



FIRST QUARTER 2011 REPORT

**FOR THE PERIOD ENDING
MARCH 31, 2011**

TABLE OF CONTENTS

	<u>Page</u>
Management Discussion and Analysis	
Lottomatica Group S.p.A. Profile	3
Lottomatica Group	5
Management Report	7
Significant Developments	25
Risks and Uncertainties	27
Predictable Developments	30
Lottomatica Stock Information	31
Environmental Commitments	33
Interim Consolidated Financial Statements and Footnotes – March 31, 2011	
• Statements of Financial Position	38
• Income Statements	39
• Statements of Comprehensive Income	40
• Statements of Cash Flows	41
• Statements of Changes in Equity	42
• Notes to Financial Statements	44
Additional Required Disclosure	
Declaration of Manager Responsible for the Preparation of Lottomatica Group S.p.A. Financial Reports Pursuant to Article 154-bis, par. 2 of the Legislative Decree No. 58/1998, as Subsequently Amended and Integrated.....	90

LOTTOMATICA GROUP S.p.A. Profile

Company subject to the direction and coordination of De Agostini S.p.A.

Company Name	Lottomatica Group - Società per Azioni
Fiscal Code, VAT no. and no. of enrollment with the Register of enterprises of Rome	08028081001
Share Capital	As of March 31, 2011: €182,682,847 authorized ordinary shares, €1.00 par value per share; 172,015,373 shares paid and subscribed
Registered Office	Roma - Viale del Campo Boario 56/d
Board of Directors (1)	
<i>Chairman</i>	Lorenzo PELLICIONI
<i>Vice Chairman</i>	Robert DEWEY Jr. *
<i>Managing Director and C.E.O.</i>	Marco SALA
Board Members	Pietro BOROLI Paolo CERETTI Marco DRAGO Jeremy HANLEY, KCMG* James MCCANN * Jaymin PATEL Anthony RUYS * Severino SALVEMINI * Gianmario TONDATO DA RUOS ** William Bruce TURNER
General Manager (2)	Renato ASCOLI
Board of Statutory Auditors : (1)	
<i>Chairman</i>	Sergio DUCA
<i>Regular Members</i>	Angelo GAVIANI Francesco MARTINELLI
<i>Substitute Members</i>	Gian Piero BALDUCCI Giulio GASLOLI Umile Sebastiano IACOVINO Guido MARTINELLI Marco SGUAZZINI VISCONTINI

* Denotes Independent Directors

** Denotes Lead Independent Director

Independent Auditors

Reconta Ernst & Young S.p.A.

Members of the Executive Committee (3)

Lorenzo PELLICIONI (Chairman)
Pietro BOROLI
Paolo CERETTI
Marco DRAGO
Jaymin PATEL
Marco SALA

Members of the Audit and Compliance Committee (3)

Severino SALVEMINI (Chairman)
Jeremy HANLEY, KCMG
Anthony RUYS

Members of the Remuneration Committee (3)

Gianmario TONDATO DA RUOS (Chairman)
Robert DEWEY Jr.
James MCCANN

Note:

- (1) As appointed/established by the shareholders at a meeting held on April 15, 2008 for the financial years 2008, 2009 and 2010. The appointment of the Board of Directors and the Board of Statutory Auditors for the financial years 2011, 2012 and 2013 occurred at the Annual Shareholders' Meeting convened on April 28, 2011.
- (2) As appointed/established by the Board of Directors at a meeting held on April 28, 2009 for the financial years 2008, 2009 and 2010.
- (3) As appointed/established by the Board of Directors at a meeting held on April 15, 2008 for the financial years 2008, 2009 and 2010. The appointment or confirmation of the new members for the financial years 2011, 2012 and 2013 occurred at the meeting of the Board of Directors held on April 29, 2011.

LOTTOMATICA GROUP

Lottomatica Group S.p.A. is one of the leading gaming operators in the world based on total wagers and, through its subsidiaries, including GTECH Corporation, is a leading provider of lottery and gaming technology solutions worldwide. It is the goal of Lottomatica Group to be the leading commercial operator and provider of technology in the regulated worldwide gaming markets, by delivering market leading products and services, with a steadfast commitment to the highest levels of integrity, responsibility and growth. Lottomatica is listed on the Stock Exchange of Milan under the trading symbol "LTO" and has a Sponsored Level 1 American Depository Receipt (ADR) program listed on the United States over the counter market under the trading symbol "LTTOY".

In this report, the term "Lottomatica" refers to Lottomatica Group S.p.A., the parent entity, and its subsidiaries excluding GTECH; the term "GTECH" refers to GTECH Corporation and its subsidiaries; and the terms "Group", "we", "our" and "us" refer to Lottomatica and all subsidiaries included in this report.

The Group operates in the publicly regulated gaming market consisting of online, instant and traditional lotteries, sports pools, fixed-odds and pari-mutuel betting, machine gaming and interactive gaming.

Lottomatica, the Italian operating entity of the Group, has built an extensive distribution network in Italy, with approximately 273,000 terminals in about 117,000 points of sale (including approximately 29,000 points of sale where Lottomatica provides processing services for third parties), comprised of tobacconists, bars, petrol stations, newspaper stands and motorway restaurants. Since 1993, Lottomatica has been the sole concessionaire for the Italian Lotto game. Since 2004, Lottomatica has operated instant and traditional lottery games, which in recent years has been a high growth area. In 2006, Lottomatica received authorization to distribute online instant lottery games. In 2007, Lottomatica began operating fixed odds sports betting and sports pools through a retail network. Prior to this license, Lottomatica had operated only sports pools with a concession that began in 2003 and expired in December 2007. Lottomatica, in order to develop the Italian sports betting/interactive market, has continued to acquire further points of sale. As of March 31, 2011, 1,813 points of sale have been acquired, of which 1,656 points of sale are operational.

GTECH is the world's leading operator of highly-secure online lottery transaction processing systems, doing business in approximately 60 countries worldwide. GTECH designs, sells and operates a complete suite of lottery-enabled point-of-sale terminals that are electronically linked with a centralized transaction processing system that reconciles lottery funds between the retailer, where a transaction is enabled, and the lottery authority. GTECH currently operates, provides online equipment and services to, or has been awarded and/or has entered into, contracts to operate or provide equipment and services in the future to, 24 of the 44 lottery authorities in the United States, and 52 non-U.S. lottery authorities.

The Group operates in the gaming machine market through Lottomatica's Italian subsidiary Lottomatica Videolot Rete S.p.A., its Canadian subsidiary Spielo International Canada ULC ("Spielo"), formerly named Spielo Manufacturing ULC, a leading provider of video lottery terminals ("VLTs") and related products and services to the global gaming industry, and its Atronic group of companies ("Atronic"). Lottomatica Videolot Rete operates amusement with prize machines ("AWPs") and VLTs on its networks. Spielo holds 106 gaming licenses in jurisdictions throughout North America and Europe. Atronic, a leading video gaming machine provider in Europe, Asia and Latin America, is licensed in approximately 206 worldwide gaming jurisdictions, including in the United States where it also operates.

The Group provides technology, games and a full suite of e-commerce services to government sponsored lottery markets and regulated commercial sports betting and Internet gaming markets through GTECH G2, a division of GTECH comprised of its Finsoft, Boss Media and St. Minver groups of subsidiaries.

Additionally, the Group has leveraged its distribution and transaction processing competence to expand its activities to include commercial services through its networks worldwide.

For management purposes, the Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit. The Group's reportable segments are as follows:

- The Italian Operations segment operates and provides a full range of gaming services, including online, instant and traditional lotteries, scratch and win, sports betting, machine gaming, interactive skill games and non-lottery commercial transactions;
- The GTECH Lottery segment operates and provides a full range of services, technology and products to government sponsored online, instant and traditional lotteries;
- The Gaming Solutions segment operates and provides solutions, products and services relating to VLTs and associated systems for the government sponsored market and video and traditional mechanical reel slot machines and systems for the commercial gaming markets; and
- The GTECH G2 segment provides digitally-distributed, multi-channel gaming entertainment products and services, including sports betting, lottery, bingo, poker, casino games and quick games, as well as retail solutions for real-time transaction processing and information systems for the sports-betting market.

The Group has operations in approximately 60 countries worldwide on six continents and had 7,746 employees as of March 31, 2011. For additional information on the Group, please go to its website at: www.gruppolottomatica.it/eng/aboutus/index.htm.

MANAGEMENT REPORT

The following management report is provided as a supplement to, and should be read in conjunction with, the Group's financial statements and accompanying notes.

In the first quarter of 2011, the Group enjoyed solid growth in revenue, EBITDA and operating income, which increased approximately 30% over the same quarter of 2010.

This growth was highlighted by the strength of the performance in the Italian Operations segment, principally from significant contributions by Machine Gaming in Italy which benefited from the deployment of VLTs and the increased placement of AWP machines. Growth was further fueled by the performance of the Italian Lotto options game "10 and Lotto", higher instant ticket sales and the increased percentage fee for the Scratch & Win concession.

After experiencing flat to slightly positive growth in 2010, the Italian gaming market has come back strongly. As we expected, Machine Gaming in Italy is becoming a major contributor to our results, accounting for almost 30% of our overall revenues in Italy. To date we have installed over 5,800 VLTs to fulfill the approximately 10,800 licenses we hold. We also have over 54,000 AWP machines as part of our monitoring network, of which we directly own and operate 40% of the units in the field.

Lotto wagers in the first quarter of 2011 increased approximately 45% over the prior year. The increase in wagers resulted from the success of 10 and Lotto and more favorable late numbers patterns, contributing to the 45.3% increase in Lotto revenue over the prior year.

Scratch & Win wagers in the first quarter of 2011 also saw a healthy 10% increase over the same period of the prior year which was driven by the introduction and effective promotion of higher price point games.

The GTECH Lottery segment experienced encouraging growth in same store revenue which helped offset the price compression impacts from contract rebids. US same store revenues were up 6% in the first quarter of 2011 over the same period of the prior year which was supported by the cross-selling of Powerball and Mega Millions games, extraordinary jackpot activity and the California prize payout increase. International same store revenues were up 2% which benefited from higher Euro Millions jackpot activity. International sales performance was negatively impacted by poor sales in the Czech Republic, where our customer Sazka is experiencing financial difficulties.

The Gaming Solutions segment posted €48.7 million of revenues in the first quarter of 2011, a 46% increase over the same period of 2010, primarily driven by intersegment sales of VLTs to the Italian Operations segment, supporting the ongoing rollout phase of the VLT program.

The GTECH G2 segment also contributed €19.2 million of revenues to the Group, a 4.4% growth when compared to the first quarter of 2010, primarily driven by foreign exchange fluctuations.

We generated healthy cash flow from operations of €205.4 million in the first quarter of 2011, providing the capacity to fund capital expenditures as well as interest payments. Our net financial position at the end of the first quarter of 2011 was approximately €2.93 billion, down from €2.98 billion at the end of 2010. At March 31, 2011, we had €710.5 million of cash and committed undrawn capacity under revolver facilities.

Presented below are the Group's key performance indicators (in thousands of euros, except per share amounts).

	For the three months ended			
	March 31,		Increase (decrease)	
	2011	2010	€	%
Revenue	702,074	544,648	157,426	28.9
EBITDA	255,879	197,337	58,542	29.7
Operating income	152,667	118,090	34,577	29.3
EBIT	115,455	117,963	(2,508)	(2.1)
Net income	35,977	41,338	(5,361)	(13.0)
Diluted earnings per share	0.13	0.18	(0.05)	(27.8)

Consolidated revenue for the first three months of 2011 increased 28.9% over the same period in 2010. Service revenue grew 29.9% to €675.5 million and product sales grew 7.5% to €26.6 million. Revenue grew on the strength of the performance in the Italian Operations segment, highlighted by increased revenue in Machine Gaming and Lottery. Higher revenue from Machine Gaming resulted from the increased placement of AWP machines and the deployment of VLTs while Lottery benefited from Lotto's performance, higher instant ticket sales and the increased percentage fee for the Scratch & Win concession.

