1992, No. 88. PricewaterhouseCoopers S.p.A. is also a member of ASSIREVI, the Italian association of auditing firms.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

Each purchaser of the Notes from the Initial Purchasers will be furnished a copy of this offering memorandum and any related amendments or supplements to this offering memorandum. Each person receiving this offering memorandum and any related amendments or supplements to the offering memorandum acknowledges that:

- (1) such person has been afforded an opportunity to request from us, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;
- (2) such person has not relied on the Initial Purchasers or any person affiliated with any of the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision; and
- (3) except as provided pursuant to paragraph (1) above, no person has been authorised to give any information or to make any representation concerning the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorised by us or the Initial Purchasers.

For so long as any of the Notes remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act, we will, during any period in which we are not subject to Section 13 or 15(d) under the U.S. Exchange Act, make available to any holder or beneficial holder of a Note, or to any prospective purchaser of a Note designated by such holder or beneficial holder, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the U.S. Securities Act, upon the written request of any such holder or beneficial owner. We are not currently subject to the periodic reporting or other information requirements of the U.S. Exchange Act.

The additional documents and information specified in “*Listing and General Information*” herein and not included in this offering memorandum will be available to be inspected and obtained by holders at the specified office of the listing agent in Luxembourg during normal business hours on any weekday.

LISTING AND GENERAL INFORMATION

Listing

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit to trading on the Euro MTF Market in accordance with the rules and regulations of that exchange.

The Notes have been accepted for clearance through the facilities of Euroclear and Clearstream.

So long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and are admitted to trading on the Euro MTF and the rules and regulations of the Luxembourg Stock Exchange so require, the Issuer will publish or make available any notices (including financial notices) to the public in written form at the places indicated by announcements to be published in a leading newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or on the website of the Luxembourg Stock Exchange or by any other means considered equivalent by the Luxembourg Stock Exchange.

For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and are admitted to trading on the Euro MTF and the rules and regulations of the Luxembourg Stock Exchange so require, copies of the following documents may be obtained free of charge from the Issuer:

- the organisational documents of the Issuer and each of the Guarantors;
- the most recent annual consolidated financial statements, any interim financial statements and any other documents or reports to be published by the Issuer and furnished to holders of the Notes;
- the indenture governing the Notes (which includes the form of the Notes);
- the Senior Intercreditor Agreement, the Senior Secured Credit Facilities Agreement, the Voting Agreement and the Second Lien and Mezzanine Intercreditor Agreement; and
- the security documents.

We have appointed Deutsche Bank Luxembourg S.A. as Transfer Agent, Registrar and Luxembourg listing agent, and Deutsche Bank AG, London Branch as Paying Agent to make payments on, when applicable, and transfers of, the Notes. We reserve the right to vary such appointments in accordance with the terms of the Indenture.

Litigation

Except as disclosed in this offering memorandum, neither the Issuer nor any of the Guarantors is involved, or has been involved during the twelve months preceding the date of this offering memorandum, in any litigation, arbitration or administrative proceedings which would, individually or in the aggregate, have a material adverse effect on their results of operations, condition (financial or other) or general affairs and, so far as each is aware, having made all reasonable inquiries, there are no such litigation, arbitration or administrative proceedings pending or threatened.

No Material Changes

Except as disclosed in this offering memorandum, there has been no material adverse change in the financial and trading position of the Issuer or any of the Guarantors and no material change in the capitalisation of the Issuer and its subsidiaries since December 31, 2012 (being the last day of the period in respect of which the Issuer published its latest annual audited consolidated financial statements).

Clearing Information

The Notes have been accepted for clearance through Euroclear and Clearstream under common code 093191994 for the Notes sold pursuant to Regulation S and under common code 093192141 for the Notes sold pursuant to Rule 144A. The international securities identification number (the “ISIN”) for the Notes sold pursuant to Regulation S is XS0931919947 and the ISIN for the Notes sold pursuant to Rule 144A is XS0931921414.

Legal Information

The Issuer

Sisal Holding Istituto di Pagamento S.p.A. is a joint stock company established under the laws of the Republic of Italy and was formed on September 21, 2006. The Issuer’s former name was Giochi Holding S.p.A. and was first changed to Sisal Holding Finanziaria S.p.A. on September 5, 2007 and subsequently, on July 8, 2011, to the Issuer’s current name (*i.e.*, Sisal Holding Istituto di Pagamento S.p.A.) upon its enrollment in the Italian register of payment institutions. The Issuer is registered with the Milan Companies Register under the registration number 05425630968 and its corporate existence is scheduled to expire on December 31, 2050. The Issuer’s financial year ends on December 31.

The corporate purpose of the Issuer is described under article 4 of its by-laws and includes, *inter alia*:

- the activity of providing payment services as defined in Article 1, Letter b), no. 3 of Italian Legislative Decree no. 11 of 27 January 2010 (*i.e.*, execution of payment orders, including the transfer of funds, to a payment account at the user's payment service provider or at another payment service provider) to public and/or private entities in relation to the sums paid by their clients or users for services rendered by them or for any other reason;
- the activity of acquisition, holding and management of rights, whether or not represented by securities, on the capital of other businesses along with the activity of payment services in favour of companies directly or indirectly controlled or controlling or controlled by the same parent company; and
- every instrumental activity or in any case connected to the achievement of the corporate purpose.

The registered office of the Issuer is located at Via Alessio di Tocqueville 13, 20154 Milan, Italy and its telephone number at that address is +390288681.

The Guarantors

The subsidiaries of Sisal Holding Istituto di Pagamento S.p.A. that guarantee the Notes have the following corporate information:

- (a) Sisal S.p.A. is a joint stock company established under the laws of the Republic of Italy and registered with the Milan Companies Register under the registration number 04900570963. The registered office of Sisal S.p.A. is located at Via Alessio di Tocqueville 13, 20154 Milano, Italy. Sisal Holding Istituto di Pagamento S.p.A. holds 99.81% of the share capital of Sisal S.p.A. Sisal S.p.A. is an operating company and its corporate purpose is the activity of exercising and developing, as a concession holder, national tote lotteries, by way of the direction of the distribution network, as well as through subsidiary companies. Its activities include assuming, subject to regular licences, concessions or authorisations, the organisation and exercise, also through its own electronic network, of betting pools and fixed odds betting or tote, lotteries, games by way of devices of fun and entertainment and gaming in general, as well as performing, also on mandate from other companies, all activities related or similar to its own, therein including, by way of example and without limitation, advertising and publishing activities.
- (b) Sisal Entertainment S.p.A. is a joint stock company established under the laws of the Republic of Italy and registered with the Milan Companies Register under the registration number 02433760135. The registered office of Sisal Entertainment S.p.A. is located at Via Alessio di Tocqueville 13, 20154 Milano, Italy. The share capital of Sisal Entertainment S.p.A. is entirely held by Sisal S.p.A. Sisal Entertainment S.p.A. is an operating company and its corporate purpose includes, *inter alia*: (i) the implementation and direction of the network for the electronic management of lawful gaming by way of fun and entertainment devices, along with the related activities and functions; (ii) the installation, supply, management, rental, lease, free loan and marketing of devices and equipment for lawful gaming and their respective components and spare parts; (iii) the design, creation, development, production and marketing and granting to third parties of the respective use of operating systems and application programmes relating to the gaming sector; (iv) the provision of consultancy and support services, including technical support, in relation to the devices and equipment for lawful gaming and their management and, in general, in the context of the industry of gaming, pools, lotteries and betting; (v) the installation and commissioning of machines and programmes, the maintenance of the same and their update, administrative management, logistics, staff training, along with the related services of a commercial, organisational, technical and promotional nature; (vi) the activity of collecting bets and wagers, directly or on the instruction of third operators, and the management of commercial enterprises authorised for the collection of bets and wagers, the marketing to the public of further services and products; and (vii) any instrumental activity in any way related to the achievement of its corporate purpose.
- (c) Sisal Match Point S.p.A. is a joint stock company established under the laws of the Republic of Italy and registered with the Rome Companies Register under the registration number 05199591008. The registered office of Sisal Match Point S.p.A. is located at Viale Sacco e Vanzetti 83, 00155 Rome, Italy. The share capital of Sisal Match Point S.p.A. is entirely held by Sisal Entertainment S.p.A. Sisal Match Point S.p.A. is an operating company and its corporate purpose includes, *inter alia*: (i) the organisation, exercise, collection and acceptance of bets on pools and lotteries and fixed-odds bets and/or totalizers on sports competitions and horse racing, along with games of skill and entertainment. In such context, the company may also implement services of advertising and information to the public, the publication of periodicals, graphics publishing products, the management of services related to the production of the foregoing, the marketing of graphics and publishing products also created by third parties; (ii) the supply, to companies

awarded with the organisation and management of sports pools, betting, lotteries and gaming in general, along with the commercial exercise of betting shops, also by way of electronic networks and its own or third parties' organisational structures, of data transmission services; (iii) the design, development and marketing of electronic processors along with operating systems and application programmes relating to the industry of competitions, betting and gaming, as well as providing a technical support and maintenance service for such processors, systems and programmes; (iv) providing services, consultancy, equipment, furniture and supplies of a commercial, organisational, technical and promotional nature in support of the activity of its clients; and (v) the performance, also on mandate from other companies, of all activities related or similar to its own, and the investment in companies, consortium companies and consortia having a similar or related corporate purpose to its own.

General

The issuance of the Notes was authorised by resolutions of the boards of directors of the Issuer passed on April 19, 2013. The guarantees were authorised by resolutions of the boards of directors of each of the Guarantors passed on or about the same date.

We accept responsibility for the information contained in this offering memorandum. To the best of our knowledge, except as otherwise noted, the information contained in this offering memorandum is in accordance with the facts and does not omit anything likely to affect the import of this offering memorandum.

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INDEPENDENT AUDITORS REPORT

To the shareholders of
Sisal Holding Istituto di Pagamento SpA

- 1 We have audited the consolidated financial statements of Sisal Holding Istituto di Pagamento SpA and its subsidiaries ("Sisal Holding Istituto di Pagamento Group") as of December 31, 2012 which comprise the consolidated statement of financial position, comprehensive income, changes in equity, cash flows and related notes. The directors of Sisal Holding Istituto di Pagamento SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards and criteria recommended by Consob, the Italian Commission for listed Companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes, reference is made to our report dated June 27, 2012.
- 3 In our opinion, the consolidated financial statements of the Sisal Holding Istituto di Pagamento Group as of December 31, 2012 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position, result of operations and cash flows of the Sisal Holding Istituto di Pagamento Group for the period then ended.
- 4 As disclosed in the financial statements a subsidiary is party to litigations with the State Monopolies Board (AAMS) and with the Prosecutor of the Court of Auditors. Disclosures include details about the status of the litigations as well as the judgements made by the Directors, supported by the opinion of their legal advisors, regarding the accounting treatment followed in the financial statements.

Milan, April 18, 2013

PricewaterhouseCoopers SpA

/s/ Andrea Alessandri
Andrea Alessandri
(Partner)

Sisal Holding Istituto di Pagamento S.p.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2012 and 2011

(in Euro)

	Notes	12/31/2012	12/31/2011
A) NON-CURRENT ASSETS			
Property, plant and equipment	1)	126,606,135	120,290,083
Goodwill	2)	869,563,727	886,519,665
Intangible assets	3)	249,108,475	285,824,912
Investments accounted for using the equity method	4)	25,970	22,267
Deferred tax assets	5)	16,799,742	18,997,531
Other non-current assets	6)	14,924,890	11,883,007
Assets held for sale/discontinued operations	7)	0	0
Total non-current assets		<u>1,277,028,939</u>	<u>1,323,537,465</u>
B) CURRENT ASSETS			
Inventories	8)	9,881,492	14,506,910
Trade receivables	9)	151,314,937	183,982,923
Current financial assets	10)	1,549	1,004,098
Other current assets	11)	42,484,565	49,473,271
Tax receivables	12)	6,285,100	2,573,569
Cash and cash equivalents	13)	242,120,067	283,691,629
Total current assets		<u>452,087,710</u>	<u>535,232,400</u>
TOTAL ASSETS		<u>1,729,116,649</u>	<u>1,858,769,865</u>
	Notes	12/31/2012	12/31/2011
A) EQUITY	14)		
Share capital		102,500,000	102,500,000
Legal reserve		200,000	200,000
Share premium reserve		94,484,316	94,484,316
Other reserves		(112,165,384)	(83,558,385)
Total comprehensive loss for the year		(39,808,380)	(29,357,861)
Total equity attributable to owners of the Parent company		<u>45,210,552</u>	<u>84,268,070</u>
Equity attributable to non-controlling interests		<u>334,536</u>	<u>638,980</u>
Total equity		<u>45,545,088</u>	<u>84,907,050</u>
B) NON-CURRENT LIABILITIES			
Long-term debt	15)	1,010,168,287	1,082,269,643
Provision for employee severance indemnities	16)	9,095,582	7,876,214
Deferred tax liabilities	17)	28,166,129	33,648,455
Provisions for risks and charges	18)	8,863,252	15,222,577
Other non-current liabilities	19)	3,244,631	6,319,908
Liabilities relating to assets held for sale/discontinued operations	20)	—	—
Total non-current liabilities		<u>1,059,537,881</u>	<u>1,145,336,797</u>
C) CURRENT LIABILITIES			
Trade and other payables	21)	284,306,010	259,159,082
Short-term debt	22)	34,406,438	40,894,021
Current portion of long-term debt	23)	94,157,547	22,077,672
Other current liabilities	24)	210,942,847	296,401,867
Tax payables	25)	220,838	9,993,376
Provisions for risks and charges	26)	—	—
Total current liabilities		<u>624,033,680</u>	<u>628,526,018</u>
TOTAL LIABILITIES AND EQUITY		<u>1,729,116,649</u>	<u>1,858,769,865</u>

(The accompanying notes are an integral part of these consolidated financial statements)

Sisal Holding Istituto di Pagamento S.p.A.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31, 2012 and 2011
(in Euro)

	<u>Notes</u>	<u>12/31/2012</u>	<u>12/31/2011</u>
Revenues	27)	754,134,220	792,621,289
Fixed odds betting income	28)	62,283,444	74,456,053
Other revenues and income	29)	6,978,487	2,762,614
Total revenues and income		<u>823,396,151</u>	<u>869,839,956</u>
Purchases of materials, consumables and merchandise	30)	13,345,098	18,881,787
Costs for services	31)	520,295,192	547,267,673
Lease and rent expenses	32)	16,446,423	13,813,109
Personnel costs	33)	76,050,854	69,008,124
Other operating costs	34)	48,204,151	31,415,328
Total costs		<u>674,341,718</u>	<u>680,386,021</u>
Gross operating profit before amortisation, depreciation, provisions and impairment losses and reversals		<u>149,054,433</u>	<u>189,453,935</u>
Amortisation, depreciation, provisions and impairment losses and reversals	35)	117,230,463	133,080,892
Net operating profit (EBIT)		<u>31,823,970</u>	<u>56,373,043</u>
Finance income and similar	36)	4,343,235	4,033,370
Finance expenses and similar	37)	73,261,546	73,064,064
Adjustments to financial assets	38)	—	—
Share of profit/(loss) of companies accounted for using the equity method	39)	(45,296)	(10,779)
Loss before income taxes		<u>(37,139,637)</u>	<u>(12,668,430)</u>
Income taxes	40)	2,664,251	16,677,189
Loss from continuing operations		<u>(39,803,888)</u>	<u>(29,345,619)</u>
Result attributable to assets held for sale/discontinued operations	41)	—	—
LOSS FOR THE YEAR		<u>(39,803,888)</u>	<u>(29,345,619)</u>
Other comprehensive income	42)	—	—
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(39,803,888)</u>	<u>(29,345,619)</u>
Profit attributable to non-controlling interests		4,492	12,242
Loss attributable to owners of the Parent		(39,808,380)	(29,357,861)
Total comprehensive income attributable to non-controlling interests		4,492	12,242
Total comprehensive loss attributable to owners of the Parent		(39,808,380)	(29,357,861)
Basic gain (loss) per share	43)	(0.39)	(0.29)
Diluted gain (loss) per share	43)	(0.39)	(0.29)

(The accompanying notes are an integral part of these consolidated financial statements)

Sisal Holding Istituto di Pagamento S.p.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As of and for the years ended December 31, 2012 and 2011

(in thousands of Euro)	ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY					Non- controlling interests	Total Equity
	Share Capital	Legal reserve	Share premium reserve	Other reserves	Retained earnings (Accumulated deficit)		
Equity at December 31, 2010	102,500	200	94,484	1,124	(85,166)	682	113,824
Profit and loss recorded directly in equity							
Loss for the year					(29,357)	12	(29,345)
Total comprehensive loss for the year	0	0	0	0	(29,357)	12	(29,345)
Dividends paid (Sisal S.p.A. shareholders' meeting of June 15, 2011)						(55)	(55)
Other movements				483			483
Equity at December 31, 2011	102,500	200	94,484	1,607	(114,523)	639	84,907
Profit and loss recorded directly in equity							
Loss for the year					(39,808)	4	(39,804)
Total comprehensive loss for the year	0	0	0	0	(39,808)	4	(39,804)
Dividends paid (Sisal S.p.A. shareholders' meeting of June 28, 2012)						(43)	(43)
Other movements				485	266	(266)	485
Equity at December 31, 2012	102,500	200	94,484	2,092	(154,065)	334	45,545

(The accompanying notes are an integral part of these consolidated financial statements)

Sisal Holding Istituto di Pagamento S.p.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2012 and 2011

<u>(in thousands of Euro)</u>	<u>2012</u>	<u>2011</u>
Loss before income taxes	(37,140)	(12,668)
Amortisation and depreciation	89,034	89,432
Impairment of receivables in current assets	15,729	12,330
Impairment of property, plant and equipment and intangible assets	17,166	25,734
Impairment of investment	45	10
Provision for risks and charges—accruals (releases)	(4,698)	5,585
Employee severance indemnities—accrual	1,852	72
Other accruals	485	483
Finance (income) expenses	68,919	69,032
Cash provided by operations before changes in working capital, interest and taxes	151,392	190,010
<i>Change in working capital</i>	<i>(17,523)</i>	<i>(241,924)</i>
<i>Net interest paid</i>	<i>(48,996)</i>	<i>(54,862)</i>
<i>Taxes (paid) /reimbursed</i>	<i>(24,313)</i>	<i>(19,486)</i>
Cash flows provided by (used in) operating activities	60,560	(126,262)
Increase(-) decrease(+) in intangible assets	(13,751)	(14,906)
Increase(-) decrease(+) in property, plant and equipment	(45,095)	(34,628)
Increase(-) decrease(+) in investments	(49)	1
Increase(-) decrease(+) in other non-current assets	—	—
Acquisitions (net of cash) (-)	(9,155)	(10,578)
Cash flows provided by (used in) investing activities	(68,050)	(60,111)
Increase (-) Decrease (+) in financial assets	—	—
Increase (+) Decrease (-) in loans	(29,221)	(3,378)
Dividends paid to minority interests	(43)	(55)
Increase (+) Decrease (-) in leases payable	(4,818)	617
Cash flows provided by (used in) financing activities	(34,082)	(2,816)
Increase (decrease) in cash and cash equivalents	(41,572)	(189,189)
Net cash at the beginning of the year	283,692	472,881
Net cash at the end of the year	242,120	283,692

(The accompanying notes are an integral part of these consolidated financial statements)

Sisal Holding Istituto di Pagamento S.p.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of and for the year ended December 31, 2012 and 2011

(in thousands of Euro, unless otherwise stated)

STRUCTURE AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

The financial statements have been prepared in the following manner:

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

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

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

CONSOLIDATION AREA

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
As of and for the year ended December 31, 2012 and 2011
(in thousands of Euro, unless otherwise stated)

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

Change in the scope of consolidation

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

Financial statements used in consolidation

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

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

Reference date of the consolidated financial statements

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

BASIS OF CONSOLIDATION

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

The principles of consolidation adopted are as follows:

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

Contingent consideration, considered part of the purchase price, is measured at fair value at the acquisition date. Subsequent changes in fair value, if any, are recognized in the statement of comprehensive income;

- receivables and payables between companies included in the consolidation area have been eliminated;
- costs and revenues, expenses and income between companies included in the consolidation have been eliminated, including dividends distributed within the Group, which have been reallocated in the equity of the Group;
- gains and losses resulting from transactions between Group companies which have not yet been realised with third parties at the end of the reporting period have been eliminated, if significant.

Sisal Holding Istituto di Pagamento S.p.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of and for the year ended December 31, 2012 and 2011

(in thousands of Euro, unless otherwise stated)

Non-controlling interests

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

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

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

Translation of foreign currency financial statements

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

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

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

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

<u>Currency</u>	<u>Average exchange rate 2012</u>	<u>Year-end exchange rate 2012</u>
British pound	0.810871	0.8161
<u>Currency</u>	<u>Average exchange rate 2011</u>	<u>Year-end exchange rate 2011</u>
British pound	0.86788	0.83530

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies adopted are described below.

Property, plant and equipment

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

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

For investments made by Group companies, specifically Sisal Entertainment S.p.A., Sisal Match Point S.p.A. and Sisal Bingo S.p.A., which applied a regime of non-recoverable VAT in accordance with art. 36 bis of D.P.R. 633/7, non-recoverable VAT referring to a specific purchase transaction increases the original cost, with the result being that such expense constitutes a part of the value of the capitalised asset.

On the other hand, non-deductible VAT, calculated on the basis of the pro-rata coefficient, since it cannot be calculated objectively at the date of acquisition, is similar to a general cost and entirely recognized in other operating costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
As of and for the year ended December 31, 2012 and 2011
(in thousands of Euro, unless otherwise stated)

The above assets are depreciated systematically each year on a straight-line basis over their estimated useful lives.

When the depreciable asset is composed of distinctly identifiable elements, the useful life of which differs significantly from that of the other parts which compose the asset, depreciation is taken separately for each of the parts which make up the asset under the component approach principle.

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

The main depreciation rates applied are as follows:

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

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

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

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

Assets held under a finance lease, or linked to an agreement which, although not explicitly a finance lease, transfers substantially all the risks and rewards incidental to ownership, are recorded in property, plant and equipment at fair value, net of any amounts due to the lessee, or, if lower, at the present value of minimum lease payments, with a corresponding financial payable to the lessor being recorded in liabilities. The assets are depreciated in the manner described. When there is no reasonable certainty that the lessee will obtain ownership of the asset at the end of the lease term, depreciation is taken over the shorter of the lease term and the useful life of the asset. In the statement of comprehensive income, depreciation and the interest expense relating to the financial component of the lease instalment are recorded in the place of the lease instalments.

Intangible assets

The intangible assets of the Group, as set out in IAS 38, consist of assets which are identifiable, have the capacity to produce future economic benefits and can be controlled by the company.

Such assets are recorded at purchase cost, including directly attributable expenses and are amortised systematically over the duration of their residual possibility of utilization; however, intangible assets with an indefinite life are not amortised but are tested periodically for impairment.

Assets acquired in business combinations are recorded at fair value at the date of acquisition.

The Group assesses at least once a year whether there is any indication that an intangible asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the intangible asset in order to recognise any impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
As of and for the year ended December 31, 2012 and 2011
(in thousands of Euro, unless otherwise stated)

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

Intangible assets comprise the following categories which are being amortised:

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

Rights and licenses acquired under finance leases, or linked to an agreement which, although not explicitly a finance lease, transfers substantially all the risks and rewards incidental to ownership, are recorded in property, plant and equipment at fair value, net of any amounts due to the lessee, or, if lower, at the present value of minimum lease payments, with a corresponding financial payable to the lessor being recorded in liabilities. The assets are depreciated in the manner described below. When there is no reasonable certainty that the lessee will obtain ownership of the assets at the end of the lease term, depreciation is made over the shorter of the lease term and the useful life of the assets. In the statement of comprehensive income, depreciation and the interest expense relating to the financial component of the lease instalment are recorded in place of the lease instalments.

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

Goodwill

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

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

Financial assets

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

Financial assets at fair value through profit or loss

This category includes: (a) financial assets purchased principally for trading in the short term; (b) those initially designated in this category, whenever applicable, or when the fair value option is exercisable; (c) derivatives (except for a

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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derivative that is designated as an effective hedging instrument—“cash flow hedge”). These financial assets are measured at fair value; changes in fair value during the period of ownership are accounted for in the statement of comprehensive income. Financial instruments under this heading are classified as short term if held for trading or if disposal is expected within 12 months of the end of the reporting period. Derivatives are recognised as assets or liabilities, depending on whether their fair value is positive or negative; positive and negative fair values arising from existing transactions with the same counterparty are offset, whenever envisaged by contract.

Loans and receivables:

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

The impairment loss is charged to the statement of comprehensive income under operating costs and represents the difference between the carrying amount of the receivable and the present value of future expected payments. If in subsequent periods the reasons for the impairment cease to exist, the asset value is reinstated up to the amount that would have been recorded had amortised cost been applied.

Investments held to maturity

This category includes non-derivative financial instruments, with fixed or determinable payments and fixed maturity dates, which the Company intends and has the ability to hold to maturity. These assets are measured at amortised cost, using the effective interest rate method, adjusted by impairment losses, if any. Whenever there are impairment losses, the same principles as described above for loans and receivables are applied.

Available-for-sale financial assets

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

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

Investments

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

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

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Inventories

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

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

Obsolete and slow-moving inventories are written down according to their possibility of utilization or realization by recording a specific provision directly as a deduction of the asset.

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

Cash and cash equivalents

Cash and cash equivalents are recorded at their nominal value.

Non-current assets held for sale and discontinued operations

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

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

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

Debt and financial liabilities

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

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

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

Provisions for risks and charges

Provisions for risks and charges are set up to cover losses or liabilities whose existence is certain or probable but which at the end of the reporting period are uncertain as to amount or as to the date on which they will arise. Provisions are recognised only when there is a current obligation (legal or constructive) for a future outflow of resources deriving from a past event and it is probable that the outflow will be necessary to fulfil the obligation. This amount represents the best estimate of the present value of the expenditures required to extinguish the obligation.

Employee benefits

Post-employment benefits are divided into two categories: defined contribution plans and defined benefit plans. In defined contribution plans, contributory costs are charged to the statement of comprehensive income as they occur, based on the relative nominal value. In defined benefit plans, as the amount of the benefit to be granted is quantifiable only after termination of employment, the cost is charged to the statement of comprehensive income based on actuarial computations.

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

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

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

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

- the liability for the portion of severance indemnity accrued up to December 31, 2006 continues to follow the rules for defined benefit plans;
- the liability for the portion maturing from January 1, 2007, payable to complementary pension schemes or to the INPS treasury fund, is recorded on the basis of contributions due in the period.

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

As the Group, after the above mentioned reform, has no obligation for the indemnity maturing after December 31, 2006, the component relative to future salary increases is excluded from the actuarial calculation of the indemnity.

The severance indemnity cost in the current period, charged to the statement of comprehensive income under personnel costs, is equal to the sum of the indemnity matured by the employees working during the year, the finance charge on the present value of the Group's obligation at the beginning of the year and the gains and losses caused by changes in the actuarial assumptions. It should be noted that the Group has decided not to use the "corridor approach" and to recognise gains and losses arising from changes in actuarial assumptions directly in the statement of comprehensive income.

The annual discount rate adopted for calculating present value has been determined on the basis of the average 11-year IBovx Corporate Index updated to December 31, 2012.

Stock options

Stock option plans and other initiatives remunerated by equity instruments, if any, are accounted for in accordance with IFRS 2, separating those which will be settled through the issue of equity instruments and those which will be settled by payments in cash based on the value of the options granted.

The fair value is determined at the grant date and causes the cost to be recognised (under personnel costs) over the vesting period of the options granted. When the employee's service is remunerated with an equity instrument or when the options granted are on the shares of the Parent company, the contra-entry is to an equity reserve ("stock options reserve" included under "Other reserves"). Instead, when the cost of the share-based payment transaction is settled in cash, the contra-entry is to a payable account.

Foreign currency transactions

Revenues and costs in currencies other than the functional currency, the Euro, are recorded at the exchange rate prevailing at the transaction date.

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

Recognition of revenues

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

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

In accordance with IAS 18, sums collected on behalf of third parties, such as in an agency relationship, which do not cause an increase in the company's equity, are excluded from revenues which, instead, are represented solely by the commissions accrued on the transaction. Specifically, the cost pertaining to the purchase of telephone top-up and television content cards are shown as a deduction from gross revenues to highlight that with these transactions the Group's revenue is only the difference between the sales price and the nominal cost of the card.

Fixed odds betting income

The bets connected with fixed odds betting are recognised initially as a financial liability in accordance with IAS 39 at the date the bet is accepted. Subsequent changes in the amount of the financial liability are recognised in the statement of comprehensive income under "Fixed odds betting income" until the date of the event on which the bet was taken.

Cost of goods purchased and services performed

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

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

On the other hand, non-deductible VAT, calculated on the basis of the pro-rata coefficient, since it cannot be calculated objectively at the date of acquisition, is similar to a general cost and entirely recognized in other operating costs.

Financial income and expenses

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

Income taxes

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

The corresponding liability is shown under "tax payables".

In accordance with IAS 12, deferred tax assets and liabilities are recognised on the temporary differences between the carrying amount of an asset or a liability in the statement of financial position and its tax base. Deferred tax assets are recognised only to the extent that their recovery is considered probable.

Deferred taxes assets and liabilities are classified as non-current assets and liabilities, respectively. They may be compensated when there is a legally enforceable right to offset and the net amount will be shown as "deferred taxes assets" or "deferred taxes liabilities" depending whether receivable or payable. When the effects of a transaction are credited or charged directly to equity, the related current and deferred taxation is also recognised directly in equity.

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

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

Receivables from the tax authorities are not discounted to present value.

Segment reporting

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

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Use of estimates

The preparation of the consolidated financial statements and the related explanatory notes in accordance with International Financial Reporting Standards requires estimates and assumptions to be made which have an effect on the reported amounts of assets and liabilities and on the disclosure of contingent assets and liabilities at the end of the reporting period. Actual results could differ from estimates.

Below are briefly described the accounting policies which require more subjective estimates and for which a change in the underlying assumptions may have a significant effect on the financial statements.

Goodwill

The Group, in accordance with its adopted accounting policies and procedures for impairment, tests goodwill at least annually if there is any indication that goodwill may be impaired. The recoverable amount is determined on the basis of the calculation of the value in use. This calculation requires the use of estimates that depend on factors which may vary over time and influence the assessments made by the directors. Further information on the impairment test is disclosed in Note 2 on Goodwill.

Impairment loss/reversal of fixed assets

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

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

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

Deferred tax assets

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

Provisions for risks and charges

The Group accrues in this provision the probable liabilities relating to litigations and controversies with staff, suppliers, and third parties and in general expenses arising from any commitments. The quantification of such accruals involves assumptions and estimates based on presently available knowledge of factors which may vary over time. Thus the final outcomes may be significantly different from those considered during the preparation of the financial statements.

Provision for impairment of receivables

This provision reflects the estimated losses on receivables. The provision covers the estimate of the risk of losses which derives from past experience with similar receivables, from the analysis of overdue receivables (current and historical), of losses and recoveries and finally from monitoring economic trends and forecasts both currently and prospectively to the company's business.

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Severance indemnity

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

Changes in the adopted accounting standards

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

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

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

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

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

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

In particular, the following have not been early adopted by the Group:

- IAS 1—Presentation of Financial Statements—amendment 2011, applicable from July 1, 2012;
- IAS 19 (revised)—Employee Benefits, applicable from January 1, 2013;
- Amendment to IFRS 7—Financial Instruments: Disclosures, applicable from January 1, 2013;
- IFRS 10—Consolidated Financial Statements, applicable from January 1, 2014;
- IFRS 11—Joint Arrangements, applicable from January 1, 2014;
- IFRS 12—Disclosure of Interests in Other Entities, applicable from January 1, 2014;
- IFRS 13—Fair Value Measurement, applicable from January 1, 2013;
- IAS 27 (revised)—Separate Financial Statements, applicable from January 1, 2014;
- IAS 28 (revised)—Associates and Joint Ventures, applicable from January 1, 2014;
- IAS 32 Financial Instruments: Presentation—Amendment 2012, applicable from January 1, 2014.

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

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

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

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

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

RISK PROFILE

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

Market risk

Market risks according to international accounting standards are as follows:

Exchange rate risk

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

Interest rate risk

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

Raw materials price risk

The Group’s exposure to price risk is minimal.

Liquidity risk

Liquidity risk is the risk of not being able to fulfil present or future obligations on account of insufficient available funds. The Group manages this risk by seeking to establish a balance between outflows of cash and the sources of short-term and long-term funding and the gradual and homogeneous distribution of maturities of medium- and long-term funding over time.

Credit risk

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

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

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

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Bookmaker risk

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

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

Gaming concessions and related litigation

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

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

- On April 2, 2008, Sisal S.p.A. was declared outright winner of the tender procedure held in July 2007 for the award of the concession for the operation and development of national totalisator number games, including Enalotto, being chosen in preference to the bids submitted by Lottomatica S.p.A and SNAI S.p.A.;
- on June 26, 2009, after a process lasting approximately two years and the favourable outcome of the verification processes conducted by the State Monopoly Board (AAMS, now the Customs and Monopolies Agency), relating in particular to Sisal's bid, an agreement governing the concession was entered into between AAMS and Sisal;
- on the legal front, Sisal S.p.A. had to contend with some appeals to the administrative tribunal filed by the other two companies participating in the selection procedure (namely SNAI S.p.A. and Lottomatica S.p.A.) and by other companies (including Stanley International Betting Limited), mainly with a view to gaining access to all the documentation and having the provisional and final concession awards overturned. They include the appeals filed by SNAI S.p.A., which complained that the specific points contained in its proposals had not been sufficiently taken into consideration compared with the evaluation of the same points described in Sisal's proposals, and by Lottomatica S.p.A., objecting to the failure of the Examining Commission to carry out the verification procedure on an "anomalous" bid. With specific reference to this latter appeal, on March 25, 2009, AAMS announced its decision to instruct the Examining Commission to carry out a preliminary investigation to verify the suitability of the bid submitted by the company. The verification by the Examining Commission was completed on May 18, 2009, and established that the technical and economic bid submitted by Sisal was suitable and reliable, thus effectively removing the substance of the appeal made to the Regional Administrative Tribunal (TAR) by Lottomatica S.p.A. against the outcome of the selection procedure. As a result, with reference to the legal proceedings filed by Lottomatica S.p.A. and SNAI S.p.A. against the final award of the tender to the Group company, at the hearing on May 27, 2009, the Appellants asked for a period of time to examine the outcome of the verification procedure with the aim of filing additional objections if applicable, and such objections were subsequently filed. On June 25, 2009 and July 14, 2009, SNAI S.p.A. and Lottomatica S.p.A. filed an additional pleading setting out their objections to the Commission's ruling. The proceedings are still pending at the date of the financial statements, since a date for the public hearing of the above-mentioned appeals has yet to be set. In Sisal S.p.A.'s opinion, the appeals are unfounded with reference to the claims regarding the alleged anomaly of the bid and, with specific reference to the appeals filed by SNAI S.p.A. and Stanley International Betting Limited, are inadmissible, since they were filed by parties which had no interest in appealing: in the case of SNAI S.p.A., because of its position in the final award classification, and in the case of Stanley International Betting Limited, because it did not participate in the tender procedure.

Again as regards the concession for the operation and development of national totalisator number games (NTNG), art. 14.3 of the corresponding Agreement contains an undertaking by the Concessionaire to collect minimum gaming receipts of € 350 million in the first 18 two-month periods during which the concession is in force, failing which a penalty of € 500,000.00 will be imposed for every million euros or fraction thereof not collected. In the last two-month period in question, May-June 2012, the receipts collected amounted to EUR 317,326,174.00; AAMS then asked the company to pay a penalty calculated at EUR 16,500,000.00. The concessionaire filed formal defence arguments and appealed to the Lazio Regional Administrative Tribunal, substantially arguing that in the 18 two-month periods referred to in the agreement, taken as a whole, the receipts collected were actually 50% higher than the minimum guaranteed amount, and raised various crucial factors, falling outside the concessionaire's control, which led to its failure to reach the minimum receipts in the said

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two-month period; however, after the main hearing on December 19, 2012, the Regional Administrative Tribunal ruled, by judgment filed on February 13, 2013, that the penalty imposed by AAMS was lawful. The judgment appears to be substantiated, although various aspects are deserving of consideration by a higher court, and in any event leads to a substantially unfair result; Sisal S.p.A. is therefore considering whether to appeal against the judgment to the Council of State.

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

- Sisal Entertainment S.p.A., formerly Sisal Slot S.p.A., operates in the AWP gaming segment, having replaced Sisal S.p.A. as concessionaire of AAMS pursuant to a rider to the concession agreement for the activation and operation of the network for online management of legal gaming through AWP gaming machines, and of the associated activities and functions, signed on June 3, 2006.
- Despite the growth and dynamism of the sector, it has been fraught with disputes for several years which have created a general situation of serious difficulty and uncertainty. In particular, the question of the penalties or fines for loss to the Treasury which AAMS and the Prosecutor at the Court of Auditors believe can be imposed on concessionaires of gaming machines is under examination.

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

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

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

- despite the existence of a formal agreement, civil law provisions are fully applicable to the attribution of liability for breach of the agreement, proof of the loss caused, and whether the penalty is appropriate and proportionate;
- however, before a penalty can be imposed, some objective loss must have been suffered by AAMS;
- AAMS' lawyers failed to demonstrate that the breaches of contract complained of against the concessionaire were wholly or partly to blame for the general delay in the start of the public service; in fact: a) the creation of an online network without precedent in the world was a pre-requisite for the activation of the service and, that being so, the parties involved were fully aware that a period of testing would be inevitable; b) precisely during this phase, a series of unforeseen technical and administrative problems arose, leading to a widespread delay in the start-up of the service; c) a large number of the machines initially approved by AAMS proved to be sub-standard, so that AAMS had to issue new instructions to the concessionaires, which instituted an ongoing testing contract in progress; d) the concessionaires were in no way involved in the design of the machines; e) the delays in the start-up of the service were due to obstructiveness by the previous operators of the machines towards the signature of agreements with the concessionaires and the removal of the old machines, and the concessionaires could not be considered by AAMS to be solely responsible for solving these problems.