EBITDA increased €58.5 million driven by the performance of Lotto and higher revenues and profits from Machine Gaming in Italy.

EBITDA AND EBIT

EBITDA and EBIT are considered alternative performance measures that are not defined measures under International Financial Reporting Standards (“IFRS”) and may not take into account the recognition, measurement and presentation requirements associated with IFRS. We believe that EBITDA and EBIT assist in explaining trends in our operating performance, provide useful information about our ability to incur and service indebtedness and are commonly used measures of performance by securities analysts and investors in the gaming industry. EBITDA and EBIT should not be considered as alternatives to operating income as indicators of our performance or to cash flows as measures of our liquidity. As we define them, EBITDA and EBIT may not be comparable to other similarly titled measures used by other companies.

EBITDA and EBIT are computed as follows:

<i>(thousands of euros)</i>	For the three months ended			
	March 31,		Increase (decrease)	
	2011	2010	€	%
Operating income	152,667	118,090	34,577	29.3
Depreciation	57,423	57,180	243	0.4
Amortization	44,304	21,729	22,575	103.9
Other	1,485	338	1,147	>200.0
EBITDA	255,879	197,337	58,542	29.7
Operating income	152,667	118,090	34,577	29.3
Equity loss	(53)	(101)	48	47.5
Other income	167	304	(137)	(45.1)
Other expense	(2,833)	(1,243)	(1,590)	(127.9)
Foreign exchange gain (loss), net	(34,493)	913	(35,406)	>200.0
EBIT	115,455	117,963	(2,508)	(2.1)

COMPARISON OF THE THREE MONTH PERIODS ENDED MARCH 31, 2011 AND 2010

Consolidated revenue for the three months ended March 31, 2011 increased 28.9% over the same period last year as detailed by operating segment below.

<i>(thousands of euros)</i>	For the three months ended			
	March 31,		Increase (decrease)	
	2011	2010	€	%
Italian Operations	459,887	301,172	158,715	52.7
GTECH Lottery	189,559	192,965	(3,406)	(1.8)
Gaming Solutions	48,654	33,230	15,424	46.4
GTECH G2	19,192	18,375	817	4.4
	<u>717,292</u>	<u>545,742</u>	<u>171,550</u>	<u>31.4</u>
Elimination of intersegment revenue	(15,284)	(1,166)	(14,118)	>200.0
Other	66	72	(6)	(8.3)
Total revenue	<u>702,074</u>	<u>544,648</u>	<u>157,426</u>	<u>28.9</u>

Italian Operations segment

Consolidated revenue includes the following amounts for the Italian Operations segment:

<i>(thousands of euros)</i>	For the three months ended			
	March 31,		Increase (decrease)	
	2011	2010	€	%
Lotto	113,829	78,339	35,490	45.3
Instant tickets	106,806	88,448	18,358	20.8
Other	551	556	(5)	(0.9)
Lottery	<u>221,186</u>	<u>167,343</u>	<u>53,843</u>	<u>32.2</u>
Sports Betting	58,743	49,198	9,545	19.4
Machine Gaming	136,252	49,398	86,854	175.8
Interactive	14,638	11,424	3,214	28.1
Commercial Services	29,068	23,809	5,259	22.1
Total revenue	<u>459,887</u>	<u>301,172</u>	<u>158,715</u>	<u>52.7</u>

The Italian Operations segment comprises all Italian licenses related activities including our exclusive concessionaires (lotteries) and multi-provider concessionaires such as sports betting and pools, horse-race betting and pools, gaming machines, online poker and other skill games, and transaction processing of non-lottery commercial transactions.

A portion of revenue from the Italian Operations segment is derived from the Lotto concession under which Lottomatica manages all of the activities along the lottery value chain including collecting wagers, paying out prizes, managing all accounting and other back-office functions, running advertising and promotions, operating data transmission networks and processing centers, training staff, providing retailers with assistance and supplying materials for the game. Revenues are typically based on a percentage of wagers. For the Lotto game, this percentage of wagers decreases as the total wagers increase during an annual period.

A detailed analysis of the performance during the three months ended March 31, 2011 for each product line and service reported within the Italian Operations segment as compared to the same period last year is described below.

Lotto

Lotto revenue increased 45.3% in the three months ended March 31, 2011 compared to the same period in 2010 due to a corresponding increase in Lotto and late number wagers as detailed below. The increase in core wagers was due to higher wagers from the Lotto options game "10 and Lotto".

<i>(millions of euros)</i>	For the three months ended			
	March 31,		Increase	
	2011	2010	Wagers	%
Core wagers	1,437.6	1,156.7	280.9	24.3
Wagers for late numbers	312.6	47.2	265.4	>200.0
	<u>1,750.2</u>	<u>1,203.9</u>	<u>546.3</u>	<u>45.4</u>

Instant tickets

Instant ticket revenue in the three months ended March 31, 2011 increased 20.8% compared to the same period in 2010 principally due to an increase in the Scratch & Win concession fee and higher instant ticket sales as detailed below.

	For the three months ended			
	March 31,		Increase (decrease)	
	2011	2010	Amount	%
Total tickets sold (in millions)	606.2	636.1	(29.9)	(4.7)
Total sales (in millions)	€ 2,732.4	€ 2,489.7	€ 242.7	9.7
Average price point	€ 4.51	€ 3.91	€ 0.60	15.4

Sports Betting

Sports betting revenue in the three months ended March 31, 2011 increased 19.4% over the same period in 2010 due to a lower payout percentage, partially offset by a decrease in wagers as detailed below. As of March 31, 2011, our market share (in terms of total wagers) with respect to fixed odds sports betting operations was 21.8% (20.8% during the same period of 2010) with 1,202 fixed odds sports betting and 454 sports pool points of sale locations operational.

<i>(millions of euros)</i>	For the three months ended			
	March 31,		Decrease	
	2011	2010	Wagers	%
Fixed odds sports and horse betting wagers	275.6	282.7	(7.1)	(2.5)
Sports pool wagers	20.9	25.9	(5.0)	(19.3)
	<u>296.5</u>	<u>308.6</u>	<u>(12.1)</u>	<u>(3.9)</u>

Machine Gaming

Machine Gaming revenue in the three months ended March 31, 2011 increased 175.8% over the same period in 2010 driven by a 109.2% increase in wagers, the increased placement of AWP machines and the deployment of VLTs (beginning in July 2010), as detailed below.

	For the three months ended			
	March 31,		Increase	
	2011	2010	Amount	%
Wagers (in millions)	€ 2,331.7	€ 1,114.5	€ 1,217.2	109.2
AWP machines installed (end of March)	54,146	51,094	3,052	6.0
VLTs installed (end of March)	5,800	-	5,800	-

Interactive

Interactive revenue in the three months ended March 31, 2011 increased 28.1% over the same period in 2010 principally driven by an increase in skill game wagers (such as poker, backgammon and blackjack) as detailed below.

<i>(millions of euros)</i>	For the three months ended			
	March 31,		Increase	
	2011	2010	Wagers	%
Skill game wagers	117.4	102.7	14.7	14.3

Commercial Services

Commercial Services revenue in the three months ended March 31, 2011 increased 22.1% over the same period in 2010 principally due to an increase in car tax revenues, electronic top-up services for prepaid mobile, and ticketing services for sporting and musical events.

GTECH Lottery segment

Consolidated revenue includes the following amounts for the GTECH Lottery segment:

<i>(thousands of euros)</i>	For the three months ended			
	March 31,		Increase (decrease)	
	2011	2010	€	%
Service revenue				
United States	110,769	108,995	1,774	1.6
International	71,217	78,558	(7,341)	(9.3)
	<u>181,986</u>	<u>187,553</u>	<u>(5,567)</u>	<u>(3.0)</u>
Product sales				
United States	1,857	3,253	(1,396)	(42.9)
International	5,716	2,159	3,557	164.8
	<u>7,573</u>	<u>5,412</u>	<u>2,161</u>	<u>39.9</u>
Total revenue				
United States	112,626	112,248	378	0.3
International	76,933	80,717	(3,784)	(4.7)
	<u>189,559</u>	<u>192,965</u>	<u>(3,406)</u>	<u>(1.8)</u>

GTECH Lottery revenue is principally comprised of service revenue from long-term lottery service contracts. These contracts generally provide compensation to GTECH based upon a percentage of a lottery's gross online and instant ticket sales. These percentages vary depending on the size of the lottery and the scope of services provided to the lottery. GTECH Lottery product sale revenue is derived primarily from the installation of new online lottery systems, installation of new software and sales of lottery terminals and equipment in connection with the expansion of existing lottery systems. GTECH's product sale revenue from period to period may not be comparable due to the size and timing of product sale transactions.

GTECH has developed and continues to develop new lottery games, licenses new game brands and installs a range of new lottery distribution devices, all of which are designed to maintain a strong level of same store sales growth for its customers.

Service Revenue

United States lottery service revenue in the three months ended March 31, 2011 increased 1.6% over the same period in 2010 primarily due to a 6% increase in same store revenue, which was partially offset by contract losses, contract rate changes and the weakening US dollar against the euro. Same store revenue growth was driven by cross-selling, the California prize payout increase and extraordinary jackpot activity.

International lottery service revenue in the three months ended March 31, 2011 decreased 9.3% from the same period in 2010 primarily due to net contract losses and effective rate changes. These decreases were partially offset by a 2% increase in same store revenue which benefited from higher Euro Millions jackpot activity. International sales performance was also negatively impacted by poor sales in the Czech Republic, where GTECH's lottery customer is experiencing financial difficulties that the Group is closely monitoring as further described in the Commitments and Contingencies section of this report.

Product Sales

Product sale revenue from year to year fluctuates due to the mix, volume and timing of product sale transactions. Lottery product sale revenue in the three months ended March 31, 2011 increased €2.2 million over the same period in 2010. No individually material product sales were recorded in either the first three months of 2011 or 2010.

Gaming Solutions segment

Consolidated revenue includes the following amounts for the Gaming Solutions segment:

<i>(thousands of euros)</i>	For the three months ended			
	March 31,		Increase	
	2011	2010	€	%
Service Revenue	18,781	14,910	3,871	26.0
Product Sales	29,873	18,320	11,553	63.1
Total revenue	48,654	33,230	15,424	46.4

Gaming Solutions product sale revenue in the three months ended March 31, 2011 increased €11.6 million over the same period in 2010 principally due to intersegment sales of VLTs to the Italian Operations segment.

GTECH G2 segment

Consolidated revenue includes the following amounts for the GTECH G2 segment:

<i>(thousands of euros)</i>	For the three months ended			
	March 31,		Increase (decrease)	
	2011	2010	€	%
Service Revenue	18,155	17,186	969	5.6
Product Sales	1,037	1,189	(152)	(12.8)
Total revenue	19,192	18,375	817	4.4

Consolidated operating costs

<i>(thousands of euros)</i>	For the three months ended			
	March 31,		Increase (decrease)	
	2011	2010	€	%
Raw materials, services and other costs	350,526	257,880	92,646	35.9
Personnel	117,561	107,686	9,875	9.2
Depreciation	57,423	57,180	243	0.4
Amortization	44,304	21,729	22,575	103.9
Capitalization of internal construction costs - labor and overhead	(20,407)	(17,917)	(2,490)	(13.9)
Total operating costs	549,407	426,558	122,849	28.8
Percentage of total revenue	78.3%	78.3%		

Consolidated operating costs in the three months ended March 31, 2011 increased €122.8 million over the same period in 2010 principally due to higher costs related to the 28.9% increase in revenue and higher amortization resulting from the €800 million upfront payment for the Italian Scratch & Win license renewal which started amortizing over nine years beginning in October 2010.

The Group devotes substantial resources to enhance our present products and systems and develop new products. The aggregate amount of research and development expenditures recognized as expense in the three months ended March 31, 2011 and 2010 was €14.7 million and €13.5 million, respectively.

The Group's worldwide employees are comprised of the following personnel:

Personnel Description	Number of employees		
	As of		2011 Average
	March 31, 2011	December 31, 2010	
Executives	418	413	417
Middle Management	1,042	1,015	1,036
All Other Permanent Employees	5,917	5,836	5,869
Employees with Temporary Employment Contracts	369	338	355
	7,746	7,602	7,677

Foreign exchange gain (loss), net

Foreign exchange gains and losses are classified as realized (cash) or unrealized (non-cash) as follows:

<i>(thousands of euros)</i>	For the three months ended			
	March 31,		Increase (decrease)	
	2011	2010	€	%
Cash foreign exchange gain	461	72	(389)	>200.0
Non-cash foreign exchange gain (loss)	(34,954)	841	35,795	>200.0
	(34,493)	913	35,406	>200.0

Non-cash foreign exchange gain (loss)

Non-cash foreign exchange gain (loss) was comprised of the following:

<i>(thousands of euros)</i>	For the three months ended			
	March 31,		Increase	
	2011	2010	€	%
GTECH euro denominated debt	(23,339)	-	23,339	-
Intragroup loan	(9,093)	-	9,093	-
Other	(2,522)	841	3,363	>200.0
	(34,954)	841	35,795	>200.0

GTECH euro denominated debt

GTECH borrows in euro to better match the Group's liabilities with euro denominated cash flows. As of March 31, 2011, €385.0 million of borrowings were outstanding under GTECH's €500 million revolver facility which resulted in a non-cash foreign exchange loss during the first three months of 2011 due to fluctuations in the US dollar to euro exchange rate.

Intragroup loan

In December 2010, Lottomatica loaned €150 million to GTECH in connection with the refinancing of €2.65 billion of Group debt. This euro denominated loan, which is due in full in December 2011, resulted in a non-cash foreign exchange loss during the first three months of 2011 due to fluctuations in the US dollar to euro exchange rate.

Interest expense

<i>(thousands of euros)</i>	For the three months ended			
	March 31,		Increase (decrease)	
	2011	2010	€	%
Capital Securities	(15,921)	(15,921)	-	-
2009 Notes (due 2016)	(9,686)	(9,627)	59	0.6
2010 Notes (due 2018)	(6,906)	-	6,906	-
Facilities	(6,419)	-	6,419	-
Interest Accretion on Swap Liability	(606)	(886)	(280)	(31.6)
GTECH Senior Credit Facilities	-	(13,192)	(13,192)	(100.0)
Other	(2,199)	(1,632)	567	34.7
	<u>(41,737)</u>	<u>(41,258)</u>	<u>479</u>	<u>1.2</u>

The increase in interest expense was principally due to higher average debt balances which were partially offset by lower interest rates.

Weighted Average Diluted Shares

Weighted average diluted shares during the first three months of 2011 totaled 168.1 million shares, comparable to the same period of the prior year.

Income Taxes

The Group's effective income tax rate during the first three months of 2011 was 51.5% compared to 46.6% during the same period of the prior year primarily due to the write-down of deferred tax assets associated with the forecasted expiration of certain state tax loss carryforwards. This effective tax rate increase had no impact on cash taxes paid during the first three months of 2011.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION

The Group's objective is to maintain adequate liquidity and flexibility through the use of cash generated from operating activities and bank facilities. We believe our ability to generate excess cash from operations to reinvest in our business is one of our fundamental financial strengths and combined with our committed borrowing capacity, we expect to meet our financial obligations and operating needs in the foreseeable future. We expect to use cash generated primarily from operating activities to meet contractual obligations. Our growth is expected to be financed through a combination of cash generated from operating activities, existing sources of committed liquidity, access to capital markets, and other sources of capital. Our corporate debt ratings of Baa3 from Moody's Investors Service and BBB- from Standard and Poor's Rating Service contribute to our ability to access capital markets at attractive prices. Maintaining our investment-grade credit rating remains a top priority of the Group's plan.

Summary Statements of Cash Flows

<i>(thousands of euros)</i>	For the three months ended	
	March 31,	
	2011	2010
Net cash flows from operating activities	205,473	143,277
Purchases of systems, equipment and other assets related to contracts	(100,098)	(45,806)
Realized loss on net investment hedge	(8,342)	-
Purchases of property, plant and equipment	(2,357)	(1,861)
Investment in government securities	-	(14,347)
Other investments	-	(9,746)
Other investing activities, net	(3,703)	(5,980)
Net cash flows used in investing activities	(114,500)	(77,740)
Interest paid	(69,234)	(75,197)
Cash paid on derivative instruments	(8,355)	-
Principal payments on long-term debt	(551)	(14,997)
Capital increase - Northstar Lottery Group LLC	7,038	-
Net proceeds from (repayment of) short-term borrowings	27,038	(600)
Other financing activities, net	(2,890)	(1,822)
Net cash flows used in financing activities	(46,954)	(92,616)
Net cash flows	44,019	(27,079)

Analysis of Cash Flows

During the first three months of 2011, we generated €205.5 million of net cash flows from operating activities, an increase of €62.2 million over the same period of 2010, primarily due to higher EBITDA generated by the Italian Operations segment.

Investing activities

The €100.1 million of capital additions for systems, equipment and other assets were principally related to spending in Italy for Gaming Solutions and Lotto, as well as lottery system implementations in Texas, Illinois and Poland.

Financing activities

Interest paid of €69.2 million principally relates to the Capital Securities and Facilities. Capital contributions of €7.0 million were received from the 20% non-controlling shareholder in Northstar Lottery Group LLC, a consortium in which GTECH holds an 80% controlling interest, that signed a 10-year private management agreement with the Illinois Lottery to manage the day-to-day operations of the lottery and its core functions. At March 31, 2011, we had €198.1 million of cash and cash equivalents on hand.

Our business is capital-intensive. We expect our principal sources of liquidity to be existing cash balances, cash generated from operations and borrowings under the €900 million of committed revolver facilities. At March 31, 2011, there was €512.4 million of committed undrawn capacity under the revolver facilities. These facilities have covenants and restrictions including, among other things, requirements relating to the maintenance of certain financial ratios, limitations on acquisitions and dividends, none of which are expected to impact the Group's liquidity or capital resources. At March 31, 2011, we were in compliance with all applicable covenants.

We currently expect that our excess cash flow from operations, existing cash, undrawn capacity under existing borrowing facilities and access to additional sources of capital will be sufficient, for the foreseeable future, to fund our anticipated working capital and capital expenditure needs, to service our debt obligations and to fund organic growth. Our strategy is to maintain committed undrawn capacity under existing borrowing facilities to allow us the flexibility to fund unforeseen investment opportunities. We do not anticipate any major acquisitions within the next three years.

In February 2011, Lottomatica Group's Board of Directors recommended a new dividend policy that will allocate no more than 50% of annual levered free cash flow for the payment of dividends. In order to transition to the new policy, in 2011 the Board recommended an in-kind distribution of treasury shares in the ratio of one share of Lottomatica stock for every 50 shares owned as of May 22, 2011, corresponding to an expected overall number of 3,372,851 treasury shares.

Summary Statements of Financial Position

<i>(thousands of euros)</i>	March 31,	December 31,	Increase (decrease)	
	2011	2010	€	%
Systems, equipment and other assets related to contracts, net	888,630	887,132	1,498	0.2
Goodwill	3,019,423	3,157,279	(137,856)	(4.4)
Intangible assets, net	1,563,110	1,639,198	(76,088)	(4.6)
Other non-current assets	136,439	141,981	(5,542)	(3.9)
Total non-current assets	5,607,602	5,825,590	(217,988)	(3.7)
Inventories	167,346	165,314	2,032	1.2
Trade and other receivables	680,212	712,239	(32,027)	(4.5)
Other current assets	78,720	80,369	(1,649)	(2.1)
Cash and cash equivalents	198,115	152,405	45,710	30.0
Non-current assets classified as held for sale	27,000	27,000	-	-
Total assets	6,758,995	6,962,917	(203,922)	(2.9)
Equity	2,215,809	2,358,885	(143,076)	(6.1)
Long-term debt, less current portion	2,795,447	2,825,412	(29,965)	(1.1)
Deferred income taxes	114,156	133,578	(19,422)	(14.5)
Non-current financial liabilities	107,709	113,619	(5,910)	(5.2)
Other non-current liabilities	74,847	77,086	(2,239)	(2.9)
Total non-current liabilities	3,092,159	3,149,695	(57,536)	(1.8)
Accounts payable	887,911	978,509	(90,598)	(9.3)
Short-term borrowings	33,746	7,458	26,288	>200.0
Current financial liabilities	105,554	69,200	36,354	52.5
Current portion of long-term debt	85,733	118,822	(33,089)	(27.8)
Income taxes payable	63,958	19,410	44,548	>200.0
Other current liabilities	274,125	260,938	13,187	5.1
Total equity and liabilities	6,758,995	6,962,917	(203,922)	(2.9)

The €1.5 million increase in systems, equipment and other assets related to contracts, net was principally due to €94.4 million of capital additions which was partially offset by €54.3 million of depreciation and €37.9 million of foreign currency translation.

The €137.9 million decrease in goodwill was due to foreign currency translation.

The €76.1 million decrease in intangible assets, net was principally due to €44.3 million of amortization and €32.9 million of foreign currency translation.

The €32.0 million decrease in trade and other receivables was principally due to the timing of collections, partially offset by increased sales, in the Italian Operations segment.

The €143.1 million decrease in equity was primarily due to €147.1 million of foreign currency translation and €33.0 million of dividends payable to non-controlling shareholders. These decreases were partially offset by €36.0 million of net income.

The €30.0 million decrease in long-term debt, less current portion was principally due to foreign currency translation.

The €19.4 million decrease in deferred income taxes was principally due to the amortization of acquired intangibles along with the recognition of deferred tax assets relating to foreign operating losses.

The €90.6 million decrease in accounts payable was principally due to the timing of payments to suppliers in the Italian Operations and GTECH Lottery segments.

The €26.3 million increase in short-term borrowings was principally due to net borrowings under uncommitted lines of credit.

The €36.4 million increase in current financial liabilities was principally due to €33.0 million of dividends payable to non-controlling shareholders.

The €33.1 million decrease in current portion of long-term debt was primarily due to interest paid during the first three months of 2011.

The €44.5 million increase in income taxes payable was principally due to the timing of estimated tax payments.

Consolidated Net Financial Position

The Group's consolidated net financial position at March 31, 2011 changed by €49.9 million when compared to December 31, 2010. This change was principally due to higher EBITDA generated by the Italian Operations segment which was partially offset by GTECH Lottery segment spending on lottery system implementations in Texas, Illinois and Poland. Consolidated net financial position is calculated as follows:

<i>(thousands of euros)</i>	March 31, 2011	December 31, 2010	Change
Cash on hand	539	430	109
Cash at bank	197,576	151,975	45,601
Cash and cash equivalents	198,115	152,405	45,710
Current financial receivables	4,545	6,673	(2,128)
Facilities	49,209	51,950	(2,741)
Short-term borrowings	33,746	7,458	26,288
Dividends payable to non-controlling shareholders	32,970	-	32,970
Swap Liability	31,458	32,410	(952)
Capital Securities	-	46,618	(46,618)
Other	77,650	57,044	20,606
Current financial debt	225,033	195,480	29,553
Net current financial debt	22,373	36,402	(14,029)
Facilities	821,802	848,888	(27,086)
2009 Notes (due 2016)	742,333	746,016	(3,683)
Capital Securities	736,500	735,836	664
2010 Notes (due 2018)	493,983	493,797	186
Interest rate swaps	39,714	47,414	(7,700)
Swap Liability	30,249	29,953	296
Other	38,575	37,127	1,448
Non current financial debt	2,903,156	2,939,031	(35,875)
Net financial position	2,925,529	2,975,433	(49,904)

Reconciliation of Group Equity

The reconciliation of Lottomatica Group S.p.A. stand alone equity with the equity of the consolidated Group is as follows:

<i>(thousands of euros)</i>	Attributable to owners of the parent			Non-Controlling interests	Consolidated
	Lottomatica Group S.p.A.	All other subsidiaries			
Balance at January 1, 2011	2,145,847	(231,454)	444,492	2,358,885	
Net income for the period	16,105	5,804	14,068	35,977	
Fair value of interest rate swaps	(75)	-	-	(75)	
Amortization of gain on interest rate swap on discontinued cash flow hedge	(143)	-	-	(143)	
Unrecognized net loss on derivative instruments	-	(5,908)	-	(5,908)	
Unrecognized net loss on available for sale investment	-	(15)	-	(15)	
Foreign currency translation	-	(147,118)	-	(147,118)	
Other comprehensive loss	(218)	(153,041)	-	(153,259)	
Share-based payment	138	-	-	138	
Dividends declared	-	-	(32,970)	(32,970)	
Capital increase - Northstar Lottery Group LLC	-	-	7,038	7,038	
Balance at March 31, 2011	<u>2,161,872</u>	<u>(378,691)</u>	<u>432,628</u>	<u>2,215,809</u>	

Transactions with Related Parties

During the first three months of 2011 there were no significant transactions, including intragroup, with related parties which qualified as unusual or atypical. Any related party transactions formed part of the normal business activities of the companies in the Group. Such transactions were concluded at standard market terms for the nature of goods and/or services offered.