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

The Prosecutor of the Court of Auditors issued a summons applying for a parallel order for the concessionaires to pay compensation for lost fiscal revenues caused by the delay in the start-up of the network, quantified at the original amount estimated by AAMS. In its judgment and simultaneous order filed on November 11, 2010, the Court of Auditors ruled that in theory, damages for lost fiscal revenues can be claimed from the concessionaires, a principle already adopted by the Combined Sections of the Court of Cassation, before which the concessionaires had filed a preliminary request for a ruling on jurisdiction. In the present case, in view of the defences submitted by the concessionaires, including on the merits of the case, the Court of Auditors commissioned an expert's report from the non-profit public agency Digit P.A., to be delivered within

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six months, regarding the technical and behavioural reasons that may have caused the delay in starting up the network, such as (i): the intentional or unintentional delay with which the machine operating companies asked the concessionaires to sign the necessary agreements for connection of the machines to the online system; the scarcity of communication lines; the existence of machines which had been type-tested and approved despite having different communication ports; the suitability of the characteristics of the central system of AAMS and SOGEI; and (ii) compliance by the concessionaires with all the technical pre-requisites required for the network to be activated on schedule.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Again for the sake of completeness, it should be mentioned that after Sisal Entertainment S.p.A. filed its appeal, it received the cross-appeal filed by the Prosecutor in the regional Court. In that document, the Prosecutor requested the Court to increase the amounts ordered in the judgment to be paid by the concessionaires, on the ground that they take no account of the loss to the Treasury resulting from higher costs due to “waste of personnel and of unused economic resources”.

The Prosecutor therefore requested the Court to increase the orders issued at first instance on the basis of one of the following criteria: principally: 1% of the initial order requested; subordinately: an additional 50% of the order imposed at first instance,

For Sisal Entertainment S.p.A., this would mean an additional EUR 10 million in the first case, and EUR 122 million in the second.

The two proposed parameters lead to opposite consequences, including in terms of sharing the alleged loss between concessionaires: Sisal Entertainment S.p.A. would be affected to a lesser extent than the other concessionaires on the basis of the first parameter, and to a greater extent on the basis of the second. These applications will form the subject of further pleas and objections by Sisal Entertainment S.p.A.

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

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

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

Moreover, in a report dated July 16, 2012, served on the concessionaires and, in particular, on Sisal S.p.A., on September 5, 2012, the Office of the Reporting Judge for Treasury Accounts asked the Judicial Section to rule on "the impossibility of making any judicial check on the said accounting statements, as supplied by the concessionaires, due to the absence of certainty in the accounting data they contain". The report states that the concessionaire/accounting agent "is obliged to fulfil the obligation of accounting to its Authority", that the latter has not certified "the reality of the data, due to the absence of an Internet connection and the extremely generic nature of the criteria used to draw up the said accounting statement", that "the accounting statements produced up to the 2009 financial year have not been checked by AAMS' Internal Control Office, which should have approved the Account", and that "in the absence of approval by the Internal Control Office, no judicial checking activity can be performed by this Judge".

At the hearing held on January 17, 2013, the concessionaires were informed that in mid-December 2012 the Combined Sections of the Court of Auditors had filed a template that concessionaires must follow when preparing accounting statements; the proceedings were then adjourned to the hearing set down for May 16, 2013, when the said template will be examined.

Horse racing and sports betting concession

In the case of horse racing betting concessions awarded in 2000, on December 23, 2011 AAMS sent a request to the various concessionaires, including Sisal Match Point S.p.A., to upgrade to the minimum guaranteed annual figures.

Clause 4 of the said agreements states that concessionaires shall pay the additional sum up to the minimum guaranteed amount, determined pursuant to the InterDirectors' Decree of October 10, 2003, if the annual fee referred to in art.12 of Presidential Decree no. 169 of 8 April 1998, destined for UNIRE, is less than the said minimum annual amount.

The earlier requests by AAMS to concessionaires to increase the minimum guaranteed amounts for the years 2006, 2007, 2008 and 2009 were suspended as a result of some judgments by the Lazio Regional Administrative Tribunal pending the application of the "safeguard measures" specified by art. 38.4.l of Decree Law no. 223 of July 4, 2006.

The request to increase the minimum figures in question, as literally argued by AAMS in its application, appears to be based on the fact that it is impossible at present to identify safeguards additional to those already identified according to the criteria of the selection procedures conducted in 2006, which introduced the alleged obligation for concessionaires to pay the additional minimum guaranteed amounts suspended by the earlier judgments of the Regional Administrative Tribunal.

All the concessionaires, including Sisal Match Point S.p.A., appealed to the Lazio Regional Administrative Tribunal against that application by AAMS, and the Tribunal granted a suspension.

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

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

Further information about gaming concessions

With reference to Decree Law no. 40, known as the "Incentives" Decree, published on March 26, 2010 and converted to a Law in May 2010, and in particular to the terms of art. 2.2 thereof, which prohibits State concessionaires from

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having any business dealings with third parties unless they are expressly contemplated in and governed by the concession and the corresponding call for tenders, and requires concessionaires to pay to the granting body any sums received by virtue of such dealings, Sisal S.p.A. obtained some legal opinions in 2010 which confirm that an in-depth examination of the provision indicates that it is not applicable to business dealings conducted by the company itself, in particular with points of sale relating to the NTNG concession, and also appears to have some unconstitutional aspects, as the said provision limits freedom of private initiative for no discernible reason, and appears to be inconsistent with Community principles.

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

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

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

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

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

This is confirmed by the judgment filed on September 25, 2012, in which the Regional Administrative Tribunal revoked the request by AAMS, ruling that the remuneration in dispute was specified in the call for tenders and does not

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constitute a practice in restraint of competition, and that in any event, according to the terms of Decree Law no. 16/2012, the prohibition issued by Decree Law no. 40/2010 is not applicable to it. As the time limit for appealing against the judgment of the Regional Administrative Tribunal expired on December 15, 2012, it now has the force of law.

RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION**ASSETS****A) NON-CURRENT ASSETS***Property, plant and equipment (1)*

The reconciliation of property, plant and equipment for the year ended December 31, 2012 and 2011 is as follows:

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

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

Property, plant and equipment, as detailed in the above table, regarding gross capital investments, include new capital expenditures for approximately EUR 45 million.

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

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

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

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

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In light of the ever increasing focus of the legislation relative to AWP machines on the “electronic game card” component and the significant growth in the activities to replace these cards to meet commercial demands for the introduction of new games, during the current year the Group deemed that the presuppositions existed for the application of the component approach in accordance with IAS 16 in relation to the separation of the entertainment asset into its “cabinet” and “electronic game card” components.

As a result of this decision, the AWP machines previously depreciated over an average estimated useful life of five years, are now capitalized separately so that the cabinet component is considered to have a useful life of seven years whilst electronic game card component is deemed to have a useful life of 2.5 years in order to cover commercial obsolescence.

Consequently, the costs to replace the cards, reported in previous years as maintenance expenses when the costs did not refer to work to fulfill legal obligations, are now capitalised as a new separate asset class.

To best reflect this new differentiation in the useful life of the AWP machines, the Group has separated the two components also for all the recently capitalized machines that had not been subjected to updates to meet regulations or for the machines that were not almost completely depreciated.

The recalculation of accumulated depreciation into the two separate components, for the classes that were recalculated, did not generate a significant difference compared with the amount determined on the basis of the average useful life.

The increase in *Other assets* by approximately EUR 2.1 million is instead due mostly to the purchase of furniture and fixtures for the modernization and/or furnishing of directly managed points of sale.

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

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

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

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

Goodwill (2)

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

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

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

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- an impairment loss of approximately EUR 206 million recorded as a result of the impairment tests performed at the end of 2007;
- an impairment loss of approximately EUR 17 million recorded as a result of the impairment tests performed at the end of 2012.

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

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

The growth rate used to estimate cash flows beyond the explicit projected period was determined on the basis of market data and information available to the management according to reasonable projections of estimated long term sector growth and it is equal to 3%.

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

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

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

Different cash-generating units were identified in the three operating segments.

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

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

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

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

- Agencies, which include the flows from activities of providing and managing AWP entertainment machines (New Slots and VLTs) through the Sisal Match Point S.p.A. agencies as well as the flows deriving from gaming halls and wagers through the “Bersani” concessions;
- Network, which comprises the flows from activities of providing and managing the New Slot machines owned by the Group and the VLTs placed at businesses owned by third parties;
- Retail—Wincity, which comprises the flows from AWP machines (New Slots and VLTs) from the new Sisal Wincity network of points of sale;
- Providing, which includes all the flows from interconnected AWP machines only.

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

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

(in thousands of Euro)

Operating Segments

Lottery	156,622
Digital Games & Services	277,614
Entertainment	435,328
Total	<u>869,564</u>

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

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

(in thousands of Euro)

Operating Segments

Lottery	134,830
Entertainment	334,923
Digital Games & Services	
<i>of which CGU Services</i>	415,877
<i>of which CGU Digital Games</i>	(17,166)
Total	<u>868,464</u>

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

Operating Segments	discount rate	growth rate
Lottery	11.8%	-1.3%
Entertainment	11.9%	-2.1%
Digital Games & Services		
<i>of which CGU Services</i>	22.8%	-33.6%
Base value	8.7%	3.0%

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Intangible assets (3)

The reconciliation of intangible assets for the year ended December 31, 2012 and 2011 is as follows:

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

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

Concessions, licences, trademarks and similar rights increased for the year ended December 31, 2012 by approximately EUR 4 million principally due to the purchase of software licenses and, for approximately EUR 1.7 million, to the recognition of the concession expense deriving from the payment of EUR 100 for each permit to install the Comma 6A gaming machines, owned by the Group. As a result, the concessionaire company Sisal Entertainment S.p.A., during the awarding phase of the tendering process, declared his will to keep the aforementioned gaming machines to the granting Agency pursuant to paragraph 10.2 letter a) of the relative specification of the expenses. The permits paid on the Comma 6A machines not owned by the company were, as established by the relative formal regulation, charged to the owner and/or third party operators of the machines.

Patent and utilisation rights, copyrights and similar rights increased for the year ended December 31, 2012 by EUR 9.6 million and are related exclusively to the purchase and development of software for the management of business operations as well as the management of the concession activities in the Group's various businesses.

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

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

(in thousands of Euro)	Net book value at 12/31/2012	Leasing instalments 2012	Residual debt at 12/31/2012	Residual leasing instalments at 12/31/2012
Asset category				
Software licenses	137	159	122	124
Total	137	159	122	124

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Investments (4)

Investments comprise mainly holdings in associates.

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

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

Deferred tax assets (5)

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

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

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

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

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

Other non-current assets (6)

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

- VAT receivables for refunds requested upon presentation of the VAT return using the VR model, for both the results of 2008, equal to EUR 6,305 thousand, and for those of 2007, equal to EUR 3,906 thousand; the increase for the year ended December 31, 2012 mainly refers to interest accrued on the above VAT receivables;

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- IRES receivables from tax authorities for EUR 2,401 thousand, due over 12 months, deriving from the application of the dispositions contained in Legislative Decree no. 16 of March 2, 2012 referring to prior years.
- guarantee deposits for leases, sundry utilities and related revaluations for approximately EUR 1.5 million.

Assets held for sale/discontinued operations (7)

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

B) CURRENT ASSETS

Inventories (8)

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

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

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

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

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

Trade receivables (9)

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

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Trade receivables comprise the following:

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

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

Trade receivables from network represent the sums due from the customer network of AWP gaming machines for which the Sisal Entertainment SpA, as the concessionaire, offers the interconnecting service to the AAMS computer network. These receivables include consideration of the concessionaire, the PREU tax (Prelievo Erariale Unico) and the AAMS concession fee.

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

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

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

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

<u>(in thousands of Euro)</u>	<u>At</u> <u>12/31/2012</u>	<u>At</u> <u>12/31/2011</u>
Provision for impairment of receivables		
Provision for impairment of network trade receivables	(41,336)	(40,385)
Provision for impairment of other trade receivables	(811)	(649)
Total	<u>(42,147)</u>	<u>(41,034)</u>

The movements occurred for the year ended December 31, 2012 are as follows:

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

The increase for the year ended December 31, 2012 reflects the directors' prudent assessment of the recoverability of certain receivables, particularly the amounts due from insolvent points of sale and from the network of AWP gaming machines. This movement reflects, in part, the physiological trend in insolvent situations (particularly referring to points of sale) and, also, the unfavourable general macroeconomic climate which has caused an increase during the year in the percentage of managed insolvent situations compared to the volumes collected and, as a consequence, to the doubtful

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positions as well. The decrease recorded during the year refers mainly to the sale of non-recourse receivables and settlement agreements regarding prior years' receivables as well as the write-off of doubtful positions, including those relating to owned AWP machines subject to manual collection and/or installed at points of sale managed directly by the Group, due to a relevant period of time and, after close examination, no longer considered recoverable. The Group constantly monitors changes in non-performing positions and adopts, when possible and appropriate, recovery procedures by mutual consent through recovery plans, assisted, where necessary, by guarantees.

Current financial assets (10)

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

Other current assets (11)

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

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

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

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Tax receivables (12)

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

<u>(in thousands of Euro)</u>	<u>At 12/31/2012</u>	<u>At 12/31/2011</u>
Taxes receivable		
Receivables for IRES tax from tax authorities	4,650	274
Receivables for IRAP tax from tax authorities	1,635	2,300
Total	<u>6,285</u>	<u>2,573</u>

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

Cash and cash equivalents (13)

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

<u>(in thousands of Euro)</u>	<u>At 12/31/2012</u>	<u>At 12/31/2011</u>
Cash and cash equivalents		
Bank and postal accounts	150,027	159,056
Restricted bank accounts	89,171	121,472
Cash and cash equivalents in hand	2,922	3,164
Total	<u>242,120</u>	<u>283,692</u>

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

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

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

EQUITY AND LIABILITIES

A) Equity (14)

Total consolidated equity amounts to EUR 45,545 thousand.

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

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

Share capital

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

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

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

Comprehensive income (loss)

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

Non-controlling interests

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

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B) NON-CURRENT LIABILITIES

Long-term debt (15)

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

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

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

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

(in thousands of Euro) Lines	Type	Residual debt at 12/31/2011	Residual debt at 12/31/2012	Expiry	Repayment
Summary of loans by banking pool—SHIP Group					
Facility A	Amortising	67,446	50,561	12/31/2014	semiannually
Facility B	Bullet	245,000	245,000	12/31/2015	at expiry
Facility C	Bullet	245,000	245,000	12/31/2016	at expiry
Facility D	Amortising	139,028	139,028	12/31/2014	semiannually
RF	Revolving facility	34,286	34,286	12/31/2014	
Total		730,760	713,875		

(in thousands of Euro) Amortisation plan	Residual debt at 12/31/2012	2013	2014	2015	2016
Summary of loans by banking pool					
Facility A	50,561	16,886	33,675	0	0
Facility B	245,000	0	0	245,000	0
Facility C	245,000	0	0	0	245,000
Facility D	139,028	69,514	69,514	0	0
RF	34,286	0	34,286	0	0
Total	713,875	86,400	137,475	245,000	245,000
Residual debt		627,475	490,000	245,000	0

(in thousands of Euro) Lines	Type	Residual debt at 12/31/2011	Residual debt at 12/31/2012	Expiry	Repayment
Long-term lines—beneficiary: SHIP S.p.A.					
Facility A1	Amortising 7 years	44,852	33,623	12/31/2014	semiannually
Facility B1	Bullet 8 years	169,625	169,625	12/31/2015	at expiry
Facility C1	Bullet 9 years	169,625	169,625	12/31/2016	at expiry
Facility D	Amortising 7 years	26,942	26,942	12/31/2014	semiannually
RF*	Revolving facility	34,286	34,286		
Total		445,330	434,101		

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

(in thousands of Euro) Lines	Type	Residual debt at 12/31/2011	Residual debt at 12/31/2012	Expiry	Repayment
Long-term lines—beneficiary: Sisal S.p.A.					
Facility A2	Amortising 7 years	22,594	16,938	12/31/2014	semiannually
Facility B2	Bullet 8 years	75,375	75,375	12/31/2015	at expiry
Facility C2	Bullet 9 years	75,375	75,375	12/31/2016	at expiry
RF	Revolving facility	0	0	12/31/2014	
Total		173,344	167,688		

(in thousands of Euro) Amortisation plan	Residual debt at 12/31/2012	2013	2014	2015	2016
Sisal S.p.A.					
Facility A	16,938	5,657	11,281		
Facility B	75,375			75,375	
Facility C	75,375				75,375
RF	0				
Total	167,688	5,657	11,281	75,375	75,375
Residual debt		162,031	150,750	75,375	0

(in thousands of Euro) Lines	Type	Residual debt at 12/31/2011	Residual debt at 12/31/2012	Expiry	Repayment
Long-term lines—beneficiary: Sisal Match Point					
Facility D	Amortising 7 years	71,086	71,086	12/31/2014	Semiannually
Total		71,086	71,086		

(in thousands of Euro) Amortisation plan	Residual debt at 12/31/2012	2013	2014	2015	2016
Sisal Match Point S.p.A.					
Facility D	71,086	35,543	35,543		
Total	71,086	35,543	35,543	0	0
Residual debt		35,543	0	0	0

(in thousands of Euro) Lines	Type	Residual debt at 12/31/2011	Residual debt at 12/31/2012	Expiry	Repayment
Long-term lines—beneficiary: Sisal Entertainment					
Facility D	Amortising 7 years	41,000	41,000	12/31/2014	semiannually
Total		41,000	41,000		

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(in thousands of Euro)	Residual debt				
Amortisation plan	at 12/31/2012	2013	2014	2015	2016
Sisal Entertainment S.p.A.					
Facility D	41,000	20,500	20,500	—	—
Total	41,000	20,500	20,500	0	0
Residual debt		20,500	0	0	0

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

The Senior Credit Agreement, moreover, contains financial covenants based on key economic/financial ratios related to the consolidated financial statements of the Parent company, including, for example, the ratio of net consolidated debt / gross consolidated operating profit and the ratio of the latter and the interest cost to service the debt. These covenants were checked on quarterly basis and for the year ended December 31, 2012, as in prior years, they are complied in all respects.

As already indicated, besides the above mentioned loans, the Group has derivative contracts (matured as of December 31, 2012) to hedge the risk of exposure to interest rate fluctuations with the characteristics described in the note on “Other current liabilities”.

Loans from the ultimate parent Gaming Invest S.à.r.l. refer principally to a loan from shareholders, denominated Shareholder Loan C. This is a bullet loan under which the Parent company is entitled to obtain the repayment of the loan on request, but it is subordinate to the payments under the Senior Credit Agreement. The Parent company has the right to repay all or a part of the loan at any time, taking into account the condition mentioned above; as a result, this loan is therefore considered a medium-/long-term loan. The interest on the “PIK Margin” (6%) can be capitalised for the entire term of the loan upon request of the party financed whereas for the quota of interest denominated “Cash Margin” (4.5%), this right exists only for the first 12 months of the term of the loan; during the year a total of approximately EUR 20 million of interest was capitalised and principal was repaid for approximately EUR 1.2 million.

The sole shareholder, Gaming Invest S.à.r.l., in June 2009, extended another loan of EUR 60 million, bearing interest from January 1, 2010, denominated “subordinated zero coupon shareholder loan” with zero coupon interest and, like the preceding loan, subordinate to the obligations under the “Senior Credit Agreement”. The payment of 11% interest, during the year equal to approximately EUR 5.1 million, which cannot be capitalised, will take place at the time of the repayment of principal; such interest is recognized in the statement of comprehensive income at amortised cost.

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

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

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

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

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Provision for employee severance indemnities (16)

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

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

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

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

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

There are no plan assets servicing the defined benefit plans.

Deferred tax liabilities (17)

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

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

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

Provisions for risks and charges (18)

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

	At 12/31/2011	Changes during the year	At 12/31/2012
		Increase Decrease	
Provision for risks and charges			
Sundry risks and charges provisions	14,266	150 (7,060)	7,356
Technological updating provision	957	550 0	1,507
Total	15,223	700 (7,060)	8,863

The provisions in place arise from the directors' prudent assessment of the litigation in progress, mainly in civil and employee-related areas. The decreases in the provisions can be ascribed particularly to an updated evaluation of such situations which led to the release to the statement of comprehensive income of EUR 5,399 thousand recorded in *Amortization, depreciation, provisions and impairment losses and reversals* and the recognition of the relative legal costs incurred for the year ended December 31, 2012.

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

The Group operates in a complex legal environment where regulations are continuously evolving and subjected to the strong presence of the State's regulatory activity and the bodies responsible for the control and management of this market. The result is frequently a high number of cases and disputes. At this time, although in a context of uncertainty, it is believed that such cases and proceedings will not give rise to liabilities besides those already recorded in the financial statements or will not have significant consequences. At the same time, it should be mentioned that as of the date of the financial statements there are certain tax inquiries and inspections in progress however, it is believed, at this time, that there will be no further additional costs to the Group other than those already recognized in the financial statements.

Other non-current liabilities (19)

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

<u>(in thousands of Euro)</u>	At 12/31/2012	At 12/31/2011
Other non-current liabilities		
Payable for the acquisition of business segments	1,465	2,044
Other non-current liabilities	1,780	4,276
Total	3,245	6,320

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

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

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

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

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C) CURRENT LIABILITIES

Trade and other payables (21)

Trade and other payables are composed of the following:

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

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

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

Short-term debt (22)

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

Current portion of long-term debt (23)

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

Other current liabilities (24)

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

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

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

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Details of *Sundry payables* are as follows:

<u>(in thousands of Euro)</u>	<u>At</u> <u>12/31/2012</u>	<u>At</u> <u>12/31/2011</u>
Sundry payables		
Payables for winnings		
Payables for SuperEnalotto-SuperStar winnings	71,732	97,744
Payables for Win for Life winnings	8,005	28,387
Payables for SiVinceTutto-SuperEnalotto winnings	2,856	12,046
Payables for Tris games and horse race betting winnings	256	328
Payables for CONI games	321	283
Payables for Bingo winnings	13	11
Payables for VLT winnings	4,700	6,052
Payables for Eurojackpot winnings	741	0
Total payables for winnings	<u>88,624</u>	<u>144,850</u>
Other payables on games		
Payables to tax authorities for games	71,851	82,252
NTNG subscribers	2,937	974
Payables for online games	6,174	7,715
Payables for guaranteed minimum	7,837	9,922
Payables for betting management	1,996	1,263
Total other payables on games	<u>90,795</u>	<u>102,126</u>
Payables to employees	11,253	11,329
Payables to collaborators	1,558	1,549
Other payables to third parties	5,724	15,244
Total other payables	<u>18,535</u>	<u>28,123</u>
Total sundry payables	<u>197,954</u>	<u>275,099</u>
 <u>(in thousands of Euro)</u>	 <u>12/31/2012</u>	 <u>12/31/2011</u>
Sundry payables to tax authorities		
Payables for IRPEF payroll tax to tax authorities	1,996	2,128
Payables for withholding tax on RBS loan to tax authorities	431	80
Other taxes payable	2,376	3,905
Payables for equalisation tax to tax authorities	16	29
Total	<u>4,819</u>	<u>6,142</u>

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

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

Payables for guaranteed minimum, for EUR 7,837 thousand, include the remaining amount payable to the concession grantors for the integration due on the guaranteed minimum adjustment, as set out in the concession agreement, for receipts from horse race betting signed by the company Sisal Match Point S.p.A. In 2009, Sisal Match Point S.p.A. did not

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pay, in agreement with the concession grantors, the instalment due for 2009 relating to the guaranteed minimum adjustment for horse race betting. This was because of the receivable awarded by the Arbitration Board on May 26, 2003 which involved 171 companies against the concession grantor Unire and which, by decision of the arbitration board was resolved in favour of the companies, confirming, inter alia, the existence of the receivable in favour of the concessions held by Sisal Match Point S.p.A. following the acquisition of the business segments and mergers which took place in prior years. The decision by the Arbitration Board is still subject to an appeal by AAMS. The line item also includes the payable for the integration due on the guaranteed minimum adjustments accrued for the years 2008 and 2009. Furthermore, there is a dispute with AAMS over the settlement of these amounts, covering also the years 2006 and 2007, for which the concessionaire company of the Group had paid the amount requested, under pain of exclusion from participation in public tenders of vital interest, but reserving the right to at least the partial restitution of the amount paid. This dispute which involves all the other operators in the sector recently arrived at the Constitutional Court from which a ruling is awaited. At this point in time and also on the basis of authoritative legal opinions it has been decided to partially recalculate this liability, reducing it by approximately EUR 2.1 million and at the same time recognizing the amount in the statement of comprehensive income under *Other income*.

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

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

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

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

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

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

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

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

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

Tax payables (25)

Tax payables comprises the following:

<u>(in thousands of Euro)</u>	<u>At</u> <u>12/31/2012</u>	<u>At</u> <u>12/31/2011</u>
Tax payables		
Payables for IRAP tax to tax authorities	221	3,371
Payables for IRES tax on income tax consolidation	0	6,623
Total	<u><u>221</u></u>	<u><u>9,993</u></u>

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

Provisions for risks and charges (26)

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

COMMITMENTS

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

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

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

The reduction in total Guarantees provided on behalf of third parties as of December 31, 2012 compared with December 31, 2011 of approximately EUR 136 million is due mainly to the partial release of EUR 158 million of the second guarantee provided on behalf of AAMS referring to the NTNG concession, at the end of the three-year monitoring period of the guaranteed minimum gaming receipts, leaving a residual amount of EUR 17 million to cover the aforementioned NTNG penalty levied on Sisal S.p.A. because the guaranteed minimum turnover were not reached in the two-month period May-June 2012.

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

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FINANCIAL INSTRUMENTS: SUPPLEMENTARY INFORMATION

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

Categories of financial assets and liabilities

In accordance with IFRS 7, the following table presents the carrying amount of each category of financial asset and liability, as defined by IAS 39, and the reconciliation with the financial statements as of December 31, 2011 and also the comparison with the respective fair value:

(in thousands of Euro)	Balance 12/31/2012	Statement of comprehensive income		Balance 12/31/2011	Statement of comprehensive income	
		income	expenses		income	expenses
Categories of financial assets and financial liabilities—IAS 39						
ASSETS						
Cash and cash equivalents						
Bank and postal deposits and valuables in hand	242,120	4,081	6	283,692	2,978	4
Total	242,120	4,081	6	283,692	2,978	4
Financial assets at fair value through profit or loss						
Derivative instruments	0	0	0	0	0	0
Total	0	0	0	0	0	0
Investments held to maturity						
	0	0	0	0	0	0
Total	0	0	0	0	0	0
Loans and receivables						
Current financial assets	0	0	0	0	0	0
Trade receivables—current and non-current	151,315	0	0	183,983	0	0
Other assets—current and non-current	46,182	263	0	51,664	246	0
Total	197,497	263	0	235,647	246	0
Available-for-sale financial assets						
Other securities	2	0	0	1,004	0	0
Total	2	0	0	1,004	0	0
LIABILITIES						
Financial liabilities at amortised cost						
Bank debt and payables to other lenders—current and non-current (*)	1,138,732	0	71,135	1,145,241	0	69,903
Trade payables—current/non-current	284,306	0	146	259,159	0	26
Other liabilities—current and non-current	209,369	0	361	264,841	0	522
Total	1,632,407	0	71,642	1,669,242	0	70,452
Financial liabilities at fair value through profit or loss						
Derivative instruments	0	0	1,619	0	810	2,609
Total	0	0	1,619	0	810	2,609

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

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	<u>Balance 12/31/2012</u>	<u>Fair value</u>	<u>Balance 12/31/2011</u>	<u>Fair value</u>
Categories of financial assets and financial liabilities—IAS 39				
ASSETS				
Financial assets at fair value through profit or loss				
Derivative instruments	—	—	—	—
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Investments held to maturity				
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Loans and receivables				
Interest bearing loans				
Trade receivables—current and non-current	151,315	151,315	183,983	183,983
Other assets—current and non-current	46,182	46,182	51,664	51,664
Total	<u>197,497</u>	<u>197,497</u>	<u>235,647</u>	<u>235,647</u>
Available-for-sale financial assets				
Other securities	2	1,004	1,004	2
Total	<u>2</u>	<u>1,004</u>	<u>1,004</u>	<u>2</u>
LIABILITIES				
Financial liabilities at amortised cost				
Bank debt and payables to other lenders—current and non-current(*)	1,138,732	1,143,888	1,145,241	1,155,892
Trade payables—current/non-current	284,306	284,306	259,159	259,159
Other liabilities—current and non-current	209,369	209,225	264,841	264,697
Total	<u>1,632,407</u>	<u>1,637,429</u>	<u>1,669,242</u>	<u>1,679,749</u>
Financial liabilities at fair value through profit or loss				
Derivative instruments	—	—	6,591	—
Total	<u>—</u>	<u>—</u>	<u>6,591</u>	<u>—</u>

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

Reclassification

The Group has not carried out any reclassification of financial assets among the different categories.

For short-term trade receivables and payables and other receivables and payables, the carrying amount is considered to be a reasonable approximation of their respective fair value.

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

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

The three levels of input are:

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

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As of and for the year ended December 31, 2012 and 2011

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

As of December 31, 2012

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

As of December 31, 2011

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

Financial instruments risk management policy

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

Credit risk

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

The following main categories of homogeneous credit risk were identified:

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

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- *Receivables from Public Authorities* include receivables from AAMS for games managed according to the regulations of the specific concessions, receivables from advances made on behalf of the granting authority in the course of management of the Totip game and receivables from the Public Administration for reimbursement requests already filed at year end, for which settlement is expected in the short term; no credit risk is believed to exist on these positions;
- *Receivables from Points of sale and shops* represent essentially amounts due from gaming activities and non-gaming services in the last few days of the year 2012 and the relative receivables arising from the automated weekly collections of the preceding periods that have gone unpaid. The large number of points of sale exposes the Group to a partial uncollectibility risk which, following suitable evaluation by the directors, has duly been covered by a specific provision for impairment of receivables;
- *Receivables from Network* represent mainly receipts from gaming through AWP machines, including the PREU tax which the concessionaire, Sisal Entertainment S.p.A., must pay regularly to the tax authorities; the large number of customers and the substantial amounts involved expose the Group to a partial collection risk which, following suitable evaluation by the directors, has been duly covered by a specific provision for impairment of receivables;
- *Receivables from Betting Agencies* represent mainly receivables from third parties which manage some of the horse racing and sports betting agencies on the basis of partnership agreements; the size of individual accounts, some inherited through business combinations, requires constant monitoring of the same and the recognition of a provision for certain critical cases, often resolved with agreed repayment plans;
- *Other receivables* include insurance receivables, advances to employees and sundry receivables not classifiable in the preceding categories. There are no specific forms of credit risk for the Group associated with this category.

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

Risk exposure

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

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

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

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

As already mentioned, the Group monitors credit risk on the points of sale through specific procedures for selecting points of sale, by assigning operating limits for wagers on the gaming terminal and by daily control over changes in credit which provides for the blocking of the terminal in the event of non-payment and the revocation of the authorization to operate as a SISAL outlet in the event of recurrent non-payment.

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

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Liquidity risk

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

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

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

		Financial liabilities disbursement analysis			
(in thousands of Euro)	Balance 12/31/2012	to three months	more than three months to one year	more than one year to five years	more than five years
Financial liabilities disbursement analysis					
Bank debt and payables to other lenders	718,735	1,994	92,283	629,624	—
Trade payables	284,306	254,453	29,373	512	—
Other payables	209,367	116,649	87,072	5,646	—
Total	1,212,408	373,096	208,729	635,782	0

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

Bank loans and payables to other lenders do not include the loan received from the ultimate parent, Gaming Invest S.à.r.l., on which there is no liquidity risk and however the repayments are subordinated to those of the “Senior Credit Agreement”.

Further, the table does not include the payments associated with taxes payable which will be paid to the Inland Revenue at due dates established by existing laws.

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

Market risk

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

The market risk thus comprises:

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

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

Foreign currency exchange risk

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

Interest rate risk

The Group utilises a mix of debt instruments according to the nature of its financial needs. Specifically, the Group normally looks for short-term debt to finance its working capital requirements and for medium-and long-term financing to support investments related to its operations and extraordinary transactions.

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The financial liabilities which expose the Group to interest rate risk are mainly medium-and long-term indexed loans at variable rates of interest.

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

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

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

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

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

(in thousands of Euro)	Balance 12/31/2012	Analysis +/- 1% interest rate			
		income		Statement of financial position	
		+1 % profit / (loss)	-1 % profit / (loss)	+1 % profit / (loss)	-1 % profit / (loss)
Net financial debt	(560,809)	(779)	779	(779)	779
Derivative instruments	0	0	0	0	0
Total	(560,809)	(779)	779	(779)	779

Capital management

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

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

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

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NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Revenues (27)

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

<u>(in thousands of Euro)</u>	<u>2012</u>	<u>2011</u>
Revenues		
Gaming revenues	557,163	611,294
Services and non-gaming products revenues	110,517	98,425
Points of sale revenues	85,375	81,896
Other revenues	1,079	1,005
Total	<u>754,134</u>	<u>792,621</u>

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

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

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

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

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

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

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

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Fixed odds betting income (28)

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

<u>(in thousands of Euro)</u>	<u>2012</u>	<u>2011</u>
Fixed odds betting income		
Fixed odds sports betting income	61,832	73,854
Fixed odds horse race betting income	(5)	14
Reference horse race betting income	457	588
Total	<u>62,283</u>	<u>74,456</u>

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

Other revenues and income (29)

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

Purchases of materials, consumables and merchandise (30)

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

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

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

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

Costs for services (31)

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

	<u>2012</u>	<u>2011</u>
Costs for services		
Commercial services	52,641	64,931
Other services	467,654	482,337
Total	<u>520,295</u>	<u>547,268</u>

Sisal Holding Istituto di Pagamento S.p.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
As of and for the year ended December 31, 2012 and 2011
(in thousands of Euro, unless otherwise stated)

<u>(in thousands of Euro)</u>	<u>2012</u>	<u>2011</u>
Commercial services		
Marketing and commercial expenses	38,871	48,533
Other commercial initiatives	12,814	14,259
Other commercial services	956	2,139
Total	52,641	64,931
 <u>(in thousands of Euro)</u>	 <u>2012</u>	 <u>2011</u>
Other services		
Sales channel—Gaming	297,316	322,304
Sales channel—Non-gaming services	69,027	62,182
Games and gaming management	4,040	3,174
Maintenance and technical assistance	14,379	15,338
Logistics	5,109	5,531
Sisal TV-Media	2,071	3,212
Telecommunications	16,624	15,792
Consulting	15,971	17,101
Compensation to corporate boards	2,544	2,640
Banking charges	6,951	5,450
Employee travel and trips	3,969	3,476
Headquarter operating costs	9,347	7,682
Insurance	2,456	2,272
Outsourcing services	8,570	7,825
Other service costs	9,282	8,359
Total	467,654	482,337

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

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

Lease and rent expenses (32)

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

<u>(in thousands of Euro)</u>	<u>2012</u>	<u>2011</u>
Lease and rent expenses		
Building leases	12,206	9,909
Other rentals and operating leases	4,241	3,904
Total	16,446	13,813

Lease and rent expenses include:

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

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

Sisal Holding Istituto di Pagamento S.p.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of and for the year ended December 31, 2012 and 2011

(in thousands of Euro, unless otherwise stated)

Personnel costs (33)

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

<u>(in thousands of Euro)</u>	<u>2012</u>	<u>2011</u>
Personnel costs		
Salaries and wages	51,984	48,923
Social security contributions	16,374	15,409
Employee severance indemnities	5,593	3,616
Other personnel costs	2,100	1,060
Total	<u>76,051</u>	<u>69,008</u>

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

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

Other operating costs (34)

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

<u>(in thousands of Euro)</u>	<u>2012</u>	<u>2011</u>
Other operating costs		
Other taxes and duties	1,902	1,856
Gifts and donations	1,131	1,067
Gaming concession fees	21,704	21,335
Other operating costs	23,467	7,158
Total	<u>48,204</u>	<u>31,415</u>

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of and for the year ended December 31, 2012 and 2011

(in thousands of Euro, unless otherwise stated)

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

Finance income and similar (36)

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

<u>(in thousands of Euro)</u>	<u>2012</u>	<u>2011</u>
Finance income and similar		
Other finance income	4,343	3,224
Other income on derivative instruments	0	810
Total	<u>4,343</u>	<u>4,033</u>

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

Finance expenses and similar (37)

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

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

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

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

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

Adjustments to financial assets (38)

There are no adjustments to financial assets in 2012.

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

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

Sisal Holding Istituto di Pagamento S.p.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of and for the year ended December 31, 2012 and 2011

(in thousands of Euro, unless otherwise stated)

Income taxes (40)

Income taxes comprise the following:

(in thousands of Euro)	2012	2011
Income taxes		
Current income taxes	5,949	31,152
Deferred tax liabilities	(3,750)	(4,851)
Deferred tax assets	465	(9,624)
Total	<u>2,664</u>	<u>16,677</u>

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

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

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

There are neither assets held for sale nor discontinued operations for the year ended December 31, 2012.

Other comprehensive income (42)

There is no other comprehensive income in 2012.

Earnings per share (43)

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

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

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

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

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

The shares which form share capital are ordinary shares and there are no obligations for the payment of preferred dividends or other differences in the allocation of the loss among the shares.

There are no instruments with a potential dilutive effect on the loss of Sisal Holding Istituto di Pagamento S.p.A.

Sisal Holding Istituto di Pagamento S.p.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
As of and for the year ended December 31, 2012 and 2011
(in thousands of Euro, unless otherwise stated)

Reporting segments (44)

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

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

The identification of the operating segments and the relative information reported under segment reporting is confirmed by the elements that management uses to make operating decisions consistently with the organizational, management and control model in use.

Management makes decisions about resources to be allocated and the assessment of the performance by the different segments principally on the basis of the "gross operating margin".

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

Such costs are mainly in reference to the following:

- IT/Telecommunications services across the different operating segments
- advertising and institutional communication
- coordination, control and strategic guidelines of the Group's business
- planning and centralized management of human resources and financing
- management of administrative, fiscal and legal/corporate obligations

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

Sisal Holding Istituto di Pagamento S.p.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of and for the year ended December 31, 2012 and 2011

(in thousands of Euro, unless otherwise stated)

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

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

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

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

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

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

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

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

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

From the standpoint of the financial position, segment assets are not included in the information reviewed by management.

Sisal Holding Istituto di Pagamento S.p.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of and for the year ended December 31, 2012 and 2011

(in thousands of Euro, unless otherwise stated)

Significant events occurring after the end of the year (45)

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

On the business front, after an in depth analysis and closer examination (including due diligence), the acquisition of a 60% interest in Friulgames S.r.l. by Sisal Entertainment S.p.A. was arranged in December 2012 and concluded in January 2013 for about EUR 5.7 million. Friulgames S.r.l. is an important company operating over 2,000 slot machines and VLTs mainly in the Friuli Venezia Giulia region and one that was already a commercial partner of the Group's concessionaire company.

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

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

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

Sisal Holding Istituto di Pagamento S.p.A.

ANNEX 1

List of Companies included in Consolidation

Companies consolidated line-by-line

<u>Name</u>	<u>Headquarters</u>	<u>YEAR-END</u>	<u>SHARE CAPITAL</u> Euro	<u>% HOLDING</u> <u>Direct and indirect</u> <u>2012</u>
SISAL HOLDING ISTITUTO DI PAGAMENTO				
S.p.A.	Milan	December 31	102,500,000	PARENT
SISAL S.p.A.	Milan	December 31	125,822,467	99.81%
Services Segment				
Sisal Point S.p.A.	Milan	December 31	600,000	99.81%
AWP (Amusement With Prizes) gaming machines				
(slot machines) Segment				
Sisal Entertainment S.p.A.	Milan	December 31	2,131,622	99.81%
Betting and Gaming Hall Segment				
Sisal Bingo S.p.A.	Milan	December 31	120,000	99.81%
Sisal Match Point S.p.A.	Rome	December 31	24,020,000	99.81%
Thomas Morden Course Ltd	Byfleet GREAT BRITAIN	December 31	30,000(1)	99.81%

(1) British pound

Companies accounted for using the equity method

<u>Name</u>	<u>Headquarters</u>	<u>YEAR-END</u>	<u>SHARE CAPITAL</u> Euro	<u>EQUITY 2012</u> €/000	<u>% HOLDING</u> <u>Direct / indirect</u> <u>2012</u>
Consorzio Promoippica under					
liquidation	Rome	December 31	25,825	86	25.23%
Sistema S.r.l.	Rome	December 31	100,000	9	49.00%

INDEPENDENT AUDITORS REPORT

To the shareholders of
Sisal Holding Istituto di Pagamento SpA

- 1 We have audited the consolidated financial statements of Sisal Holding Istituto di Pagamento SpA and its subsidiaries ("Sisal Holding Istituto di Pagamento Group") as of December 31, 2011 which comprise the consolidated statement of financial position, comprehensive income, changes in equity, cash flows and related notes. The directors of Sisal Holding Istituto di Pagamento SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards and criteria recommended by Consob, the Italian Commission for listed Companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes, reference is made to our report dated June 14, 2011.
- 3 In our opinion, the consolidated financial statements of the Sisal Holding Istituto di Pagamento Group as of December 31, 2011 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position, result of operations and cash flows of the Sisal Holding Istituto di Pagamento Group for the period then ended.
- 4 As disclosed in the financial statements some subsidiaries are party to litigations with the State Monopolies Board (AAMS) and with the Prosecutor of the Court of Auditors. Disclosures include details about the status of the litigations as well as the judgements made by the Directors, supported by the opinion of their legal advisors, regarding the accounting treatment followed in the financial statements.

Milan, June 27, 2012

PricewaterhouseCoopers SpA

/s/ Andrea Alessandri
Andrea Alessandri
(Partner)

Sisal Holding Istituto di Pagamento S.p.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2011 and 2010

(in Euro)

	<u>Notes</u>	<u>12/31/2011</u>	<u>12/31/2010</u>
A) NON-CURRENT ASSETS			
Property, plant and equipment	1)	119,677,631	115,319,840
Goodwill	2)	886,519,665	870,083,359
Intangible assets	3)	286,437,364	338,289,966
Investments accounted for using the equity method	4)	22,267	32,684
Deferred tax assets	5)	18,997,531	8,781,664
Other non-current assets	6)	11,883,007	11,713,925
Assets held for sale/discontinued operations	7)	—	—
Total non-current assets		<u>1,323,537,465</u>	<u>1,344,221,438</u>
B) CURRENT ASSETS			
Inventories	8)	14,506,910	10,408,097
Trade receivables	9)	183,982,923	177,082,555
Current financial assets	10)	1,004,098	1,549
Other current assets	11)	39,780,744	24,616,817
Tax receivables	12)	12,266,096	9,417,418
Cash and cash equivalents	13)	283,691,629	472,881,175
Total current assets		<u>535,232,400</u>	<u>694,407,611</u>
TOTAL ASSETS		<u>1,858,769,865</u>	<u>2,038,629,049</u>
	<u>Notes</u>	<u>12/31/2011</u>	<u>12/31/2010</u>
A) EQUITY			
Share capital	14)	102,500,000	102,500,000
Legal reserve		200,000	200,000
Share premium reserve		94,484,316	94,484,316
Other reserves		(83,558,385)	(70,658,030)
Loss for the year		(29,357,861)	(13,383,754)
Total equity attributable to owners of the Parent company		<u>84,268,070</u>	<u>113,142,532</u>
Equity attributable to non-controlling interests		<u>638,980</u>	<u>681,631</u>
Total equity		<u>84,907,050</u>	<u>113,824,163</u>
B) NON-CURRENT LIABILITIES			
Long-term debt	15)	1,082,269,643	1,051,976,137
Provision for employee severance indemnities	16)	7,876,214	7,592,445
Deferred tax liabilities	17)	33,648,455	35,218,282
Provisions for risks and charges	18)	15,222,577	9,151,522
Other non-current liabilities	19)	6,319,908	2,576,025
Liabilities relating to assets held for sale/discontinued operations	20)	—	—
Total non-current liabilities		<u>1,145,336,797</u>	<u>1,106,514,411</u>
C) CURRENT LIABILITIES			
Trade and other payables	21)	259,159,082	227,157,791
Short-term debt	22)	40,894,021	35,791,395
Current portion of long-term debt	23)	22,077,672	23,080,433
Other current liabilities	24)	290,259,884	522,767,087
Tax payables	25)	16,135,359	9,493,769
Provisions for risks and charges	26)	—	—
Total current liabilities		<u>628,526,018</u>	<u>818,290,475</u>
TOTAL LIABILITIES AND EQUITY		<u>1,858,769,865</u>	<u>2,038,629,049</u>

(The accompanying notes are an integral part of these consolidated financial statements)

Sisal Holding Istituto di Pagamento S.p.A.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31, 2011 and 2010
(in Euro)

	Notes	12/31/2011	12/31/2010
Revenues	27)	792,621,289	674,270,899
Fixed odds betting income	28)	74,456,053	57,980,591
Other revenues and income	29)	2,762,614	3,714,557
Total revenues and income		869,839,956	735,966,047
Purchases of materials, consumables and merchandise	30)	18,881,787	16,753,171
Costs for services	31)	547,267,673	448,076,541
Lease and rent expenses	32)	13,813,109	11,407,022
Personnel costs	33)	69,008,124	59,407,198
Other operating costs	34)	31,415,328	33,760,587
Total costs		680,386,021	569,404,519
Gross operating profit before amortisation, depreciation, provisions and impairment losses and reversals		189,453,935	166,561,528
Amortisation, depreciation, provisions and impairment losses and reversals	35)	133,080,892	96,113,712
Net operating profit (EBIT)		56,373,043	70,447,816
Finance income and similar	36)	4,033,370	1,555,944
Finance expenses and similar	37)	73,064,064	79,580,393
Adjustments to financial assets	38)	—	—
Share of profit/(loss) of companies accounted for using the equity method	39)	(10,779)	(7,740)
Loss before income taxes		(12,668,430)	(7,584,373)
Income taxes	40)	16,677,189	5,289,196
Loss from continuing operations		(29,345,619)	(12,873,569)
Result attributable to assets held for sale/discontinued operations	41)	—	—
LOSS FOR THE YEAR		(29,345,619)	(12,873,569)
Other comprehensive income	42)	—	—
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(29,345,619)	(12,873,569)
Profit attributable to non-controlling interests		12,242	510,185
Loss attributable to owners of the Parent		(29,357,861)	(13,383,754)
Total comprehensive income attributable to non-controlling interests		12,242	510,185
Total comprehensive loss attributable to owners of the Parent		(29,357,861)	(13,383,754)

(The accompanying notes are an integral part of these consolidated financial statements)

Sisal Holding Istituto di Pagamento S.p.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

As of and for the years ended December 31, 2011 and 2010

(in thousands of Euro)

(in thousands of Euro)	ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY						
	Share capital	Legal reserve	Share premium reserve	Other reserves	Retained earnings (Accumulated deficit)	Non-controlling interests	Total Equity
Equity at December 31, 2009	102,500	200	94,484	1,124	(74,709)	2,993	126,592
Profit and loss recorded directly in equity							
Loss for the year					(13,384)	510	(12,874)
Total comprehensive loss for the year	—	—	—	—	(13,384)	510	(12,874)
Other movements					2,927	(2,821)	106
Equity at December 31, 2010	102,500	200	94,484	1,124	(85,166)	682	113,824
Profit and loss recorded directly in equity							
Loss for the year					(29,357)	12	(29,345)
Total comprehensive loss for the year	—	—	—	—	(29,357)	12	(29,345)
Dividends paid (Sisal S.p.A. shareholders' meeting of June 15, 2011)						(55)	(55)
Other movements				483			483
Equity at December 31, 2011	102,500	200	94,484	1,607	(114,523)	639	84,907

(The accompanying notes are an integral part of these consolidated financial statements)

Sisal Holding Istituto di Pagamento S.p.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2011 and 2010
(in thousands of Euro)

<u>(in thousands of Euro)</u>	<u>2011</u>	<u>2010</u>
Loss for the year	(29,346)	(12,874)
Amortisation and depreciation	89,432	77,990
Impairment of receivables in current assets	7,971	7,657
Impairment of property, plant and equipment and intangible assets	25,734	6,860
Impairment of investment	10	8
Provision for risks and charges—accruals (releases)	5,446	(380)
Deferred tax charge (credit)	(14,475)	(8,431)
Employee severance indemnities—accrual	3,616	2,814
Other accruals	483	—
Cash provided by operating activities before change in working capital	88,871	73,644
<i>Change in working capital</i>	<i>(228,124)</i>	<i>108,435</i>
Cash flows provided by (used in) operating activities	(139,253)	182,079
Increase(-) decrease(+) in intangible assets	(47,153)	(47,093)
Increase(-) decrease(+) in property, plant and equipment	(36,954)	(40,930)
Increase(-) decrease(+) in investments	1	(1)
Increase(-) decrease(+) in other non-current assets	(169)	(521)
Cash flows provided by (used in) investing activities	(84,275)	(88,545)
<i>Change in medium-/long-term debt</i>	<i>30,289</i>	<i>14,390</i>
Loans repayable after 12 months	—	106
Increase in capital from non-controlling interests	(55)	—
Dividends to non-controlling interests	4	1,149
Loss from other lenders—non-current lease instalments	—	—
Cash flows provided by (used in) financing activities	30,238	15,645
Increase (decrease) in cash and cash equivalents	(193,290)	109,179
Net cash at the beginning of the year	414,010	304,831
Net cash at the end of the year	220,720	414,010

Cash and cash equivalents at the beginning and end of the year is the sum of cash and cash equivalents, short-term debt and the current portion of long-term debt.

(The accompanying notes are an integral part of these consolidated financial statements)

Sisal Holding Istituto di Pagamento S.p.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of and for the years ended December 31, 2011 and 2010

(in thousands of Euro, unless otherwise stated)

STRUCTURE AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Sisal Holding Istituto di Pagamento S.p.A. (SHIP S.p.A.) is a limited liability stock company established under the law of the Republic of Italy; as of December 31, 2011, the Company had two main activities. The first is represented by the supply of collection and payment services, performed under appropriate authorisation issued by the Bank of Italy, to third parties commercial partners and subsidiaries; the second is represented by the ownership of a controlling interest in Sisal S.p.A. a company which operates directly and indirectly through subsidiaries in Italy in the gaming industry, principally on the basis of concessions for wagers in pools, horse racing and sports bets and legal gaming using AWP gaming machines (Amusement With Prize gaming machines) and in the marketing of telephone top-ups and television content cards using a network of more than 42,000 points of sale and about 200 betting agencies distributed throughout Italy and by the ownership of an indirect controlling interest in Sisal Bingo S.p.A. a company which operates a bingo hall in the city of Naples. Management and strategic services are also rendered to the main subsidiaries subject to the direction and coordination activities of the Company.

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

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

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

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

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

The financial statements are prepared in the following manner:

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

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

The financial statements were approved by the Board of Directors of Sisal Holding Istituto di Pagamento S.p.A. on May 30, 2012.

CONSOLIDATION AREA

The consolidated financial statements as of December 31, 2011 include the financial statements at the same date of Sisal Holding Istituto di Pagamento S.p.A. (the Parent) and those of the companies in which it possesses, directly or indirectly through subsidiaries, more than half of the voting rights, even as a result of an agreement with other investors, or the power to determine the financial and operational policies of the company through a contract or a clause in that company's bylaws.

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

Sisal Holding Istituto di Pagamento S.p.A.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
As of and for the years ended December 31, 2011 and 2010
(in thousands of Euro, unless otherwise stated)

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

Entities excluded from the consolidation are measured applying the methods described under “Investments”.

Change in the scope of consolidation

The scope of consolidation has changed as a result of the finalisation of two important acquisitions at the year-end.

The first and most important refers to the acquisition of the full ownership interest in the companies Ilio S.p.A. and La Martingala S.r.l. for a consideration of approximately Euros 16 million. This increased Sisal Match Point’s network by 32 shops and 68 sports corners, with total turnover of approximately Euros 70 million. This acquisition has assured the Group of an excellent presence in the Apulia region which represents the fourth largest region in terms of sports betting turnover, particularly in the provinces of Bari and Barletta-Andria-Trani (BAT).

The second refers to the finalisation of the acquisition of Arezzo Giochi S.r.l., a company which holds the concession for 3 shops and a corner in the province of Siena, for a consideration of approximately Euros 1 million.

As a consequence of these acquisitions, the companies Ilio S.p.A., La Martingala S.r.l. and Arezzo Giochi S.r.l. were included in the scope of consolidation as of December 31, 2011. Since these acquisitions were concluded at the end of the year, the statements of financial position were consolidated line-by-line but no item of the statement of comprehensive income was included in the consolidated financial statements of the Group. The difference between the acquisition price and the fair value of the acquired assets and liabilities, including the value attributed to the concession rights on acquisition, was recorded as goodwill.

The Group’s business also increased as a result of the acquisition of the business segment relating to the Billennium points of sale, and the wholly-owned investment made in the company Bbet S.r.l., composed of 11 directly managed horse race and sports betting agencies as well as some of Mazzoli group’s points of sale, included in three business segments operating in the same sector, which was subsequently merged in Sisal Match Point.

As for the subsidiary Sisal Slot’s operations, a business segment operating in the sector of the rental, maintenance and logistics of AWP machines was acquired in addition to two important business segments, for total a consideration of approximately Euros 2.6 million, from the companies Costanzelli S.r.l. and Slotmatic S.r.l. These last two transactions allowed the company to acquire management contracts with a significant number of points of sale and the ownership of the gaming machines therein. Overall, these acquisitions brought more than 500 slot machines to the company but during the year did not generate a significant increase in revenues as the most important acquisitions were finalised towards the end of the year.

Financial statements used for consolidation

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

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

Reference date for the consolidated financial statements

For the 2011 financial year, the statement of comprehensive income reflects the accounting period considered in the financial statements of the Parent, Sisal Holding Istituto di Pagamento S.p.A. and of all the other companies, subsidiaries and associates, from January 1, 2011 to December 31, 2011, with the exception of the subsidiaries Ilio S.p.A., La Martingala S.r.l. and Arezzo Giochi S.r.l. which were acquired by the Group at the end of 2011.

CONSOLIDATION METHOD

For companies consolidated line-by-line, all assets and liabilities and all costs and revenues have been included. In the preparation of the consolidated financial statements, the accounting principles and methods of valuation adopted are the same as those of the Parent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
As of and for the years ended December 31, 2011 and 2010
(in thousands of Euro, unless otherwise stated)

The key consolidation criteria adopted are the following:

- The consolidated financial statements include the financial statements of all subsidiaries from when control over such subsidiaries by the Group commences until the date that control ceases and is transferred to third parties. Beginning on December 31, 2011, business combinations are recorded in accordance with IFRS 3R. At the date of acquisition of control, the equity of acquired companies is determined attributing to the individual elements of assets and liabilities their fair value. Any difference relative to the cost of the acquisition, if positive, is recorded as goodwill and, if negative, is recognised in the statement of comprehensive income as income from the concluded transaction. Transaction costs are recorded in the statement of comprehensive income when incurred.

Contingent consideration, considered part of the purchase price, is measured at fair value at the acquisition date. Subsequent changes in fair value, if any, are recognised in the statement of comprehensive income;

- intergroup receivables and payables between companies included in the consolidation area have been eliminated;
- costs and revenues, expenses and income between companies included in the consolidation have been eliminated, including dividends distributed within the Group, which have been reallocated in the equity of the Group;
- gains and losses resulting from transactions between Group companies which have not yet been realised with third parties at the end of the reporting period have been eliminated, if significant;
- memorandum accounts relating to guarantees and sureties between companies included in the consolidation area have been eliminated.

Non-controlling interests

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

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

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

Translation of financial statements not prepared in Euros

The translation of financial statements expressed in currencies different from Euro has been carried out as follows:

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

Translation differences arising from the application of exchange rates and those originating from the translation of beginning equity at exchange rates prevailing at the end of the financial year, compared to the rate in effect at the end of the prior year, are allocated to a specific reserve in equity denominated “currency translation reserve”.

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

<u>Currency</u>	<u>Average exchange rate for 2011</u>	<u>Year-end exchange rate 2011</u>
British Sterling	0.86788	0.83530

Sisal Holding Istituto di Pagamento S.p.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of and for the years ended December 31, 2011 and 2010

(in thousands of Euro, unless otherwise stated)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies adopted are described below.

Property, plant and equipment

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

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

The above assets are depreciated systematically each year on a straight-line basis at rates established by reference to their remaining useful life.

When the depreciable asset is composed of distinctly identifiable elements, the useful life of which differs significantly from that of the other parts which compose the asset, depreciation is taken separately for each of the parts which make up the asset under the component approach principle.

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

The depreciation rates applied are as follows:

Fixed assets	%
Buildings	3
Plants	10-12-15-25-30
Equipments	12-20-25-33.33
Other assets:	
—vehicles	20-25
—fixtures & furniture	12
—electronic office equipments	20
Leasehold improvements	shorter of the duration of the lease and the useful life of the asset

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

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

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

Assets held under a finance lease, or linked to an agreement which, although not explicitly a finance lease, transfers substantially all the risks and rewards incidental to ownership, are recorded in property, plant and equipment at fair value net of any amounts contributable by the lessor, or, if lower, at the present value of minimum lease payments, with a corresponding financial payable to the lessor being recorded in liabilities. The assets are depreciated in the manner described. When there is no reasonable certainty that the lessee will obtain ownership of the asset at the end of the lease term, depreciation is made over the shorter of the lease term and the useful life of the asset. In the statement of comprehensive income, depreciation and the interest expense relating to the financial component of the lease instalment are recorded in the place of the lease instalments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
As of and for the years ended December 31, 2011 and 2010
(in thousands of Euro, unless otherwise stated)

Intangible assets

The intangible assets of the Group recorded in the statement of financial position in accordance with IAS 38 consist of assets which are identifiable, have the capacity to produce future economic benefits and can be controlled by the company.

Such assets are recorded at purchase cost, including directly attributable expenses and are amortised systematically over the duration of their residual possibility of utilisation; however, intangible assets with an indefinite life are not amortised but are tested periodically for impairment.

Assets acquired in business combinations are recorded at fair value at the date of acquisition.

The Group assesses at least once a year whether there is any indication that an intangible asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the intangible asset in order to recognise any impairment.

Similarly, when an impairment loss has been recorded in prior years, at the end of every reporting date the Group assesses whether there is an indication that an impairment loss recognised on an asset in previous years—other than goodwill—may no longer exist or has decreased. If there is any indication of this, the Group estimates the recoverable value of that asset consistently with the considerations that gave rise to the impairment loss, adjusting, whenever there is a positive difference, the value of the asset. The reinstatement, if any, may not exceed the carrying amount of the asset that would have been recorded (net of amortisation) had no impairment loss been recognised in previous years.

Intangible assets comprise the following categories which are being amortised:

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

Rights and licenses held under a finance lease, or linked to an agreement which, although not explicitly a finance lease, transfers substantially all the risks and rewards incidental to ownership, are recorded in property, plant and equipment at fair value net of any amounts contributable by the lessor, or, if lower, at the present value of minimum lease payments, with a corresponding financial payable to the lessor being recorded in liabilities. The assets are depreciated in the manner described. When there is no reasonable certainty that the lessee will obtain ownership of the assets at the end of the lease term, depreciation is made over the shorter of the lease term and the useful life of the assets. In the statement of comprehensive income, depreciation and the interest expense relating to the financial component of the lease instalment are recorded in the place of the lease instalments.

The development costs relating to the Internet Site used for wagers on the web have also been capitalised. In accordance with SIC 32 and IAS 38, such costs have been capitalised since it is believed that the estimated future economic benefits linked to the wagers via internet can sustain the amount of the capitalised costs.

Goodwill

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
As of and for the years ended December 31, 2011 and 2010
(in thousands of Euro, unless otherwise stated)

To test for impairment, the carrying amount of goodwill and the groups of related net assets separately capable of producing cash flows, the cash-generating unit (CGU), are compared to the higher of the value in use of the CGU and the recoverable amount from disposal. The value in use is determined applying the discounted cash flow method by discounting the operating cash flows based on projections made according to assumptions contained in business plans approved by management.

Financial assets

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

Financial assets at fair value through profit or loss:

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

Loans and receivables:

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

The impairment loss is charged to the statement of comprehensive income under operating costs and represents the difference between the carrying amount of the receivable and the present value of future expected payments. If in subsequent periods the reasons for the impairment cease to exist, the asset value is reinstated up to the amount that would have been recorded had amortised cost been applied.

Held-to-maturity financial assets:

are non-derivative financial instruments, with fixed or determinable payments and fixed maturity dates, which the Company intends and has the ability to hold to maturity. These assets are measured at amortised cost, using the effective interest rate method, adjusted by impairment losses, if any. Whenever there are impairment losses, the above principles described for loans and receivables are applied.

Available-for-sale financial assets:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
As of and for the years ended December 31, 2011 and 2010
(in thousands of Euro, unless otherwise stated)

Investments

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

Investments in third-party companies, in accordance with IAS 39 and IAS 32, are measured at fair value except in those cases when it is not available; in that case, cost is adopted. Gains or losses from adjustments in value are recognised as other components of the statement of comprehensive income, accumulated in a specific equity reserve. If there is objective evidence that an asset may be impaired, the cumulative loss that was recorded in the statement of comprehensive income must be reclassified from equity to the result for the year as a reclassification adjustment even if the financial asset was not eliminated.

Inventories

Inventories of play slips and rolls of paper for gaming terminals are stated at the lower of purchase cost, using the weighted average cost method, and the cost of replacement by reference to the market price as of December 31, 2011.

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

Obsolete and slow-moving inventories are written down according to their possibility of utilisation or realisation by setting up a specific provision recorded directly as a deduction of the asset.

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

Cash and cash equivalents

Cash and cash equivalents are recorded at their nominal value.

Non-current assets held for sale and discontinued operations

Non-current assets held for sale and discontinued operations include assets and/or lines of business held for sale under a committed plan to sell a business segment or non-current assets purchased exclusively for resale.

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

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

Debt and financial liabilities

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

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

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

Provisions for risks and charges

Provisions for risks and charges are set up to cover losses or liabilities whose existence is certain or probable but which at the end of the reporting period are uncertain as to amount or as to the date on which they will arise. Provisions are recognised only when there is a current obligation (legal or constructive) for a future outflow of resources deriving from a past event and it is probable that the outflow will be necessary to fulfil the obligation. This amount represents the best estimate of the present value of the expenditures required to extinguish the obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
As of and for the years ended December 31, 2011 and 2010
(in thousands of Euro, unless otherwise stated)

Employee benefits

Post-employment benefits are divided into two categories: defined contribution plans and defined benefit plans. In defined contribution plans, contributory costs are charged to the statement of comprehensive income as they occur, based on the relative nominal value. In defined benefit plans, as the amount of the benefit to be granted is quantifiable only after termination of employment, the cost is charged to the statement of comprehensive income based on actuarial computations.

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

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

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

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

- the liability for the portion of severance indemnity accrued up to December 31, 2006 continues to follow the rules for defined benefit plans;
- the liability for the portion maturing from January 1, 2007, payable to complementary pension schemes or to the INPS treasury fund, is recorded on the basis of contributions due in the period;

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

As the Group, after the above mentioned reform, has no obligation for the indemnity maturing after December 31, 2006, the component relative to future salary increases is excluded from the actuarial calculation of the indemnity.

The severance indemnity cost in the current period, charged to the statement of comprehensive income under personnel costs, is equal to the sum of the indemnity matured by the employees working in the period, the finance charge on the present value of the Group's obligation at the beginning of the year and the gains and losses caused by changes in the actuarial assumptions. It should be noted that the Group has decided not to use the "corridor approach" and to recognise gains and losses arising from changes in actuarial assumptions directly in the statement of comprehensive income.

The annual discount rate adopted for calculating present value has been determined on the basis of the average 11-year IBoxx Corporate Index updated as of December 31, 2011.

Stock options

Stock option plans and other initiatives remunerated by equity instruments, if any, are accounted for in accordance with IFRS 2, separating those which will be settled through the issue of equity instruments and those which will be settled by payments in cash based on the value of the options granted.

The fair value is determined at the grant date and causes the cost to be recognised (under personnel costs) over the vesting period of the options granted. When the employee's service is remunerated with an equity instrument or when the options granted are on the shares of the Parent, the contra-entry is to an equity reserve ("stock options reserve" included under "Other reserves"). Instead, when the cost of the share-based payment transaction is settled in cash, the contra-entry is to a payable account.

Translation of amounts in foreign currency

Revenues and costs in currencies other than the functional currency, the Euro, are recorded at the exchange rate on the transaction date.

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

Revenue recognition

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

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

In accordance with IAS 18, sums collected on behalf of third parties, such as in an agency relationship, which do not cause an increase in the company's equity, are excluded from revenues which, instead, are represented solely by the commissions accrued on the transaction. Specifically, the cost pertaining to the purchase of telephone top-ups and television content cards are shown as a deduction from gross revenues to highlight that with these transactions the Group's revenue is only the difference between the sale price and the nominal cost of the card.

Fixed odds betting income

The bets connected with fixed odds betting are recognised initially as a financial liability in accordance with IAS 39 at the date the bet is accepted. Subsequent changes in the amount of the financial liability are recognised in the statement of comprehensive income under "Fixed odds betting income" until the date of the event on which the bet was taken.

Cost of purchased goods and services

Purchases of goods and services are recognised in the statement of comprehensive income on the accrual basis as decreases of economic benefits, with the contra-entry an outflow of cash resources or a reduction in the amount of an asset or increase in the amount of a liability.

Financial income and expenses

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

Taxation

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

The corresponding liability is shown under "tax payables".

In accordance with IAS 12, deferred tax assets and liabilities are recognised on the temporary differences between the carrying amount of an asset or a liability in the statement of financial position and its tax base. Deferred tax assets are recognised only to the extent that their recovery is considered probable.

Deferred taxes assets and liabilities are classified as non-current assets and liabilities, respectively. They may be compensated when there is a legally enforceable right to offset and the net amount will be shown as "deferred taxes assets" or "deferred taxes liabilities" depending whether receivable or payable. When the effects of a transaction are credited or charged directly to equity, the related current and deferred taxation is also recognised directly in equity.

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

Any charges related to disputes with the tax authorities and the corresponding fines are exposed in the item "Income taxes".

Use of estimates

The preparation of the consolidated financial statements and the related explanatory notes in accordance with International Financial Reporting Standards requires estimates and assumptions to be made which have an effect on the reported amounts of assets and liabilities and on the disclosure of contingent assets and liabilities at the end of the reporting period. Actual results could differ from estimates.

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Below are briefly described the accounting policies which require more subjective estimates and for which a change in the underlying assumptions may have a significant effect on the financial statements.

Goodwill

Goodwill is tested annually for impairment; any impairment losses arising are recognised in the statement of comprehensive income. Specifically the test involves the allocation of goodwill to a Cash-Generating Unit (CGU) and then the determination of the relative fair value; when the fair value is lower than the carrying amount of the CGU, an impairment loss is recognised on the goodwill allocated to the CGU. The allocation of goodwill to a CGU and the determination of fair value require assumptions and estimates based on factors which may change over time, with consequent effects, possibly significant, on the assessments.

Impairment loss/reversal of fixed assets

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

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

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

Deferred tax assets

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

Provision for risks and charges

The Group accrues in this provision the probable liabilities relating to litigations and controversies with staff, suppliers, third parties and in general expenses arising from any commitments. The quantification of such provision is based on assumptions and estimates based on presently available knowledge of factors which may vary over time. Thus the final outcomes may be significantly different from those considered during the preparation of the financial statements.

Provision for impairment of receivables

This provision reflects the estimated losses on receivables. The provision covers the estimate of the risk of losses which derives from past experience with similar receivables, from the analysis of overdue receivables (current and historical), of losses and recoveries and finally from monitoring economic trends and forecasts both currently and prospectively to the company's business.

Severance indemnity provision

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

Changes in accounting standards adopted

There are no changes in the valuation criteria applied compared to the previous accounting period.

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In particular, with regard to the application of recently issued accounting standards applicable from January 1, 2011, the following accounting standards, although having no impact on the financial statements for the year ended December 31, 2011, are applicable in the typical business of the Group and could have significance in future:

- Amendment to IAS 24—Related party disclosures (Revised): IAS 24 amends the definition of related party and provides an exemption on certain related party disclosure requirements for transactions with a government and with entities controlled, under common control or significantly influenced by a government.
- Improvements to IFRS (Annual improvements 2010): on February 18, 2011 Commission Regulation (EU) 149-2011 was issued which adopted the improvements to IFRS beginning January 1, 2011 referring to the following: IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13. These are improvements aimed at clarifying terminology and certain areas of difficult interpretation.

The following principles, amendments and interpretations, in effect from January 1, 2011, address situations and circumstances that are currently not present in the Group. Should they apply to future transactions they will be identified and correctly treated:

- Amendment to IAS 32—Financial Instruments: Presentation – Classification of rights issues (revised). The amendment introduces a change in the definition of financial liabilities for purposes of the classification of rights issues in foreign currency (and certain options and warrants) as equity instruments provided the entity offers these instruments pro rata to all of its existing owners of the same class of its own non-derivative instruments, or for the purchase of a fixed number of equity instruments of the entity for a fixed amount of any currency.
- Amendment to IFRIC 14—Prepayments of a Minimum Funding Requirement. The amendment permits an entity to treat an early payment of contributions to cover minimum funding requirements as an asset.
- IFRIC 19—Extinguishing Financial Liabilities with Equity Instruments: IFRIC 19 addresses the accounting treatment that must be applied when the renegotiation of the terms of a financial liability determines the issue of equity instruments to a creditor to extinguish all or part of the same financial liability.

The Company has not early adopted the accounting standards already endorsed by the European Community but effective for the Company for annual periods after December 31, 2011.

In particular, the following have not been early adopted by the Company:

- Amendments to IFRS 7 Financial Instruments: Disclosures—Transfers of financial assets.

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

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

- IFRS 10—Consolidated Financial Statements
- IFRS 11—Joint Arrangements
- IFRS 12—Disclosure of Interests in Other Entities
- IFRS 13—Fair Value Measurement
- IAS 27—Consolidated and Separate Financial Statements
- IAS 28—Investments in Associates and Joint Ventures
- IFRIC 20—Stripping Costs in the Production Phase of a Surface Mine
- Amendment to IAS 1—Presentation of Financial Statements
- Amendment to IAS 19—Employee Benefits.

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RISK PROFILE

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

Market risks

The market risks, in accordance with international accounting principles, are as follows:

Foreign currency exchange risks

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

Interest rate risks

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

Raw materials price risk

The Group's exposure to price risk is minimal.

Liquidity risk

Liquidity risk is the risk of not being able to fulfil present or future obligations on account of insufficient available funds. The Group manages this risk by seeking to establish a balance between outflows of cash and the sources of short-term and long-term funding and the gradual and homogeneous distribution of maturities of medium- and long-term funding over time.

Credit risk

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

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

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

Bookmaker risk

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

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

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

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

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- on June 26, 2009, after a process lasting approximately two years and the favourable outcome of the verification processes conducted by the State Monopolies Board (AAMS), relating in particular to Sisal's bid, an agreement governing the concession was entered into between AAMS and Sisal.
- on the legal front, Sisal S.p.A. had to contend with appeals to the administrative tribunal filed by the other two companies participating in the selection procedure (namely Snai S.p.A. and Lottomatica S.p.A.) and by other companies (including Stanley International Betting Limited), mainly with a view to gaining access to all the documentation and having the provisional and final concession awards overturned. They include the appeals filed by Snai S.p.A., which complained that the specific points contained in its proposals had not been sufficiently taken into consideration compared with the evaluation of the same points described in Sisal's proposals, and by Lottomatica S.p.A., objecting to the failure of the Examining Commission to carry out the verification procedure on an 'anomalous' bid. With specific reference to this latter appeal, on March 25, 2009, AAMS announced its decision to instruct the Examining Commission to carry out a preliminary investigation to verify the suitability of the bid submitted by the company. The verification by the Examining Commission was completed on May 18, 2009, and established that the technical and economic bid submitted by Sisal was suitable and reliable, thus effectively removing the substance of the appeal made to the Regional Administrative Tribunal (TAR) by Lottomatica S.p.A. against the outcome of the selection procedure. As a result, with reference to the legal proceedings filed by Lottomatica S.p.A. and Snai S.p.A. against the final award of the tender to the Group company, at the hearing on May 27, 2009, the Appellants asked for a period of time to examine the outcome of the verification procedure with the aim of filing additional objections if applicable, and such objections were subsequently filed. On June 25, 2009 and July 14, 2009, Snai S.p.A. and Lottomatica S.p.A. filed an additional pleading setting out their objections to the Commission's ruling. The proceedings are still pending at the time of writing, since a date for the public hearing of the above-mentioned appeals has yet to be set. In Sisal S.p.A.'s opinion, the appeals are unfounded with reference to the claim regarding the alleged anomaly of the bid and, with specific reference to the appeals filed by Snai S.p.A. and Stanley International Betting Limited, are inadmissible, since they were filed by companies which had no interest in appealing: in the case of Snai S.p.A. because of its position in the final award classification, and in the case of Stanley International Betting Limited because it did not participate in the tender procedure.

Again in relation to the NTNG concession, in Director's Decrees of October 12, 2011 and December 16, 2011, AAMS identified the public gaming measures required to raise the higher revenues specified in article 2.3 of Decree Law no. 138 of August 13, 2011, converted, with amendments, into Law no. 148 of September 14, 2011. In particular, it was specified that for prizes claimed as from January 1, 2012 for the games "Enalotto", "Superstar", "SiVinceTuttoSuperEnalotto", "Vinci per la Vita—Win for Life" and "Vinci per la Vita—Win for Life Gold", including those where the remote gaming procedure was used, a 6% fee would be charged on the part of the prize exceeding Euros 500.00.

After asking AAMS for clarification about the procedure for implementing the provisions in question, Sisal S.p.A. charged the said additional fee as required by the applicable legislation.

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

- Sisal Slot S.p.A. operates in the AWP gaming segment, having replaced Sisal S.p.A. as concessionaire of AAMS pursuant to a rider to the concession agreement for the activation and operation of the network for online management of legal gaming through AWP gaming machines, and of the associated activities and functions, signed on June 3, 2006.
- In Director's Decree of August 6, 2009, AAMS laid down the regulations for the activation of the new gaming systems described in art. 110.6.b of the Consolidated Law Enforcement Act (TULPS) (Video Lottery Terminals or "VLTs"), stating that this activity is governed by the agreements already in force for the operation of the AWP gaming machines network, and can therefore be entrusted to operators which, like the above Group company, are already concessionaires. Next, in March 2010, a rider to the concession agreement was entered into between Sisal Slot and AAMS to make the terms of the agreement then in force, which mainly governed AWP gaming machines, compatible with gaming using the new VLT terminals. Lastly, the current agreement was extended for nine years by a rider dated September 28, 2010, which provided for it to terminate on completion of the procedures required for a new award of the concession.
- By notice published in the Official Journal of the European Union on August 8, 2011, ID 2011—111208, AAMS initiated the procedure for the grant of the "Concession for the activation and operation of the network

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for online management of legal gaming through AWP machines, as specified in art. 110.6 of TULPS, and of the associated activities and functions". Sisal Slot S.p.A. took part in the said selection procedure, together with 12 other candidates, and was provisionally awarded the new concession, pending testing of the gaming network and signature of the new agreement. Pending the final award of the new concession, AAMS ruled that gaming could continue, and was to be operated by the present concessionaires until the final award of the new concession.

- Despite the growth and dynamism of the sector, it has been fraught with disputes for several years which have created a general situation of serious difficulty and uncertainty. In particular, the question of the penalties or fines which AAMS and the Prosecutor of the Court of Auditors believe can be imposed on concessionaires of AWP gaming machines is under examination; the whole issue will therefore be summarised briefly for the sake of clarification.

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

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

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

- despite the existence of a formal agreement, civil law provisions are fully applicable to the attribution of liability for breach of the agreement, proof of the loss caused, and whether the penalty is appropriate and proportionate;
- however, before a penalty can be imposed, some objective loss must have been suffered by AAMS;
- AAMS' lawyers failed to demonstrate that the breaches of contract complained of against the concessionaire were wholly or partly to blame for the general delay in the start of the public service. In fact: a) the creation of an online network without precedent in the world was a pre-requisite for the activation of the service and, that being so, the parties involved were fully aware that a period of testing would be inevitable; b) precisely during this phase, a series of unforeseen technical and administrative problems arose, leading to a widespread delay in the start-up of the service; c) a large number of the machines initially type-tested and approved by AAMS proved to be sub-standard, so that AAMS had to issue new instructions to the concessionaires, which instituted an ongoing testing contract; d) the concessionaires were in no way involved in the design of the machines; e) the delays in the start-up of the service were due to obstruction by the previous operators of the machines towards the signature of agreements with the concessionaires and the removal of the old machines, and the concessionaires could not be considered by AAMS to be solely responsible for solving these problems.

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

The Prosecutor of the Court of Auditors issued a summons applying for a parallel order for the concessionaires to pay compensation for lost Treasury revenues caused by the delay in the start-up of the network, quantified at the original amount estimated by AAMS. In its judgment and simultaneous order filed on November 11, 2010, the Court of Auditors ruled that in theory, damages for lost Treasury revenues can be claimed from concessionaires, a principle already adopted by the Combined Sections of the Court of Cassation, before which the concessionaires had filed a preliminary request for a ruling on jurisdiction. In the present case, in view of the defences submitted by the concessionaires, including on the merits of the case, the Court of Auditors commissioned an expert's report from the non-profit public agency Digit P.A., to be delivered within six months, regarding the technical and behavioural reasons that

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may have caused the delay in starting up the network, such as (i): the intentional or unintentional delay with which the machine operating companies asked the concessionaires to sign the necessary agreements for connection of the machines to the online system; the scarcity of communication lines; the existence of machines which had been type-tested and approved despite having different communication ports; the suitability of the characteristics of the central system of AAMS and Sogei; and (ii) compliance by the concessionaires with all the technical pre-requisites required for the network to be activated on schedule.