Information on transactions with related parties, including specific disclosures required by CONSOB, is provided in Footnote 28 of the Interim Consolidated Financial Statements included herein.

COMMITMENTS AND CONTINGENCIES

Northstar Lottery Group LLC

In January 2011, the Northstar Lottery Group LLC ("Northstar"), a consortium in which GTECH holds an 80% controlling interest, signed a 10-year private management agreement with the Illinois Lottery (the "State"). Under the agreement, Northstar, subject to the State's oversight, will manage the day-to-day operations of the lottery and its core functions.

As compensation for its management services, Northstar will receive annual fees for reimbursement of certain operating and lottery expenses. Northstar is also entitled to receive annual incentive compensation payments should it achieve certain sales targets but is also subject to provide payments to the State if a minimum, agreed-upon performance level is not achieved.

To the extent net income earned by the State each year exceeds the State established base net income levels for such year, Northstar will earn incentive compensation that is awarded based on various levels of performance, up to an annual maximum of 5% of the actual net income earned by the State.

Northstar's proposal guaranteed a minimum profit level for each of the first five years of the agreement, commencing with the State's fiscal year ending June 30, 2012. The incentive compensation Northstar may earn could be reduced by a shortfall payment in the event Northstar's performance does not achieve the levels it has guaranteed. The annual shortfall payment may not exceed 5% of the net income for such contract year. Given that this agreement is in its early stages, management is currently unable to estimate the financial impact of the minimum profit level guarantee.

Czech Republic

GTECH's lottery customer in the Czech Republic was declared insolvent by a court on March 29, 2011 and is now in insolvency proceedings in the Czech Republic. GTECH has a long-term relationship with this customer which began in 1992. Under the terms of the current facility management contract, which has over ten years remaining, GTECH provides facilities management services, including approximately 7,000 terminals, central system hardware and software, ongoing lottery support services, communication services and operational support to this customer. At March 31, 2011, trade receivables from this customer were €8.1 million. The recoverability of outstanding trade receivables will depend on the resolution of certain future events which are outside the Group's control, however, both GTECH and the Czech customer share a common goal of continued generation of revenues. The Group also has approximately €13.1 million of systems, equipment and other assets related to contracts and approximately €16.3 million of intangible assets on its consolidated statement of financial position related to its contracts with this customer. Although the Czech customer is operating its business, revenues have been impacted materially. Future events will determine the recoverability of these assets, and therefore the financial impact to the Group is not currently estimable.

SIGNIFICANT DEVELOPMENTS

Since the start of the first quarter of 2011, the Group has reported a number of significant developments.

Developments During the First Quarter of 2011

Contract Developments

As previously disclosed, in September 2010, the Northstar Lottery Group LLC ("Northstar"), a consortium in which GTECH holds an 80 percent controlling interest, was selected as private manager by the Illinois Lottery, following a competitive procurement. In January 2011, Northstar signed a ten (10) year private management agreement with the State of Illinois (the "Private Management Agreement"). Scientific Games International, Inc., a wholly-owned subsidiary of Scientific Games Corporation, holds the remaining 20 percent interest in the consortium. Under the Private Management Agreement, Northstar, subject to the State's oversight, will manage the day-to-day operations of the Lottery and its core functions including, among other things, lottery game development and portfolio management; retailer recruitment and training; call center operations; supply of goods and services; subcontractor and vendor selection and management; advertising; branding; and overall marketing strategy. Responsible gaming programs will be embedded throughout these operational processes and core functions. As compensation for its management services, Northstar will receive annual fees for reimbursement of certain operating and lottery expenses, including reimbursement of fees payable to GTECH for GTECH's provision of facilities management services to Northstar. Northstar is also entitled to receive annual incentive compensation payments should it achieve certain sales targets, or else must make payments to the State if those targets are not met.

In January 2011, following the award of the Private Management Agreement to Northstar, the Illinois Appellate Court held in *Wirtz v. Quinn* that the Illinois legislation that, among other things, specifically authorized the private manager procurement process, violated the "single subject rule" of the Illinois Constitution and was void. The ruling is being appealed to the Illinois Supreme Court, which issued a stay of the Appellate Court decision in February 2011 pending final disposition of the Appellate Court decision. Northstar is not a party to this lawsuit and the private manager procurement process was not expressly challenged. Although the Company believes that the Private Management Agreement would remain valid even if the Illinois Supreme Court affirms the Appellate Court's decision and without corrective legislation, payment of any incentive compensation to Northstar, as described above, would require specific appropriation by the General Assembly.

In January 2011, following a competitive procurement, GTECH entered into a contract with Loterie Nationale in Luxembourg to provide a full range of solutions, including a new online/instant lottery system and terminals, self-service vending machines, a digital multimedia system, new games and player/ongoing services. The eight (8) year contract is expected to commence in November 2012 when the new system becomes operational, and includes the option to extend for an additional five (5) years.

In March 2011, GTECH entered into an agreement to extend its current contract with TIPOS a.s., a government-owned lottery in the Slovak Republic, through December 31, 2018. Under the extension agreement, GTECH will provide a variety of new technology, as well as ongoing lottery-related services and comprehensive marketing consultancy and support.

Other Business Developments

In January 2011, GTECH Global Services Corporation Limited ("GGSC") acquired the remaining 10% interest in St. Enodoc Holdings Limited and its subsidiaries including St. Minver Limited (collectively "St. Minver"), increasing its ownership interest to 100%.

Under the terms of the 2008 sale agreement, 10% of St. Minver was to remain with Gary Shaw, Founder and Chairman, until at least 2012, at which point both Mr. Shaw and GGSC had the right to cause GGSC to acquire Mr. Shaw's shares at a price equal to fair value to be determined as of the date of exercise. In January 2011, GGSC and Mr. Shaw entered into a new agreement (terminating the original sale agreement) whereby GGSC agreed to (i) acquire the remaining 10% of St. Minver and (ii) sell its 30% ownership in St. Endellion Limited ("St. Endellion") to Mr. Shaw (St. Endellion's 70% shareholder) for a net cash purchase price of €1.9.

Developments After the First Quarter of 2011

Contract Developments

In April 2011, after the close of the first calendar quarter of 2011, GTECH entered into a ten (10) year contract extension with Supreme Ventures Limited to continue providing online lottery technology and ongoing services in Jamaica through January 10, 2026. GTECH has been the online lottery technology and services provider to Supreme Ventures since it began selling online games in 2001.

Other Business Developments

On April 12, 2011, after the close of the first calendar quarter of 2011, Lottomatica Scommese S.r.l. acquired the remaining 5% interest in LS Alpha S.r.l., at a value of €50,000, increasing its ownership interest to 100%.

RISKS AND UNCERTAINTIES

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

(i) **Market Risk:** Market risk is the risk that changes in interest rates and foreign currency exchange rates will negatively impact the value of assets and liabilities.

A portion of the Group's debt portfolio is exposed to changes in market interest rates. Changes in interest rates generally will not significantly impact the fair market value of such indebtedness, but could have a material effect on Lottomatica Group's results of operations, business, financial condition or prospects.

The Group is a global business and derives a substantial portion of its revenues from operations outside of the European Union. Our financial statements could be materially different from period to period if there is a significant movement in the euro versus other currencies.

(ii) **Credit Risk:** Credit risk is the risk of a financial loss arising from a customer or counterparty not meeting their contractual obligations. A significant portion of the Group's revenue is derived from concessions with Amministrazione Autonoma dei Monopoli di Stato (AAMS), resulting in significant concentration of credit risk exposure. Management believes that in the future, a significant portion of its business and profitability will continue to depend upon concessions with AAMS.

(iii) **Liquidity Risk:** Liquidity risk is the risk that suitable sources of funding for the Group's operations may not be available. In recent years, certain concessions in Italy have required a significant upfront payment. Further, GTECH contracts typically require upfront capital expenditures. The ability of the Group to maintain existing contracts upon their renewal and invest in new contract opportunities depends on the ability of the Group to access new sources of capital to fund these investments. There can be no assurance that the Group will be able to access sources of capital on favourable or reasonable terms.

(iv) **Country Risk:** Country risk is the risk that changes to regulations or laws, or in the economy of a country in which we conduct business, will negatively impact expected returns. The Group is a global business and derives a substantial portion of its revenues from operations outside of Italy. Risks associated with the Group's international operations include increased governmental regulation of the online lottery industry in the markets where it operates, exchange controls or other currency restrictions and significant political instability. Other economic risks that the Group's international activity subjects it to might include inflation, foreign exchange risks (both depreciation and devaluation), illiquid foreign exchange markets, high interest rates, debt default, unstable capital markets and foreign direct investment restrictions. Political risks include change of leadership, change of governmental policies, new foreign exchange controls regulating the flow of money into or out of a country, failure of a government or court to honour existing contracts, changes in tax laws and corruption, as well as global risk aversion driven by political unrest, war and terrorism. Finally, social instability risks include high crime in certain of the countries in which the Group operates due to poor economic and political conditions, riots, unemployment and poor health conditions. These factors may affect the Group's work force as well as the general business environment in a country. The materialization of such risks could have a negative impact on the Group's results of operations, business, financial condition or prospects.

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

(vi) **Legal Proceedings:** Due to the nature of its business, the Group is involved in a number of legal, regulatory and arbitration proceedings regarding, among other matters, claims by and against it as well as injunctions by third parties arising out of the ordinary course of its business and is subject to investigations and compliance inquiries related to its ongoing operations. The outcome of these proceedings and similar future proceedings cannot be predicted with certainty. It is difficult to accurately estimate the outcome of any proceeding. As such, the amounts of the Group's provision for litigation risk, which have been accrued on the basis of assessments made by external counsel, could vary significantly from the amounts the Group would ultimately pay in any such proceeding. In addition, unfavourable resolution of or significant delay in adjudicating such proceedings could require the Group to pay substantial monetary damages or penalties and/or incur costs which may exceed any provision for litigation risks or, under certain circumstances, cause the termination or revocation of the relevant concession, license or authorization and thereby have a material adverse effect on the Group's results of operations, business, financial condition or prospects.

(vii) **Government Relations:** The Group's activities are subject to extensive and complex governmental regulation which varies from jurisdiction to jurisdiction where the Group operates, which includes anti-money laundering compliance procedures. The Group believes that it has developed procedures designed to comply with such regulatory requirements. However, any failure by the Group to so comply or inability to obtain required suitability findings could lead regulatory authorities to seek to restrict the Group's business in their jurisdictions.

In addition, the Group is subject to extensive background investigations in its lottery and gaming businesses. Authorities generally conduct such investigations prior to or after the award of a lottery contract or issuance of a gaming license. Such investigations frequently include individual suitability standards for officers, directors, major shareholders and key employees. Authorities are generally empowered to disqualify the Group from receiving a lottery contract or operating a lottery system as a result of any such investigation. The Group's failure, or the failure of any of its personnel, systems or machines, in obtaining or retaining a required license or approval in one jurisdiction could negatively impact its ability to obtain or retain required licenses and approvals in other jurisdictions. Any such failure would decrease the geographic areas where the Group may operate and as a result could have a material adverse effect on the Group's results of operations, business, financial condition or prospects.

Further, there have been, are currently and may in the future continue to be, investigations of various types, conducted by governmental authorities into possible improprieties and wrongdoing in connection with the Group's efforts to obtain or the awarding of lottery contracts and related matters. Because such investigations frequently are conducted in secret, the Group may not necessarily know of the existence of an investigation in which it might be involved. Because the Group's reputation for integrity is an important factor in its business dealings with lottery and other governmental agencies, a governmental allegation or a finding of improper conduct by or attributable to the Group in any manner or the prolonged investigation of these matters by governmental or regulatory authorities could have a material adverse effect on the Group's results of operations, business, financial condition or prospects, including its ability to retain existing contracts or to obtain new or renewal contracts. In addition, adverse publicity resulting from any such proceedings could have a material adverse effect on the Group's reputation, results of operations, business, financial condition or prospects.

PREDICTABLE DEVELOPMENTS

In the beginning of 2011, markets had to cope with a new wave of political instability originating from North Africa and the Middle East. Trade and global growth will have to deal with increased energy costs, given oil price changes.

Governments around the globe continued to support a strategy of increased liquidity to ease credit conditions and avoid further perturbations; these policies, which have proven to be effective on the financial markets, have left unresolved the issue of employment levels in several countries. While deficits require a tight financial discipline, increased spending would be needed to create new job opportunities.

Current prevailing expectations are indicating a scenario of low interest rates in the US, very volatile currencies, and slowly growing inflation rates, while the European Central bank has decided on a 25 basis point increase of Euro rates to address first signs of inflation. The Group serves many customers around the world (mostly governments or government-related entities) that are looking for opportunities to grow their funding sources in times when tax income is substantially reduced, generating severe budget shortfalls.

Recently the Group was awarded the operator role to run the Illinois Lottery for ten years. This outsourcing of operations to a private entity (Northstar Lottery Group, LLC, which is 80% owned by the Group) represents a major shift in the business model currently adopted in the U.S. by almost all jurisdictions. We are confident that this new approach will result in a material improvement of lottery performance, creating the foundation for other states to follow the same strategy.

The Group has the necessary resources, both in terms of capital and know-how, to play a leading role in this evolving landscape. We believe the Group is very well placed to retain its position in all geographies where we operate.

The Group's strategic goal is to maintain its global leadership position in the public gaming markets, further developing the initiatives already identified.

The Group's strategy is summarized as follows:

- Continue to promote same-store sales growth of current portfolio;
- Bid for operator opportunities and win new jurisdictions;
- Complete deployment of VLTs in Italy, while delivering turnkey solutions to other concessionaires;
- Roll out new distribution platforms, focusing particularly on interactive channels; and
- Grow instant ticket printing capabilities.

We expect growth of revenues and EBITDA and reduction of net debt in 2011.

LOTTOMATICA STOCK INFORMATION

SHAREHOLDING STRUCTURE

Based on most recent information available to the Company as of March 31, 2011

<u>Shareholder</u>	<u>Numbers of Shares</u>	<u>% of Outstanding Shares</u>
De Agostini Group	102,629,324	59.663
Mediobanca ¹	21,918,941	12.742
Assicurazioni Generali	4,989,596	2.901

Lottomatica owns 3,167,552 treasury shares, equal to about 1.841% of share capital.

Underwritten and paid up share capital as of March 31, 2011 amounts to €172,015,373, composed of 172,015,373 ordinary shares with a nominal value of €1 each.

Authorized share capital amounts to €182,682,847, composed of 182,682,847 ordinary shares with a nominal value of €1 each.

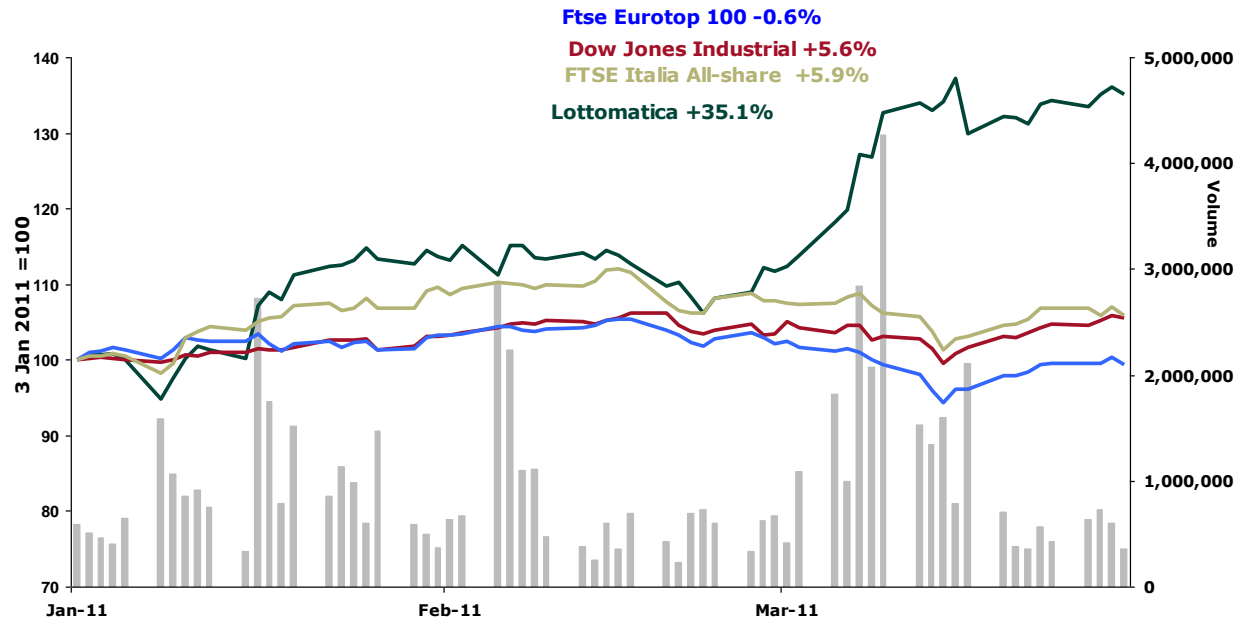
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LOTTOMATICA STOCK PERFORMANCE FOR THE PERIOD ENDED MARCH 31, 2011

The average price of the stock for the first quarter ended March 31, 2011 was €10.9. Over 62 million shares were traded in the period, with a daily exchange of approximately 982,389 shares.

Lottomatica's market capitalization was approximately €2.1 billion on March 31, 2011.

⁽¹⁾ Of Mediobanca's 12.742% share ownership, 11.469% is being held solely and exclusively to serve the conversion of certain Mandatory Exchangeable Bonds issued by UBI Banca International SA in 2009. Mediobanca has relinquished all of the voting, administrative, beneficial and economic rights related to that 11.469% interest.



(Source: Bloomberg Borsa Italiana)

ENVIRONMENTAL COMMITMENTS

During recent years, the Group has strongly enhanced its commitment to environmental policy in order to take actions that could make its environmental commitments more structured year after year. The Group's programs are primarily related to locations in Italy and the United States, where most of the workforce is concentrated, but its commitments are relevant to all locations worldwide.

Lottomatica's Environment Commitments in Italy

In the last years, the Company has focused on an analysis and monitoring activity that has become precise and widened to cover all the Italian sites, which allowed the Company to get a detailed picture of its environmental impact, verified also by an independent body.

The Environmental Initiatives of Lottomatica in Italy

During 2010, thanks to the establishment of a systematic and structured process of data collection, it has been possible to make the measurement of environmental performance reliable and efficient, which enabled the Company to start a process of saving not only environmental but also economic resources.

Specifically, the areas where consumption of resources is significantly high are in the use of energy and paper.

Regarding office paper, a consumption higher than the national average has been noticed, which prompted the Company to promote actions aimed at a rationalization of its use. In particular, the Company started to purchase unbleached recycled paper totalling 50% of the whole amount of paper consumed in its offices.

The high level of energy consumption has been attributed not only to ordinary office activities, but also and especially to the hardware and software system that manages all the electronic transactions of the Company, related both to game and services transactions.

EN 16001 Standard

In order to reduce its electric energy consumption, Lottomatica identified the EN 16001 standard compliance as a fundamental means of obtaining a relevant improvement of its energy use in Italy, especially in the sites where the energy consumption is significantly high.

The EN 16001 standard compliance requires specific actions for establishing, implementing, maintaining and improving an energy management system. This standard requires continual improvement in more efficient and more sustainable energy use, irrespective of the type of energy. This standard applies to the activities under the control of an organization.

The implementation of an energy management system specified by this standard is intended to result in improving energy efficiency. Therefore, this standard is based on the premise that the organization will periodically review and evaluate its energy management system to identify opportunities for improvement and their implementation. The rate, extent and time scale of this continual improvement process are determined by the organization in light of economic and other circumstances. Improvements in the energy management system are intended to result in improvements in energy performance.

The standards require the organization to:

- a) Establish an appropriate energy policy;
- b) Identify the energy aspects arising from the organization's activities;
- c) Identify applicable legal requirements and other requirements to which the organization subscribes;
- d) Identify priorities and set appropriate energy objectives and targets;
- e) Establish a relevant structure and program(s) to implement the policy and achieve objectives and meet targets; and
- f) Facilitate planning, control, monitoring, preventive and corrective actions, auditing and review activities to ensure both that the policy is complied with and that the energy management system remains appropriate.

Thanks to the analyzing and monitoring of electricity consumption in the most significant sites, Lottomatica took the following actions at the end of 2010:

- Implementing lighting switch-off policies;
- Implementing a fan-coil power supply switch-off system; and
- Implementing policies to deactivate the air conditioning systems for offices.

Emissions

Lottomatica is continuing its policy of reduction of emissions.

At the end of 2010, the Company started a forestation and planting project in one of the most important national parks of Italy, Parco del Cilento, where the local administrators started a new policy to guarantee the environmental protection of the whole area in which the park is located. Under the Lottomatica project, 3,000 trees have been planted in the park.

Thanks to this project, it will be possible to offset CO₂ created by the production of the 2010 Lotto game playslips, for which approximately 2,049 tons of CO₂ were produced.

This is the third forestation project that the Company has launched using funds from the Lotto game, in partnership with Parks for Kyoto.

The first project, which is now finished, was the Protected Marine Area of Plemmirio in Sicily, involving the planting of 3,500 trees. The second one was set in the Pollino National Park, where 2,200 small trees of native pines were planted. Species that are native to the area and demonstrate good adaptation to local conditions were chosen for the planting project, complying with biodiversity conservation criteria.

GTECH's Environmental Commitments

Environmental Policy

GTECH is committed to conducting its business in an environmentally responsible manner. Fulfilling its responsibility to protect the environment enhances its ability to provide competitive and profitable products and services.

GTECH is committed to complying with accepted environmental practices, including the commitment to meet or exceed applicable legal and other requirements, to strive for continual improvement in its environmental management system, and to minimize the creation of wastes and pollution. It will, therefore, manage its processes, its material and its people in order to reduce the environmental impacts associates with its work.

This policy will be communicated to all parties interested in the performance of its environmental management system.

Minimizing Environmental Impact

GTECH is committed to minimizing its impact on the environment as it carries out its activities around the world and continually strives to improve its environmental goals.