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

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

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

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

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

As regards this notice, which did not mention the imposition of a penalty, but only the alleged breach of contract with a reference to the possible consequences thereof, the concessionaires filed a defence, objecting to the contents of the AAMS notice in terms of both substance and form. In particular, the defence stated that there were no delays in the responses of the gateway system and even if there had been any, the blame could not be laid on the concessionaires; during the period in question, the criteria for recording and calculating penalties had not yet been established by AAMS; the Council of State failed to

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consider the points raised in the judgments issued following the said appeals by the concessionaires; and with specific reference to Sisal Slot, amounts which had nothing whatsoever to do with its actual remuneration as a concessionaire were included in the average real remuneration.

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

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

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

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

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

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

At the hearing held on May 9, 2012, the Regional Administrative Tribunal heard the application for an interlocutory order, suspended the efficacy of AAMS' request and set down the case for hearing on February 20, 2013: the reference by the Court to the recent interpretation notices issued by the Council of State seems significant, although it was made during interlocutory proceedings.

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

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

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

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

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

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After the year end, on February 17, 2012, the Court filed the judgment at first instance, ordering the concessionaires to pay approximately Euros 2.5 billion and the former General Manager and the former Gaming Director of AAMS to pay the total amount of approximately Euros 7.4 million; Sisal Slot S.p.A., in particular, was ordered to pay Euros 245 million.

Sisal Slot appealed against the judgment, as did all the concessionaires and the AAMS executives; the statutory appeals suspend the enforcement of the judgment; the Prosecutor could ask the court, in an *inter partes* application, for a specific ruling that the judgment is enforceable.

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

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

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

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

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

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

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

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

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

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

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Again for the sake of completeness, it should be mentioned that after Sisal Slot filed its appeal, it received the cross-appeal filed by the Prosecutor in the regional Court; in that document, the Prosecutor requested the Court to increase the amounts ordered in the judgment to be paid by the concessionaires, on the ground that they take no account of the loss to the Treasury resulting from higher costs due to “waste of personnel and of unused economic resources”.

The Prosecutor therefore requested the Court to increase the penalties imposed at first instance on the basis of one of the following criteria: principally: 1% of the initial penalty imposed; and subordinately: an additional 50% of the penalty imposed at first instance.

For Sisal Slot, this would mean an additional Euros 10 million in the first case and Euros 122 million in the second.

The two proposed parameters lead to diametrically opposite consequences, including in terms of sharing the alleged loss between concessionaires; Sisal Slot would be affected to a lesser extent than the other concessionaires on the basis of the first parameter, and to a greater extent on the basis of the second. These applications will form the subject of further pleas and objections by Sisal Slot.

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

On March 14, 2011, the Regional Prosecutor of the Court of Auditors appealed against that judgment, without producing any new arguments or documents, insisting that the concessionaires must be ordered to pay heavy fines, in the case of the subsidiary Sisal Slot S.p.A. amounting to approximately Euros 111.6 million for the years 2004-2006, and an amount to be quantified for the subsequent years. The case has not yet been set down for a full hearing. At the hearing, Sisal Slot S.p.A. will submit the same arguments that were upheld at first instance.

Remote gaming Concession

- Director’s Decree no. 2011/190/CGV of February 8, 2011, published in the Official Gazette of the Italian Republic no. 56 of March 9, 2011, establishes the commencement date of the obligations referred to in article 24.11 to 25 of Law no. 88 of July 7, 2009, which constitute the general conditions for access to the concession for operation of remote gaming.

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

RELATED PARTY TRANSACTIONS

With regard to transactions with the ultimate parent, Gaming Invest S.à.r.l., the Parent has a loan payable totalling approximately Euros 395 million on which more information is given later in these explanatory notes; accrued interest expense for the year on this loan is approximately Euros 38 million at the reporting date, of which Euros 17.9 million has been capitalised.

Concerning financial and commercial transactions with other related parties, mention is made of the transactions with S.P.A.T.I. S.p.A., whose shareholders are among the shareholders of the ultimate parent, to which there are net payables due at year-end of approximately Euros 0.8 million primarily on the purchase price of a business activity consisting of 96 horse racing and sports betting agencies by Sisal Match Point S.p.A.

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The compensation to the Group's key managers charged with strategic responsibilities, in other words those with the authority and responsibility for the planning, management and control of the Group's operations, amounts to Euros 5,443 thousand for the entire calendar year 2011 (Euros 4,237 thousand in 2010) and is detailed as follows:

	<u>2011</u>	<u>2010</u>
Salaries	5,597	3,914
Employment termination indemnity	<u>329</u>	<u>323</u>
Total	<u>5,926</u>	<u>4,237</u>

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

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

Other information

As part of a process for the reorganisation of the information and accounting systems of the entire Group during the year, the chart of accounts was reviewed and a more precise classification was decided partly in order to draw up these notes. Therefore, for purposes of comparison it was necessary to change the comparative data in certain notes. These reclassifications had no effect on the financial statement format except for marginal amounts referring to revenues, other income, raw materials, consumables and merchandise, services and other operating costs.

In these limited cases, in order to provide better disclosure, the corresponding line items of the statement of comprehensive income for 2010 was also reclassified for purposes of comparison.

Moreover, beginning January 1, 2011, certain companies of the Group (Sisal Match Point S.p.A. and Sisal Bingo S.p.A.) exercised the option for release from the obligations for exempt transactions allowed by art. 36 bis of DPR 633/72.

The accounting effect of this decision require that the non-recoverable VAT referring to a specific purchase transaction must be added to the original cost, with the consequence that the expense, based on the nature of the transaction, will be capitalised under assets used in the business and will form part of the cost (relating to general and services expenses).

Account should be taken of this presentation in reading the comparative figures of the prior year which do not include this component since, for the above companies, up to December 31, 2010 non-deductible VAT was calculated on the pro rata coefficient and assimilated as a general cost and recorded for the full amount in other operating costs.

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NOTES TO THE STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 2011**ASSETS****A) NON-CURRENT ASSETS***Property, plant and equipment (1)*

This account comprises the following:

	<u>At</u> <u>12/31/2010</u>	<u>Changes during the year</u>			<u>At</u> <u>12/31/2011</u>
		<u>Increases</u>	<u>Decreases</u>	<u>Reclassifications</u>	
Land and buildings:					
—original cost	17,231	2,865	—	5,791	25,887
—ordinary depreciation	(3,306)	(1,555)	—	(4,283)	(9,144)
—impairments	—	—	—	—	—
net	13,925	1,310	0	1,508	16,743
Plant & machinery:					
—original cost	22,280	6,503	—	(6,717)	22,066
—ordinary depreciation	(14,392)	(3,086)	—	4,647	(12,831)
—impairments	—	—	—	—	(1)
net	7,888	3,417	—	(2,070)	9,234
Industrial and commercial equipment:					
—original cost	276,155	28,374	(6,120)	(7,705)	290,704
—ordinary depreciation	(187,256)	(28,183)	5,812	6,193	(203,434)
—impairments	(1,449)	(596)	425	—	(1,620)
net	87,450	405	117	(1,512)	85,650
Other assets:					
—original cost	12,799	3,544	(33)	7,692	24,002
—ordinary depreciation	(8,300)	(2,137)	31	(6,231)	(16,637)
—impairments	(187)	—	—	—	(187)
net	4,312	1,407	(2)	1,461	7,178
Construction in progress					
—original cost	1,746	844	(1,717)	—	873
—ordinary depreciation	—	—	—	—	—
—impairments	—	—	—	—	—
net	1,746	844	(1,717)	—	873
Total:					
—original cost	330,211	42,130	(7,870)	(939)	363,532
—ordinary depreciation	(213,254)	(34,961)	5,843	326	(242,046)
—impairments	(1,636)	(596)	425	0	(1,808)
Net Total	115,321	6,562	(1,602)	(613)	119,678

Property, plant and equipment, as detailed in the above table, include capital expenditure investments for Euros 42 million.

Tangible assets reflect certain reclassifications as a result of changing the chart of accounts and the definition of more precise classification of items. The depreciation criteria applied used until December, 31st haven't been modified. Items that have been reclassified are plant and machinery, industrial and commercial equipment, land and buildings, other assets.

With reference to *Plant and machinery*, the additions amount to Euros 6.5 million and they mainly relate to refurbishment of points of sales, purchase of new air conditioning systems and other sundry plant.

The increase in *Industrial and commercial equipment* of Euros 28.4 million is primarily due to:

- investments in new AWP “comma 6a” slot machines, PdAs (access points) and change machines by Sisal Slot S.p.A. for approximately Euros 9.7 million;

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- the purchase of new-generation betting and services equipment such as the “Leonardo” and “Microlot” terminals for approximately Euros 14.7 million;
- the purchase of display screens and betting terminals by Sisal Match Point S.p.A. for approximately Euros 3.6 million.

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

<u>Asset category</u>	<u>Net book value at 12/31/2011</u>	<u>Leasing instalments 2011</u>	<u>Residual debt at 12/31/2011</u>	<u>Residual leasing instalments at 12/31/2011</u>
T.G. Microlot (industrial & commercial equipment)	8,768	2,764	7,912	8,200
AWP gaming machines, comma 6A	3,246	2,646	1,663	1,637
Total	12,014	5,410	9,575	9,837

Goodwill (2)

The carrying amount of *Goodwill* amounts to Euros 886,520 thousand and comprises the following:

- goodwill arising from the acquisition of the Sisal Group at the end of 2006 for Euros 1,053.1 million;
- an increase of approximately Euros 26 million from the purchase, in December 2006, of the minority interest (35%) of Sisal Slot S.p.A. by the Parent;
- a decrease of approximately Euros 33 million due to the cancellation of a pre-existing purchase option granted by Sisal S.p.A. to the Sisal Slot S.p.A. minority shareholders, as part of the agreements for the purchase of the minority interest by the Parent;
- an increase of approximately Euros 46 million owing to the acquisitions of companies and business activities, completed during the years 2007-2011, regarding the business segments of legal gaming with AWP gaming machines and horse racing / sports betting;
- an impairment loss of approximately Euros 206 million recorded as a result of the impairment test performed as of December 31, 2007.

Goodwill was tested for impairment as of December 31, 2011 in accordance with the required accounting standards. Specifically, operating cash flows were measured to determine the value in use of the identified Cash-Generating Units (CGUs) by applying the “discounted cash flow” method.

For purposes of impairment testing, the Group uses cash flow projections for five-years approved by top management, on the basis of growth rates differentiated according to the historic trends of the various products.

The growth rate used to estimate cash flows beyond the explicit projected period was determined on the basis of market data and information available to the management in light of reasonable projections of estimated long term sector growth and it is equal to 3.25%.

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

The rate used to discount cash flows to the present value is equal to a WACC of 8.6%, derived from the weighted average cost of capital of 10.0% (including a Market Risk Premium of 5.2%) and the after-tax cost of debt of 4.4%.

During the current year, the internal organisational structure of the Group was redefined and, consequently, the reporting lines to management, in order to improve the management of the points of sale which include the products of the betting business and the AWP machines and to monitor the flows generated by the online channel. As allowed by international accounting principles in these circumstances, the CGUs were reorganised consistently at the level of the financial statements. In addition the DigitalGames CGU was added as well as a new segment, named Entertainment, which includes the flows, divided by type of sales channel, deriving from the management of the AWP machines of Sisal Slot S.p.A. and the concessions referring to the betting business of Sisal Match Point S.p.A.

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As of December 31, 2011, the cash-generating units thus are the following:

- Traditional games, which primarily refer to cash flows from the National Totalisator Number Games (NTNGs, including SuperEnalotto);
- Digital Games, which comprises all the games distributed online;
- Services, which include activities performed through the Sisal network for services provided to the consumers such as, for instance, telephone refills and payment services etc.

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

- Agencies, which include the flows from activities of providing and managing of the AWP entertainment machines (New Slots and VLTs) through the Sisal Match Point S.p.A. as well as the flows deriving from gaming halls and wagers through the “Bersani” concessions;
- Operators, which comprise the flows from activities of providing and managing of the New Slot machines owned by the Group and the VLTs placed at businesses owned by third parties;
- Retail—Wincity, which comprises the flows from AWP machines (New Slots and VLTs) from the new Sisal—Wincity network of points of sale;
- Providing, which includes all the flows from interconnected AWP machines only.

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

The goodwill was allocated to the new CGUs based on the values of the various businesses and maintaining, where applicable, a consistency between the historical rationale of the original allocation to the previous cash-generating units.

Goodwill as of December 31, 2011 is allocated to the different CGUs as follows:

Cash Generating Units

Traditional games	156,621
Services	136,705
Entertainment	435,083
Digital games	158,111
Total	<u>886,520</u>

The impairment test showed that actualised cash flows by CGU exceeded invested capital (including goodwill) allocated to each CGU, hence, it was not necessary to recognise any impairment loss.

In particular, the excess of the recoverable amount of the CGUs, determined on the basis of the parameters described above, compared to the relative carrying amount, is as follows:

Cash Generating Units

Traditional games	176,874
Services	399,363
Entertainment	117,253
Digital games	30,989
Total	<u>724,479</u>

The movement in the value assigned to the basic assumptions, in terms of the discount rate which makes the recoverable amount of the CGU equal to its carrying amount, is the following:

<u>Cash Generating Units</u>	<u>discount rate</u>
Traditional games	12.0%
Services	19.7%
Entertainment	9.8%
Digital games	9.5%
Base value	8.6%

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Intangible assets (3)

Intangible assets are composed as follows:

	At 12/31/2010	Changes during the year			At 12/31/2011
		Increases	Decreases	Reclassifications	
Patent & utilisation rights, copyrights and similar rights					
—original cost	31,060	8,382	(59)	(224)	39,159
—amortisation	(22,979)	(6,140)	49	224	(28,846)
—impairments		(6)	—	—	(6)
net	8,081	2,236	(10)	—	10,307
Concessions, licences, trademarks and similar rights					
—original cost	545,983	21,738	(525)	1,163	568,359
—amortisation	(216,727)	(47,351)	262	(550)	(264,366)
—impairments	(22,398)	(25,532)	263	—	(47,667)
net	306,858	(51,145)	—	613	256,326
Other intangible assets					
—original cost	42,873	—	(140)	—	42,733
—amortisation	(19,522)	(3,419)	12	—	(22,929)
—impairments	—	—	—	—	—
net	23,351	(3,419)	(128)	—	19,804
Total:					
—original cost	619,916	30,120	(724)	939	650,251
—amortisation	(259,228)	(56,910)	323	(326)	(316,141)
—impairments	(22,398)	(25,538)	263	—	(47,673)
Net Total	338,290	(52,328)	(138)	613	286,437

Concessions, licences, trademarks and similar rights increased during the year by Euros 21.7 million principally as a result of the purchase of software licenses by Sisal S.p.A. and the purchase price allocation in concessions as described within “Change in the scope of consolidation”.

Patent and utilisation rights, copyrights and similar rights increased during the year by Euros 8.3 million and are related exclusively to the purchase of software for the management of operations and the management of provider activities for legal gaming using AWP slot machines.

Amortisation charged to the statement of comprehensive income for the year was around Euros 57 million; more than Euros 25 million of that amount refers to the higher value allocated to the concession rights and the trademarks owned by the Group as a result of accounting for the effects of the purchase of the Sisal Group concluded in prior years.

Regarding impairments, the increase in the current year of Euros 25.5 million is mainly due to the partial impairment charge on the carrying amount of the concession rights for national horse race betting and sports pools. Following to the revised process of impairment test performed, it arises that the recoverable value of such concession rights is less than the carrying value as of December 31, 2011, given the less than satisfactory performance of these traditional game products and the updated expectations on their future trends.

The table below sets forth outstanding finance leases, taken out in 2011, and accounted for in accordance with IAS 17:

Asset category	Net book value at 12/31/2011	Leasing instalments 2011	Residual debt at 12/31/2011	Residual leasing instalments at 12/31/2011
Software licenses	273	159	274	282
Total	273	159	274	282

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Investments (4)

Investments comprise holdings in associates.

	At 12/31/2010	Changes in the year					At 12/31/2011
		Increases	Decreases	Revaluations	Reclassifications	Impairments	
Investments in subsidiaries							
Investments in associates	32	0	0	0	0	(10)	22
Investments in other companies							

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

Deferred tax assets (5)

The information concerning deferred tax assets is detailed in the following table (in thousands of Euros):

	2011		2010	
	Temporary differences (Amount)	Tax effect (rate 27.5 %/ 31.7 %)	Temporary differences (Amount)	Tax effect (rate 27.5 %/ 31.7 %)
Recognition of deferred tax assets and related effects				
Deferred tax assets				
Provision for risks and charges	13,254	3,885	7,651	2,354
Provision for impairment of receivables				
—Receivables/Other receivables	32,155	8,844	31,010	8,528
Maintenance expenses	9,623	2,649	3,836	1,060
Other writedowns	26,132	7,273	2,666	827
Depreciation	3,236	918	447	140
Directors' compensation accrued	1,443	397	1,129	310
Guarantee deposits accrued	87	28	265	83
Other temporary differences	522	159	2,683	754
Non-deductible VAT pro-rated	0	0	119	33
Reversal of current deferred taxes	(866)	(424)	(5,420)	(1,649)
Reversal of non-current deferred taxes	(16,226)	(4,732)	(12,311)	(3,659)
Net deferred tax assets	69,360	18,997	32,075	8,781
Deferred tax assets on losses—current year	0	0	0	0
Deferred tax asset on losses—prior years	0	0	0	0
Temporary differences excluded from the deferred tax computation	2,014	554	2,298	632

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

The temporary differences excluded from the calculation of deferred tax assets relate to losses reported by the Parent prior to opting for consolidation of taxation. As a result, deferred tax assets on losses have not been recorded based on the probability, supported by current information, of suitable taxable profits in the future against which the losses can be recovered.

Other non-current assets (6)

Other non-current assets amount to Euros 11,883 thousand and mainly comprise:

- VAT receivables for refunds requested upon presentation of the VAT return using the VR model, for both the results of 2008, equal to Euros 6,305 thousand, and for those of 2007, equal to Euros 3,906 thousand; the increase during the year 2011 mainly refers to interest accrued on VAT receivables;
- guarantee deposits for leases, sundry utilities and related revaluations for approximately Euros 1.2 million.

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Assets held for sale/discontinued operations (7)

There are no *Assets held for sale or discontinued operations* as of December 31, 2011.

B) CURRENT ASSETS*Inventories (8)*

Inventories as of December 31, 2011 are composed of the following:

	<u>At</u> <u>12/31/2011</u>	<u>At</u> <u>12/31/2010</u>
Playslips	245	443
Rolls of paper	1,353	1,644
Spare parts (reparable)	3,504	2,714
Spare parts (consumables)	272	0
Materials, auxiliaries and consumables	<u>5,373</u>	<u>4,802</u>
Refills scratch cards	616	250
Virtual refills	8,435	4,204
Mini-toys	83	1,153
Finished goods and merchandise	<u>9,134</u>	<u>5,606</u>
Total	<u>14,507</u>	<u>10,408</u>

Stocks of materials, auxiliaries and consumables are recorded net of a provision of Euros 1,589 thousand, with an increase of Euros 505 thousand compared to the prior year.

The movement in the provision balance is largely due to an increase of Euros 499 thousand for the spare parts of gaming terminals and gaming machines which have been recalculated in a homogeneous manner on the basis of the stocks. The provision accounts for play slips and paper rolls for gaming terminals show, respectively a decrease of Euros 7 thousand and an increase of Euros 13 thousand due to the adjustment of these stocks to market price according to applicable accounting principles.

Inventories of finished goods and merchandise totalling Euros 9,134 thousand represent primarily telephone refill cards bought for resale to the consumers from Vodafone Omnitel N.V. (Euros 8,328 thousand) in accordance with the clauses of the contract signed at the beginning of 2004 between Sisal S.p.A. and Vodafone. They also include physical stocks of telephone and TV content refill cards of key operators of the sector, bought for resale to the consumers from Servizi in Rete 2001 S.p.A. (Euros 616 thousand) according to the clauses of contracts signed by this company with Sisal S.p.A. in November 2005, stocks of telephone refill cards bought from Carrefour Italia Mobile S.r.l. (Euros 46 thousand), in accordance with the clauses of the contract signed in 2007, and also stocks of telephone refill cards purchased for resale from the company Arabia Mobile Services S.r.l. (Euros 61 thousand) according to the clauses of the contract signed in 2011. Finally, they comprise stocks of over-the-counter products purchased for resale to the consumers from the Giochi Preziosi Group (Euros 74 thousand) according to the clauses of the contracts signed in 2009 and from Mattel Italy S.r.l. (Euros 9 thousand).

The significant increase compared to the prior year (approximately Euros 3.5 million) is due principally to higher purchases of Vodafone recharge cards during the last days of the year to be used during the holidays between the end and beginning of the new year that were partially offset by a decrease in the inventories of over-the-counter products.

Trade receivables (9)

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

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Trade receivables comprise the following:

	<u>At</u> <u>12/31/2011</u>	<u>At</u> <u>12/31/2010</u>
Trade receivables		
Receivables from points of sale	155,016	142,351
Trade receivables from network	20,346	27,955
Trade receivables from betting agencies	13,263	10,815
Trade receivables from gaming customers	340	2,664
Trade receivables from third parties	1,445	1,784
Other trade receivables from third parties	1,121	21
Doubtful receivables	33,485	23,856
Provision for impairment of receivables	(41,034)	(32,364)
Total	<u>183,983</u>	<u>177,083</u>

Receivables from points of sale represent amounts due by the Group for the bets placed on the last events of December 2011 and from the sales of non-gaming products in the same month. The increase from last year is mainly attributable to the higher betting volumes in the non-gaming sector and to the effect of a different calendar period for collections at the end of the year as well as a greater number of points of sale.

Trade receivables from network represent the sums due from the customer network of AWP gaming machines for which the Company, as the concessionaire, offers the interconnecting service to the Authority for the Administration of the Monopolies of the State (AAMS) computer network. These receivables include the consideration due to the concessionaire, P.R.E.U. (Prelievo Erariale Unico) for the single tax and the AAMS concession fee.

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

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

Doubtful receivables for Euros 33,485 thousand represent unpaid amounts generated by subject-to-collection receivables from points of sale under recovery procedures, including legal actions, except for the amount representing normal situations which can be resolved in the short term referring to the month of December 2011.

The provision for impairment of receivables at December 31, 2011 comprises:

	<u>At</u> <u>12/31/2011</u>	<u>At</u> <u>12/31/2010</u>
Provision for impairment of receivables		
Provision for impairment of network trade receivables	(40,385)	(31,801)
Provision for impairment of other trade receivables	(649)	(563)
Total	<u>(41,034)</u>	<u>(32,364)</u>

The movements occurred during the year are as follows:

	<u>At</u> <u>12/31/2010</u>	<u>Change during the year 2011</u>		<u>At</u> <u>12/31/2011</u>
		<u>Increases</u>	<u>Decreases</u>	
Provision for impairment of receivables				
Provision for impairment of network trade receivables	(31,727)	(12,352)	3,694	(40,385)
Provision for impairment of other trade receivables	(637)	(20)	8	(649)
Total	<u>(32,364)</u>	<u>(12,372)</u>	<u>3,702</u>	<u>(41,034)</u>

The increase during the year after utilisations reflects the directors' prudent assessment of the recoverability of certain receivables, in particular the amounts due from insolvent points of sale and from the area represented by the network of AWP gaming machines. This movement is due in part to the significant growth during the year in the turnover of the betting networks and also to a generally unfavourable economic situation. In addition it can be ascribed to the risk of the

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recoverability of certain receivable positions overdue for some time relating to gaming equipment and believed, after a thorough analysis, that they would be difficult to recover also due to the processes involving the disposal and renewal of the total inventory of gaming machines installed at direct points of sale and under partnerships. The Group constantly monitors movements in doubtful receivables and adopts, when possible and appropriate, recovery procedures by mutual consent through recovery plans, assisted, where necessary, by guarantees.

Current financial assets (10)

Current financial assets amount to Euros 1,004 thousand and mainly represent Monte dei Paschi di Siena securities for Euros 1,002 thousand, held by one of the companies acquired at the end of the year.

Current financial assets	At 12/31/2011	At 12/31/2010
Other securities	1,004	2
Total	1,004	2

Other current assets (11)

Other current assets amount to Euros 39,781 thousand and comprise the following:

Other current assets	At 12/31/2011	At 12/31/2010
Other receivables from third parties		
Receivables from employees	347	411
Other receivables from third parties	5,989	5,143
Other receivables from the Public Administration	30,642	15,101
Provision for impairment of other receivables	(271)	(449)
Total	36,707	20,207
Accrued income and prepaid expenses		
Accrued income	42	8
Prepaid expenses	3,031	4,403
Total	3,073	4,410
Total Other current assets	39,781	24,617

- *Other receivables from third parties* total Euros 5,989 thousand and include, among other things, receivables of approximately Euros 4,041 thousand relating to advances on the supply of the new “Microlot” gaming terminals;
- *Other receivables from the Public administration*, equal to Euros 30,642 thousand, refer mainly to receivables of Euros 21,775 thousand for security deposits with AAMS, under the concession transactions relating to gaming receipts using AWP gaming machines, Euros 6,951 thousand for receivables from PREU and Euros 1,082 thousand for receivables from AAMS, claimed by Sisal Match Point S.p.A. for adjustments on the horse race and sports betting concession in 2011 and recovered in January 2012. The receivables for security deposits decreased during 2011 as a result of the reimbursement of the sums deposited as guarantees (equal to 0.5% of turnover), referring to the year 2010, for a total of Euros 13.1 million, on the basis of the levels of service reached and investments made. As for the amounts referring to 2011, in light of the levels of service reached and the percentage of PdA (access points) updated using GPS technology, Sisal Slot S.p.A. recorded a net positive amount in the statement of comprehensive income for approximately Euros 21.7 million, equal to 0.498% of the turnover received during the year; the settlement of this sum, after the relative controls by AAM, should take place by the end of the first half of 2012.
- *Accrued income and prepaid expenses*, for Euros 3,073 thousand, represent mainly the prepaid portion of costs not referring to 2011 incurred for the issue of bank guarantees, for approximately Euros 1 million, and prepaid expenses for sundry supplies and premiums for health insurance.

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Tax receivables (12)

Tax receivables amount to Euros 12,266 thousand as of December 31, 2011 and are composed of the following:

Other current assets	At 12/31/2011	At 12/31/2010
Receivables for VAT from tax authorities	9,265	8,424
Receivables for IRES tax from tax authorities	274	0
Receivables for IRAP tax from tax authorities	0	968
Receivables for IRAP tax advance payment from tax authorities	2,300	0
Receivables for various taxes from tax authorities	429	28
Provision for impairment of tax receivables	(2)	(2)
Total	<u>12,266</u>	<u>9,417</u>

- *Receivables for VAT from tax authorities* of Euros 9,265 thousand mainly includes Euros 8,101 thousand from the re-calculation of the deductible amount, pro-rated, based on the definitive percentages for the year 2011 and Euros 650 thousand for receivables from the Group VAT liquidation.

Cash and cash equivalents (13)

Cash and cash equivalents as of December 31, 2011 are as follows:

Cash and cash equivalents	At 12/31/2011	At 12/31/2010
Bank and postal accounts	166,208	116,086
Restricted bank and postal accounts	114,320	354,863
Cash and cash equivalents in hand	3,164	1,932
Total	<u>283,692</u>	<u>472,881</u>

Restricted bank and postal accounts comprise Euros 114 million for prize money, including the amount deposited for the special winnings of the Vinci per la Vita—Win for Life games and for the so-called SuperStar Reserve Fund which holds the difference between the available prize money and the winnings payable calculated for each single game.

These accounts are managed by the Group but their use is restricted to the payment of the cumulative prizes on the relative games. The amounts in the deposit accounts for the prize money decreased considerably (approximately Euros 240 million) compared to the prior year mainly due to the effect of the SuperEnalotto first category winnings, which had already been paid at the end of the year, as well as the decrease in 2011 in the balance of the SuperStar Reserve Fund due to higher winnings payable in 2011 compared to the prize money accrued and the dedicated bank account for special winnings for the Vinci per la Vita—Win for Life and Win for Life Gold games owing to a decline in game volumes during the year.

This was partly offset, compared to the end of 2010, by a higher SuperEnalotto Jackpot amount carried forward to the first game of the next year and the opening of a new bank account to manage the winnings relating to the new NTNG game known as SiVinceTutto—Win Everything SuperEnalotto introduced in 2011.

Ordinary cash amounted to approximately Euros 166 million, with an increase of Euros 50 million compared to the prior year-end. This increase is due to cash flows as a result of improved Group operational performance, particularly by Sisal Slot S.p.A. and Sisal Match Point S.p.A. This allowed the Group to meet its further significant obligations mainly formed by investments and by the outstanding structured financial debt.

EQUITY AND LIABILITIES

A) Equity (14)

Total consolidated equity amounts to Euros 84,907 thousand.

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

<u>Equity</u>	<u>At</u> <u>12/31/2011</u>	<u>At</u> <u>12/31/2010</u>
Equity attributable to Owners of the Parent		
Share capital	102,500	102,500
Share premium reserve	94,484	94,484
Legal reserve	200	200
Other reserves	(83,558)	(70,658)
Total comprehensive loss for the year	(29,358)	(13,384)
Total equity attributable to Owners of the Parent	<u>84,268</u>	<u>113,143</u>
Equity attributable to non-controlling interests	639	682
Total equity attributable to non-controlling interests	<u>639</u>	<u>682</u>
Total equity	<u>84,907</u>	<u>113,824</u>

Share capital

The share capital of the company at December 31, 2011, fully subscribed and paid-in, is composed of 102,500,000 ordinary shares.

With reference to *Other reserves*, in order to allow participation in an effective system of managerial co-investment plans, some top managers of the Group have been granted the possibility of taking part in co-investment plans of the ultimate parent, Gaming Invest S.à.r.l. In particular, the co-investment plans provide for the subscription, as employees of the Group, to equity instruments and debt instruments issued by Gaming Invest S.à.r.l. under a system that is more favourable than those granted to the shareholders. The investment is structured as an equity-settled share-based payment transaction under IFRS 2 and consequently is reflected as such in the financial statements of the Group. For purposes of the determination of the fair value of the plan, the differential yield that will be paid to the managers as compared to the shareholders was measured at the grant date of the plan. Various assumptions for the realisation of the investment were considered and on that basis a cost referring to the year of Euros 483 thousand was recorded in the statement of comprehensive income with a contra-entry to other reserves.

New managers were added to the co-investment plan during the year and, as part of the rationalisation of the equity instruments and debt instruments issued by the parent, a reorganisation was carried out of the securities previously allocated, without any substantial incremental benefit to the manager beneficiaries.

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

Comprehensive income (loss)

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

Non-controlling interests

The decrease in non-controlling interests is due to the movement in the result for the year net of the payment of dividends for approximately Euros 55 thousand to the non-controlling interests of Sisal S.p.A.

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B) NON-CURRENT LIABILITIES

Long-term debt (15)

Long-term debt comprises:

Long-term debt	At 12/31/2011	At 12/31/2010
Loans from financing pool Royal Bank of Scotland	678,109	670,486
Loans from other lenders—factoring	3,906	3,906
Loans from other lenders—leasing	5,041	5,037
Loans from ultimate parent Gaming Invest S.a r.l.	395,214	372,547
Total	1,082,270	1,051,976

The loan secured from a pool of banks is shown net of commission costs and transaction consulting fees, not pertaining to the current year, totalling Euros 7,095 thousand.

The following tables detail the credit lines granted by a syndicate of banks, with Royal Bank of Scotland as lead bank, including both the long-term and the short-term portions; the amounts are stated gross of the above-mentioned commissions and transaction consulting fees deducted from the debt in accordance with the “amortised cost method”:

Lines	Type	Residual debt at 12/31/10	Residual debt at 12/31/11	Expiry	Repayment
Long-term lines—beneficiary: SHIP					
Facility A1	Amortising 7 years	56,081	44,852	12/31/2014	semiannually
Facility B1	Bullet 8 years	169,625	169,625	12/31/2015	at expiry
Facility C1	Bullet 9 years	169,625	169,625	12/31/2016	at expiry
Facility D1	Amortising 7 years	23,271	26,942	12/31/2014	semiannually
RF*	Revolving facility	34,286	34,286		
Total		452,888	445,330		

* The revolving line is short-term.

Amortisation Plan	Residual debt at 12/31/11	2012	2013	2014	2015	2016
SHIP S.p.A.						
Facility A	44,852	11,229	11,229	22,394		
Facility B	169,625				169,625	
Facility C	169,625					169,625
Facility D	26,942		13,471	13,471		
RF	34,286			34,286		
Total	445,330	11,229	24,700	70,151	169,625	169,625
Residual debt		434,101	409,401	339,250	169,625	0

Lines	Type	Residual debt at 12/31/10	Residual debt at 12/31/11	Expiry	Repayment
Long-term lines—beneficiary: Sisal					
Facility A2	Amortising 7 years	28,251	22,594	12/31/2014	semiannually
Facility B2	Bullet 8 years	75,375	75,375	12/31/2015	at expiry
Facility C2	Bullet 9 years	75,375	75,375	12/31/2016	at expiry
Facility D2/D3	Amortising 7 years	0	0	12/31/2014	semiannually
RF	Revolving facility	0	0	12/31/2014	
Total		179,001	173,344		

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<u>Amortisation Plan</u>	<u>Residual debt at 12/31/11</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Sisal S.p.A.						
Facility A	22,594	5,657	5,657	11,281		
Facility B	75,375				75,375	
Facility C	75,375					75,375
Facility D	0					
RF	0					
Total	173,344	5,657	5,657	11,281	75,375	75,375
Residual debt		167,688	162,031	150,750	75,375	0

<u>Lines</u>	<u>Type</u>	<u>Residual debt at 12/31/10</u>	<u>Residual debt at 12/31/11</u>	<u>Expiry</u>	<u>Repayment</u>
Long-term lines—beneficiary: Sisal Match Point					
Facility D	Amortising 7 years	57,600	71,086	12/31/2014	semiannually
Total		57,600	71,086		

<u>Amortisation Plan</u>	<u>Residual debt at 12/31/11</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Sisal MatchPoint S.p.A.						
Facility D	71,086		35,543	35,543		
Total	71,086	0	35,543	35,543	0	0
Residual debt		71,086	35,543	0	0	0

<u>Lines</u>	<u>Type</u>	<u>Residual debt at 12/31/10</u>	<u>Residual debt at 12/31/11</u>	<u>Expiry</u>	<u>Repayment</u>
Long-term lines—beneficiary: Sisal Slot					
Facility D	Amortising 7 years	41,000	41,000	12/31/2014	semiannually
Total		41,000	41,000		

<u>Amortisation Plan</u>	<u>Residual debt at 12/31/11</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Sisal Slot S.p.A.						
Facility D	41,000		20,500	20,500		
Total	41,000	0	20,500	20,500	0	0
Residual debt		41,000	20,500	0	0	0

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

The Senior Credit Agreement, moreover, contains financial covenants based on key economic/financial ratios related to the consolidated financial statements and also to the consolidated financial statements of the ultimate parent including, for example, the ratio of net consolidated debt / gross consolidated operating profit and the ratio of the latter and the interest cost for the financing.

As already indicated, besides the above mentioned loans, the Group has derivative contracts to cover the risk of exposure to interest rate fluctuations with the characteristics described in the note on “Other current liabilities”.

As for the loan from the shareholders, denominated Shareholder Loan C, this is a bullet loan under which the Parent is entitled to obtain the repayment of the loan on request, but it is subordinated to payment of the Senior Credit Agreement. The Parent has the right to repay all or a part of the loan at any time, taking into account the condition mentioned above, and this loan is therefore considered a medium-/long-term loan. The interest on the “PIK Margin” (6%) can be capitalised for the

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entire term of the loan upon request of the party financed whereas in relation to the interest, denominated “Cash Margin” (4.5%), the right exists only for the first 12 months of the term of the loan; during the year a total of approximately Euros 18.9 million of interest was capitalised and principal was repaid for approximately Euros 2.2 million.

The sole shareholder, Gaming Invest S.à.r.l., in June 2009, extended another loan of Euros 60 million, bearing interest from January 1, 2010, denominated “subordinated zero coupon shareholder loan” with zero coupon interest, like the preceding loan, subordinate to the obligations under the “Senior Credit Agreement”. The payment of 11% interest, during the year equal to Euros 4.2 million, which cannot be capitalised, will take place at the time of the repayment of principal; such interests are recorded in the income statement using the amortised cost method.

Loans from other lenders—factoring, for approximately Euros 3.906 thousand, derive from a contract signed in 2009 with leading factoring company a contract for the transfer of the VAT receivable of the subsidiary Sisal SpA, referring to the year 2007, which was sent out earlier request for reimbursement to the concessionaire using the procedures allowed by the article. 8 bis of DPR 633/72 and the same has already been received in advance.

Provision for employee severance indemnities (16)

The provision, amounting to Euros 7,876 thousand, reflects the effects of the present value calculation required under IAS 19.

Deferred tax liabilities (17)

The information concerning deferred tax liabilities is detailed in the following table (in thousands of Euros):

	2011		2010	
	Temporary differences (Amount)	Tax effect (rate 27.5%/31.7%)	Temporary differences (Amount)	Tax effect (rate 27.5%/31.7%)
Recognition of deferred tax liabilities and related effects				
Deferred tax liabilities				
Severance indemnity deducted out of books	1,832	501	1,820	501
Leasing instalments	0	0	140	44
Goodwill deducted out of books	14,716	4,624	13,799	4,333
Depreciation—difference between IAS and tax base	(3)	(1)	(322)	(101)
Accelerated depreciation	2,545	701	2,570	706
Merger deficit—taxed	46,560	15,249	52,243	16,404
Reversal of impairment loss on intangible assets	18,922	6,187	22,557	7,080
Other temporary differences	2,445	773	285	81
Reversal of current deferred taxes	(866)	(424)	(5,419)	(1,649)
Reversal of non-current deferred taxes	(16,226)	(4,732)	(12,312)	(3,660)
Consolidation deficit—taxed	33,975	10,770	36,557	11,479
Net deferred tax liabilities	103,900	33,648	111,918	35,218
Temporary differences excluded from the deferred tax computation				
	0	0	0	0

Provisions for risks and charges (18)

The provisions, totalling Euros 15,223 thousand, include the following:

Provision for risks and charges	At 12/31/2010	Changes during the year		At 12/31/2011
		Increase	Decrease	
Provisions for contractual risks	4,149	572	(67)	5,090
Sundry risks and charges	4,399	4,908	(132)	9,176
Technological updating	603	353	0	957
Total	9,152	5,833	(199)	15,223

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The provisions arise from the directors' prudent assessment of the litigations in progress, mainly in the civil and employee-related areas.

The Group operates in a complex legal environment where regulations are continuously evolving and subjected to the strong presence of the State's regulatory activity and the bodies responsible for the control and management of this market. The result is frequently a high number of cases and disputes. In view of this and at this time, although in a context of uncertainty, it is believed that such cases and proceedings will not give rise to liabilities that are unrecorded or have significant consequences for the Group. At the same time, it should be mentioned that as of the date of the financial statements there are certain tax inquiries and inspections in progress; however, it is believed, at this time, that no conditions exist for considering further additional costs already represented in the accounts.