In a pledge to reduce waste and help protect the environment, GTECH began its "GTECH GREEN" corporate initiative in September 2008. This program is intended to promote environmentally-friendly habits at all GTECH sites and subsidiaries worldwide, and is undertaking to increase awareness by its employees on the best practices of energy saving and resource conservation, recycling procedures and overall protection of the environment.

In January 2011, GTECH received the International Organization for Standardization (ISO) 14001:2004 certification for its Environmental Management System ("EMS") at its Coventry, Rhode Island manufacturing facility and its Providence, Rhode Island headquarters. This certification is an internationally-recognized benchmark for creating and maintaining an EMS, which is a set of green practices and procedures for employees to follow. Through GTECH's EMS, the Company is committed to reducing solid waste from its manufacturing facility by 5% and recycling 100% of all aerosol cans and ink and toner cartridges throughout its Rhode Island facilities. The certification is effective through January 6, 2014. GTECH will seek to receive further ISO 1400:2004 certifications for its West Greenwich, Rhode Island Technology Center, its National Response Center in Providence, and the GTECH Printing Corporation facility in Lakeland, Florida.

In 2009, GTECH expanded its recycling program in its Rhode Island facilities. This expansion resulted in substantial increases in recycling activities, specifically in paper, plastics, aluminum, mixed bottles and cans, and batteries. In 2010, GTECH worked to streamline recycling operations among facilities to strengthen the overall recycling effort and expand the recycling program to other GTECH facilities outside of Rhode Island. Furthermore, GTECH Rhode Island facilities participated in a pilot program to include food composting in the overall recycling initiative. During 2010, GTECH composted 10.21 tons of material. GTECH will continue to measure the progress of this program going forward.

In its Rhode Island facilities, in addition to recycling efforts, the environmental measures that have been taken by GTECH include the following:

- Intelligent management of market fluctuations when purchasing energy used at its premises;
- Reducing paper usage by programming all copy machines to print documents double-sided;
- Reducing use of colored ink by printing in black and white where possible;
- Distributing information to new employees via electronic media, as opposed to paper handouts;
- Installing timers to shut down high-energy use areas overnight;
- Applying automatic energy conservation settings to company desktop and laptop computers; and
- Installation of a secure bike rack to encourage employees commuting by bicycle/scooter.

GTECH's manufacturing facilities comply with all applicable laws and regulations, including the European Union Restriction of hazardous Substances Directive (RoHS). They do not generate any harmful waste, whether chemical or in the air. Further, GTECH has converted from non-biodegradable bubble wrap and Styrofoam peanuts to biodegradable packaging material for shipment of certain equipment such as spare parts.

GTECH's instant ticket printing subsidiary, GTECH Printing Corporation (GPC), uses 100% recyclable paper, none of which is designated as hazardous waste. The printing facility falls well within compliance with all state and federal air and water regulatory bodies, and the primary and backup facilities do not discharge any process liquids. With the relocation to its Lakeland facility in 2009, GPC has:

- Eliminated the use of all solvent based overprint inks with the conversion to water-based systems;
- Developed and implemented the use of a 100% water based system for base coat and overprint coating systems for printing on paper and holographic substrates;
- Replaced solvent-based release varnishes with UV-curable systems;
- Converted to utilization of a press that is servo driven and typically uses 20-30% less energy than mechanical drives;
- Installed a state-of-the-art HVAC system that is centrally monitored for optimal performance and energy utilization;
- Replaced all film and silver based processing of plates with computer-to-plate technology; and
- Replaced all VOC emitting processes with the lowest available alternative processes where possible.

As a result, GPC has reduced its Volatile Organic Compounds (VOCs) emissions to less than 20% of the current maximum operating limit allowed, and in fact hopes to reduce its emitted VOCs even further with ongoing research and the development of a water based black scratch off system. GPC has also significantly lowered its emissions of CO₂, SO₂ and NO₂ as a result of more energy efficient operating practices.

Interim Consolidated Financial Statements and Footnotes

LOTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(thousands of euros)</i>	<i>Notes</i>	March 31, 2011	December 31, 2010
ASSETS			
Non-current assets			
Systems, equipment and other assets related to contracts, net	8	888,630	887,132
Property, plant and equipment, net	9	88,984	91,496
Goodwill	10	3,019,423	3,157,279
Intangible assets, net	11	1,563,110	1,639,198
Investments in associates	9	9	237
Other non-current assets	12	23,549	25,611
Non-current financial assets		14,749	15,626
Deferred income taxes		9,148	9,011
Total non-current assets		<u>5,607,602</u>	<u>5,825,590</u>
Current assets			
Inventories	13	167,346	165,314
Trade and other receivables	14	680,212	712,239
Other current assets	12	65,158	64,169
Current financial assets		4,545	6,673
Income taxes receivable		9,017	9,527
Cash and cash equivalents	15	198,115	152,405
Total current assets		<u>1,124,393</u>	<u>1,110,327</u>
Non-current assets classified as held for sale	16	27,000	27,000
TOTAL ASSETS		<u>6,758,995</u>	<u>6,962,917</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Issued capital		172,015	172,015
Share premium		1,705,628	1,705,628
Treasury shares		(60,113)	(60,113)
Retained deficit		(34,378)	(56,287)
Other reserves	17	29	153,150
		<u>1,783,181</u>	<u>1,914,393</u>
Non-controlling interests		<u>432,628</u>	<u>444,492</u>
Total equity		<u>2,215,809</u>	<u>2,358,885</u>
Non-current liabilities			
Long-term debt, less current portion	18	2,795,447	2,825,412
Deferred income taxes		114,156	133,578
Long-term provisions		20,074	19,334
Other non-current liabilities	19	54,773	57,752
Non-current financial liabilities		107,709	113,619
Total non-current liabilities		<u>3,092,159</u>	<u>3,149,695</u>
Current liabilities			
Accounts payable		887,911	978,509
Short-term borrowings	18	33,746	7,458
Other current liabilities	19	272,314	259,130
Current financial liabilities		105,554	69,200
Current portion of long-term debt	18	85,733	118,822
Short-term provisions		1,811	1,808
Income taxes payable		63,958	19,410
Total current liabilities		<u>1,451,027</u>	<u>1,454,337</u>
TOTAL EQUITY AND LIABILITIES		<u>6,758,995</u>	<u>6,962,917</u>

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED INCOME STATEMENTS

<i>(thousands of euros)</i>	Notes	For the three months ended March 31	
		2011	2010
Service revenue		675,468	519,889
Product sales		26,606	24,759
Total revenue	7	702,074	544,648
Raw materials, services and other costs	20	350,526	257,880
Personnel	21	117,561	107,686
Depreciation	22	57,423	57,180
Amortization	11	44,304	21,729
Capitalization of internal construction costs - labor and overhead		(20,407)	(17,917)
Total costs		549,407	426,558
Operating income	7	152,667	118,090
Interest income		461	707
Equity loss		(53)	(101)
Other income		167	304
Other expense		(2,833)	(1,243)
Foreign exchange gain (loss), net	23	(34,493)	913
Interest expense	24	(41,737)	(41,258)
		(78,488)	(40,678)
Income before income tax expense		74,179	77,412
Income tax expense	25	38,202	36,074
Net income		35,977	41,338
Attributable to:			
Owners of the parent		21,909	29,439
Non-controlling interests		14,068	11,899
		35,977	41,338
Earnings per share/ADRs			
Basic - net income attributable to owners of the parent		€ 0.13	€ 0.18
Diluted - net income attributable to owners of the parent		€ 0.13	€ 0.18

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(thousands of euros)</i>	Notes	For the three months ended March 31	
		2011	2010
Net income		<u>35,977</u>	<u>41,338</u>
Other comprehensive income			
Net loss on interest rate swaps (cash flow hedges)		(75)	(2,272)
Income tax benefit		-	920
		<u>(75)</u>	<u>(1,352)</u>
Amortization of gain on interest rate swap on discontinued cash flow hedge		(143)	(142)
Net gain (loss) on derivative instruments (cash flow hedges)	26	(9,216)	2,278
Income tax benefit (expense)		3,308	(684)
		<u>(5,908)</u>	<u>1,594</u>
Net gain (loss) on available-for-sale financial assets		(15)	91
Net gain (loss) on translation of foreign operations		(147,118)	153,442
Income tax benefit (expense)		-	-
		<u>(147,118)</u>	<u>153,442</u>
Other comprehensive income (loss) for the period, net of tax		<u>(153,259)</u>	<u>153,633</u>
Total comprehensive income (loss) for the period, net of tax		<u>(117,282)</u>	<u>194,971</u>
Attributable to:			
Owners of the parent		(131,350)	183,072
Non-controlling interests		14,068	11,899
		<u>(117,282)</u>	<u>194,971</u>

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	For the three months ended	
		March 31	
		2011	2010
<i>(thousands of euros)</i>			
Cash flows from operating activities			
Income before income tax expense		74,179	77,412
Adjustments for:			
Depreciation	22	57,423	57,180
Intangibles amortization	11	44,304	21,729
Interest income		(461)	(707)
Interest expense	24	41,737	41,258
Non-cash foreign exchange loss (gain)	23	34,954	(841)
Share-based payment expense	27	138	1,338
Non-cash loss on interest rate swaps		1,125	-
Other non-cash items		2,557	484
Cash foreign exchange gain, net	23	(461)	(72)
Income tax paid		(5,441)	(8,354)
Cash flows before changes in operating assets and liabilities		250,054	189,427
Changes in operating assets and liabilities:			
Inventories		(14,699)	135
Trade and other receivables		23,126	4,491
Accounts payable		(66,904)	(59,505)
Advance payments from customers		8,085	1,882
Employee compensation		14,211	5,078
Taxes other than income taxes		(8,798)	1,252
Other assets and liabilities		398	517
Net cash flows from operating activities		205,473	143,277
Cash flows from investing activities			
Purchases of systems, equipment and other assets related to contracts		(100,098)	(45,806)
Realized loss on net investment hedge		(8,342)	-
Purchases of property, plant and equipment		(2,357)	(1,861)
Italian operations contingent consideration	29	(1,866)	(4,307)
Purchases of intangible assets	11	(1,080)	(3,147)
Investment in government securities		-	(14,347)
Other investments		-	(9,746)
Interest received		350	668
Other		(1,107)	806
Net cash flows used in investing activities		(114,500)	(77,740)
Cash flows from financing activities			
Interest paid		(69,234)	(75,197)
Cash paid on derivative instruments		(8,355)	-
Principal payments on long-term debt		(551)	(14,997)
Capital increase - Northstar Lottery Group LLC		7,038	-
Net proceeds from (repayment of) short-term borrowings		27,038	(600)
Other		(2,890)	(1,822)
Net cash flows used in financing activities		(46,954)	(92,616)
Net increase (decrease) in cash and cash equivalents		44,019	(27,079)
Effect of exchange rate changes on cash		1,691	3,461
Cash and cash equivalents at the beginning of the period		152,405	469,335
Cash and cash equivalents at the end of the period	15	198,115	445,717

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended March 31, 2011

	Attributable to owners of the parent							Total Equity
	Issued Capital	Share Premium	Treasury Shares	Retained Earnings	Other Reserves (Note 17)	Total	Non-Controlling Interests	
<i>(thousands of euros)</i>								
Balance at January 1, 2011	172,015	1,705,628	(60,113)	(56,287)	153,150	1,914,393	444,492	2,358,885
Net income for the period	-	-	-	21,909	-	21,909	14,068	35,977
Other comprehensive loss	-	-	-	-	(153,259)	(153,259)	-	(153,259)
Total comprehensive income (loss)	-	-	-	21,909	(153,259)	(131,350)	14,068	(117,282)
Share-based payment (Note 27)	-	-	-	-	138	138	-	138
Dividends declared	-	-	-	-	-	-	(32,970)	(32,970)
Capital increase - Northstar Lottery Group LLC	-	-	-	-	-	-	7,038	7,038
Balance at March 31, 2011	<u>172,015</u>	<u>1,705,628</u>	<u>(60,113)</u>	<u>(34,378)</u>	<u>29</u>	<u>1,783,181</u>	<u>432,628</u>	<u>2,215,809</u>