Other non-current liabilities (19)

Other non-current liabilities total Euros 6,320 thousand. Details are as follows:

Other non-current liabilities	At 12/31/2011	At 12/31/2010
Payable for the acquisition of business units	2,044	2,576
Other non-current liabilities	4,276	0
Total	<u>6,320</u>	<u>2,576</u>

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

Other non-current liabilities refer to the non-current portion of the payable to the tax authorities relating to the proposal to settle the Note of Findings (NoF) issued following the inspection by the Financial Police and signed by the Parent as of December 31, 2011.

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

There are no such liabilities at December 31, 2011.

C) CURRENT LIABILITIES

Trade and other payables (21)

This line item includes *Payables to suppliers* which are composed of the following:

Trade payables	At 12/31/2011	At 12/31/2010
Third party suppliers	91,586	70,664
Payables to partners for services	158,376	146,756
Payables to AWP gaming machines operators	8,548	9,616
Other trade payables	649	122
Total	<u>259,159</u>	<u>227,158</u>

Payables to partners for service relate mainly to telephone and TV content refills sold, whereas Payables to AWP gaming machines network mainly represent the amount to be paid to the network owing to the reduction in the PREU rate from 12.6%, the percentage collected during the year, to 12.1524%, the percentage decided by AAMS under Decree 2012/11048/ADI dated March 12, 2012.

Short-term debt (22)

Short-term debt, amounting to Euros 40,894 thousand, mainly includes the amount drawn down of Euros 34,286 thousand under the revolving facility granted by the pool of banks for short-term cash and working capital requirements. In addition, there is approximately Euros 6.5 million of short-term loans relating to the acquisition finalised at the end of the year, of which Euros 5,850 thousand is due to the former shareholders of the company Ilio S.p.A. This loan was extinguished in the month of January 2012.

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Current portion of long-term debt (23)

Current portion of long-term debt, amounting to Euros 22,078 thousand, represents principally the instalments due on or before December 31, 2012 for Euros 16,970 thousand according to current repayment plans under the “Senior Credit Agreement”, Euros 300 thousand due by the same date for principal on the loan received from the ultimate parent as established in the relative agreement and Euros 4,807 thousand of finance leasing debt outstanding as of the date of the financial statements.

Other current liabilities (24)

Other current liabilities, amounting to Euros 290,260 thousand, are composed as follows:

	At 12/31/2011	At 12/31/2010
Other current liabilities		
Other current liabilities	1,849	1,384
Payables to social security agencies	6,720	5,865
Liabilities relating to fair value of derivative instruments	6,591	17,647
Sundry payables	275,099	497,871
Total	<u>290,260</u>	<u>522,769</u>

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

Sundry payables are composed as follows:

	At 12/31/2011	At 12/31/2010
Sundry payables		
Payables for winnings		
Payables for SuperEnalotto-SuperStar winnings	97,744	337,203
Payables for Win for Life winnings	28,387	40,702
Payables for SVT-Superenalotto winnings	12,046	0
Payables for Tris games and horse race betting winnings	328	254
Payables for CONI games	283	69
Payables for Card and Skill Games winnings	0	0
Payables for Bingo winnings	11	46
Payables for VLT winnings	6,052	551
Total payables for winnings	<u>144,850</u>	<u>378,825</u>
Other payables on games		
Payables to tax authorities for games	82,252	72,980
NTNG subscribers	974	1,413
Payables for online games	7,715	5,493
Minimum guaranteed betting adjustment	9,922	14,849
Payables for betting management	1,263	1,775
Total other payables on games	<u>102,126</u>	<u>96,509</u>
Payables to employees	11,329	10,401
Payables to collaborators	1,549	1,320
Other payables to third parties	15,244	10,815
Other payables to Group	0	0
Total other sundry payables	<u>28,123</u>	<u>22,537</u>
Total Sundry payables	<u>275,099</u>	<u>497,871</u>

Payables for winnings include jackpots payable by the Group to winners of pool games, bets and VLTs as of December 31, 2011; these liabilities are covered mainly by the dedicated bank accounts included in the statement of financial

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position under assets. The decrease in these payables compared to the end of the prior year is approximately Euros 234 million and mainly relates to the first category SuperEnalotto prize payouts assigned, and already paid at the end of the year, to a lower amount in the jackpot accounts mostly due to a contraction in game volumes as well as a reduction in the Superstar Reserve Fund owing to higher winnings payable in 2011 compared to the jackpots accrued for each contest. This is partly compensated, compared to the year-end 2010, by a higher SuperEnalotto Jackpot carried forward to the first game of the following year and the recognition of payables for SiVinceTutto—Win Everything SuperEnalotto, the new NTNG game introduced at the beginning of April 2011.

Other payables on games are mainly composed of the game taxes on the last NTNG games of the year for approximately Euros 44 million, payables for the PREU single tax, concession fees for approximately Euros 28 million and the single tax on sports bets and skill games duly paid in January 2012.

Minimum guaranteed betting adjustment, for Euros 9,922 thousand, includes the present value of the residual short-term amount payable to concession authorities for the additional guaranteed minimum amount payable under the concession contracts for horse racing and sports betting for Euros 9,469 thousand. In 2009, Sisal Match Point S.p.A. did not pay, in agreement with the concession authority, the instalment due for 2009 relating to the guaranteed minimum adjustment for horse race betting equal to Euros 4,365 thousand. This was because of the receivable awarded by the Arbitration Board on May 26, 2003 which involved 171 companies against the Concession grantor Unire and which, by decision of the arbitration board was resolved in favour of the companies, confirming, inter alia, the existence of the receivable equal to Euros 4,425 thousand in favour of the concessions held by Sisal Match Point S.p.A. following the acquisition of the business segments and mergers which took place in prior years. The decision by the Arbitration Board is still subject to appeal by AAMS. The line item also includes the payable for the additional minimum guaranteed adjustments accrued for the year 2008 of Euros 3,260 thousand, for which the company is waiting for a new recalculation by AAMS, which takes into account the taxes duly paid on national horse racing bets, and the payable for the additional minimum guaranteed adjustments accrued for 2009 of Euros 1,819 thousand, in accordance with AAMS' requirements but not yet paid since it is in the process of being checked and verified with AAMS.

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

Payables to employees include the 14th month salary, bonuses, vacation, former holidays, outstanding amounts due and overtime accrued at the end of the year but not paid;

Payables to collaborators include compensation similar to employee remuneration and compensation due to members of the board of directors and board of statutory auditors, which will be paid upon issue of specific pay slips and/or receipt of invoices.

Other payable to third parties include other payables related to the current portion of debt incurred for the purchase of the business unit MERKUR (Euros 562 thousand), for the purchase of the company Arezzo Giochi (Euros 145 thousand), for the purchase of the business unit related to the group Mazzilli (Euros 848 thousand) and the purchase of the company Ilio SpA to 6,750 thousand Euros as well as the remaining debt from the acquisition of the business unit of Costanzelli Srl and Slotmatic S.r.l.

Liabilities relating to fair value of derivative instruments amounting to Euros 6,591 thousand include, in accordance with IAS 39, the negative fair value as of December 31, 2011 of the interest rate swaps put into place in the years 2006-2010 in parallel with the previously mentioned loans received by the Parent and other companies of the Group. The main characteristics are as follows:

<u>From</u>	<u>To</u>	<u>Notional</u>	<u>Hedging Fix Rate</u>
12/31/2010	3/31/2011	380,000,000	4.197%
3/31/2011	6/30/2011	380,000,000	4.197%
6/30/2011	9/30/2011	380,000,000	4.197%
9/30/2011	12/31/2011	380,000,000	4.197%
12/31/2011	3/31/2012	280,000,000	1.510%
3/31/2012	6/30/2012	280,000,000	1.510%
6/30/2012	9/30/2012	280,000,000	2.810%
9/30/2012	12/31/2012	280,000,000	2.810%

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

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Tax payables (25)

Tax payables comprises the following:

Tax payables	At 12/31/2011	At 12/31/2010
Payables for IRAP tax to tax authorities	3,371	1,163
Payables for IRPEF payroll tax to tax authorities	2,128	2,007
Payables for withholding tax on RBS loan to tax authorities	80	310
Other payables to tax authorities	3,903	4
Payables for substitute tax to tax authorities	29	11
Payables for VAT to tax authorities	3	95
Payables for IRES tax on income tax consolidation	6,623	5,904
Total	<u>16,135</u>	<u>9,494</u>

This line item includes taxation payable by the Group as of December 31, 2011.

Other payables to tax authorities, includes Euros 3,903 thousand, of the short-term payable relating to the act for the proposal to settle the NoF issued by the Financial Police and signed by the Parent at the end of the year.

IRPEF payroll tax payable on employment contracts and services performed by external self-employed collaborators has been duly paid in the early part of 2012 on their due dates.

IRAP tax payable at year-end is net of advances already paid, as is IRES tax payable, on the basis of the results of the national tax consolidation.

COMMITMENTS

The guarantees, guarantee insurance policies and credit guarantees provided by the Group amount to Euros 519,574 thousand and are composed as follows:

(amounts in thousands of Euros)

Guarantees provided on behalf of third parties as of December 31, 2011

Authority for the Administration of Monopolies of the State (AAMS)	383,276
Non-game services	132,870
Other guarantees provided	3,404
Tax revenues agency—VAT Office	25
Total	<u>519,574</u>

In addition to the above commitments, as a guarantee of the payables deriving from the financing contracts signed in relation to the purchase of the majority interest in Sisal S.p.A., the Group pledged the shares held in Sisal S.p.A., Sisal Match Point S.p.A. and Sisal Slot S.p.A. in favour of the banks financing the operation.

FINANCIAL INSTRUMENTS: SUPPLEMENTARY INFORMATION

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

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Categories of financial assets and liabilities

In accordance with IFRS 7, the following table presents the carrying amount of each category of financial asset and liability, as defined by IAS 39, and the reconciliation with the financial statements as of December 31, 2011 and also the comparison with the respective fair value:

Categories of financial assets and financial liabilities—IAS 39	Balance 12/31/2011	Statement of comprehensive income		Balance 12/31/2010	Statement of comprehensive income	
		income	expenses		income	expenses
ASSETS						
Cash and cash equivalents						
Bank and postal deposits and valuables in hand	283,692	2,978	4	472,881	1,339	4
Total	283,692	2,978	4	472,881	1,339	4
Financial assets at fair value through profit or loss						
Derivative instruments	0	0	0	0	0	0
Total	0	0	0	0	0	0
Held-to-maturity investments						
	0	0	0	0	0	0
Total	0	0	0	0	0	0
Loans and receivables						
Current financial assets	0	0	0	0	0	0
Trade receivables—current and non-current	183,983	0	0	177,083	0	0
Other assets—current and non-current	51,664	246	0	36,331	217	0
Total	235,647	246	0	213,413	217	0
Available-for-sale financial assets						
Other securities	1,004	0	0	2	0	0
Totale	1,004	0	0	2	0	0
LIABILITIES						
Financial liabilities at amortised cost						
Bank debt and payables to other lenders—current and non-current ^(*)	1,145,241	0	69,903	1,110,848	0	68,153
Trade payables—current/non-current	259,159	0	26	227,158	3,084	0
Other liabilities—current and non-current	289,988	0	522	505,120	0	829
Total	1,694,388	0	70,452	1,843,125	3,084	68,982
Financial liabilities at fair value through profit or loss						
Derivative instruments	6,591	810	2,609	17,647	0	13,679
Total	6,591	810	2,609	17,647	0	13,679

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

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<u>Categories of financial assets and financial liabilities—IAS 39</u>	<u>Balance 12/31/2011</u>	<u>Fair value</u>	<u>Balance 12/31/2010</u>	<u>Fair value</u>
ASSETS				
Financial assets at fair value through profit or loss				
Derivative instruments	0	0	0	0
Total	0	0	0	0
Held-to-maturity investments	0	0	0	0
Total	0	0	0	0
Loans and receivables				
Interest bearing loans				
Trade receivables—current and non-current	183,983	183,983	177,083	177,083
Other assets—current and non-current	51,664	51,664	36,331	36,331
Total	235,647	235,647	213,413	213,413
Available-for-sale financial assets				
Other securities	1,004	1,004	2	2
Total	1,004	1,004	2	2
LIABILITIES				
Financial liabilities at amortised cost				
Bank debt and payables to other lenders—current and non-current(*)	1,145,241	1,152,336	1,110,848	1,121,499
Trade payables—current/non-current	259,159	259,159	227,158	227,158
Other liabilities—current and non-current	289,988	289,844	505,120	504,976
Total	1,694,388	1,701,339	1,843,125	1,853,632
Financial liabilities at fair value through profit or loss				
Derivative instruments	6,591	6,591	17,647	17,647
Total	6,591	6,591	17,647	17,647

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

Reclassification

The Group has not carried out any reclassification of financial assets among the different categories.

As far as trade receivables and payables and other short term receivables and payables, the carrying amount is considered to be a reasonable approximation of their respective fair value.

Regarding indexed financing, whose future cash flows were not known at year end, the Group has estimated them at a variable rate (including the effect of spreads) and discounted them to present value at the reporting date.

In reference to the financial instruments recognised in the statement of financial position at fair value, IFRS 7 sets forth the classification based on a hierarchy level which reflects the significance of the inputs in the determination of the fair value. The three levels of input are:

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

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The following table sets forth the assets and liabilities measured at fair value at December 31, 2011, by the level of the fair value hierarchy reflecting the inputs in making the fair value measurement.

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

Financial instruments risk management policy

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

Credit risk

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

The following main categories of credit risk were identified:

Credit risk by class of risk	Balance 12/31/2011	Balance 12/31/2010
Receivables from Public Authorities	30,642	15,101
Receivables from points of sale and shops	185,425	170,145
Receivables from Betting Agencies	13,391	11,353
Receivables from Network	21,644	27,955
Other receivables	13,967	9,958
Provision for impairment of receivables	(41,305)	(32,813)
Total	223,764	201,700

- *Receivables from Public Authorities* include receivables from AAMS for games managed according to the regulations of the specific concessions, receivables from UNIRE arising from advances made on its behalf in the course of management of the Totip game and receivables from the Public Administration for reimbursement requests already forwarded at year end, to be settled shortly; no credit risk is considered to exist on these amounts.
- *Receivables from points of sale and shops* represent essentially amounts due from gaming activities and non-gaming services in the last few days of the year 2011 and the relative receivables arising from the automated weekly collections of the preceding periods that have gone unpaid. The large number of outlets exposes the Group to a partial uncollectibility risk which, following suitable evaluation by the directors, has duly been covered by a specific provision for impairment of receivables.
- *Receivables from Network* represent mainly receivables from gaming through AWP gaming machines, including the single tax (PREU) which the concessionaire, Sisal Slot S.p.A., must pay regularly to tax authorities; the large number of customers and the substantial amounts involved expose the Group to a partial collection risk which, following suitable evaluation by the directors, has been duly covered by a specific provision for doubtful accounts.

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- *Receivables from Betting Agencies* represent mainly receivables from third parties which manage some of the horse racing and sports betting agencies on the basis of partnership agreements; the size of individual accounts, some inherited through business combinations, requires constant monitoring of the same and the formation of a provision for certain critical cases, often resolved with agreed repayment plans.
- *Other receivables* include insurance balances, advances to employees and sundry receivables not classifiable in the preceding categories. There are no specific forms of credit risk for the Group associated with this category.

Tax receivables have been excluded from this analysis as no form of risk is apparent.

Risk exposure

At year end, the provision for impairment of receivables of the Group was Euros 41.3 million with the movements for the year shown in the comments to the related note.

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

<u>Analysis of credit risk</u>	<u>Balance 12/31/2011</u>	<u>ageing</u>			
		<u>current</u>	<u>overdue 0-90 days</u>	<u>overdue between 90-180 days</u>	<u>overdue more than 180 days</u>
Trade receivables	225,017	172,066	8,280	4,605	40,068
Provision for impairment of receivables	(41,033)	(6,423)	(905)	(3,870)	(29,835)
Net amount	183,984	165,643	7,375	735	10,233
Other receivables	40,052	39,128	—	—	924
Provision for impairment of receivables	(271)	(87)	—	—	(184)
Net amount	39,781	39,041	—	—	740
Total	223,764	204,684	7,375	735	10,973

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

As already mentioned, the Group monitors credit risk on the points of sale through specific procedures for selecting accurately the places, by assigning operating limits for wagers on the gaming terminal and by daily control over changes in credit which provides for the blocking of the terminal in the event of non-payment and the revocation of the authorisation to operate as a SISAL points of sale in the event of recurrent non-payment.

Tax receivables have been excluded from this analysis as no form of risk is apparent.

Liquidity risk

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

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

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

<u>Financial liabilities disbursement analysis</u>	<u>Balance 12/31/2011</u>	<u>estimated disbursements</u>			
		<u>up to three months</u>	<u>between three months and one year</u>	<u>between one and five years</u>	<u>more than five years</u>
Bank debt and payables to other lenders	749,728	11,128	22,804	722,898	—
Trade payables	259,159	233,629	24,582	900	—
Other payables	296,579	170,380	112,532	13,137	—
Total	1,305,466	415,136	159,918	736,935	—

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The flows indicated refer only to repayments of principal. Actual disbursements will be increased by the interest charges due based on the rates applicable to the various loans as detailed in the long-term debt section of these explanatory notes. Bank loans and payables to other lenders do not include the loan received from the ultimate parent, Gaming Invest S.à.r.l., on which there is no liquidity risk and in any case the repayments are subordinated to those of the “Senior Credit Agreement”. Further, the table does not include taxation payables which will be paid at due dates established by existing laws.

During the year, the Group has respected all the repayment clauses stated in existing agreements.

Market risk

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

The market risk thus comprises:

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

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

Foreign currency exchange risk

The Group is not habitually exposed to foreign currency exchange risk since it operates only at the national level. There are obligations to English and American suppliers for not relevant amount.

Interest rate risk

The Group utilises a mix of debt instruments according to the nature of its financial needs. Specifically, the Group normally refers to short-term debt to finance its working capital requirements and for medium-and long-term financing to support investments related to its operations and extraordinary transactions.

The financial liabilities which expose the Group to interest rate risk are mainly medium-and long-term indexed loans at variable rates of interest.

The current Group policy aims to reduce the fluctuation of interest costs on its debt and the related effect on the statement of comprehensive income by putting into place interest rate swaps (IRS).

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

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

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

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

	Balance 12/31/2011	Analysis +/- 1% interest rate			
		Statement of comprehensive income		Statement of financial position	
		+1% profit / (loss)	-1% profit / (loss)	+1% profit / (loss)	-1% profit / (loss)
Net financial debt	(578,808)	368	(368)	368	(368)
Derivative instruments	(6,591)	4,243	(4,243)	4,243	(4,243)
Total	(585,399)	4,611	(4,611)	4,611	(4,611)

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Capital management

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

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

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

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NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Revenues (27)

Revenues include the consideration received by Group companies for the following types of activities:

Revenues	2011	2010
Gaming revenues	611,294	517,694
Services and Non-gaming product revenues	98,425	86,126
Points of sale fees	81,896	69,666
Other revenues	1,005	785
Total	792,621	674,271

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

Gaming revenues	2011	2010
NTNG revenues	91,407	137,979
Slot machines revenues	479,121	335,011
Horse race betting revenues	20,975	26,542
Online game revenues	16,595	14,507
Bingo revenues	1,785	1,832
Total	611,294	517,694

Gaming revenues show a decrease in NTNG revenues (Euros 47 million) due to a contraction in gaming volumes.

As for the AWP gaming machines, the overall growth was approximately Euros 144.1 million (+43%). This is a significant figure, as is the significant percentage increase in the overall (+65%), whereas the average number of installed machines rose by 18.5%. This movement can be attributed to a series of factors:

- the roll out of the VLT installations (the average daily receipts are significantly higher than those of the new slot machines);
- activities aimed at increasing the number of slot machines with high-performance game cards;
- the investments made in the distribution network with personalised designs and decorations with the Company's trademark in the most important points of sale;
- the expansion of the dedicated work force and the related logistics activities (with particular reference to reducing the time needed to fill new orders).

As for online games, the positive performance was boosted by the start of the new cash poker game, the beginning of "Casinò on line" and new skill games introduced in July 2011.

Since April 2010, the Matchpoint site offers new skill games that showed a good appreciation from the players also in the current year.

Services and Non-gaming product revenues relate to those Group revenues primarily linked to the sale/distribution of telephone refills, the sale/distribution of TV content refills and also revenues from the collection and payment services managed by the Parent, which reported a considerable increase during the year (following a trend already begun in prior years).

Points of sale fees include mainly the annual affiliation "Point-of-Sale" fee from Sisal Points of sale on the basis of the contract terms signed (Euros 74.6 million) in addition to Euros 3.4 million relating to the fees invoiced to points of sale qualified as horse racing and sports betting points of sale in accordance with Bersani Decree, for the services rendered by Sisal S.p.A., specifically covered by contracts and approximately Euros 0.8 million for fees charged to the points of sale under the "Sisal Point" contracts.

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Fixed odds betting income (28)

Fixed odds betting income amounts to Euros 74,456 thousand and includes income from fixed odds sports bets and horse racing bets handled by Sisal Match Point S.p.A., the concessionaire of the Group.

Fixed odds betting income	2011	2010
Fixed odds sports betting income	73,854	57,352
Fixed odds horse race betting income	14	(24)
Reference horse race betting income	588	652
Total	74,456	57,981

The significant increase in these revenues is mostly attributable to fixed-odds sports bets reflects a particularly favourable trend for the bookmaker (also and especially in relation to the trend with a diametrically opposite sign recorded in the prior year) regarding the results of sports events in addition to an adequate and professional management of risk by the company structure set up for this purpose.

Other revenues and income (29)

Other revenues and income of Euros 2,763 thousand are principally composed of income related to adjustments of cost estimates from prior years.

Purchases of materials, consumables and merchandise (30)

Purchases of raw materials, consumables and merchandise	2011	2010
Game materials purchases	12,489	13,333
Spare parts purchases	4,739	3,772
Sundry materials purchases	2,026	1,829
Warehousing	224	146
Change in inventories	(596)	(2,327)
Total	18,882	16,753

This line item, equals to Euros 18,882 thousand, includes the cost of paper purchased for gaming terminals and playslips for pool betting and bets for Euros 12,489 thousand and also spare parts and consumables used for the maintenance of gaming terminals for Euros 4,739 thousand.

Other purchases also include Euros 2,026 thousand for advertising and promotional material, stationery and printed forms, packaging and consumables fully expensed in the year.

Costs for services (31)

The composition of services, amounting in total to Euros 547,268 thousand, is the following:

Costs for services	2011	2010
Costs for commercial services	64,931	30,008
Other services	482,337	418,068
Total	547,268	448,077

Commercial services	2011	2010
Marketing and commercial expenses	48,533	20,312
Other commercial initiatives	14,259	7,828
Other commercial services	2,139	1,868
Total	64,931	30,008

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Other services	2011	2010
Sales channel—Gaming	317,008	261,482
Sales channel—Non-gaming services	67,478	61,697
Games and gaming management	3,174	2,317
Maintenance and technical assistance	15,338	16,869
Logistics	5,531	7,648
Sisal Tv-Media	3,212	3,012
Telecommunications	15,792	14,262
Consulting	17,101	24,324
Directors' emoluments	2,640	2,260
Banking charges	5,450	5,159
Employee travel and trips	3,476	3,475
Headquarter operating costs	7,682	4,647
Insurance	2,272	1,874
Outsourcing services	7,825	4,465
Other service costs	8,359	4,578
Total	<u>482,337</u>	<u>418,068</u>

The increase in costs for services is mostly explained by higher costs incurred by the Group for fees to the network (points of sale/betting network/AWP network), which increased by more than Euros 56 million. The increase is in line with the growth of volumes in the various business segments in which the Group has its activities and also the increase in commercial service costs (+Euros 35 million) traceable principally to higher advertising and promotional costs on television channels, national press, computerised billboards strategically placed in important Italian cities and at live events. These costs were incurred in 2011 both as a result of the evolution of the gaming market and in accordance with the communication and information plan decided by the Company, as set out in art. 15 of the Agreement governing the concession relationship for the year and the growth of the NTNG game turnover which require an annual accrual equal to 1.82% of NTNG gaming receipts in the prior 12-month concession period.

As required by art. 2427.16 bis of the Italian Civil Code, disclosure is provided about the fees paid to the audit firm for the audit of the annual financial statements of the Parent and the subsidiaries, which total Euros 407 thousand, and for the auditing procedures carried out during the year in connection principally with the various obligations required by the NTNG concession for another Euros 41 thousand and Euros 10 thousands for auditing procedures related with SHIP S.p.A. separate asset.

Lease and rent expenses (32)

These expenses, amounting to Euros 13,813 thousand, are composed as follows:

Lease and rent expenses	2011	2010
Buildings lease	9,909	8,280
Other rentals and operating leases	3,904	3,127
Total	<u>13,813</u>	<u>11,407</u>

Lease and rent expenses include:

- rent and condominium expenses for Euros 9,909 thousand;
- rent principally of motor vehicles and hardware equipment for Euros 3,904 thousand.

Personnel costs (33)

Personnel costs totalling Euros 69,008 thousand comprise the following:

Personnel costs	2011	2010
Salaries and wages	48,923	43,018
Social security contributions	15,409	13,194
Employee severance indemnities	3,616	2,814
Other personnel costs	1,060	380
Total	<u>69,008</u>	<u>59,407</u>

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The total increase in personnel costs is largely due to a higher headcount in 2011 in the Group as shown in the following table which presents the average number of employees by category for the entire calendar year 2011 and the prior year.

Average number of employees	2011	2010
Managers	43	39
Management staff	92	77
Clerical	1,147	948
Labourers	5	4
Total	1,287	1,068

Other operating costs (34)

Other operating costs amounting to Euros 31,415 thousand comprise the following:

Other operating costs	2011	2010
Other taxes and duties	1,856	927
Gifts and donations	1,067	712
Gaming concession fees	21,335	17,807
Other operating costs	7,158	14,315
Total	31,415	33,761

Other operating costs largely include the concession fees payable under existing regulations for legal gaming with AWP gaming machines (for approximately Euros 13 million), for sports betting and horse racing and sports games (for approximately Euros 4 million) and for NTNG national totalisator number games (for approximately Euros 4.3 million). The reduction in *Other operating costs* is for the most part due to lower non-deductible VAT expenses recorded in this line item during the year after the change in the VAT regime adopted by certain companies of the Group, mentioned earlier.

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

The line item, amounting in total to Euros 133,081 thousand, comprises the following:

Amortisation, depreciation, provisions and impairment losses and reversals	2011	2010
Amortisation of intangible assets	56,835	50,384
Depreciation of property, plant & equipment	32,597	27,606
Other impairment of fixed assets	25,734	6,860
Impairment of receivables	12,330	11,253
Accruals to provisions for risks and charges	5,232	10
Accruals to other provisions	353	(0)
Total	133,081	96,114

The movement in the *Amortisation of intangible assets* is due mainly to the higher amortisation charge for software and software user licences following the considerable investments made during the year whereas the increase in *the Depreciation of property, plant and equipment* comes from the gaming terminals acquired in 2011 and in prior years gradually put into use. The significant increase in *Other impairment losses on fixed assets* refers to the impairment charge on the concession rights relating to horse race betting, Tris and pools which was described in depth in the notes on the statement of financial position.

Finance income and similar (36)

Finance income and similar, amounting to Euros 4,033 thousand, comprise the following:

Finance income and similar	2011	2010
Other finance income	3,224	1,556
Other income on derivative instruments	810	0
Total	4,033	1,556

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Finance income and similar is composed of interest income accrued on the ordinary cash of the Group. The increase over the prior year is due to higher average balances and higher average rates of remuneration.

Finance expenses and similar (37)

Finance expenses and similar amount to Euros 73,064 thousand and comprise the following:

Finance expenses and similar	2011	2010
Interest and other finance expenses—Group	37,349	37,987
Interest and other finance expenses—third parties	33,080	30,998
Other expenses on sundry instruments	2,609	13,679
Exchange (gains) losses realised	22	(693)
Exchange (gains) losses unrealised	4	(2,391)
Total	73,064	79,580

Interest and other finance expenses—Group refers to expenses on the outstanding loan lines with the company Gaming Invest S.à.r.l., the sole shareholder of the Parent.

The decrease in *Expenses of financial instruments* is primarily due to the reversal of prior years' impairment charges relating to the value of the interest rate swaps which reached maturity at the end of the year.

Adjustments to financial assets (38)

There are no adjustments to financial assets in 2011.

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

The loss of Euros 11 thousand refers to the adjustment of the carrying amount of the investment in the associate Consorzio Promoippica, in liquidation.

Income taxes (40)

The charge for the year comprises:

Income taxes	2011	2010
Current income taxes	31,152	13,720
Deferred tax liabilities—(benefit)	(4,851)	(6,755)
Deferred tax assets—(benefit)	(9,624)	(1,676)
Total	16,677	5,289

Deferred tax assets and liabilities include the tax benefit or charge for deferred taxes on the positive and negative components of income of the consolidated companies and any temporary difference between the results of those companies and those determined after consolidation adjustments.

Overall the Group reports a current and deferred tax charge of Euros 16,677 thousand on a pre-tax loss of Euros 12,668 thousand. This amount also includes the effect of the proposal to settle the NoF issued at the end of the year to the Parent by the Tax Authorities (on the years 2006-2009) for a total of Euros 7.1 million (including fines) and voluntary disclosure of the unreported taxes in the process of being presented, relating to the tax year 2010, for approximately Euros 1.4 million. The difference between the reported tax charge and the theoretical tax charge computed on the pre-tax result using the tax rate of 31.7% is mainly due to the non-deductibility of assimilated personnel and collaborator costs for IRAP purposes, the effect of the above prior years' taxes charges and also the partial deductibility (96%) of interest expenses charged during the year by the Parent.

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

There are neither assets held for sale nor discontinued operations recorded in 2011.

Other comprehensive income (42)

There is no other comprehensive income in 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
As of and for the years ended December 31, 2011 and 2010
(in thousands of Euro, unless otherwise stated)

Significant events occurring after the end of the year

In addition to the events already mentioned above, the latest developments in the sphere of the main concession activities are as follows.

As regards the AWP sector, AAMS instituted the list of authorised parties referred to in art. 1.533 of Law no. 266/2005, as replaced by art. 1.82 of Law no. 220 of December 13, 2010, by Director's Decree of September 9, 2011, commencing on January 1, 2011.

Registration in that list authorises registered parties to perform activities relating to AWP machines. Sisal Slot is registered in the said list, and has urged the other parties belonging to its gaming network through AWP, in particular merchants and operators, to register in the same list by the deadline specified in the applicable legislation.

In the early months of 2012, pursuant to the said Director's Decree, Sisal Slot consequently terminated its legal relations regarding gaming concession activities through AWP gaming machines with parties obliged to enrol in the said list which had not done so by the deadline.

By the Directors' Decrees of October 12, 2011 and December 16, 2011, AAMS identified public gaming measures useful to ensure the higher revenues specified by art. 2.3 of Decree Law no. 138 of August 13, 2011, converted with amendments to Law no. 148 of September 14, 2011, and introduced an additional fee for the AWP sector, amounting to 6% of the prizes exceeding the sum of Euros 500 on the machines referred to in art. 110.6.b of the Consolidated Law Enforcement Act (VLTs). In particular, in order to apply the said additional fee, concessionaires belonging to the online AWP network should have asked AAMS, by January 20, 2012, to commence the compliance check necessary to upgrade the gaming systems, and should have delivered all the necessary documentation and hardware and software components.

As it is objectively impossible to implement the terms of the said Directors' Decrees without prior modification of the gaming systems software, all concessionaires have appealed to the Lazio Regional Administrative Tribunal against these decrees, requesting their suspension. On January 25, 2012, the Lazio Regional Administrative Tribunal confirmed the suspension of the said decrees, which had already been granted following an ex parte application.

The said Fiscal Decree Law states that the taxation is postponed until September 1, 2012.

In the case of horse racing betting concessions awarded in 2000, on December 23, 2011 AAMS sent a request to the various concessionaires, including Sisal Match Point S.p.A., to increase the minimum guaranteed annual figures.

Clause 4 of the said agreements states that concessionaires shall pay the additional sum up to the minimum guaranteed amount, determined pursuant to the InterDirectors' Decree of October 10, 2003, if the annual fee referred to in art. 12 of Presidential Decree (DPR) no. 169 of April 8, 1998, destined for UNIRE, is less than the said minimum annual amount.

The earlier requests by AAMS to concessionaires to increase the minimum guaranteed amounts for the years 2006, 2007, 2008 and 2009 were suspended as a result of some judgments by the Lazio Regional Administrative Tribunal pending the application of the "safeguard measures" specified by art. 38.4.l of Decree Law no. 223 of July 4, 2006.

The request to increase the minimum figures in question, as literally argued by AAMS in its application, appears to be based on the fact that it is impossible at present to identify safeguards additional to those already identified according to the criteria of the selection procedures conducted in 2006, which introduced the alleged obligation for concessionaires to pay the additional minimum guaranteed amounts suspended by the earlier judgments of the Regional Administrative Tribunal.

The Group's concessionaire company, Sisal Match Point S.p.A., appealed to the Lazio Regional Administrative Tribunal against that application by AAMS, and the Tribunal granted a suspension.

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

The situation does not yet seem to be entirely clear, and it is considered that AAMS needs to clarify the matter.

As regards the betting sector, the said Fiscal Decree required a new call for tenders, to be issued by AAMS not later than July 31, 2012, in compliance with the following criteria:

- participation open to all parties that conduct betting business in one of the Member States of the European Economic Area, on the basis of a valid authorisation issued by the State in which they operate and that comply with the respectability and economic/financial requirements indicated by AAMS;

Sisal Holding Istituto di Pagamento S.p.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of and for the years ended December 31, 2011 and 2010

(in thousands of Euro, unless otherwise stated)

- grant of concessions expiring on June 30, 2016, for physical outlets only, up to a maximum of 2000, whose sole activity is marketing of public gaming, without any obligatory minimum distance between them or from other outlets already conducting identical betting business;
- reserve price Euros 11,000 per agency;
- signature of an agreement consistent with the principles laid down in the Costa/Cifoni judgment of the European Court of Justice, and with the compatible national provisions applicable to public gaming;
- absence of territorial limits and of privileged conditions for concessionaires already authorised to handle identical betting business;
- issue of bank guarantees by the parties appointed as concessionaires;
- extension of concessions expiring in June 2012 until the award of the concessions under the new tender procedure;
- revocation of territorial limits for horse racing and sports betting points of sale previously awarded through the “Bersani” tender procedure.

Over the next few months the Group will carefully monitor the development of this procedure, which obviously holds great interest for the betting business relating to those games, which is conducted in particular by Sisal Match Point S.p.A.

Sisal Holding Istituto di Pagamento S.p.A.

ANNEX 1

List of Companies included in Consolidation

Companies consolidated line-by-line

<u>Name</u>	<u>Headquarters</u>	<u>YEAR-END</u>	<u>SHARE CAPITAL</u> Euro	<u>% HOLDING Direct and indirect 2011</u>
SISAL HOLDING ISTITUTO DI PAGAMENTO				
S.p.A.	Milan	December 31	102,500,000	PARENT
SISAL S.p.A.	Milan	December 31	125,822,467	99.81%
Services Sector				
Sisal Point S.p.A.	Milan	December 31	600,000	99.81%
Amusement machines Sector				
Sisal Slot S.p.A.	Milan	December 31	2,131,622	99.88%
Betting and Gaming Hall Sector				
Sisal Bingo S.p.A.	Milan	December 31	120,000	99.81%
Sisal Match Point S.p.A.	Rome	December 31	24,020,000	99.81%
Ilio S.p.A.	Trani	December 31	1,500,000	99.81%
La Martingala S.r.l.	Trani	December 31	250,000	99.81%
Arezzo Giochi S.r.l.	Rome	December 31	250,000	99.81%
Thomas Morden Course Ltd	Byfleet GREAT BRITAIN	December 31	30,000(1)	99.81%

(1) British pound

Companies accounted for using the equity method:

<u>Name</u>	<u>Headquarters</u>	<u>YEAR-END</u>	<u>SHARE CAPITAL</u> Euro	<u>EQUITY 2011</u> /000	<u>% HOLDING Direct / indirect 2011</u>
Consorzio Promoippica under liquidation	Rome	December 31	25,825	88	25.23%

INDEPENDENT AUDITORS REPORT

To the Shareholders of
Sisal Holding Finanziaria SpA

- 1 We have audited the consolidated financial statements of Sisal Holding Finanziaria SpA and its subsidiaries (“Sisal Holding Finanziaria Group”) as of December 31, 2010 which comprise the consolidated statement of financial position, comprehensive income, changes in shareholders’ equity, cash flows and the explanatory notes. The directors of Sisal Holding Finanziaria SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes, reference is made to our report dated April 15, 2010.
- 3 In our opinion, the consolidated financial statements of the Sisal Holding Finanziaria SpA as of December 31, 2010 comply with the International Financial Reporting Standards as adopted by the European Union; accordingly, they have been prepared clearly and give a true and fair view of the financial position, result of operations and cash flows of the Sisal Holding Finanziaria Group for the period then ended.