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended March 31, 2010

	Attributable to owners of the parent					Total	Non-Controlling Interests	Total Equity
	Issued Capital	Share Premium	Treasury Shares	Retained Earnings	Other Reserves (Note 17)			
<i>(thousands of euros)</i>								
Balance at January 1, 2010	172,015	1,404,252	(63,502)	66,807	258,162	1,837,734	59,073	1,896,807
Net income for the period	-	-	-	29,439	-	29,439	11,899	41,338
Other comprehensive income	-	-	-	-	153,633	153,633	-	153,633
Total comprehensive income	-	-	-	29,439	153,633	183,072	11,899	194,971
Share-based payment (Note 27)	-	-	-	-	1,338	1,338	-	1,338
Dividends declared	-	-	-	-	-	-	(45,638)	(45,638)
Change in fair value of put/call option arising from business combination	-	-	-	(102)	-	(102)	-	(102)
Purchase of non-controlling interest	-	-	-	-	(2,061)	(2,061)	(1,017)	(3,078)
Balance at March 31, 2010	<u>172,015</u>	<u>1,404,252</u>	<u>(63,502)</u>	<u>96,144</u>	<u>411,072</u>	<u>2,019,981</u>	<u>24,317</u>	<u>2,044,298</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

Lottomatica Group S.p.A. is one of the leading gaming operators in the world based on total wagers and, through its subsidiaries, including GTECH Corporation, is a leading provider of lottery and gaming technology solutions and services worldwide. In these notes, the term “Lottomatica” refers to Lottomatica Group S.p.A., the parent entity, and its subsidiaries excluding GTECH; the term “GTECH” refers to GTECH Corporation and its subsidiaries; and the terms “Group,” “we,” “our,” and “us” refer to Lottomatica and all subsidiaries included in the consolidated financial statements.

We operate in the publicly regulated gaming market consisting of online, instant and traditional lotteries, sports pools, fixed-odds and pari-mutuel betting, machine gaming and interactive gaming. Our principal activities are described in Note 7.

Lottomatica is a joint stock company incorporated and domiciled in the Republic of Italy, and its registered office is located at Viale del Campo Boario, Rome, Italy. Lottomatica is majority owned by De Agostini S.p.A., a century-old publishing, media, and financial services company and is listed on the Mercato Telematico Azionario, the Italian screen-based trading system managed by Borsa Italiana S.p.A. (the “Italian Stock Exchange”) under the trading symbol “LTO”. Lottomatica has a Sponsored Level 1 American Depository Receipt (ADR) program listed on the United States over the counter market under the trading symbol “LTTOY”.

The interim consolidated financial statements for the three months ended March 31, 2011 were approved for issuance in accordance with a resolution of the Board of Directors on April 27, 2011.

2. Basis of preparation

The interim consolidated financial statements for the three months ended March 31, 2011 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. As such, they do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as of December 31, 2010.

The interim consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (€000) (except share and per share data) unless otherwise indicated. Information for the three months ended March 31, 2011 is unaudited and for the year ended December 31, 2010 is audited.

The interim consolidated financial statements for March 31, 2011 are consistent with the December 31, 2010 presentation.

Format of the consolidated financial statements

The Group presents current and non-current assets, and current and non-current liabilities as separate classifications in its interim consolidated statements of financial position.

The interim consolidated income statements are presented using a classification based on the nature of expenses, rather than based on their function of expense, as management believes this presentation provides information that is more relevant.

The interim consolidated statements of changes in equity include only details of transactions with owners, with non-owner changes in equity presented separately. Comprehensive income is presented in two statements; a separate interim consolidated income statement and interim consolidated statement of comprehensive income.

The interim consolidated statements of cash flows are presented using the indirect method.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2010, except for the adoption of new and amended International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) Standards and Interpretations as of January 1, 2011 noted below. Adoption of these Standards and Interpretations did not have a material effect on the financial position or performance of the Group.

IAS 24 Related Party Disclosures (Revised)

The Revised IAS 24 clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application and introduces a partial exemption of disclosure requirements for government-related entities.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues

The amendment to IAS 32 changes the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

IFRIC 14 Prepayments of a Minimum Funding Requirement

The amendment to IFRIC 14 provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to IFRSs issued in May 2010

In May 2010 the IASB issued an omnibus of amendments to its standards, primarily with a view of removing inconsistencies and clarifying wording. The effect of each standard is described below.

- ***IFRS 3 Business Combinations*** – This amendment clarifies the measurement method for non-controlling interests, specifies how to measure unreplaced and voluntary replaced share-based payment awards, and clarifies the transitional requirements for contingent consideration from a business combination that occurred before the July 1, 2009 effective date of IFRS 3.
- ***IFRS 7 Financial Instruments: Disclosures*** - This amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.
- ***IAS 1 Presentation of Financial Statements*** - This amendment clarifies that an entity may present the analysis of other comprehensive income by item either in the statement of changes in equity or in the notes to the financial statements.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

- **IAS 27 Consolidated and Separate Financial Statements (Revised)** - This amendment clarifies the transitional requirements for the consequential amendments made to other standards as a result of IAS 27.
- **IAS 34 Interim Financial Reporting** - This amendment clarifies the disclosures required for significant events and transactions and financial instruments and their fair values.
- **IFRIC 13 Customer Loyalty Programmes** - This amendment clarifies the accounting for the fair value of award credits.

4. Significant accounting judgments, estimates and assumptions

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

Judgments

In the process of applying the Group's accounting policies, management has made the following judgment, apart from those involving estimations, that has the most significant effect on the amounts recognized in the consolidated financial statements:

Finance and operating lease commitments

The Group leases the GTECH world headquarters facility (land and building) in Providence, Rhode Island, USA. The Group determined that the present value of the future minimum lease payments for the building amounts to substantially all of the fair value relating to the Group's portion of the building and therefore accounts for its portion of the building as a finance lease. The Group also determined that since title to the land will never transfer to the Group, the land is accounted for as an operating lease.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of Systems, Equipment and Other Assets Related to Contracts

The carrying values of systems, equipment and other assets related to contracts are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. This requires management to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of systems, equipment and other assets related to contracts at March 31, 2011 and December 31, 2010 was €888.6 million and €887.1 million, respectively. Further details are provided in Note 8.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4. Significant accounting judgments, estimates and assumptions (continued)

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the “value in use” or “fair value less costs to sell” of the cash-generating units to which the goodwill is allocated. Estimating a value in use or fair value less costs to sell amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at March 31, 2011 and December 31, 2010 was €3.0 billion and €3.2 billion, respectively. Further details are provided in Note 10.

Impairment of Intangible Assets

The Group determines whether intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires management to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of intangible assets at March 31, 2011 and December 31, 2010 was €1.6 billion and €1.6 billion, respectively. Further details are provided in Note 11.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments on the date they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them.

Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income and income tax expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

4. Significant accounting judgments, estimates and assumptions (continued)

Deferred tax assets are recognized for all unused tax losses and tax credits to the extent that it is probable that taxable income will be available against which the losses and tax credits can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies. Based upon the consideration of these factors, the value of deferred tax assets related to operating losses and tax assets related to tax credits are as follows (in millions of euros):

	March 31, 2011	December 31, 2010
Recognized deferred tax assets related to operating losses	112.9	112.9
Unrecognized deferred tax assets related to operating losses	22.1	22.1
Recognized tax assets related to tax credits	1.3	1.3
Unrecognized tax assets related to tax credits	22.8	22.8

Fair value measurement of contingent consideration

Contingent consideration resulting from business combinations is valued at fair value at the acquisition date as part of the business combination. Where the contingent consideration meets the definition of a derivative and thus, a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

Fair value of financial instruments

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

5. International Financial Reporting Standards issued but not yet effective

The new, amended and revised Standards and Interpretations that were issued by the IASB and IFRIC but not yet effective up to the date of issuance of the Group's financial statements are described below.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendments to IFRS 1 were issued in December 2010 and become effective for annual periods beginning on or after July 1, 2011 but do not apply to the Group.

IFRS 7 Financial Instruments – Disclosures

The amendments to IFRS 7 were issued in October 2010 and become effective for annual periods beginning on or after July 1, 2011. The amendments increase the disclosure requirements for transactions involving transfers of financial assets. The amendments require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognized and introduce new disclosure for assets that are derecognized but the entity continues to have a continuing exposure to the asset after the sale. The adoption of these amendments is not expected to have a material impact on the financial position or performance of the Group when adopted on January 1, 2012.

IFRS 9 Financial Instruments – Classification and Measurement

IFRS 9 was issued in November 2009 and becomes effective for annual periods beginning on or after January 1, 2013. The standard is the first phase in the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* and introduces new requirements for classifying and measuring financial assets. In subsequent phases, the IASB will address classifying and measuring financial liabilities, hedge accounting and derecognition. The Group is evaluating the impact the standard will have on the consolidated financial statements when adopted on January 1, 2013.

IFRS 9 Financial Instruments (Revised)

The Revised IFRS 9 was issued in October 2010 and becomes effective for annual periods beginning on or after January 1, 2013. The revised standard retains the requirements for classification and measurement of financial assets that were published in November 2009 but adds guidance on the classification and measurement of financial liabilities. The Group is evaluating the impact the standard will have on the consolidated financial statements when adopted on January 1, 2013.

IAS 12 Deferred Tax: Recovery of Underlying Assets

The amendments to IAS 12 were issued in December 2010 and become effective for annual periods beginning on or after January 1, 2012. The amendments provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 *Investment Property*. The adoption of these amendments is not expected to have a material impact on the financial position or performance of the Group when adopted on January 1, 2012.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

6. Acquisition of non-controlling interests

In January 2011, GTECH Global Services Corporation Limited (“GGSC”) acquired the remaining ten percent interest in St. Enodoc Holdings Limited and its subsidiaries including St. Minver Limited (collectively “St. Minver”), increasing its ownership interest to 100%.

Under the terms of the 2008 sale agreement, ten percent of St. Minver was to remain with Gary Shaw, Founder and Chairman, until at least 2012, at which point both Mr. Shaw and GGSC had the right to cause GGSC to acquire Mr. Shaw’s shares at a price equal to fair value to be determined by an independent appraisal as of the date of exercise. We accounted for the acquisition on the basis that we did not have present ownership interest to the shares owned by Mr. Shaw which were subject to the put/call option. Accordingly, a charge to equity was recorded for the difference between the fair value of the estimated liability to Mr. Shaw for these shares and the non-controlling interest. The non-controlling interest as of December 31, 2010 was included in current financial liabilities in our consolidated statement of financial position.

In January 2011, GGSC and Gary Shaw entered into a new agreement (terminating the original sale agreement) whereby GGSC agreed to (i) acquire the remaining ten percent of St. Minver and (ii) sell its 30% ownership in St. Endellion Limited (“St. Endellion”) to Gary Shaw (St. Endellion’s 70% shareholder) for a net cash purchase price of €1.9 million. The purchase price was paid in two installments; €0.5 million that was paid in January 2011 and €1.4 million that was paid in March 2011.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. Operating segment information

For management purposes, the Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit. The Group is comprised of the following four reportable operating segments:

- The Italian Operations segment operates and provides a full range of gaming services, including online, instant and traditional lotteries, scratch and win, sports betting, machine gaming, interactive skill games and non-lottery commercial transactions.
- The GTECH Lottery segment operates and provides a full range of services, technology and products to government sponsored online, instant and traditional lotteries.
- The Gaming Solutions segment operates and provides solutions, products and services relating to video lottery terminals ("VLTs") and associated systems for the government sponsored market and video and traditional mechanical reel slot machines and systems for the commercial gaming markets.
- The GTECH G2 segment provides digitally-distributed, multi-channel gaming entertainment products and services, including sports betting, lottery, bingo, poker, casino games and quick games, as well as retail solutions for real-time transaction processing and information systems for the sports-betting market.