Milan, June 14, 2011

PricewaterhouseCoopers SpA

/s/ Andrea Alessandri
Andrea Alessandri
(Partner)

Sisal Holding Finanziaria S.p.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of December 31, 2010 and 2009
(in Euro)

	Notes	12/31/2010	12/31/2009
A) NON-CURRENT ASSETS			
Property, plant and equipment	1)	115,319,840	101,916,747
Goodwill	2)	870,083,359	869,207,059
Intangible assets	3)	338,289,966	386,325,642
Investments accounted for using the equity method	4)	32,684	40,424
Deferred tax assets	5)	8,781,664	10,599,124
Other non-current assets	6)	11,713,925	11,193,147
Assets held for sale/discontinued operations	7)	—	—
Total non-current assets		<u>1,344,221,438</u>	<u>1,379,282,143</u>
B) CURRENT ASSETS			
Inventories	8)	10,408,097	13,451,079
Trade receivables	9)	177,082,555	146,322,841
Current financial assets	10)	1,549	1,035,620
Other current assets	11)	24,616,817	17,592,226
Tax receivables	12)	9,417,418	9,559,875
Cash and cash equivalents	13)	472,881,175	356,026,885
Total current assets		<u>694,407,611</u>	<u>543,988,526</u>
TOTAL ASSETS		<u>2,038,629,049</u>	<u>1,923,270,669</u>
	Notes	12/31/2010	12/31/2009
A) EQUITY			
Share capital	14)	102,500,000	102,500,000
Legal reserve		200,000	200,000
Share premium reserve		94,484,316	94,484,316
Other reserves		(70,658,030)	(59,487,923)
Loss for the year		(13,383,754)	(14,097,753)
Total equity attributable to owners of the Parent company		<u>113,142,532</u>	<u>123,598,640</u>
Equity attributable to non-controlling interests		<u>681,631</u>	<u>2,993,135</u>
Total equity		<u>113,824,163</u>	<u>126,591,775</u>
B) NON-CURRENT LIABILITIES			
Long-term debt	15)	1,051,976,137	1,036,438,676
Provision for employee severance indemnities	16)	7,592,445	7,984,377
Deferred tax liabilities	17)	35,218,282	45,466,817
Provisions for risks and charges	18)	9,151,522	9,531,399
Other non-current liabilities	19)	2,576,025	9,366,484
Liabilities relating to assets held for sale/discontinued operations	20)	—	—
Total non-current liabilities		<u>1,106,514,411</u>	<u>1,108,787,753</u>
C) CURRENT LIABILITIES			
Trade and other payables	21)	227,157,791	208,121,212
Short-term debt	22)	35,791,395	34,285,714
Current portion of long-term debt	23)	23,080,433	16,910,168
Other current liabilities	24)	522,767,087	424,452,879
Tax payables	25)	9,493,769	4,121,168
Provisions for risks and charges	26)	—	—
Total current liabilities		<u>818,290,475</u>	<u>687,891,141</u>
TOTAL LIABILITIES AND EQUITY		<u>2,038,629,049</u>	<u>1,923,270,669</u>

(The accompanying notes are an integral part of these consolidated financial statements)

Sisal Holding Finanziaria S.p.A.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the years ended December 31, 2010 and 2009
(in Euro)

	Note	12/31/2010	12/31/2009
Revenues	27)	674,077,594	568,703,482
Fixed odds betting income	28)	57,980,591	77,405,068
Other revenues and income	29)	3,917,281	1,941,470
Total revenues and income		<u>735,975,466</u>	<u>648,050,020</u>
Purchases of materials, consumables and merchandise	30)	16,871,569	17,794,364
Costs for services	31)	448,067,164	380,975,727
Lease and rent expenses	32)	11,407,022	9,945,415
Personnel costs	33)	59,407,198	56,670,041
Other operating costs	34)	33,660,985	29,220,274
Total costs		<u>569,413,938</u>	<u>494,605,821</u>
Gross operating profit before amortisation, depreciation, provisions and impairment losses and reversals		<u>166,561,528</u>	<u>153,444,199</u>
Amortisation, depreciation, provisions and impairment losses and reversals	35)	96,113,712	78,774,656
Net operating profit (EBIT)		<u>70,447,816</u>	<u>74,669,543</u>
Finance income and similar	36)	1,555,944	6,707,587
Finance expenses and similar	37)	79,580,393	88,110,011
Adjustments to financial assets	38)	—	—
Share of profit/(loss) of companies accounted for using the equity method	39)	(7,740)	(7,383)
Loss before income taxes		<u>(7,584,373)</u>	<u>(6,740,264)</u>
Income taxes	40)	5,289,196	6,332,179
Loss from continuing operations		<u>(12,873,569)</u>	<u>(13,072,443)</u>
Result attributable to assets held for sale/discontinued operations	41)	—	—
LOSS FOR THE YEAR		<u>(12,873,569)</u>	<u>(13,072,443)</u>
Other comprehensive income	42)	—	—
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(12,873,569)</u>	<u>(13,072,443)</u>
Profit attributable to non-controlling interests		510,185	1,025,310
Loss attributable to owners of the Parent		(13,383,754)	(14,097,753)
Total comprehensive income attributable to non-controlling interests		510,185	1,025,310
Total comprehensive loss attributable to owners of the Parent		(13,383,754)	(14,097,753)

(The accompanying notes are an integral part of these consolidated financial statements)

Sisal Holding Finanziaria S.p.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As of and for the years ended December 31, 2010 and 2009
(in thousands of Euro)

(in thousands of Euro)	ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY					Non-controlling interests	Total Equity
	Share capital	Legal reserve	Share premium reserve	Other reserves	Retained earnings (Accumulated deficit)		
Equity at December 31, 2008	1,000	—	94,484	—	(60,411)	2,131	37,204
Profit and loss recorded directly in equity							
Loss for the year					(14,098)	1,025	(13,073)
Total comprehensive loss for the year	—	—	—	—	(14,098)	1,025	(13,073)
Dividends paid (shareholders meeting of April 30, 2009)						(163)	(163)
Allocation of loss from previous year (shareholders meeting of June 29, 2009)		200			(200)		
Capital increase (shareholders meeting of June 25, 2009)	101,500						101,500
Other movements				1,124			1,124
Equity at December 31, 2009	102,500	200	94,484	1,124	(74,709)	2,993	126,592
Profit and loss recorded directly in equity							
Loss for the year					(13,384)	510	(12,874)
Total comprehensive loss for the year	—	—	—	—	(13,384)	510	(12,874)
Other movements					2,928	(2,822)	106
Equity at December 31, 2010	102,500	200	94,484	1,124	(85,165)	681	113,824

(The accompanying notes are an integral part of these consolidated financial statements)

Sisal Holding Finanziaria S.p.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended December 31, 2010 and 2009
(in thousands of Euro)

<u>(in thousands of Euro)</u>	<u>2010</u>	<u>2009</u>
Loss for the year	(12,874)	(13,073)
Amortisation and depreciation	77,990	67,235
Impairment of receivables in current assets	7,657	5,551
Impairment of property, plant and equipment and intangible assets	6,860	1,552
Impairment of investment	8	7
Provision for risks and charges—accruals (releases)	(380)	(735)
Deferred tax charge (credit)	(8,431)	(4,652)
Employee severance indemnities—accrual	2,814	2,883
Other accruals	—	1,124
Cash provided by operating activities before change in working capital	73,644	59,892
<i>Change in working capital</i>	<i>108,435</i>	<i>112,554</i>
Cash flows provided by (used in) operating activities	182,079	172,446
Increase(-) decrease(+) in intangible assets	(47,093)	(157,427)
Increase(-) decrease(+) in property, plant and equipment	(40,930)	(40,731)
Increase(-) decrease(+) in investments	(1)	1
Increase(-) decrease(+) in other non-current assets	(521)	554
Cash flows provided by (used in) investing activities	(88,545)	(197,603)
<i>Change in medium-/long-term debt</i>		
Loans repayable after 12 months	14,390	70,564
Shareholders' contributions	—	101,500
Increase in capital from non-controlling interests	106	—
Dividends to non-controlling interests	—	(163)
Loss from other lenders—non-current lease instalments	1,149	4,891
Cash flows provided by (used in) financing activities	15,645	176,792
Increase (decrease) in cash and cash equivalents	109,179	151,635
Net cash at the beginning of the year	304,831	153,196
Net cash at the end of the year	414,010	304,831

Cash and cash equivalents at the beginning and end of the year is the sum of cash and cash equivalents, short-term debt and the current portion of long-term debt

(The accompanying notes are an integral part of these consolidated financial statements)

Sisal Holding Finanziaria S.p.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of and for the years ended December 31, 2010 and 2009

(in thousands of Euro, unless otherwise stated)

STRUCTURE AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Sisal Holding Finanziaria S.p.A. is a limited liability stock company established under the law of the Republic of Italy; as of December 31, 2010 the Company had two main activities. The first is represented by the supply of collection and payment services, performed under appropriate authorisations granted by the Italian Exchange Office (today the *Unità d'Informazione Finanziaria*), to third parties commercial partners and subsidiaries; the second is represented by the ownership of a controlling interest in Sisal S.p.A. a company which operates directly and indirectly through subsidiaries in Italy in the gaming industry, principally on the basis of concessions for wagers in pools, horse racing and sports bets and legal gaming using AWP gaming machines (Amusement With Prize gaming machines) and in the marketing of telephone top-ups and television content cards using a network of more than 40,000 points of sale and approximately 160 betting agencies distributed throughout Italy and by the ownership of an indirect controlling interest in Sisal Bingo S.p.A. a company which operates a bingo hall in the city of Naples. Management and strategic services are also rendered to the main subsidiaries subject to the direction and coordination activities of the Company.

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

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

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

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

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

The financial statements are prepared in the following manner:

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

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

These financial statements were approved by the Board of Directors of Sisal Holding Finanziaria S.p.A. on May 30, 2011.

CONSOLIDATION AREA

The consolidated financial statements as of December 31, 2010 include the financial statements at the same date of Sisal Holding Finanziaria S.p.A. (the Parent) and those of the companies in which it holds directly or indirectly through subsidiaries more than half of the voting rights, even as a result of an agreement with other investors, or the power to determine the financial and operational policies of the company through a contract or a clause in that company's bylaws.

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

Sisal Holding Finanziaria S.p.A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
As of and for the years ended December 31, 2010 and 2009
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The list of consolidated companies, all included using the line-by-line method, with details of their name, registered share office, capital and percentage owned is provided in Annex 1.

Controlled entities excluded from the consolidation are measured applying the methods described under “investments”.

Financial statements used for consolidation

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

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

Reference date for the consolidated financial statements

For the 2010 financial year, the statement of comprehensive income reflects the accounting period considered in the financial statements of the Parent Sisal Holding Finanziaria S.p.A. and of all the other companies, subsidiaries and associates, from January 1, 2010 to December 31, 2010.

CONSOLIDATION METHOD

For companies consolidated line-by-line, all assets and liabilities and all costs and revenues have been included. In the preparation of the consolidated financial statements, the accounting principles and methods of valuation adopted are the same as those of the Parent.

The key consolidation criteria adopted are the following:

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

Contingent consideration, considered part of the purchase price, is measured at fair value at the acquisition date. Subsequent changes in fair value, if any, are recognized in the statement of comprehensive income;

- intergroup receivables and payables between companies included in the consolidation area have been eliminated;
- costs and revenues, expenses and income between companies included in the consolidation have been eliminated, including dividends distributed within the Group, which have been reallocated in the equity of the Group;
- gains and losses resulting from transactions between Group companies which have not yet been realised with third parties at the end of the reporting period have been eliminated, if significant;
- memorandum accounts relating to guarantees and sureties between companies included in the consolidation area have been eliminated.

Non-controlling interests

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

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

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

Translation of financial statements not prepared in euros

The translation of financial statements expressed in currencies different from Euro has been carried out as follows:

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

Translation differences arising from the application of exchange rates and those originating from the translation of beginning equity at exchange rates prevailing at the end of the financial year, compared to the rate in effect at the end of the prior year, are allocated to a specific reserve in equity denominated “currency translation reserve”.

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

<u>Currency</u>	<u>Average exchange rate for 2010</u>	<u>Year-end exchange rate 2010</u>
British Sterling	0.857844	0.86075

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies adopted are described below.

Property, plant and equipment

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

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

The above assets are depreciated systematically each year on a straight-line basis at rates established by reference to their remaining useful life.

When the depreciable asset is composed of distinctly identifiable elements, the useful life of which differs significantly from that of the other parts which compose the asset, depreciation is taken separately for each of the parts which make up the asset under the component approach principle.

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

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The depreciation rates applied are as follows:

Fixed assets	%
Buildings	3
Plants	10-12-15-25-30
Equipments	12-20-25-33.33
Other assets:	
—vehicles	20-25
—fixtures & furniture	12
—electronic office equipments	20
Leasehold improvements	shorter of the duration of the lease and the useful life of the asset

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

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

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

Assets held under a finance lease, or linked to an agreement which, although not explicitly a finance lease, transfers substantially all the risks and rewards incidental to ownership, are recorded in property, plant and equipment at fair value net of any amounts contributable by the lessor, or, if lower, at the present value of minimum lease payments, with a corresponding financial payable to the lessor being recorded in liabilities. The assets are depreciated in the manner described. When there is no reasonable certainty that the lessee will obtain ownership of the asset at the end of the lease term, depreciation is made over the shorter of the lease term and the useful life of the asset. In the statement of comprehensive income, depreciation and the interest expense relating to the financial component of the lease instalment are recorded in the place of the lease instalments.

Intangible assets

The intangible assets of the Group recorded in the statement of financial position in accordance with IAS 38 consist of assets which are identifiable, have the capacity to produce future economic benefits and can be controlled by the company.

Such assets are recorded at purchase cost, including directly attributable expenses and are amortised systematically over the duration of their residual possibility of utilisation; however, intangible assets with an indefinite life are not amortised but are tested periodically for impairment.

Assets acquired in business combinations are recorded at fair value at the date of acquisition.

The Group assesses at least once a year whether there is any indication that an intangible asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the intangible asset in order to recognise any impairment.

Similarly, when an impairment loss has been recorded in prior years, at the end of every reporting date the Group assesses whether there is an indication that an impairment loss recognised on an asset in previous years—other than goodwill—may no longer exist or has decreased. If there is any indication of this, the Group estimates the recoverable value of that asset consistently with the considerations that gave rise to the impairment loss, adjusting, whenever there is a positive difference, the value of the asset. The reinstatement, if any, may not exceed the carrying amount of the asset that would have been recorded (net of amortisation) had no impairment loss been recognised in previous years.

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Intangible assets comprise the following categories which are being amortised:

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

Rights and licenses held under a finance lease, or linked to an agreement which, although not explicitly a finance lease, transfers substantially all the risks and rewards incidental to ownership, are recorded in property, plant and equipment at fair value net of any amounts contributable by the lessor, or, if lower, at the present value of minimum lease payments, with a corresponding financial payable to the lessor being recorded in liabilities. The assets are depreciated in the manner described. When there is no reasonable certainty that the lessee will obtain ownership of the assets at the end of the lease term, depreciation is made over the shorter of the lease term and the useful life of the assets. In the statement of comprehensive income, depreciation and the interest expense relating to the financial component of the lease instalment are recorded in the place of the lease instalments.

The development costs relating to the Internet Site used for wagers on the web have also been capitalised. In accordance with SIC 32 and IAS 38, such costs have been capitalised since it is believed that the estimated future economic benefits linked to the wagers via internet can sustain the amount of the capitalised costs.

Goodwill

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

To test for impairment, the carrying amount of goodwill and the groups of related net assets separately capable of producing cash flows, the cash-generating unit (CGU), are compared to the higher of the value in use of the CGU and the recoverable amount from disposal. The value in use is determined applying the discounted cash flow method by discounting the operating cash flows based on projections made according to assumptions contained in business plans approved by management.

Financial assets

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

Financial assets at fair value through profit or loss:

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

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Loans and receivables:

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

The impairment loss is charged to the statement of comprehensive income under operating costs and represents the difference between the carrying amount of the receivable and the present value of future expected payments. If in subsequent periods the reasons for the impairment cease to exist, the asset value is reinstated up to the amount that would have been recorded had amortised cost been applied.

Held-to-maturity financial assets:

are non-derivative financial instruments, with fixed or determinable payments and fixed maturity dates, which the company intends and has the ability to hold to maturity. These assets are measured at amortised cost, using the effective interest rate method, adjusted by impairment losses, if any. Whenever there are impairment losses, the above principles described for loans and receivables are applied.

Available-for-sale financial assets:

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

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

Investments

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

Investments in third-party companies, in accordance with IAS 39 and IAS 32, are measured at fair value except in those cases when it is not available; in that case, cost is adopted. Gains or losses from adjustments in value are recognized as other components of the statement of comprehensive income, accumulated in a specific equity reserve. If there is objective evidence that an asset may be impaired, the cumulative loss that was recorded in the statement of comprehensive income must be reclassified from equity to the result for the year as a reclassification adjustment even if the financial asset was not eliminated.

Inventories

Inventories of playslips and rolls of paper for gaming terminals are stated at the lower of purchase cost, using the weighted average cost method, and the cost of replacement by reference to the market price as of December 31, 2010.

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

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

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

Cash and cash equivalents

Cash and cash equivalents are recorded at their nominal value.

Non-current assets held for sale and discontinued operations

Non-current assets held for sale and discontinued operations include assets and/or lines of business held for sale under a committed plan to sell a business segment or non-current assets purchased exclusively for resale.

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

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

Debt and financial liabilities

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

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

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

Provisions for risks and charges

Provisions for risks and charges are set up to cover losses or liabilities whose existence is certain or probable but which at the end of the reporting period are uncertain as to amount or as to the date on which they will arise. Provisions are recognised only when there is a current obligation (legal or constructive) for a future outflow of resources deriving from a past event and it is probable that the outflow will be necessary to fulfil the obligation. This amount represents the best estimate of the present value of the expenditures required to extinguish the obligation.

Employee benefits

Post-employment benefits are divided into two categories: defined contribution plans and defined benefit plans. In defined contribution plans, contributory costs are charged to the statement of comprehensive income as they occur, based on the relative nominal value. In defined benefit plans, as the amount of the benefit to be granted is quantifiable only after termination of employment, the cost is charged to the statement of comprehensive income based on actuarial computations.

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

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

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

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

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

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

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

As the Group, after the above mentioned reform, has no obligation for the indemnity maturing after December 31, 2006, the component relative to future salary increases is excluded from the actuarial calculation of the indemnity.

The severance indemnity cost in the current period, charged to the statement of comprehensive income under personnel costs, is equal to the sum of the indemnity matured by the employees working in the period, the finance charge on the present value of the Group's obligation at the beginning of the year and the gains and losses caused by changes in the actuarial assumptions. It should be noted that the Group has decided not to use the "corridor approach" and to recognise gains and losses arising from changes in actuarial assumptions directly in the statement of comprehensive income.

The annual discount rate adopted for calculating present value has been determined on the basis of the interest rate of long-term government bonds with a remaining life in line with the average forecast future service life of the Group's employees; to such rate an additional risk premium of approximately 0.5% has been added.

Stock options

Stock option plans and other initiatives remunerated by equity instruments, if any, are accounted for in accordance with IFRS 2, separating those which will be settled through the issue of equity instruments and those which will be settled by payments in cash based on the value of the options granted.

The fair value is determined at the grant date and causes the cost to be recognised (under personnel costs) over the vesting period of the options granted. When the employee's service is remunerated with an equity instrument or when the options granted are on the shares of the Parent, the contra-entry is to an equity reserve ("stock options reserve" included under "Other reserves"). Instead, when the cost of the share-based payment transaction is settled in cash, the contra-entry is to a payable account.

Translation of amounts in foreign currency

Revenues and costs in currencies other than the functional currency, the Euro, are recorded at the exchange rate on the transaction date.

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

Revenue recognition

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

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

In accordance with IAS 18 sums collected on behalf of third parties, such as in an agency relationship, which do not cause an increase in the company's equity, are excluded from revenues which, instead, are represented solely by the commissions accrued on the transaction. Specifically, the cost pertaining to the purchase of telephone top-ups and television content cards are shown as a deduction from gross revenues to highlight that with these transactions the Group's revenue is only the difference between the sale price and the nominal cost of the card.

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Fixed odds betting income

The bets connected with fixed odds betting are recognised initially as a financial liability in accordance with IAS 39 at the date the bet is accepted. Subsequent changes in the amount of the financial liability are recognised in the statement of comprehensive income under “Fixed odds betting income” until the date of the event on which the bet was taken.

Cost of purchased goods and services

Purchases of goods and services are recognised in the statement of comprehensive income on the accrual basis as decreases of economic benefits, with the contra-entry an outflow of cash resources or a reduction in the amount of an asset or increase in the amount of a liability.

Financial income and expenses

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

Taxation

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

The corresponding liability is shown under “taxation payable”.

In accordance with IAS 12, deferred tax assets and liabilities are recognised on the temporary differences between the carrying amount of an asset or a liability in the statement of financial position and its tax base. Deferred tax assets are recognised only to the extent that their recovery is considered probable.

Deferred taxes assets and liabilities are classified as non-current assets and liabilities, respectively. They may be compensated when there is a legally enforceable right to offset and the net amount will be shown as “deferred taxes assets” or “deferred taxes liabilities” depending whether receivable or payable. When the effects of a transaction are credited or charged directly to equity, the related current and deferred taxation is also recognised directly in equity.

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

Use of estimates

The preparation of the consolidated financial statements and the related explanatory notes in accordance with International Financial Reporting Standards requires estimates and assumptions to be made which have an effect on the reported amounts of assets and liabilities and on the disclosure of contingent assets and liabilities at the end of the reporting period. Actual results could differ from estimates.

Below are briefly described the accounting policies which require more subjective estimates and for which a change in the underlying assumptions may have a significant effect on the financial statements.

Goodwill

Goodwill is tested annually for impairment; any impairment losses arising are recognised in the statement of comprehensive income. Specifically the test involves the allocation of goodwill to a Cash-Generating Unit (CGU) and then the determination of the relative fair value; when the fair value is lower than the carrying amount of the CGU, an impairment loss is recognised on the goodwill allocated to the CGU. The allocation of goodwill to a CGU and the determination of fair value require assumptions and estimates based on factors which may change over time, with consequent effects, possibly significant, on the assessments.

Impairment loss/reversal of fixed assets

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

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

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

Deferred tax assets

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

Provision for risks and charges

The Group accrues in this provision the probable liabilities relating to litigations and controversies with staff, suppliers, third parties and in general expenses arising from any commitments. The quantification of such provision is based on assumptions and estimates based on presently available knowledge of factors, which may vary over time. Thus the final outcomes may be significantly different from those considered during the preparation of the financial statements.

Provision for impairment of receivables

This account reflects the estimated losses on receivables. The provision covers the estimate of the risk of losses which derives from past experience with similar receivables, from the analysis of overdue receivables (current and historical), of losses and recoveries and finally from monitoring economic trends and forecasts both currently and prospectively to the company's business.

Severance indemnity provision

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

Changes accounting standards adopted

There are no changes in the valuation criteria applied compared to the previous accounting period.

In particular, with regard to the application of recently issued accounting standards applicable from January 1, 2010, the following accounting standards, although having no impact on the financial statements for the year ended December 31, 2010, are applicable in the typical business of the Group and could have significance with reference to future transactions:

- IFRS 3 Business combinations (revised in 2008)

IFRS 3 revised introduces a number of changes in the accounting for business combinations which must be applied prospectively from January 1, 2010. The changes refer to the measurement of non-controlling interests and also the introduction of new accounting treatment for business combinations achieved in stages, as a result of which, in particular, goodwill will be remeasured at the acquisition date of control.

The revised reporting standard also provides for the recognition in the statement of comprehensive income of all costs in connection with a business combination, which in the previous version had been included in the determination of the acquisition cost, and the recognition at the acquisition date of liabilities for contingent consideration. This component of price should be measured at fair value at the acquisition date of control and any subsequent changes in fair value should be recognized in the statement of comprehensive income. These changes will have an impact on the amount of goodwill reported, the reported results in the period an acquisition occurs and future reported results.

- IAS 27 Consolidated and separate financial statements (amendments in 2008)

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The amendment to IAS 27 establishes that changes in ownership interest that do not result in a loss of control are accounted for as equity transactions.

Furthermore, when a parent loses control of a subsidiary, any investment retained in the former subsidiary is recognised at fair value in the financial statement and the resulting gain or loss, if any, arising from the loss of control, is recorded in the statement of comprehensive income.

Finally, the amendment to IAS 27 requires that all losses applicable to non-controlling interests that exceed the minority's interests in the subsidiary's equity are allocated against the non-controlling interests.

- IFRS 5 Non-current assets held for sale and discontinued operations (improvement in 2008)

The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if an entity's disposal sale plan results in loss of control, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale.

- IAS 39 Financial instruments: recognition and measurement (amendments in 2008)

The amendments clarify certain aspects of hedge accounting.

- IFRS 2 Share-based payment (amendments in 2009)

The amendment clarifies, among other things, that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.

- Annual improvements to IFRS 2009

On March 23, 2010, Commission Regulation (EC) 243-2010 was published endorsing the improvements to the following standards, in force from January 1, 2010: IFRS 2, IFRS 5 and IFRS 8 IAS 1, IAS 7, IAS 17, IAS 36, IAS 38 and IAS 39 as well as the interpretations IFRIC 9 and IFRIC 16.

These improvements aim to clarify the terminology and also certain areas that are difficult to interpret.

The application of these improvements did not have any effect on the financial statements of the Company.

The following standards, amendments and interpretations, in force from January 1, 2010, rule facts and events that currently do not exist within the Group. Should such situations arise as a result of future transactions, they will be properly identified and treated:

- IFRS 1 (revised) First-time adoption of International Financial Reporting Standards
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers

The Company has not early adopted the accounting standards already endorsed by the European Community but effective for the Company for annual periods after December 31, 2010.

In particular, the following have not been early adopted by the Company:

- IAS 24—Related party disclosures (revised version) (applicable from January 1, 2011)

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- Annual improvements to IFRS 2010 (applicable from January 1, 2011)
- Amendment to IFRIC 14—Prepayments of a minimum funding requirement (applicable from January 1, 2011).
- Amendment to IAS 32—Financial instruments: presentation: classification of rights issues (applicable from February 1, 2010).
- Amendment to IFRS 1—Limited exemption from comparative IFRS 7
- IFRIC 19—Extinguishing financial liabilities with equity instruments (applicable from July 1, 2010)

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

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

- IFRS 9—Financial instruments
- Amendment to IFRS 7—Financial instruments: Disclosure
- Amendments to IAS 12—Income taxes
- Amendment to IFRS 1—Hyperinflation and effective dates

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

RISK PROFILE

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

Market risks

The market risks, in accordance with international accounting principles, are as follows:

Foreign currency exchange risks

The Group is exposed to a limited extent to currency exchange rate risks, in particular, for the supply of spare parts and gaming equipment purchased in foreign currency (USD). During the year, the supply of gaming terminals in foreign currency (USD) was completed according to the agreements signed during the years 2008 and 2009 and at the same time the currency option-forward fx transaction derivative contract expired.

Interest rate risks

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

Raw materials price risk

The Group's exposure to price risk is minimal.

Liquidity risk

Liquidity risk is the risk of not being able to fulfil present or future obligations on account of insufficient available funds. The Group manages this risk by seeking to establish a balance between outflows of cash and the sources of short-term and long-term funding and the gradual and homogeneous distribution of maturities of medium- and long-term funding over time.

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Credit risk

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

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

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

Bookmaker risk

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

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

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

- On April 2, 2008, Sisal S.p.A. was declared outright winner of the tender held in July 2007 for the award of the concession for the operation and development of national totalisator number games, including Enalotto, being chosen in preference to the offers submitted by Lottomatica S.p.A. and SNAI S.p.A..
- On June 26, 2009, after a process lasting a total of approximately two years and the positive outcome of the verification processes conducted by AAMS, especially relating to the offer made by Sisal, an agreement was drawn up between the Administration and Sisal which regulates the concession relationship.
- On the legal front, Sisal S.p.A. had to contend with some appeals to the administration tribunal presented by the other two companies participating in the selection procedure (namely SNAI S.p.A. and Lottomatica S.p.A.) and by other companies (including Stanley International Betting Limited), aimed mainly at gaining access to all the documentation and having the provisional and permanent concession awards overturned. These include the appeals presented by SNAI S.p.A., which complained that the specific points contained in its proposals had not been sufficiently taken into consideration compared to the evaluation of the same points described in Sisal's proposals, and by Lottomatica S.p.A. objecting to the failure of the selection commission to carry out the verification procedure of a so-called 'anomalous' offer. With specific reference to this latter appeal, on March 25, 2009, AAMS announced its decision to instruct the tender committee to carry out a preliminary investigation to verify the appropriateness of the offering presented at that time by the company. The verification by the selection commission was completed on May 18, 2009, establishing that the technical and economic offering presented by Sisal was fair and reliable, effectively removing the substance of the appeal made to the TAR by Lottomatica S.p.A. against the outcome of the selection procedure. As a result, with reference to the legal action started by Lottomatica S.p.A. and SNAI S.p.A. against the final award of the tender in favour of the Group company, at the hearing on May 27, 2009, the companies presenting the appeal asked for a period in which to examine the outcome of the verification procedure with the aim of proposing, if they so choose, additional objections which were subsequently presented. On June 25, 2009 and July 14, 2009, SnaI S.p.A. and Lottomatica S.p.A. presented an additional brief against the ruling of the Commission. At the time of this report, the procedures are still pending, since a date for the public hearing to discuss the above-mentioned appeals has yet to be set. In Sisal S.p.A.'s opinion, the appeals are unfounded with reference to the claim regarding the presumed anomaly of the offer and, with specific reference to the appeals presented by SnaI S.p.A. and Stanley International Betting Limited, unacceptable, since they were presented by companies which had no interest in making an appeal; in the case of SnaI S.p.A., because of its position in the final classification of the award and, in the case of Stanley International Betting Limited, because it did not participate in the tender.

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

- Sisal Slot S.p.A. operates in the AWP gaming segment and replaced Sisal S.p.A. in the concession relationship with AAMS, by means of a special addition to the concession agreement for the activation and operation of the network for online management of legal gaming through AWP gaming machines, and of the associated activities and functions, stipulated on June 3, 2006.
- Recently the following developments have taken place: firstly, with its directorial decree of August 6, 2009, AAMS laid down the regulations for starting up new gaming systems described in art. 110, paragraph 6, letter b) of TULPS (the so-called “VLT”, or Video Lottery Terminals), stating that this activity comes under the subject of the agreements already in force for the operation of the AWP gaming machines network and can, therefore, be entrusted to operators which, like the above company of the Group, already hold concessions. Then, in March 2010, an additional and supplementary act to the concession agreement was stipulated between Sisal Slot and AAMS with the aim of making the current clauses contained in the agreement, which were principally concerned with the discipline of only AWP gaming machines, compatible with gaming using the new VLT terminals. Lastly, the current agreement was extended by a supplementary act on September 28, 2010, providing for the end of this agreement after completion of the necessary procedures for a new award of the concession, for the duration of nine years, which AAMS is required to start from May 16, 2011. The agreement also states that, in any case, the current agreement will no longer be valid after December 31, 2011.
- For some years now, although the sector has continued to grow and be dynamic, it has been fraught with disputes which have created a general situation of serious difficulty and uncertainty, which has only recently had positive developments. In particular, the case is examined regarding the penalties or fines which AAMS and the Prosecutor at the Court of Auditors believe can be applied to concessionaires of gaming machines, which, as we have just said, has recently had a positive outcome, despite initial forecasts. However, the content is even more complex and sufficient to warrant a brief summary.

First, supposing that a concessionaire fails to comply with the obligations of the agreement, there is now a clear division between the penalties which AAMS can apply to the concessionaire, based on the provisions of the concession agreement, and the damage in terms of lost fiscal revenues which such non-compliance may cause, and for which the Court of Auditors can ask the concessionaire to pay damages.

The first hypothesis of non-compliance with the terms of the agreement involves, in substance, the delay with which the online network for managing the machines was activated, at the beginning of the concession period. In this regard, AAMS initially applied penalties for a total of Euros 2 million to the Group company concessionaire; the TAR court responsible annulled the penalties, which were subsequently re-applied to the Group company by AAMS for a total of Euros 200 thousand; this time, the TAR court decided that a penalty of this amount was justified, and the concessionaires appealed against the decision before the Council of State, where the matter is still pending with regard to the subsidiary and the other concessionaires involved.

However, on December 23, the Council of State filed a verdict on the appeal presented by the concessionaire B Plus Giocolegale against the sentence of the TAR court of Lazio, which found the penalties applied to it by AAMS, with regard to the late start-up of the online management of the machines, to be justified. The Council of State upheld the appeal, annulled the penalties and sentenced AAMS to pay legal expenses, on the basis of the following main arguments:

- despite the existence of a formal agreement, civil laws can be fully and comprehensively applied with regard to attributing failure to comply with the terms of the agreement, proof of the damage caused and the fairness and amount of the sanction;
- however, before the penalty can be imposed, some objective damage must exist for the Administration;
- the defence of the Administration has not been able to demonstrate that the failure to comply of which the concessionaire has been accused was decisive, or even partly to blame, in the generalised delay in the start-up of the public service; in fact: a) the creation of an online network without precedent in the world was a pre-requisite for the activation of the service and, that being so, the parties involved were fully aware that a period of testing would be inevitable; b) precisely during this phase, a series of unforeseen technical and administrative problems was encountered, leading to a widespread delay in the start-up of the service; c) a large number of the machines initially type-tested and approved by AAMS proved to be sub-standard, so that

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AAMS had to issue new instructions to the concessionaires, which instituted a testing relationship in progress; d) the concessionaires were all unfamiliar with the set-up of the machines; e) the delays in the start-up of the service were due to obstacles left by the previous operators of the machines relating to the stipulation of contracts with the concessionaires and the removal of outdated machines; the resolution of these problems which could not be considered by the Administration to be exclusively the concessionaires' responsibility;

- further aspects of a more technical nature corroborate the concessionaire's defence.

The verdict summarised above, which should be replicated in the verdicts to be announced by the Council of State with regard to similar appeals presented by all the other concessionaires, is therefore in favour of the theory which they have always sustained. There is reason to believe that the verdict may be appropriately considered and evaluated in the sphere of the proceedings before the Court of Auditors described below; in fact, in the latter proceedings, the Court has asked for clarifications concerning the technical and behavioural reasons which may have led to the delay in the start-up of the network.

The Prosecutor of the Court of Auditors has issued a summons requesting a parallel verdict for the concessionaires to pay compensation for lost fiscal revenues caused by the delay in the start-up of the network, citing the original amount estimated by AAMS. In its verdict and simultaneous ruling filed on November 11, 2010, the Court of Auditors decided that, in theory, the compensation for lost fiscal revenues could be demanded from the concessionaires, a principle already used by the United Sections of the Court of Cassation, to which the concessionaires had brought a preliminary procedure to determine jurisdiction. In this specific case, and taking into account the merits of the case by the defence suggested by the concessionaires, the Court of Cassation entrusted the non-profit public entity DigitPA with a consultancy contract, with the results to be delivered in six months, to investigate the technical and behavioural reasons which may have led to the delay in the start-up of the network, such as, on the one hand: the delay, even deliberate, on the part of the operating companies of the machines in stipulating the contracts required to connect the machines to the online system; the scarcity of communication lines; the existence of machines which had been type-tested and approved despite having different communication ports; the suitability of the characteristics of the central systems of AAMS and Sogei; and, on the other hand, the fulfilment on the part of all the concessionaires of all the required technical pre-requisites for the network to be activated on schedule.

The Court, therefore, wishes to clarify whether the delay in activating the network, resulting in possible losses in fiscal revenues, may be attributed to the concessionaires or other parties. In this connection, and significantly, it has ordered the involvement of Sogei, the company which, on behalf of AAMS, designed, implemented and operated the whole system for the management and control of the machines. As regards the calculation of lost fiscal revenues, the Court ruled that the criteria proposed by the Prosecutor could not be taken into consideration (that is, the criteria cited in the agreement to calculate the penalties) and postponed the calculation. The Court said that, from now on, it would take into consideration both the findings of the so-called Monorchio Commission and the opinion of the Council of State, the main aspects of which are described below.

The second hypothesis of non-compliance of the terms of the agreement involves the failure to observe the level of service established in the agreement, relating to the response of the gateway system to the interrogations from the central system of Sogei. In this connection, initially, AAMS applied a penalty to the Group company concessionaire of Euros 1 billion; the TAR court responsible annulled the penalty. Subsequently, AAMS appointed a commission, within the terms of the agreement, which should have established beforehand the criteria for recording and calculating non-compliance and penalties (the so-called Monorchio Commission); the latter not only clarified and established the technical criteria for calculating and recording data but in its final report, partly based on agendas approved by Parliament, introduced the concept of setting a ceiling for penalties, to safeguard the principles of proportionality, reasonableness and equilibrium of the contract. It suggested that the limit should be set at 10% of the net amount in the contract identified, taking into account all the legal relationships associated with the management of the concession, at 0.3% of the receipts.

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

AAMS then suggested that the concessionaires should stipulate a supplementary act to the agreement establishing the maximum ceiling of penalties as 11% of their remuneration, indicated as 3% of the takings; the concessionaires signed this act at the end of October 2010, but stated that the fact that they had signed did not mean that they recognized their non-compliance with the terms of the agreement and that by remuneration they meant the net sum effectively remaining in the hands of the concessionaire and calculated in accordance with the principles of fairness and reasonableness indicated by the Council of State.

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On February 18, 2011, AAMS sent the concessionaires “notification that they had failed to observe the levels of service”. As a result, having given a description of the facts of the proceedings on the matter and of the various acts that followed, AAMS made it known that the penalty, calculated according to the terms of the current agreement, the parameters identified by the technical commission and the information present in the databases of AAMS and Sogei, for the period July 15, 2005—March 12, 2008, as far as the subsidiary is concerned, would be equal to Euros 46,399,750.00. However, by applying the other principles of reasonableness and proportionality demanded by the TAR court and the Council of State and the last supplementary act to the concession agreement, on the basis of which the penalty for each year cannot be more than 11% of the average real remuneration received by the concessionaire and calculating this remuneration on certain criteria, which however are open to question, and by applying the previously mentioned percentage to the result obtained, the contested penalty comes out at Euros 8,995,332.98.

This information having been communicated, which does not mention the infliction of a penalty, but disputes the alleged non-compliance of the terms of the agreement and the prospects of the possible consequences, the concessionaires have a legal right to present conclusions and comments within 30 days.

Sisal Slot S.p.A. and, it would seem, all the other concessionaires presented their conclusions, contesting the merits and the form of the contents of the communication from AAMS. In particular, the contestation referred to the following: the non-existence of delays in the responses of the gateway system and, in any case, if there had been any, that the blame could not be laid on the concessionaires; the fact that, in the period under examination, the criteria for recording and calculating penalties had not yet been established by AAMS; the failure to consider the points made by the Council of State in its verdict in the B Plus Giocolale case, mentioned earlier; with specific reference to Sisal Slot, the inclusion in the average real remuneration of amounts that had nothing whatsoever to do with the effective remuneration as a concessionaire.

If AAMS does not accept the conclusions formulated, the infliction of the penalty may be contested before the TAR court of Lazio.

As regards the case brought before the Court of Auditors, again in relation to the gateway, the Prosecutor of the Court of Auditors asked, in the above-mentioned summons, that the concessionaires should be sentenced to compensate for the original amount of the presumed loss of fiscal revenues, calculated according to the agreement for a total for all the concessionaires equal to Euros 98 billion.

In above-mentioned verdict, the judges of the Court decided that they did not agree with the calculation criteria proposed by the Prosecutor, since the Prosecutor would have to provide scientific proof of the fact that, firstly, the gateway did not function properly and that this happened for reasons attributable to the concessionaires and, secondly, that this had effectively caused the loss of fiscal revenues (a fact already dismissed by the Monorchio Commission).

Now the concessionaires are participating in the process being conducted by DigitPA, in compliance with Italian Law 241/90, and are providing all the necessary documentation.

Again with regard to the sector of AWP gaming machines, on November 17, 2010 the judges of the Court of Auditors, issued a verdict which, on the one hand, recognized that one of the roles of concessionaires is as an accounting agent, and that they are therefore required to provide a rendering of the accounts, but, on the other hand, they rejected the Prosecutor’s request to condemn the concessionaires to pay heavy economic fines for having delayed their presentation of the rendering of the accounts, recognizing that there was no evidence to show that Sisal Slot S.p.A., in particular, was to blame.

On March 14, 2011, the Regional Prosecutor of the Court of Auditors presented an appeal against this verdict, without producing any new arguments or documents, insisting that the concessionaires must be condemned to pay heavy fines, which still amount, as far as the subsidiary Sisal Slot S.p.A. is concerned, to approximately Euros 111.6 million for the years 2004-2006 and for amounts to be paid in the following years. The date for the hearing to discuss the case has not yet been set. At the hearing, Sisal Slot S.p.A. will propose the same arguments that were upheld during the first degree.

Concession for the operation of national instant lotteries

- In May of last year, the selection procedure was concluded for the awarding of a concession to several operators for the operation of the national instant lotteries (better-known as “Scratch and Win”), which expired on May 31, 2010;
- Sisal S.p.A., already in 2009, had filed an appeal against some of the conditions imposed by the tender and succeeded in obtaining a suspension of the award procedure, which started again in March 2010, following the verdict issued by the Council of State, which in part upheld the company’s motives.

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The company, together with the Parent, therefore, continued with the challenging task of implementing the project to take part in the above-mentioned selection procedure, partly by reaching vital agreements with certain commercial partners including lending banks to finance the project. However, having tried to achieve this, the problematical economic context and the simultaneous worsening of the financial markets resulted in it being impossible to implement the project that Sisal had spent so long planning and organizing. As a result of this decision and of the fact that no other offers were forthcoming, the new concession was awarded to the only company to make a tender, namely the outgoing concessionaire, Consorzio Lotterie Nazionali (controlled by the Lottomatica Group).

RELATED PARTY TRANSACTIONS

With regard to transactions with the ultimate parent, Gaming Invest S.à.r.l., the Parent has a loan payable totalling approximately Euros 374 million on which more information is given later in these explanatory notes; on this loan, accrued interest expense for the year is approximately Euros 38 million at the reporting date, of which Euros 17.9 million has been capitalised.

Concerning financial and commercial transactions with other related parties, mention is made of the transactions with S.P.A.T.I. S.p.A., whose shareholders are among the shareholders of the ultimate parent. The net payable at year-end is approximately Euros 0.8 million and derives primarily from the purchase price of a business activity consisting of 96 horse racing and sports betting agencies by Sisal Match Point S.p.A..

The remuneration of the Group's key managers charged with strategic responsibilities, in other words those with the authority and responsibility for planning, management and control of the Group's operations, amounted for the entire year 2010 to Euros 4,237 thousand (Euros 4,352 thousand in 2009), detailed as follows:

	<u>2010</u>	<u>2009</u>
Gross salary	3,914	4,069
Severance indemnity	323	283
Total	<u>4,237</u>	<u>4,352</u>

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

With regard to the agreements reached with the shareholders subsequent to the acquisition of the majority of the share capital of Sisal S.p.A. by Sisal Holding Finanziaria S.p.A. during 2006, some managers have subscribed some debt and equity instruments of the ultimate parent company. Similar opportunities were offered to some managers hired during the previous year, as described in the note on other reserves under equity.

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EXPLANATORY NOTES TO THE STATEMENT OF FINANCIAL POSITION

ASSETS

A) NON-CURRENT ASSETS

Property, plant and equipment (1)

This account comprises the following:

		Changes during the year			
	At 12/31/2009	Increases	Decreases	Reclassifications	At 12/31/2010
Land and buildings:					
—original cost	15,565	1,422	0	244	17,231
—ordinary depreciation	(2,559)	(521)	0	(226)	(3,306)
—writedowns	0	0	0	0	0
net	13,006	901	0	18	13,925
Plant & machinery:					
—original cost	17,296	4,953	0	31	22,280
—ordinary depreciation	(12,326)	(2,057)	0	(9)	(14,392)
—writedowns	(0)	0	0	0	(0)
net	4,969	2,896	0	22	7,888
Industrial and commercial equipment:					
—original cost	251,844	30,681	(7,541)	0	274,984
—ordinary depreciation	(168,588)	(24,438)	6,862	0	(186,164)
—writedowns	(2,409)	(146)	1,186	0	(1,370)
net	80,847	6,097	507	0	87,450
Other assets:					
—original cost	11,137	1,713	93	23	12,781
—ordinary depreciation	(7,855)	(511)	(93)	(9)	(8,282)
—writedowns	(187)	0	0	0	(187)
net	3,095	1,203	0	14	4,312
Construction in progress					
—original cost		1,745		0	1,745
—ordinary depreciation				0	0
—writedowns				0	0
net	0	1,745	0	0	1,745
Total:					
—original cost	295,841	38,770	(7,633)	298	327,275
—ordinary depreciation	(191,328)	(27,527)	6,954	(244)	(212,144)
—writedowns	(2,597)	(146)	1,186	0	(1,557)
Net Total	101,917	12,842	507	54	115,320

Property, plant and equipment, as detailed in the above table, include gross capital spending investments for Euros 38.7 million.

Investments in *Plant and machinery* of Euros 4.9 million relate mainly to refurbishment work on points of sales, purchase of air conditioning systems and other sundry plant.

The increase in *Industrial and commercial equipment* of Euros 30.7 million is due mainly to:

- investments in new AWP “comma 6a” slot machines, PDAs (access points) and change machines by Sisal Slot S.p.A. for approximately Euros 6.5 million;

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- the purchase of new-generation betting and services equipment such as the “Leonardo” and “Microlot” terminals for approximately Euros 22.9 million;
- the purchase of display screens and video boards for the renovated horse racing and sports betting agencies and the purchase of furniture for the agencies such as counters and panels for a total of Euros 1.2 million.

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

<u>Asset category</u>	<u>Net book value at 12/31/2010</u>	<u>Leasing instalments 2010</u>	<u>Residual debt at 12/31/2010</u>	<u>Residual leasing instalments at 12/31/2010</u>
Pin Pad (industrial & commercial equipment)	1,163	452	—	—
Microlot gaming terminals	4,497	386	4,630	4,816
AWP gaming machines, comma 6	5,105	2,646	4,180	4,283

Goodwill (2)

Goodwill, with an carrying amount of Euros 870,083 thousand, comprises the following:

- goodwill related to the acquisition of Sisal Group occurred at the end of the 2006 financial year for Euros 1,053.1 million;
- an increase of approximately Euros 26 million deriving from the purchase, in December 2006, of the remaining minority (35%) interest in Sisal Slot S.p.A. by the Parent;
- a decrease of approximately Euros 33 million for the cancellation of a pre-existing purchase option granted by Sisal S.p.A. in favour of the Sisal Slot S.p.A. minority shareholders, as part of the negotiations for the purchase of the minority interest by the Parent;
- an increase of around Euros 30 million on acquisitions of companies and business activities, completed during the years 2007-2010, of business segments relating legal gaming through AWP slot machines and horse racing and sports betting;
- an impairment loss of approximately Euros 206 million recorded as a result of the impairment tests performed as of December 31, 2007.

In accordance with the required accounting standards, goodwill was tested for impairment as of December 31, 2010. In particular, the operating cash flows were measured to determine the value in use of the identified Cash-Generating Units (CGUs) by applying the “discounted cash flow” method.

For purposes of impairment testing, the Group uses three-year cash flow projections approved by top management and extended for another two years on the basis of stable or declining growth rates, differentiated according to the historic trends of the various products.

The growth rate used to estimate cash flows beyond the explicit projected period was determined on the basis of market data and information available to the management in light of reasonable projections of estimated long term sector growth and it is equal to 3.25%.

In case of impairment on an individual assets relating to concessions or rights for gaming receipts, where necessary, the projections are extended for the number of years’ duration of the right being measured.

The rate used to discount cash flows to the present value is equal to a WACC of 8.2%, derived from the weighted average cost of capital of 9.7% (including a Market Risk Premium of 5.3%) and the after-tax cost of debt of 3.9%.

For the purpose of this calculation, the following CGUs were identified for the Group:

- Traditional games, primarily referring to cash flows from National Totalisator Number Games (NTNGs, including SuperEnalotto and Win for Life) and relationships with points of sale in the Sisal network);

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- Services, which include activities through the network of services provided to the consumers such as, for example, telephone refills and payment services;
- Gaming machines, including activities of supplying and managing AWP gaming machines (slot machines) and VLTs;
- Betting and gaming halls, comprising cash flows from gaming halls (Sisal Match Point agencies and Sisal Bingo), wagers through the Bersani concession and e-gaming.

Such CGUs have so far represented the normal prospects for earnings and operational analysis of the Group's performance.

Goodwill as of December 31, 2010 is allocated to the different CGUs as follows:

Cash Generating Units

Traditional games	202,298
Services	91,030
Gaming machines	211,111
Betting and gaming halls	365,644
Total	<u>870,083</u>

As a result of such impairment test, it emerged that actualised cash flows by CGUs exceeded the carrying amount of the goodwill allocated to each CGU. No recognition of impairment loss on goodwill was therefore necessary.

In particular, the excess of the recoverable amount of the CGU, determined on the basis of the parameters described above, compared to the carrying amount, is as follows:

Cash Generating Units

Traditional games	475,400
Services	188,280
Gaming machines	80,899
Betting and gaming halls	20,291
Total	<u>764,870</u>

A movement in the value assigned to the base assumptions, in terms of the assumed growth rate in the determination of the terminal value and the discount rate which makes the recoverable amount of the CGU equal to its carrying amount is the following:

	<u>growth rate</u>	<u>discount rate</u>
Cash Generating Units		
Traditional games	-10.5%	6.3%
Services	-20.6%	17.6%
Gaming machines	-1.8%	1.4%
Betting and gaming halls	-0.4%	0.3%

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Intangible assets (3)

Intangible assets are composed as follows:

		Changes during the year			
	At 12/31/2009	Increases	Decreases	Reclassifications	At 12/31/2010
Patent & utilisation rights, copyrights and similar rights					
—original cost	24,666	6,444	(50)	0	31,060
—amortisation	(18,914)	(4,082)	17	0	(22,979)
—writedowns	0	0	0	0	0
net	5,753	2,362	(34)	0	8,081
Concessions, licences, trademarks and similar rights					
—original cost	542,382	3,827	(3)	0	546,206
—amortisation	(174,271)	(42,680)	1	0	(216,950)
—writedowns	(14,498)	(7,900)	0	0	(22,398)
net	353,613	(46,753)	(2)	0	306,858
Other intangible assets					
—original cost	42,984	(454)	641	(298)	42,873
—amortisation	(16,024)	(3,339)	(323)	244	(19,442)
—writedowns	(0)	(80)	0	0	(80)
net	26,960	(3,873)	318	(54)	23,351
Total:					
—original cost	610,032	9,817	587	(298)	620,138
—amortisation	(209,208)	(50,100)	(305)	244	(259,370)
—writedowns	(14,498)	(7,980)	0	0	(22,478)
Net Total	386,326	(48,264)	282	(54)	338,290

Concessions, licences, trademarks and similar rights increased during the year by Euros 3.8 million principally as a result of the costs incurred for the purchase of 159 rights for “sports game points” from the company Merkur Interactive S.p.A..

Patent and utilisation rights, copyrights and similar rights increased during the year by Euros 6.4 million and are related exclusively to the purchase of software for the management of operations and the management of provider activities for legal gaming using AWP slot machines.

Amortisation charged to the statement of comprehensive income for the year was approximately Euros 50 million; over Euros 25 million of that amount refers to the higher value allocated to the concession rights and the trademarks owned by the Group as a result of accounting for the effects of the process for the purchase of the Sisal Group concluded in prior years.

Regarding writedowns, the increase for the year ended December 31, 2010 of Euros 7.9 million is mainly due to the partial impairment of the carrying amount of the concession rights for national horse race betting and sports pools. Following to the revised process of impairment test, it arises that the recoverable value of such concession rights is below the carrying value as of December 31, 2011 given the less than satisfactory performance of these traditional game products and the updated expectations on their future trends.

The following table sets forth outstanding finance leases, taken out in 2010, and accounted for in accordance with IAS 17:

Asset class	Net carrying amount at 12/31/2010	Annual lease payment 2010	Residual payable at 12/31/2010	Residual lease payments at 12/31/2010
Licenses SW	410	40	421	441
Total	410	40	421	441

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Investments (4)

Investments comprise mainly the holdings in associates.

	<u>At 12/31/2009</u>	<u>Changes in the year</u>					<u>At 12/31/2010</u>
		<u>Increases</u>	<u>Decreases</u>	<u>Revaluations</u>	<u>Reclassifications</u>	<u>Impairments</u>	
Investments in subsidiaries:	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Investments in associates:	<u>40</u>	<u>(8)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>32</u>
Total	<u>40</u>	<u>(8)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>32</u>
Investments in other companies	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

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

Deferred tax assets (5)

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

	<u>2010</u>		<u>2009</u>	
	<u>Temporary differences (Amount)</u>	<u>Tax effect (rate 27.5%/31.4%)</u>	<u>Temporary differences (Amount)</u>	<u>Tax effect (rate 27.5%/31.4%)</u>
Recognition of deferred tax assets and related effects				
Deferred tax assets				
Provision for risks and charges	7,651	2,354	7,478	2,301
Provision for bad and doubtful debts—Receivables/Other receivables	31,010	8,528	23,615	6,494
Entertainment expenses	0	0	17	5
Maintenance expenses	3,836	1,060	91	29
Other writedowns	2,666	827	3,785	1,179
Depreciation	447	140	2,643	748
Directors' compensation accrued	1,129	310	3,280	902
Guarantee deposits accrued	265	83	189	59
Other temporary differences	2,683	754	2,311	655
Non-deductible VAT pro-rated	119	33	119	41
Reversal of quota of current deferred taxes	(5,420)	(1,649)	(2,242)	(657)
Reversal of quota of non-current deferred taxes	(12,311)	(3,659)	(5,880)	(1,158)
Net deferred tax assets	<u>32,075</u>	<u>8,781</u>	<u>35,407</u>	<u>10,599</u>
Deferred tax assets on losses—current year			<u>12,213</u>	<u>3,359</u>
Deferred tax asset on losses—prior years	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Temporary differences excluded from the deferred tax computation	<u>2,298</u>	<u>632</u>	<u>2,298</u>	<u>632</u>

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

The temporary differences excluded from the calculation of deferred tax assets relate to losses reported by the Parent prior to opting for consolidation of taxation. As a result, deferred tax assets on the losses have not been recorded based on the probability, supported by current information, of suitable taxable profits in the future against which the losses can be recovered.

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Other non-current assets (6)

Other non-current assets amount in total to Euros 11,714 thousand and mainly comprise:

- VAT receivables for refunds requested upon presentation of the VAT return using the VR model, for both the results of 2008, equal to Euros 6,305 thousand, and for those of 2007, equal to Euros 3,906 thousand, with the latter having been reclassified from *Tax receivables (current)* where they were recorded at the end of 2008;
- guarantee deposits for leases, sundry utilities and related revaluations for approximately Euros 1 million.

Assets held for sale or discontinued operations (7)

There are no Assets held for sale or discontinued operations as of December 31, 2010.

B) CURRENT ASSETS

Inventories (8)

Inventories at December 31, 2010 are composed of the following:

INVENTORIES	At 12/31/2010	At 12/31/2009
Spare parts	2,714	1,443
Rolls of paper	1,474	498
Playslips	420	340
Raw materials, auxiliaries and consumables		
Finished goods and merchandise	5,550	10,645
Mobile scratch cards	250	525
	10,408	13,451

Stocks of raw materials, auxiliaries and consumables are recorded net of a provision of Euros 1,136 thousand.

The movement in the provision balance is largely due to an increase of Euros 365 thousand for the spare parts of gaming terminals and gaming machines which have been recalculated in a homogeneous manner in relation to the inventory balances, to a decrease in the provision account for playslips of Euros 38 thousand and a decrease in paper rolls for gaming terminals of Euros 3 thousand, adjusted to market prices according to applicable accounting principles.

The net inventory balance at December 31, 2010 includes Euros 1,894 thousand for gaming material (playslips and paper rolls for terminals) and Euros 2,714 thousand for spare parts for the maintenance of gaming terminals and AWP gaming machines.

Inventories of finished goods and merchandise and mobile scratch cards totalling Euros 5,800 thousand represent primarily telephone refill cards bought from Vodafone Omnitel N.V. for resale to the consumers (Euros 4,170 thousand) in accordance with the clauses of the contract signed at the beginning of 2004 between Sisal S.p.A. and Vodafone. They also include physical stocks of telephone and TV content refill cards of key operators of the sector, bought for resale to the consumers from Servizi in Rete 2001 S.p.A. (Euros 250 thousand) according to the clauses of contracts signed by this company with Sisal S.p.A. in November 2005 and also by stocks of telephone refill cards bought from Carrefour Italia Mobile S.r.l. (Euros 34 thousand), in accordance with the clauses of the contract signed in 2007. Finally, they comprise stocks of mini toys purchased for resale to the public from the Giochi Preziosi Group (Euros 772 thousand) according to the clauses of the contracts signed in 2009, from Mattel Italy S.r.l. (Euros 193 thousand), from Equipe Service Group S.r.l. (Euros 9 thousand), from Sportbaer Trading & Merchandising GMBH (Euros 80 thousand) and from H3G S.p.A. (Euros 98 thousand) according to the clauses of the contracts signed in 2010. Furthermore, there are Bingo cards for Euros 23 thousand and rolls for the “Extrema” gaming terminals needed to issue the gaming ticket relating to wagers for Euros 170 thousand. The significant decrease, compared to the prior year (approximately Euros 5.3 million), is due mainly to the optimization of the purchases of Vodafone refill cards made during the last days of the year for use during the holidays between the end and beginning of the new year.

Trade receivables (9)

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

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Trade receivables comprise the following:

Trade receivables	At 12/31/2010	At 12/31/2009
Receivables from outlets	137,698	113,353
Receivables from betting agencies network:	8,533	6,815
—receivables from direct agencies' players	541	550
—receivables from partners	7,992	6,265
Receivables from the AWP gaming machines network	34,686	29,338
—receivables from operators	27,306	22,538
—receivables from shops	3,911	3,333
—bills receivables subject to collection by banks	649	1,307
—receivables from agencies	2,820	2,161
Receivables from customers	1,744	1,705
Doubtful receivables	24,347	16,913
Invoices to be issued	2,444	3,034
Credit notes to be issued	(6)	(128)
Provision for doubtful receivables	(32,364)	(24,707)
Total	<u>177,083</u>	<u>146,323</u>

Receivables from points of sale represent amounts due to the Group for the bets placed on the last events of December 2010 and from the sales of non-gaming products in the same month. The increase from last year is mainly attributable to the higher betting volumes in the non-gaming sector and to the effect of a different calendar period for collections at the end of the year as well as a greater number of points of sale.

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

Receivables from the AWP gaming machines network represent the sums due from the outlet/operator network for the quota of the concession fee, the single tax (PREU) and the Group's share of legal gaming from the AWP slot machines.

The PREU and concession fees were, at the end of the reporting period, already paid or being paid to the AAMS by the concessionaire, Sisal Slot S.p.A., in accordance with the specific regulations and deadline dates.

Doubtful receivables, for Euros 24,347 thousand, represent unpaid amounts generated by subject-to-collection receivables from points of sale under recovery procedures, including legal actions, except for the amount representing normal situations which can be resolved in the short term referring to the month of December 2010.

Invoices to be issued, for Euros 2,444 thousand, comprise mainly the compensation due to the Group on the games SuperEnalotto, SuperStar and Vinci per la Vita—Win For Life played during the last five days of 2010 for Euros 1,882 thousand and the amount due from points of sale for the "Points of Sale" fee for Euros 308 thousand.

The doubtful receivables provision as of December 31, 2010 comprises:

Provisions for doubtful receivables	At 12/31/2010	At 12/31/2009
Other trade receivables provisions	(55)	(55)
Receivables from outlets provisions	(17,877)	(11,804)
Receivables from AWP gaming machines network provision	(10,265)	(9,400)
Receivables for Matchpoint betting mgt provision	(473)	(433)
Receivables from partners provision	(3,695)	(3,015)
Total	<u>(32,364)</u>	<u>(24,707)</u>

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The changes during the year are as follows:

Provisions for doubtful receivables	At 12/31/2009	Change during the year		At 12/31/2010
		Increases	Decreases	
Other trade receivables provisions	(55)	0	0	(55)
Receivables from outlets provisions	(11,804)	(7,950)	1,877	(17,877)
Receivables from AWP gaming machines network provision	(9,400)	(1,959)	1,094	(10,265)
Receivables for Matchpoint betting mgt provision	(433)	(80)	40	(473)
Receivables from partners provision	(3,015)	(1,000)	321	(3,694)
Total	(24,707)	(10,989)	3,332	(32,364)

The increase in the year after utilisations reflects the directors' prudent assessment of the recoverability of certain receivables, in particular the amounts due from insolvent points of sale and from the area represented by the operators of AWP gaming machines. This movement is due in part to the significant growth during the year in the turnover of the betting networks and also to a generally unfavourable economic situation as well as the introduction of the law implementing the European directive on payment services (the so-called PSD—Payment Services Directive) which reduced the time to recharge accounts if automatic payments do not clear. The Group constantly monitors movements in doubtful receivables and adopts, when possible and appropriate, recovery procedures by mutual consent through recovery plans, assisted, where necessary, by guarantees.

Current financial assets (10)

Current financial assets do not show any significant balances after the extinguishment during the year of the derivative to hedge the foreign exchange rate risk mentioned previously.

Other current assets (11)

Other current assets amount to Euros 24,617 thousand and comprise the following:

Other current assets	At 12/31/2010	At 12/31/2009
Receivables from AAMS for advances on winnings	98	338
Receivables from AAMS for Bersani concession fees	0	256
Receivables from AAMS for guarantee deposits	13,246	9,461
Receivables from Public Administration	1,757	781
Receivables from the liquidation of investments	108	108
Receivables from employees	384	286
Advances to suppliers	2,214	902
Credit notes to be received	0	0
Other receivables	2,848	3,191
sundry other receivables	2,826	3,173
receivables for prediction bets	22	17
Provision for doubtful other accounts receivables	(184)	(184)
Provision for doubtful guarantee deposits	(265)	(189)
Prepaid expenses	4,410	2,642
Total	24,617	17,592

- *Prepaid expenses*, for Euros 4,410 thousand, represent mainly the prepaid portion of costs not referring to 2010 incurred for the issue of bank guarantees, for approximately Euros 0.8 million, sundry supplies and premiums for health insurance;
- *Receivables from AAMS for advances on winnings*, for Euros 98 thousand, include the traditional advance payment to winners of sports pools and Tris and similar horse races before reimbursement from the Authority, for Euros 79 thousand, and payments on the previous SuperEnalotto concession while awaiting reimbursement from AAMS, for Euros 19 thousand;
- *Receivables from AAMS for guarantee deposits*, for Euros 13,246 thousand, relate to the 0.5% on amounts played on AWP gaming machines in 2010 which Sisal Slot S.p.A. deposited on behalf of AAMS as guarantee

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deposits but which AAMS will repay to the concessionaire of the Group, according to criteria and percentages to be established by AAMS in the actuating decrees. During 2010, the company was reimbursed for the sums deposited as a guarantee referring to the year 2009 for Euros 9.3 million corresponding to the extent of the level of service reached and the investments made.

- *Receivables from Public administration*, for Euros 1,757 thousand, refer mainly to the receivable of Euros 1,310 thousand from AAMS for the excess payment made for the single tax (PREU) due on the receipts from legal gaming using the AWP machines in prior years and the receivable recorded on the payment of tax bills (Euros 404 thousand) based on assessments made by the Revenues Agency in relation to the year 2005, for which a tax action was initiated;
- *Other receivables*, for Euros 2,848 thousand, include, among others, the receivable for approximately Euros 0.5 million, from the company which manages the “poker on line” structure paid as a security deposit. Moreover, it arises receivables from Sisal Slot S.p.A. for Euros 1,074 thousand generated by the different calculation procedures which the company uses to determine how much should be paid to the tax authorities and how much should be asked of the betting chain.

Tax receivables (12)

Tax receivables amount to Euros 9,417 thousand at December 31, 2010 and are composed of the following:

<u>Tax receivables</u>	<u>At 12/31/2010</u>	<u>At 12/31/2009</u>
VAT due from tax authorities	8,283	8,604
Receivables for refunds	141	248
Receivables for various taxes from tax authorities	28	28
Receivables for withholdings on interest income	0	0
Receivables for IRES tax from tax authorities	0	0
Receivables for IRAP tax from tax authorities	938	652
Receivables for ILOR tax from tax authorities	30	30
Provision for doubtful tax receivables	(2)	(2)
Total	<u>9,417</u>	<u>9,560</u>

- *VAT due from tax authorities* of Euros 8,283 thousand reflects the re-calculation of the non-deductible pro-rata amount based on definitive percentages calculated for 2010;

Cash and cash equivalents (13)

Cash and cash equivalents at December 31, 2010 are as follows:

<u>Cash and cash equivalents</u>	<u>At 12/31/2010</u>	<u>At 12/31/2009</u>
Bank and postal accounts	470,949	354,687
Cheques	0	106
Cash and cash equivalents in hand	1,932	1,234
Total	<u>472,881</u>	<u>356,027</u>

Bank and postal accounts include approximately Euros 354 million for prize money deposits, including the amount deposited for the special winnings of the Vinci per la Vita—Win For Life games and for the so-called SuperStar Reserve Fund which contains the difference between the available prize money and the winnings payable calculated for each single game.

These accounts are managed by the Group but their use is restricted to the payment of cumulative prizes on the games described. The amounts in the deposit accounts for the prize money increased considerably (approximately Euros 130 million) compared to the prior year mainly due to the effect of the SuperEnalotto first category winnings, but which were not yet paid at the end of the year, as well as the increase in 2010 in the balance of the SuperStar Reserve Fund due to lower winnings payable in 2010 compared to the prize money accrued. This was partly compensated, compared to 2009, by a lower SuperEnalotto Jackpot amount carried forward to the first game of the next year and a lower balance in the prize money account of Vinci per la Vita—Win for Life and Win for Life Gold attributable principally to a decline in game volumes.

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Ordinary cash amounted to approximately Euros 119 million, with a decrease of Euros 11 million compared to the prior year-end mainly due to cash flows from operations net of out flows driven by investing and financing activities primarily formed by investments and by the structured financial debt.

EQUITY AND LIABILITIES

A) Equity (14)

Total equity amounts to Euros 113,824 thousand.

The following table sets out the composition of equity; the changes in equity are presented in the relative statement:

<u>Equity</u>	<u>At 12/31/2010</u>	<u>At 12/31/2009</u>
Share capital	102,500	102,500
Share premium reserve	94,484	94,484
Legal reserve	200	200
Other reserves	1,006	0
Accumulated deficit	(71,664)	(59,488)
Loss for the year	(13,384)	(14,098)
Total equity attributable to Owners of the Parent	113,142	123,599
Equity attributable to non-controlling interests	682	2,993
Total equity	113,824	126,592

Share capital

The *share capital* of the company at December 31, 2010, fully subscribed and paid-in, is composed of 102,500,000 ordinary shares.

With reference to *Other reserves*, in order to allow participation in an effective system of managerial incentives, some top managers of the Group have been granted the possibility of taking part in incentive plans of the ultimate parent, Gaming Invest S.à r.l. In particular, the incentive plans provided for the subscription, as employees of the Group, to equity instruments and debt instruments issued by Gaming Invest S.à r.l. under a system that is more favourable than those granted to the shareholders. The investment is structured as an equity-settled share-based payment transaction under IFRS 2 and consequently is reflected as such in the financial statements of the Group. For purposes of the determination of the fair value of the plan, the differential yield that will be paid to the managers as compared to the shareholders, under the various assumptions for the realisation of the investment, has been measured at the grant date of the plan.

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

Comprehensive income (loss)

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

Non-controlling interests

The movement in non-controlling interests is due to the completion of the share capital increase by Sisal S.p.A.; the capital increase that was not subscribed to by the non-controlling interests was taken up by the Parent, with the consequent increase in the percentage held by the Group in the subsidiary. In accordance with IFRS 3R, the impact of the operation is recognised directly in the equity of the group under "other changes".

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B) NON-CURRENT LIABILITIES

Long-term debt (15)

Long-term debt comprises:

<u>Finanziamenti a lungo termine</u>	<u>At 12/31/2010</u>	<u>At 12/31/2009</u>
Long-term debt		
Loans from financing pool Royal Bank of Scotland	670,487	677,853
Loans from other lenders—leasing	5,036	3,889
Loans from other lenders—factoring	3,906	3,906
Loan from ultimate parent Gaming Invest S.à.r.l.	372,547	350,791
Total	1,051,976	1,036,439

The loan secured from a pool of banks is shown net of commission costs and transaction consulting fees, not pertaining to the current year, totalling Euros 8,833 thousand.

The following tables detail the credit lines granted by a syndicate of banks, with Royal Bank of Scotland as lead bank, including both the long-term and the short-term portions; the amounts are stated gross of the above-mentioned commissions and transaction consulting fees deducted from the debt in accordance with the amortised cost method:

<u>Lines</u>	<u>Type</u>	<u>Residual debt at 12/31/09</u>	<u>Residual debt at 12/31/10</u>	<u>Expiry</u>	<u>Repayment</u>
Facility A1	Amortising 7 years	62,479	56,081	12/31/2014	semiannually
Facility B1	Bullet 8 years	169,625	169,625	12/31/2015	at expiry
Facility C1	Bullet 9 years	169,625	169,625	12/31/2016	at expiry
Facility D1	Amortising 7 years	19,571	23,271	12/31/2014	semiannually
RF*	Revolving facility	34,286	34,286		
Total		455,586	452,888		

* The revolving line is short-term.

<u>Amortisation Plan</u>	<u>Residual debt at 12/31/09</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Sisal Holding Finanziaria S.p.A								
Facility A	62,479	6,398	11,229	11,229	11,229	22,394		
Facility B	169,625						169,625	
Facility C	169,625							169,625
Facility D	19,571	-3,700			11,636	11,636		
RF	34,286					34,286		
Total	455,586	2,698	11,229	11,229	22,865	68,316	169,625	169,625
Residual debt	452,888	441,659	430,430	407,566	339,250	169,625	0	0

<u>Lines</u>	<u>Type</u>	<u>Residual debt at 12/31/09</u>	<u>Residual debt at 12/31/10</u>	<u>Expiry</u>	<u>Repayment</u>
Long-term lines—beneficiary: Sisal					
Facility A2	Amortising 7 years	31,475	28,251	12/31/2014	semiannually
Facility B2	Bullet 8 years	75,375	75,375	12/31/2015	at expiry
Facility C2	Bullet 9 years	75,375	75,375	12/31/2016	at expiry
Facility D2/D3	Amortising 7 years	0	0	12/31/2014	semiannually
RF	Revolving facility	0	0	12/31/2014	
Total		182,225	179,001		

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<u>Amortisation Plan</u>	<u>Residual debt at 12/31/09</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Sisal S.p.A.								
Facility A	31,475	3,223	5,657	5,657	5,657	11,281		
Facility B	75,375						75,375	
Facility C	75,375							75,375
Facility D	0							
RF	0							
Total	<u>182,225</u>	<u>3,223</u>	<u>5,657</u>	<u>5,657</u>	<u>5,657</u>	<u>11,281</u>	<u>75,375</u>	<u>75,375</u>
Residual debt		<u>179,002</u>	<u>173,345</u>	<u>167,688</u>	<u>162,031</u>	<u>150,750</u>	<u>75,375</u>	<u>0</u>

<u>Lines</u>	<u>Type</u>	<u>Residual debt at 12/31/09</u>	<u>Residual debt at 12/31/10</u>	<u>Expiry</u>	<u>Repayment</u>
Long-term lines—beneficiary: Sisal Match Point					
Facility D	Amortising 7 years	57,600	57,600	12/31/2014	semiannually
Total		<u>57,600</u>	<u>57,600</u>		

<u>Amortisation Plan</u>	<u>Residual debt at 12/31/09</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Sisal MatchPoint S.p.A.								
Facility D	57,600				28,800	28,800	—	—
Total	<u>57,600</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>28,800</u>	<u>28,800</u>	<u>0</u>	<u>0</u>
Residual debt		<u>57,600</u>	<u>57,600</u>	<u>57,600</u>	<u>28,800</u>	<u>0</u>	<u>0</u>	<u>0</u>

<u>Lines</u>	<u>Type</u>	<u>Residual debt at 12/31/09</u>	<u>Residual debt at 12/31/10</u>	<u>Expiry</u>	<u>Repayment</u>
Long-term lines—beneficiary: Sisal Slot					
Facility D	Amortising 7 years	37,000	41,000	12/31/2014	semiannually
Total		<u>37,000</u>	<u>41,000</u>		

<u>Amortisation Plan</u>	<u>Residual debt at 12/31/09</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Sisal Slot S.p.A.								
Facility D	37,000	-4,000			20,500	20,500	—	—
Total	<u>37,000</u>	<u>-4,000</u>	<u>0</u>	<u>0</u>	<u>20,500</u>	<u>20,500</u>	<u>0</u>	<u>0</u>
Residual debt		<u>41,000</u>	<u>41,000</u>	<u>41,000</u>	<u>20,500</u>	<u>0</u>	<u>0</u>	<u>0</u>

Interest on the credit lines provided under the Senior Credit Agreement is based on the 1-month, 3-month or 6-month Euribor plus a spread of between 2.25% and 3.68% depending on the characteristics of the credit line. The charge for interest in the statement of comprehensive income is integrated by the impact of recording the liability at amortised cost and the consequent inclusion, in determining the effective interest, of the transaction costs incurred at the time of taking out the loan.

The Senior Credit Agreement, moreover, contains financial covenants based on key economic/financial ratios related to the Group's consolidated financial statements and also to the consolidated financial statements of its ultimate parent including, for example, the ratio of net consolidated debt / gross consolidated operating profit and the ratio of the latter and the interest cost for the financing.

As for the loan from the shareholders, denominated Shareholder Loan C, this is a bullet loan under which the Parent is entitled to obtain the repayment of the loan on request, but is subordinate to payment of the Senior Credit Agreement. The Parent has the right to repay all or a part of the loan at any time, taking into account the condition mentioned above, and this loan is therefore considered a medium-/long-term loan. The interest on the "PIK Margin" (6%) can be capitalised for the entire term of the loan upon request of the party financed whereas for the interest denominated "Cash Margin" (4.5%), this right exists only for the first 12 months of the term of the loan; during the year a total of approximately Euros 17.9 million of interest was capitalised and principal was repaid for approximately Euros 5.4 million.

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The sole shareholder, Gaming Invest S.à.r.l., in June 2009, extended another loan of Euros 60 million, bearing interest from January 1, 2010, denominated “subordinated zero coupon shareholder loan” with zero coupon interest, like the preceding loan, subordinate to the obligations under the “Senior Credit Agreement”. The payment of 11% interest, which cannot be capitalised, will take place at the time of the repayment of principal.

As already indicated, besides the above mentioned loans, the Group has derivative contracts to cover the risk of exposure to interest rate fluctuations with the characteristics described in the note on “Other current liabilities”.

Provision for employee severance indemnities (16)

The provision, amounting to Euros 7,592 thousand, reflects the effects of the present value calculation in accordance with IAS 19.

Deferred tax liabilities (17)

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

	2010		2009	
	Temporary differences (Amount)	Tax effect (rate 27.5%/31.4%)	Temporary differences (Amount)	Tax effect (rate 27.5%/31.4%)
Recognition of deferred tax liabilities and related effects				
Deferred tax liabilities				
Severance indemnity deducted out of books	1,820	501	1,649	454
Leasing instalments	140	44	140	44
Goodwill deducted out of books	13,799	4,333	11,677	3,667
Depreciation—difference between IAS and tax bases	(322)	(101)	303	74
Accelerated depreciation	2,570	706	2,569	706
Amortisation of concession charges	243	73	288	87
Merger deficit—taxed	52,243	16,404	57,263	17,981
Consolidation deficit—taxed	36,557	11,479	52,093	16,357
Reversal of impairment loss on intangible assets	22,314	7,007	25,188	7,909
Other temporary differences	285	81	12	3
Reversal of quota of current deferred taxes	(5,419)	(1,649)	(2,242)	(657)
Reversal of quota of non-current deferred taxes	(12,312)	(3,660)	(5,880)	(1,158)
Net deferred tax liabilities	111,918	35,218	143,062	45,467
Temporary differences excluded from the deferred tax computation				
	0	0	0	0

Provision for risks and charges (18)

The provisions, totalling Euros 9,152 thousand, include the following:

Provision for risks and charges	At 12/31/2009	Changes during the year		At 12/31/2010
		Increase	Decrease	
Employee-related litigation	53	0	(12)	41
Other civil litigation	147	0	(44)	103
Other litigation	2,747	0	0	2,747
Other contractual risks	1,265	0	0	1,265
Sundry risks and charges	4,297	431	(334)	4,394
Technological updating	1,023	316	(736)	603
Total	9,532	747	(1,126)	9,152

The provisions arise from the directors’ prudent assessment of the litigation in progress, mainly in the civil and employee-related areas.

The Group operates in a complex legal environment where regulations are continuously evolving and subjected to the strong presence of the State’s regulatory activity and the bodies responsible for the control and management of this

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market. The result is frequently a high number of cases and disputes. As of the date of the financial statements, although in a context of uncertainty, it is estimated that such cases and proceedings will not give rise to liabilities that have not been recorded or have significant consequences for the Group. At the same time, it should be mentioned that, as of the date of the financial statements, there are certain tax inquiries and inspections in progress; however, it is estimated, at this time, that no conditions exist for considering the expenses probable and/or quantifiable.

Other non-current liabilities (19)

Other non-current liabilities total Euros 2,576 thousand. Details are as follows:

Other non-current liabilities	At 12/31/2010	At 12/31/2009
Payable for the acquisition of business units	2,576	3,631
Minimum guaranteed adjustment for horse racing	0	4,021
Minimum guaranteed adjustment for sports	0	879
Payable to S.P.A.T.I. S.p.A. for the purchase of business	0	836
Total	<u>2,576</u>	<u>9,366</u>

The *payable for acquisition of business combinations* refers to the acquisition of the business Merkur Interactive Italia S.p.A.

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

There are no such liabilities at December 31, 2010.

C) CURRENT LIABILITIES

Trade and other payables (21)

This line item includes *Payables to suppliers* which are composed of the following:

	At 12/31/2010	At 12/31/2009
Third party suppliers	58,393	49,265
Invoices / credit notes to be received	12,519	19,759
Payables to partners for services	146,619	136,006
Payables to AWP gaming machines network	9,616	2,468
Other trade payables	10	623
Total	<u>227,158</u>	<u>208,121</u>

Payables to partners for services relate mainly to telephone top-ups and TV content recharges, whereas *Payables to AWP gaming machines network* mainly represent the amount to be paid to operators owing to the reduction in the PREU rate from 12.6%, the percentage collected during the year, to 12.062%, the percentage decided by AAMS under Decree 2011/8048 ADI dated March 7, 2011.

Short-term debt (22)

This line item, amounting to Euros 35,791 thousand, includes mainly the amount drawn down under the revolving facility granted by the syndicate of banks for short-term cash and working capital requirements.

Current portion of long-term debt (23)

This line item, amounting to Euros 23,080 thousand, represents principally the instalments due on or before December 31, 2011 for Euros 16,886 thousand based on the current repayment plans under the “Senior Credit Agreement”, Euros 2,000 thousand due by the same date for principal on the loan received from the ultimate parent as established in the relative agreement and Euros 4,194 thousand of finance leasing debt outstanding as of the date of the financial statements.

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Other current liabilities (24)

The line item, amounting to Euros 522,767 thousand, includes as follows:

Other current liabilities	At 12/31/2010	At 12/31/2009
Other current liabilities	1,383	801
Payables to social security agencies	5,865	5,079
Liabilities relating to fair value of derivative instruments	17,647	21,627
Sundry payables	497,871	396,946
Total	<u>522,767</u>	<u>424,453</u>

Payables to social security agencies represent the Group's and its employees' social security contributions on salaries and wages and INPS contributions on the remuneration paid to external collaborators and is composed as follows:

a) Payables to social security agencies	At 12/31/2010	At 12/31/2009
Collaborators' social security contributions payable to INPS	116	125
Employees' social security contributions payable to INPS	5,749	4,954
Total	<u>5,865</u>	<u>5,079</u>

The item *Sundry payables* includes the following:

c) Sundry payables	At 12/31/2010	At 12/31/2009
Payables for Totip winnings	185	185
Payables for SuperEnalotto/Win for life winnings	342,368	232,303
Payables for Coni, Tris games and horse race betting winnings	99	181
Payables to authorities for games	90,261	55,295
Payables to employees	10,401	10,270
Payables to collaborators	1,320	3,684
Minimum guaranteed betting adjustment	14,849	14,062
—minimum guaranteed adjustment for horse racing	8,596	8,656
—minimum guaranteed adjustment for sports	1,029	1,200
—supplementary minimum guaranteed adjustment	5,224	4,205
Payables to authorities on betting	3,397	3,816
Payables for acquisitions	1,641	642
Payables to players for internet account deposits	5,493	5,552
Payables to AAMS for PREU/AWP concession fee/VLT rights	16,318	60,280
—payables to tax authorities for PREU	10,933	19,473
—payables to tax authorities for AAMS concession fee	4,516	3,039
—payable to AAMS for VLT rights	0	36,930
Payables for security deposits AWP operators	1,019	304
Payable for Sisal Slot acquisition	3,675	3,567
Other payables	6,844	6,806
—other payables to third parties	4,541	5,010
—payables for prediction bets	953	612
—payable for winning tickets	1,350	1,184
Total	<u>497,871</u>	<u>396,946</u>

Payables for winnings include jackpots payable by the Group to winners of pool games and bets at December 31, 2010; these liabilities are covered mainly by the respective dedicated bank balances included in the statement of financial position under assets. The increase in payables compared to the prior period is approximately Euros 110 million and mainly relates to the first category SuperEnalotto prize payouts assigned, but not yet paid at the end of the year. Countering the increase, compared to the year-end 2009, is a lower SuperEnalotto jackpot carried forward to the first game of the following year and a lower amount of Win for Life and Win for Life Gold winnings payable owing principally to a fall in the gaming volumes.

Payables to authorities for games mainly consist of taxes related to contests in the last part of the year, duly paid in January 2010, and the debt for the portion assigned to the SuperStar Reserve Fund. The increase compared to the end of the

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prior year is due in part to the new regulations relating to the procedure for the settlement of the game taxes which came into effect with the new NTNG Convention and in part to the replenishment of the above Reserve Fund during the year, also following the amendments agreed with the concession granting Authority for the determination of the relative prize money.

Payables to employees include the 14th month salary, bonuses, vacation accrued, former holidays, outstanding amounts due and overtime accrued at the end of the year but not paid.

Payables to collaborators include remuneration similar to employee remuneration and compensation, due to members of the board of directors and board of statutory auditors, which will be paid upon issue of specific pay slips and/or receipt of invoices. The decrease from last year is mainly due to payments made during the year on the settlement agreement signed in April 2008 between the Group and the then outgoing chief executive officer.

Minimum guaranteed betting adjustment, for Euros 14,849 thousand, includes the present value of the residual short-term amount payable to concession authorities for the additional guaranteed minimum amount payable under the concession contracts for horse racing and sports betting for Euros 9,625 thousand. In 2009, Sisal Match Point S.p.A. did not pay, in agreement with the concession authority, the instalment due for 2009 relating to the guaranteed minimum adjustment for horse race betting equal to Euros 4,365 thousand. This was because of the receivable awarded by the Arbitration Board on May 26, 2003 which involved 171 companies against the Concession grantor Unire and which, by decision of the arbitration board was resolved in favour of the companies, confirming, *inter alia*, the existence of the receivable equal to Euros 4,425 thousand in favour of the concessions held by Sisal Match Point S.p.A. following the acquisition of the business segments and mergers which took place in prior years. The decision by the Arbitration Board is still subject to appeal by the AAMS.

Supplementary minimum agreed adjustment, for Euros 5,224 thousand, includes the payable for the supplements of the agreed minimum adjustment due for the year 2008 for Euros 3,260 thousand. To this end, the Group is waiting for a new recalculation by AAMS which takes into account the agreed minimum adjustments paid in reference to the national horse race bets and the payable for the agreed minimum adjustment due for the year 2004 equal to Euros 145 thousand and for the year 2009 equal to Euros 800 thousand. That figure was calculated on the basis of the application of the law and taking into account the discarding of the previous horse-race betting concessions during the year following the bids for the renewal of the so-called historical horse-race betting agencies.

Payables to authorities on betting includes payables to the concession authority for the single tax (Euros 2,152 thousand) due on bets of the last month, for the single tax (Euros 351 thousand) due on online poker and skill games relating to the last month of the year and for the single tax (Euros 894 thousand) on bets of the last 15 days of the year.

Payables to players for Internet account deposits represent the amounts deposited by players in order to play online.

Payables to AAMS for PREU/AWP concession fee/VLT rights include the balance of the amount due to the concession authority for the last two months' tax and concession fee for receipts on AWP gaming machines.

Payable for Sisal Slot acquisition represents the short-term portion of the debt incurred for the acquisition from third parties of 35% of the share capital of Sisal Slot S.p.A.

Liabilities relating to fair value of derivative instruments amounting to Euros 17,647 thousand include, in accordance with IAS 39, the negative fair value at December 31, 2010 of the interest rate swaps put into place in the years 2006-2010 in parallel with the previously mentioned loans received by the Parent and other companies of the Group. The main characteristics are as follows:

<u>From</u>	<u>To</u>	<u>Notional</u>	<u>Hedging Fix Rate</u>
12/31/2009	12/31/2010	385,000,000	4.197%
12/31/2010	12/31/2011	380,000,000	4.197%
12/31/2011	3/31/2012	280,000,000	1.510%
3/31/2012	6/30/2012	280,000,000	1.510%
6/30/2012	9/30/2012	280,000,000	2.810%
9/30/2012	12/31/2012	280,000,000	2.810%

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SWAPs—Hedges on loan

From	To	Notional	Hedging Fix
12/31/2009	3/31/2010	139,000,000	0.900%
3/31/2010	6/30/2010	139,000,000	0.900%
6/30/2010	9/30/2010	154,000,000	1.300%
9/30/2010	12/31/2010	154,000,000	1.300%
12/31/2010	3/31/2011	157,000,000	2.000%
3/31/2011	6/30/2011	155,000,000	2.000%
6/30/2011	9/30/2011	149,000,000	2.650%
9/30/2011	12/31/2011	30,000,000	2.650%
12/31/2011	3/31/2012	140,000,000	2.900%
3/31/2012	6/30/2012	140,000,000	2.900%
6/30/2012	9/30/2012	140,000,000	3.000%
9/30/2012	12/31/2012	140,000,000	3.000%

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

Tax payables (25)

Tax payables comprise the following:

Taxation payable	At 12/31/2010	At 12/31/2009
IRAP regional income tax	1,154	630
IRES income tax	5,904	241
VAT	95	63
IRPEF payroll tax	1,993	1,386
Withholding tax on RBS loan	310	67
Substitute tax	10	1,683
Other	29	50
Total	<u>9,494</u>	<u>4,121</u>

This line item includes tax payables by the Group for the year ended December 31, 2010.

IRPEF payroll tax on payrolls and services performed by external self-employed collaborators have been duly paid in the early part of 2010 on their due dates.

IRAP tax at year end is net of advances already paid.

COMMITMENTS

The guarantees, guarantee insurance policies and credit facilities granted by the Group amount to Euros 493,513 thousand and are composed as follows:

Guarantees provided on behalf of third parties—December 31, 2010

(amounts in thousands of euros)

Authority for the Administration of Monopolies of the State (AAMS)	365,102
Non-game services	121,150
Other guarantees provided	7,236
Tax revenues agency—VAT Office	25
Total	<u>493,513</u>

In addition to the above commitments, as a guarantee of the payables deriving from the financing contracts signed in the course of the purchase of the majority interest in Sisal S.p.A., the Group pledged the shares held in Sisal S.p.A., Sisal Match Point S.p.A. and Sisal Slot S.p.A. in favour of the banks financing the operation.

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FINANCIAL INSTRUMENTS: SUPPLEMENTARY INFORMATION

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

Categories of financial assets and liabilities

In accordance with IFRS 7, the following table details the carrying amount of each category of financial asset and liability, as defined by IAS 39, and the reconciliation with the financial statements as of December 31, 2010 and also the comparison with the respective fair value:

Categories of financial assets and financial liabilities—IAS 39	Balance 12/31/2010	Statement of comprehensive income		Balance 12/31/2009	Statement of comprehensive income	
		income	expenses		income	expenses
ASSETS						
Cash and cash equivalents						
Bank and postal deposits and valuables in hand	472,881	1,339	4	356,027	1,609	3
Total	472,881	1,339	4	356,027	1,609	3
Financial assets at fair value through profit or loss						
Derivative instruments	0	0	0	1,034	5,975	1,746
Total	0	0	0	1,034	5,975	1,746
Loans and receivables						
Current financial assets	0	0	0	0	0	0
Trade receivables—current and non-current	177,083	0	0	146,323	0	0
Other assets—current and non-current	36,331	217	0	28,785	303	0
Total	213,413	217	0	175,108	303	0
Available-for-sale financial assets						
Other securities	2	0	0	2	0	0
Total	2	0	0	2	0	0
LIABILITIES						
Financial liabilities at amortized cost						
Bank debt and payables to other lenders—current and non-current(*)	1,110,848	0	68,153	1,087,634	3,328	68,158
Trade payables—current/non-current	227,158	3,084	0	208,121	0	60
Other liabilities—current and non-current	505,120	0	829	412,192	0	1,442
Total	1,843,125	3,084	68,982	1,707,947	3,328	69,660
Financial liabilities at fair value through profit or loss						
Derivative instruments	17,647	0	13,679	21,627	0	16,642
Total	17,647	0	13,679	21,627	0	16,642

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<u>Categories of financial assets and financial liabilities—IAS 39</u>	<u>Balance 12/31/2010</u>	<u>Fair value</u>	<u>Balance 12/31/2009</u>	<u>Fair value</u>
ASSETS				
Financial assets at fair value through profit or loss				
Derivative instruments	—	—	1,034	1,034
Total	<u>—</u>	<u>—</u>	<u>1,034</u>	<u>1,034</u>
Loans and receivables				
Interest bearing loans				
Trade receivables—current and non-current	177,083	177,083	146,323	146,323
Other assets—current and non-current	36,331	36,331	28,785	28,785
Total	<u>213,413</u>	<u>213,413</u>	<u>175,108</u>	<u>175,108</u>
Available-for-sale financial assets				
Other securities	2	2	2	2
Total	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
LIABILITIES				
Financial liabilities at amortized cost				
Trade payables—current/non-current	1,110,848	1,110,848	1,087,634	1,087,634
Bank debt and payables to other lenders—current and non-current(*)	227,158	235,991	208,121	218,772
Other liabilities—current and non-current	505,120	504,762	412,192	412,048
Total	<u>1,843,125</u>	<u>1,851,600</u>	<u>1,707,947</u>	<u>1,718,454</u>
Financial liabilities at fair value through profit or loss				
Derivative instruments	17,647	17,647	21,627	21,627
Total	<u>17,647</u>	<u>17,647</u>	<u>21,627</u>	<u>21,627</u>

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

Reclassification

The Group has not carried out any reclassification of financial assets among the different categories.

As far as short-term trade receivables and payables and other receivables and payables are concerned, the carrying amount is considered to be a reasonable approximation of their respective fair value.

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

In reference to the financial instruments recognized in the statement of financial position at fair value, IFRS 7 sets out the classification based on a hierarchy level which reflects the significance of the inputs in the determination of the fair value.

The three levels of input are:

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

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The following table sets out, for assets and liabilities measured at fair value at December 31, 2010, the level in the fair value hierarchy of fair value measurement.

<u>Financial assets/liabilities measured at fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
1. Financial assets measured at fair value recognized in the Statement of Comprehensive Income				0
2. Available-for-sale financial assets	2			2
3. Hedging derivatives	—	—	—	0
Total	2	0	0	2
1. Financial liabilities measured at fair value recognized in the Statement of Comprehensive Income		(17,647)		(17,647)
2. Hedging derivatives	—	—	—	0
Total	0	(17,647)	0	(17,647)

Financial instruments risk management policy

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

Credit risk

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

The following main categories of credit risk were identified:

<u>Credit risk by class of risk</u>	<u>Balance 12/31/2010</u>	<u>Balance 12/31/2009</u>
Receivables from Public Authorities	15,101	10,836
Receivables from Points of sale and shops	170,145	139,645
Receivables from Betting Agencies	11,353	8,976
Receivables from AWP gaming machines operators	27,955	22,538
Other receivables	9,959	7,001
Provision for doubtful receivables	(32,813)	(25,080)
Total	201,700	163,916

- *Receivables from Public Authorities* include receivables from AAMS for games managed according to the regulations of the specific concessions, receivables from UNIRE arising from advances made on its behalf in the course of management of the Totip game and receivables from the Public Administration for reimbursement requests already forwarded at year end, to be settled shortly; no credit risk is considered to exist on these amounts;
- *Receivables from Points of sale and shops* represent essentially amounts due for gaming activities and non-gaming services in the last few days of the year 2010 and the relative receivables arising from the automated weekly collections of the preceding periods that have gone unpaid. The large number of points of sale exposes the Group to a partial uncollectibility risk which, following suitable evaluation by the directors, has duly been covered by a specific provision for impairment of receivables;
- *Receivables from AWP gaming machines network* represent mainly revenues from gaming through AWP gaming machines, including the single tax (PREU) which the concessionaire, Sisal Slot S.p.A., must pay regularly to tax authorities; the large number of customers and the substantial amounts involved expose the Group to a partial collection risk which, following suitable evaluation by the directors, has been duly covered by a specific provision for doubtful accounts;
- *Receivables from Betting Agencies* represent mainly receivables from third parties which manage some of the horse racing and sports betting agencies on the basis of partnership agreements; the size of individual accounts, some inherited through business combinations, requires constant monitoring of the same and the formation of a provision for certain critical cases, often resolved with agreed repayment plans;

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

Tax receivables have been excluded from this analysis as no form of risk is apparent.

Risk exposure

At year end, the provision for doubtful accounts of the Group was Euros 32.8 million with the movements for the year shown in the comments to the related note.

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

Analysis of credit risk	Balance 12/31/2010	ageing			
		current	past due 90 days	past due 90 to 180 days	past due more than 180 days
Trade receivables	209,447	160,183	12,839	2,684	33,138
Provision for doubtful receivables	(32,364)	(4,090)	(415)	(1,763)	(25,513)
Net amount	177,083	156,093	12,424	921	7,625
Other receivables	25,066	23,981	0	0	1,085
Provision for doubtful receivables	(449)	(265)	0	0	(184)
Net amount	24,617	23,716	—	—	901
Total	201,700	178,444	12,424	921	8,526

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

As already mentioned, the Group monitors credit risk on the points of sale through specific procedures for selecting points of sale, by assigning operating limits for wagers on the gaming terminal and by daily control over changes in credit which provides for the blocking of the terminal in the event of non-payment and the revocation of the authorisation to operate as a SISAL point of sale in the event of recurrent non-payment.

Liquidity risk

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

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

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

Analysis of repayment of financial liabilities	Balance 12/31/2010	estimated repayments			
		to three months	more than three months to one year	more than one year to five years	more than five years
Bank debt and payables to other lenders . . .	735,999	2,541	54,029	443,262	245,000
Trade payables	227,158	202,573	24,585	—	—
Other payables	525,343	457,818	59,596	8,287	—
Total	1,488,499	662,932	138,210	451,549	245,000

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

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Bank loans and other lenders do not include the loan received from the ultimate parent, Gaming Invest S.à.r.l., the repayments of which are subordinated to those of the “Senior Credit Agreement”.

Further, the table does not include taxation payables which will be paid to the Inland Revenue at due dates established by existing laws.

During the year, the Group has respected all the repayment clauses stated in the existing agreements.

Market risk

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

The market risk thus comprises:

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

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

Foreign currency exchange risk

The Group is not habitually exposed to foreign currency exchange risk since it operates only at the national level, however in the course of 2010 it completed the payment of its obligation, in USD, for the purchase of “Leonardo” new-generation gaming terminals from the American supplier Scientific Games. Consequently, the “currency option-forward foreign exchange transaction” derivative contract to hedge the Company from fluctuations in the EUR/USD exchange rate risk on this transaction was extinguished.

Interest rate risk

The Group utilises a mix of debt instruments according to the nature of its financial needs. Specifically, the Group normally looks for short-term debt to finance its working capital requirements and for medium-and long-term financing to support investments related to its operations and extraordinary transactions.

The financial liabilities which expose the Group to interest rate risk are mainly medium-and long-term indexed loans at variable rates of interest.

The present Group policy aims to reduce the fluctuation of interest costs on its debt and the related effect on the statement of comprehensive income by putting into place interest rate swaps (IRS).

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

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

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

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

	Balance 12/31/2010	Analysis +/-1% interest rate			
		Statement of comprehensive income		Statement of financial position	
		+1% gain /(loss)	-1% gain /(loss)	+1% gain /(loss)	-1% gain /(loss)
Net financial debt	(608,271)	(2,186)	2,186	(2,186)	2,186
Derivative instruments	(17,647)	9,220	(9,220)	9,220	(9,220)
Total	<u>(625,918)</u>	<u>7,034</u>	<u>(7,034)</u>	<u>7,034</u>	<u>(7,034)</u>

Capital management

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

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

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

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NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

Revenues (27)

Revenues include the consideration received by Group companies for the following types of activity:

Revenues	2010	2009
Gaming revenues	517,704	442,148
Non-gaming product revenues	86,126	73,534
Outlet revenues	69,590	54,516
Other revenues	658	673
Total	674,078	570,872

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

Gaming revenues	2010	2009
Revenues from horse race betting	26,542	33,213
NTNG revenues	137,587	155,569
—SuperEnalotto revenues	82,887	99,045
—SuperStar revenues	32,118	40,340
—Win For Life revenues	22,582	16,186
Income from sports pools	1,737	2,395
Income from legal gaming (AWP-Comma 6 machines)	335,011	237,684
Income from Big Match betting	86	155
Bingo revenues	1,841	1,838
Online game revenues	14,899	11,294
Total	517,704	442,149

Gaming revenues show a decrease in NTNG revenue (Euros 18 million) due to a contraction in gaming volumes (compared to 2009 which recorded the highest record in the history of the product) and also the full-year effect of the commissions paid to Sisal S.p.A. under the new remuneration conditions in the NTNG Convention signed in June 2009, as a result of which for the first six months the concessionaire had benefited from a higher percentage fee.

This was partly compensated by Euros 5,191 thousand recorded for incremental commissions accrued during the year as set out in art. 24 of the NTNG Convention.

Vinci per la Vita—Win for Life revenues recorded an increase of Euros 6.4 million against the management on an annual basis of the game launched in September 2009 and the introduction in October 2010 of the new game Vinci per la Vita—Win for Life Gold.

As for the AWP gaming machines, the growth in revenues (gross of the remuneration paid to the various parties constituting the betting chain) was equal to approximately 41%. This is a significant figure and proportional to the percentage increase in total receipts (+40%) while the average number of installed machines increased 17.5%. This movement is due to the activities carried out this year and in the prior year aimed at growing the number of machines with high-performing game cards, making investments on the distribution network and strengthening the dedicated sales force and the related logistics activities. This resulted in positive effects on the average daily total value played per machine (average coin in) which at the end of 2010 reached values in excess of 12% over the end of 2009. An important contribution also came from VLTs (Video Lottery Terminals) that in the first months of activities immediately generated curiosity and interest with the public and a positioning which, at this time, does not appear to be causing a detriment to the New Slots. The ability to test and certify the first technological platform required for the management of VLTs, quicker than almost all its competitors, allowed the Company to start the installation of the new equipment at its sales network and also open, on a timely basis, in the Milan city centre and in an important shopping centre in Rome, the first two Sisal Wincity concept areas. This is an innovative project in which the Company will continue to invest in view of the results achieved in just a few months of operation. At December 31, 2010, Sisal Slot had installed 1,709 new machines for revenues, gross of those due to the betting chain, of more than Euros 13 million.

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As for online games, the year was marked by a further consolidation of tournament Poker, the revenues of which represent more than 90% of the Group income relating to this type of product and the start of online bingo which immediately met with the favour of players with average takings on a monthly basis of approximately Euros 2,000 thousand.

Non-gaming product revenues relate to those Group revenues primarily linked to the sale/distribution of telephone tip-ups and TV content cards. During the year, the fees relating to the collection and payment of services managed by the Parent above all reported a significant increase (following a trend already begun in prior years).

Point of sale fees include mainly the annual affiliation “Point-of-Sale” fee from Sisal points of sale on the basis of the contract terms signed in 2009 (Euros 64.8 million) in addition to Euros 3.4 million relating to the fees invoiced to points of sale qualified as horse racing and sports betting points of sale as provided for under the Bersani Decree, for the services provided by Sisal S.p.A., specifically covered by contracts.

Fixed odds betting income (28)

Fixed odds betting income amounting to Euros 57,981 thousand includes income from fixed odds horse racing bets handled by Sisal Match Point S.p.A.

Fixed odds betting income	2010	2009
Fixed odds sports betting income	57,352	76,550
Reference horse race betting income	652	872
Fixed odds horse race betting income	(24)	(18)
Total	57,981	77,405

The significant reduction of this income is mostly attributable to the high and anomalous pay outs made during the year which negatively affected all the operators of the segment.

Other revenues and income (29)

The composition of other revenues and income of Euros 3,917 thousand is as follows:

Other revenues and income	2010	2009
Other income	3,917	1,941
Total	3,917	1,941

Prior period income relates mainly to income against costs referring to prior years for Euros 3,500 thousand.

Purchases of materials, consumables and subsidiary goods (30)

Materials, consumables and subsidiary goods	2010	2009
Purchases:		
Purchases of Extrema rolls	10,161	8,675
Purchases of playslips and betting slips	2,820	4,062
Purchases of spare parts	3,772	2,943
Other purchases	2,437	2,341
Change in inventories:	(2,318)	(227)
Total	16,872	17,794

This line item, equals to Euros 16,872 thousand, includes the cost of paper purchased for gaming terminals for Euros 10,161 thousand, playslips for games and betting slips for Euros 2,820 thousand and also spare parts and consumables for the maintenance of gaming terminals for Euros 3,772 thousand.

Other purchases for Euros 2,437 thousand include advertising and promotional material, stationery and printed forms fully expensed in the year.

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External services (31)

The composition of services, amounting in total to Euros 448,067 thousand, is the following:

Costs for services	2010	2009
Commercial services	40,322	51,988
Other services	407,744	331,157
Total	448,067	383,145
Commercial services	2010	2009
Advertising, fairs and conferences	29,582	40,849
Shipping expenses	6,172	6,080
Sisal TV productions	3,012	3,562
Transportation and warehousing	1,257	1,496
Contests with prizes	299	1
Total	40,322	51,988
Other services	2010	2009
Travel and transport expenses	2,887	2,420
Collaborators and consulting	25,248	26,749
Telecommunications	13,888	14,860
Game organization and distribution	527	468
Maintenance and repairs	16,868	12,658
Fees to outlets/betting operators/AWP operators	321,988	253,565
Compensation to corporate boards	2,229	2,228
Insurance	1,863	1,812
Banking charges	5,159	4,151
Ticket restaurant/catering	1,360	1,235
Utilities	2,114	1,983
Cleaning	1,487	1,310
Security	1,420	1,044
Other service costs	10,706	6,675
Total	407,745	331,157

The increase in costs for services is mostly explained by higher costs incurred by the Group for fees to points of sale/betting operators/AWP operators, which increased by more than Euros 68 million. The increase is in line with the growth of volumes in the various business segments in which the Group has its activities.

According to the disclosure required by art. 2427 paragraph 16 bis of the Civil Code it is reported that the fees paid to the company's auditors for the statutory audit of annual accounts of the Parent Company and its subsidiaries amounted to 279 thousand euros and which were also paid at the same auditing firm additional 66 thousand Euros in connection with audit procedures carried out during the year, mainly related to the compliance required by convention NTNG.

Lease and rent expenses (32)

These expenses, amounting to Euros 11,407 thousand, are as follows:

Lease and rent expenses	2010	2009
Buildings lease	8,280	7,053
Other rentals	3,127	2,871
Leasing	0	21
Total	11,407	9,945

This line item mainly includes:

- rent and condominium expenses for Euros 8,280 thousand;
- rent of motor vehicles and hardware for Euros 3,127 thousand.

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Personnel costs (33)

Personnel costs totalling Euros 59,407 thousand comprise the following:

Personnel costs	2010	2009
Salaries and wages	43,024	39,346
Social security contributions	13,258	11,903
Employee severance indemnities	2,814	2,883
Other personnel costs	311	2,537
Total	59,407	56,670

The total increase in personnel costs is largely due to a higher headcount in 2010 in the Group as shown in the following table which presents the number of employees by category for the entire calendar year 2010 and the prior year.

Average number of employees	2010	2009
Managers	39	33
Management staff	77	67
Clerical	948	893
Labourers	4	4
Total	1,068	997

Other operating costs (34)

Other operating costs amounting to Euros 33,661 thousand comprise:

Other operating costs	2010	2009
Concession fees	17,807	13,937
Supplement of minimums	0	800
Non-deductible VAT pro-rated	9,537	9,837
Sundry indirect taxes and duties	825	664
Gifts and promotional articles	297	463
Other costs	5,195	3,519
Total	33,661	29,220

Other operating costs include the concession fees payable under existing regulations for legal gaming with AWP slot machines (for approximately Euros 7.9 million), for sports betting and horse racing and sports games (for approximately Euros 4.5 million) and for national totalisator number games (for approximately Euros 5.3 million).

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

The line item, amounting in total to Euros 96,114 thousand, comprises the following:

Amortisation, depreciation, provisions and impairment losses and reversals	2010	2009
Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	50,463	44,398
Depreciation of property, plant & equipment	27,527	22,837
Other impairment losses (reversals) on fixed assets	6,860	1,552
Impairment of receivables	11,253	9,272
Charges for provisions for risks and charges	10	715
Charges for other provisions	0	0
Total	96,114	78,775

The movement in the amortisation of intangible assets is mainly due to the higher amortisation charge on the concession rights for the NTNG games which in 2010 are amortised over 12 months instead of the 6 months of the prior year. For the increase in other impairment losses on fixed assets, reference should be made to previous comments.

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Finance income and similar (36)

Finance income and similar, amounting to Euros 1,556 thousand, comprise the following:

<u>Finance income and similar</u>	<u>2010</u>	<u>2009</u>
Other finance income	1,556	6,708
Total	<u>1,556</u>	<u>6,708</u>
 <u>Other finance income</u>	 <u>2010</u>	 <u>2009</u>
Other finance income:		
—Bank interest income	1,339	1,787
—Sundry finance income	217	3,633
—Income on financial instruments	0	1,288
Total	<u>1,556</u>	<u>6,708</u>

In particular, the significant reduction in Other finance income is attributable to the one-off positive effects of the agreement reached in 2009 with the German company Lehman Brothers Bankhaus AG, under an insolvency process, one of the banks in the syndicate of lending banks which has allowed the Group to repay in advance some financing lines extended by that bank, with a discount of 30%.

Finance expenses and similar (37)

Finance expenses and similar amount to Euros 79,580 thousand and comprise the following:

<u>Finance expenses and similar</u>	<u>2010</u>	<u>2009</u>
Interest and other finance expenses		
—from parent companies	37,987	30,156
—other interest and finance expenses	44,678	58,518
Exchange (gains) losses	(3,084)	(564)
Total	<u>79,580</u>	<u>88,110</u>

Details of “Other interest and finance expenses” are as follows:

<u>Other interest and finance expenses</u>	<u>2010</u>	<u>2009</u>
Bank interest	4	2
Loan interest expense and similar	30,165	37,572
Expenses on financial instruments	13,679	19,676
Sundry finance income	829	1,267
Total	<u>44,677</u>	<u>58,518</u>

Adjustments to financial assets (38)

There are no adjustments to financial assets in 2010.

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

The loss of Euros 8 thousand refers to the adjustment of the carrying amount of the investment in the associate Consorzio Promoippica, in liquidation.

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Income taxes (40)

The charge for the year comprises:

<u>Income taxes</u>	<u>2010</u>	<u>2009</u>
IRES	7,380	5,160
IRAP	6,340	5,807
Substitute tax	0	17
Deferred income taxes:		
Deferred tax liability—(benefit)	(6,755)	(4,736)
Deferred tax asset—(benefit) charge	(1,676)	84
Total	<u>5,289</u>	<u>6,332</u>

Deferred tax assets and liabilities include the tax benefit or charge for deferred taxes on the positive and negative components of income of the consolidated companies and any temporary difference between the results of those companies and those determined after consolidation adjustments.

Overall the Group reports a current and deferred tax charge of Euros 5,289 thousand on a pre-tax loss of Euros 7,584 thousand. The difference between the reported tax charge and the theoretical tax charge computed using the tax rate of 31.4% is mainly due to the non-deductibility of personnel and collaborator costs for IRAP purposes and also the non-deductibility (96%) of interest expenses charged during the year by the Parent.

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

There are neither assets held for sale nor discontinued operations in 2010.

Other comprehensive income (42)

There is no other comprehensive income in 2010.

Significant events occurring after the end of the year

In addition to what has already been described previously about the latest developments concerning the principal concession relationships, the following should also be mentioned.

By directorial Decree prot. 2011/190/CGV of February 8, 2011, published in the Gazzetta Ufficiale of the Republic of Italy No. 56 of March 9, 2011, the starting date was established for the obligations pursuant to art. 24, paragraphs 11 to 25 of Law 88 of July 7, 2009 which constitute the general conditions for access to the concession for online betting operations.

Together with this decree, the specific schemes for the application inherent to the Procedures for granting the concession for exercising public games pursuant to art. 24, paragraph 11, letters from A) to F), of Law 88 of July 7, 2009 (tender published in the G.U.U.E. of March 10, 2011 S-48-079188) and the procedure for the integration of the concession agreement for the online public gaming operation pursuant to art. 24 paragraph 22, of Law 88 of July 7, 2009, as set out in article 2, paragraph 2 of the directorial decree 2011-190-cgv of February 8, 2011- starting date of the obligations relating to online betting. The companies Sisal S.p.A., Sisal Match Point S.p.A. and Sisal Bingo S.p.A. have resolved to take part in the above-mentioned procedures.

As regards Decree Law 40 of March 26, 2010, referred to previously under “Other information”, on May 25, 2011, the second section of the Council of State published its opinion No. 01264 on the applicability of art. 2, paragraph 2 of the Decree Law to gaming concessions, in accordance with the request made by the Ministry and Economy and Finance.

The opinion request originated from the consideration that, one hand, the purpose expressed by the law is “to ensure full compliance with the community principle on competition” and, on the other hand, the gaming concessions, firstly, “constitute a type of concession of services and that, as such, do not fall under Community Directive EC/2004/18” and, secondly, contain the “expectation—quite frequent with regard to the call for tenders regarding gaming—of recourse to third parties for matters regarding the management and organization of the activities covered by the concession”.

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The Council of State deemed that the law “undoubtedly” also applies to gaming concessions, as well as all concessions generating tax revenues, in consideration of the literal tone of the law; moreover, it confirmed “the exception to the prohibition” of relationships between concessionaires and third parties in the case in which, as cited in the law, such relationships are expressly contemplated and regulated by the call for tender, also emphasising how the rationale of the law is to allow “effective control over the subjects that exercise takings from gaming activities”.

In view of this opinion, we believe that all the concession-granting entities, comprising, for the gaming sector, the State monopolies, can now complete the verification of the existence, if any, of such relationships by all the concessionaires.

Having taken into consideration the expectations contained in the call for tenders for the NTNG concession, their regulatory and procedural content, the absolute observance of the above-mentioned rationale of the law, ensured by the actual case in point pertaining to the call for tenders and the subsequent relationship between the concessionaire and the concession-granting entity, it appears sustainable as argued, in light of the pro-veritate opinion obtained by Sisal S.p.A., that the prohibition established by the law does not apply to relationships between the Sisal S.p.A. and its outlets.

Lastly, after several months of negotiations and a successful outcome of the due diligence activities, on March 25, 2011, the deeds have been finalized for the purchase, by Sisal Match Point S.p.A., of the rights and the concessions for horse racing and sports bets, which are owned by the company Billenium S.r.l. and its subsidiary Bbet S.r.l., through the purchase of the business segments owned by the first and a 100% interest in the share capital of the second, for a total equivalent amount of slightly less than Euros 5 million. These activities are carried out in 11 points of sale throughout the country and so this acquisition represents, in itself, absolutely one of the most important of the last few years in history of the Group.

Sisal Holding Istituto di Pagamento S.p.A.

ANNEX 1

List of Companies included in Consolidation

Companies consolidated line-by-line

<u>Name</u>	<u>Headquarters</u>	<u>YEAR-END</u>	<u>SHARE CAPITAL</u> Euro	<u>% HOLDING Direct and indirect</u> 2010
SISAL HOLDING FINANZIARIA S.p.A.	Milan	December 31	102,500,000	PARENT
SISAL S.p.A.	Milan	December 31	125,822,467	99.81%
Media Sector				
Sisal Media S.r.l.	Milan	December 31	96,900	99.81%
Services Sector				
Sisal Point S.p.A.	Milan	December 31	600,000	99.81%
Amusement machines Sector				
Sisal Slot S.p.A.	Milan	December 31	2,131,622	99.88%
Betting and Gaming Hall Sector				
Sisal Bingo S.p.A.	Milan	December 31	120,000	99.81%
Sisal Match Point S.p.A.	Rome	December 31	24,020,000	99.81%
Thomas Morden Course Ltd	Byfleet	December 31	30,000(1)	99.81%
	GREAT BRITAIN			

(1) British pound

Companies accounted for using the equity method

<u>Name</u>	<u>Headquarters</u>	<u>YEAR-END</u>	<u>SHARE CAPITAL</u> Euro	<u>EQUITY 2010</u> /000	<u>% HOLDING Direct / indirect</u> 2010
Consorzio Promoippica under liquidation	Rome	December 31	25,825	129	24.57%

GLOSSARY OF SELECTED TERMS

Terms	Definition
Amusement with prize (AWP)	An industry term commonly used to refer to an electronic slot machine game device, which must comply with the technical requirements issued by AAMS.
Euro Jackpot	European number pool game offered in Italy which pools stakes from various European countries and guarantees a minimum jackpot per drawing of €10 million. Players are required to correctly predict five numbers out of 50 numbers and an additional two “Euronumbers” out of a total of eight Euronumbers. To win a prize, players have to correctly predict at least two numbers plus one Euronumber. Eurojackpot stakes are currently collected in Italy, the Netherlands, Denmark, Germany, Finland, Slovenia, Spain and Estonia by the respective local lottery operators.
Sisal Bingo	90-number bingo game offered online as well as offline in our Bingo hall.
Sisal Casino	The brand under which we offer online fixed odds chance games (i.e. roulette and slot machine games).
Sisal PAY	The brand under which we offer convenience payment services such as top-ups, payment services and other financial services.
Sisal Poker	The brand under which we offer online poker games (including tournament and cash poker games).
Sisal Quick Games	The brand name under which we offer online fixed odds chance games with “fun” oriented themes (i.e., games that are not based on casino games).
Sisal Skill Games	The brand name under which we offer online skill games.
Sisal Slot	The brand name under which we offer slot machine game products.
Sisal WinCity	The brand name under which we offer an integrated gaming experience to the public. WinCity gaming halls are multifunctional gaming halls retail in which VLTs, slot machines and betting as well as catering services are available to our customers.
SiVinceTutto Super Enalotto	Lottery game with monthly draws in which the entire jackpot is distributed in one evening. Players have to correctly predict 6 out of 90 numbers. Players who correctly predict at least two numbers will receive a prize. If no player correctly predicts all six numbers, the main prize will go to the player who correctly predicts five numbers, and so on, until there is at least one winner.
SuperEnalotto	Lottery game which requires players to correctly predict six numbers out of 90 which are drawn by automated machines. Players who match at least three numbers win a prize. Additionally, a seventh number, called the “Joker”, is drawn, and creates a new payout category for those players who matched five of the six numbers played and have a Joker among the six numbers they played. Unless one or more player correctly predicts all six numbers, the jackpot will “roll over.”
SuperStar	Optional additional lottery game to SuperEnalotto which provides players with access to new games modes and categories of payouts.
Totocalcio	Pool game which requires the player to correctly predicts 14 football match results in the form of 1 (home team wins) or 2 (visitor team wins) or X (draw); winnings are awarded for 14, 13, 12 and 11 correctly predicted results.
Totogol	Pool number game which requires the player to predict the seven football events with the highest number of goals scored out of a total number of 14 football events.

Tris	Pool game which require the player to correctly predicts the first three horses in a horse race.
WinForLife!	Pool game which requires players to predict a series of numbers from a pool of 20 numbers plus one number which is called the “numerone.” Drawings currently take place hourly between 8 a.m. and 10 p.m. every day. The winner receives a monthly cash stream for 20 years. Since 2010, we have offered three additional WinForLife! annuity lottery games, WinForLife! Viva l’Italia, WinForLife! Grattacieli and WinForLife! Cassaforte, which provide winners with cash streams in varying amounts for a period of up to 30 years.
VLT	An industry term commonly used to refer to an electronic Video Lottery game device, which must comply with the technical requirements issued by AAMS.

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The delivery of the Notes was made against payment of the Notes on May 15, 2013, which was five business days following the date of pricing of the Notes (this settlement cycle is referred to as "T+5").

OFFERING MEMORANDUM

Sisal Holding Istituto di Pagamento S.p.A.

€275,000,000 7.250% Senior Secured Notes due 2017



Bookrunner

Deutsche Bank

Bookrunners

Banca IMI	Crédit Agricole CIB	Mizuho Securities	The Royal Bank of Scotland	UniCredit Bank

June 7, 2013



€275,000,000 7.250% Senior Secured Notes due 2017