No operating segments have been aggregated to form the above reportable operating segments. Sales between segments are made at prices that approximate market prices.

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating income.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. Operating segment information (continued)

The following tables present revenue and operating income (loss) information regarding the Group's reportable operating segments for the three months ended March 31, 2011 and 2010, respectively.

	For the three months ended March 31, 2011			
	Total revenue	Intersegment revenue	Third-party revenue	Operating income/(loss)
<i>(thousands of euros)</i>				
Operating Segments				
Italian Operations	459,887	-	459,887	151,320
GTECH Lottery	189,559	(1,819)	187,740	20,923
Gaming Solutions	48,654	(12,477)	36,177	1,575
GTECH G2	19,192	(988)	18,204	(1,510)
	<u>717,292</u>	<u>(15,284)</u>	<u>702,008</u>	<u>172,308</u>
Eliminations	(15,284)	15,284	-	(2,718)
Corporate overhead	-	-	-	(2,610)
Other	66	-	66	(14,313)
	<u><u>702,074</u></u>	<u><u>-</u></u>	<u><u>702,074</u></u>	<u><u>152,667</u></u>

	For the three months ended March 31, 2010			
	Total revenue	Intersegment revenue	Third-party revenue	Operating income/(loss)
<i>(thousands of euros)</i>				
Operating Segments				
Italian Operations	301,172	-	301,172	112,411
GTECH Lottery	192,965	(167)	192,798	28,808
Gaming Solutions	33,230	-	33,230	(2,058)
GTECH G2	18,375	(999)	17,376	(797)
	<u>545,742</u>	<u>(1,166)</u>	<u>544,576</u>	<u>138,364</u>
Eliminations	(1,166)	1,166	-	254
Corporate overhead	-	-	-	(2,735)
Other	72	-	72	(17,793)
	<u><u>544,648</u></u>	<u><u>-</u></u>	<u><u>544,648</u></u>	<u><u>118,090</u></u>

Other principally represents the amortization of acquired tangible and intangible assets in connection with the August 2006 acquisition of GTECH by Lottomatica.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. Operating segment information (continued)

The following tables present depreciation, amortization and impairment information regarding the Group's reportable operating segments for the three months ended March 31, 2011 and 2010, respectively.

<i>(thousands of euros)</i>	For the three months ended			
	March 31, 2011		March 31, 2010	
	Depreciation	Amortization	Depreciation	Amortization
Operating Segments				
Italian Operations	16,487	31,245	15,231	6,185
GTECH Lottery	32,939	587	32,365	618
Gaming Solutions	3,352	675	3,607	1,249
GTECH G2	984	1,099	751	1,049
	<u>53,762</u>	<u>33,606</u>	<u>51,954</u>	<u>9,101</u>
Corporate overhead	16	-	10	-
Other	3,645	10,698	5,216	12,628
	<u>57,423</u>	<u>44,304</u>	<u>57,180</u>	<u>21,729</u>

Other represents the depreciation, amortization and impairment of acquired tangible and intangible assets in connection with the August 2006 acquisition of GTECH by Lottomatica.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

<i>(thousands of euros)</i>	Land and Buildings	Terminals and Systems	Furniture and Equipment	Contracts in Progress	Total
Net book value					
Balance at January 1, 2011	26,084	738,160	56,476	66,412	887,132
Additions	959	10,668	1,580	81,157	94,364
Depreciation (Note 22)	(1,762)	(48,437)	(4,102)	-	(54,301)
Disposals	-	(458)	(43)	(155)	(656)
Foreign currency translation	(22)	(33,309)	(1,191)	(3,387)	(37,909)
Transfers	-	23,179	945	(24,124)	-
Balance at March 31, 2011	<u>25,259</u>	<u>689,803</u>	<u>53,665</u>	<u>119,903</u>	<u>888,630</u>
Balance at January 1, 2011					
Cost	52,647	1,679,752	110,602	66,412	1,909,413
Accumulated depreciation	(26,563)	(941,592)	(54,126)	-	(1,022,281)
Net book value	<u>26,084</u>	<u>738,160</u>	<u>56,476</u>	<u>66,412</u>	<u>887,132</u>
Balance at March 31, 2011					
Cost	53,573	1,644,349	109,904	119,903	1,927,729
Accumulated depreciation	(28,314)	(954,546)	(56,239)	-	(1,039,099)
Net book value	<u>25,259</u>	<u>689,803</u>	<u>53,665</u>	<u>119,903</u>	<u>888,630</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

9. Property, plant and equipment, net

<i>(thousands of euros)</i>	<u>Land</u>	<u>Buildings</u>	<u>Furniture and Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
Net book value					
Balance at January 1, 2011	1,934	28,184	60,569	809	91,496
Additions	-	95	5,305	214	5,614
Depreciation (Note 22)	-	(394)	(2,728)	-	(3,122)
Disposals	-	(16)	(65)	-	(81)
Foreign currency translation	(74)	(1,468)	(3,327)	(54)	(4,923)
Balance at March 31, 2011	<u>1,860</u>	<u>26,401</u>	<u>59,754</u>	<u>969</u>	<u>88,984</u>
Balance at January 1, 2011					
Cost	1,934	36,352	103,281	809	142,376
Accumulated depreciation	-	(8,168)	(42,712)	-	(50,880)
Net book value	<u>1,934</u>	<u>28,184</u>	<u>60,569</u>	<u>809</u>	<u>91,496</u>
Balance at March 31, 2011					
Cost	1,860	34,512	102,920	969	140,261
Accumulated depreciation	-	(8,111)	(43,166)	-	(51,277)
Net book value	<u>1,860</u>	<u>26,401</u>	<u>59,754</u>	<u>969</u>	<u>88,984</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10. Goodwill

<i>(thousands of euros)</i>	March 31, 2011	December 31, 2010
Balance at beginning of period	3,157,279	3,006,783
Acquisitions	-	6,658
Adjustments:		
Foreign currency translation	(137,856)	179,432
Subsequent changes in fair value of contingent liabilities	-	2,274
Revisions to fair value of other assets and liabilities acquired	-	(183)
Impairment loss	-	(37,685)
	<u>(137,856)</u>	<u>143,838</u>
Balance at end of period	<u>3,019,423</u>	<u>3,157,279</u>
Balance at beginning of period		
Cost	3,270,013	3,079,155
Accumulated impairment loss	<u>(112,734)</u>	<u>(72,372)</u>
	<u>3,157,279</u>	<u>3,006,783</u>
Balance at end of period		
Cost	3,130,930	3,270,013
Accumulated impairment loss	<u>(111,507)</u>	<u>(112,734)</u>
	<u>3,019,423</u>	<u>3,157,279</u>

The Group reviews goodwill for impairment annually, during its fourth quarter ending on December 31, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. There were no events or changes in circumstances that required a goodwill impairment review during the first three months of 2011. The €37.7 million impairment loss recorded during 2010 relates to the GTECH G2 segment.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

11. Intangible assets, net

<i>(thousands of euros)</i>	March 31, 2011	December 31, 2010
Balance at beginning of period	1,639,198	822,886
Intangible assets acquired during the period:		
Purchase business combination related:		
Sports betting rights and horse racing betting rights	-	2,740
Other	-	29
	<u>-</u>	<u>2,769</u>
All other intangible assets acquired:		
Concessions and licenses	520	888,709
Patents	266	12,328
Sports betting rights and horse racing betting rights	-	314
Other	294	1,666
	<u>1,080</u>	<u>903,017</u>
Total intangible assets acquired	1,080	905,786
Foreign currency translation	(32,864)	49,436
Revisions to fair value of assets and liabilities acquired	-	18,522
Impairment loss	-	(13,217)
Non-current assets classified as held for sale (Note 16)	-	(27,000)
Amortization	(44,304)	(117,215)
Balance at end of period	<u>1,563,110</u>	<u>1,639,198</u>
Balance at beginning of period		
Cost	2,072,604	1,131,426
Accumulated amortization	(433,406)	(308,540)
	<u>1,639,198</u>	<u>822,886</u>
Balance at end of period		
Cost	2,025,562	2,072,604
Accumulated amortization	(462,452)	(433,406)
	<u>1,563,110</u>	<u>1,639,198</u>

Other intangible assets acquired in 2010 includes payment of €800 million for the Italian Scratch & Win license renewal (which is being amortized over nine years beginning October 2010) and payment of €80.7 million for the final 50% of 10,761 video lottery terminal (“VLT”) rights in Italy. In 2010, capital contributions of €288.0 million and €100.0 million were received from our partners and an investor in the Scratch & Win concession, respectively.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Other assets (non-current and current)

<i>(thousands of euros)</i>	March 31, 2011	December 31, 2010
Other non-current assets		
Long-term deferred asset	6,815	7,475
Deposits	4,243	4,482
Long-term prepaid expenses	4,070	4,685
Long-term customer receivables	3,898	3,303
Sales-type lease receivables	1,669	2,603
Other	2,854	3,063
	<u>23,549</u>	<u>25,611</u>

<i>(thousands of euros)</i>	March 31, 2011	December 31, 2010
Other current assets		
Other receivables	24,574	26,552
Value-added tax receivable	12,682	12,529
Prepaid expenses	12,125	10,936
Other tax receivables	10,994	10,368
Other	4,783	3,784
	<u>65,158</u>	<u>64,169</u>

13. Inventories

<i>(thousands of euros)</i>	March 31, 2011	December 31, 2010
Raw materials	21,180	25,564
Work in progress	91,407	84,352
Finished goods	54,759	55,398
	<u>167,346</u>	<u>165,314</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

14. Trade and other receivables

<i>(thousands of euros)</i>	March 31, 2011	December 31, 2010
	<u> </u>	<u> </u>
Trade receivables	504,519	568,974
Receivables from intermediaries	217,812	182,883
Related party receivables (Note 28)	21,988	21,667
Sales-type lease receivables	2,618	2,553
Allowance for doubtful accounts (including related party)	(66,725)	(63,838)
	<u>680,212</u>	<u>712,239</u>

Receivables from intermediaries represent amounts due from tobacconists, bars, petrol stations, newspaper stands and motorway restaurants in Italy whereby Lottomatica provides third-party processing services related to their commercial services network. Trade receivables and receivables from intermediaries are non-interest bearing.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

15. Consolidated net financial position

<i>(thousands of euros)</i>	March 31, 2011	December 31, 2010
Cash on hand	539	430
Cash at bank	197,576	151,975
Cash and cash equivalents	198,115	152,405
Current financial receivables	4,545	6,673
Facilities	49,209	51,950
Short-term borrowings	33,746	7,458
Dividends payable to non-controlling shareholders	32,970	-
Swap Liability	31,458	32,410
Capital Securities	-	46,618
Other	77,650	57,044
Current financial debt	225,033	195,480
Net current financial debt	22,373	36,402
Facilities	821,802	848,888
Notes due 2016	742,333	746,016
Capital Securities	736,500	735,836
Notes due 2018	493,983	493,797
Interest rate swaps	39,714	47,414
Swap Liability	30,249	29,953
Other	38,575	37,127
Non current financial debt	2,903,156	2,939,031
Net financial position	2,925,529	2,975,433
Total indebtedness included in net financial position	2,914,926	2,951,692

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

16. Non-current assets classified as held for sale

VLT rights

The Company recently implemented a commercial strategy whereby it will offer VLT rights, machines, and systems to other operators in the Italian machine gaming market in return for a percentage of net sales. The Company is in ongoing discussions with other operators in the Italian machine gaming market under which these operators would purchase VLT rights held by the Company. These assets were previously classified as intangible assets within the Italian Operations segment. The Company expects these transactions to close in 2011 and has classified €27 million as an asset held for sale.

17. Other reserves

Other reserves at March 31, 2011 consist of the following:

<i>(thousands of euros)</i>	Legal Reserve	Stock Option and Restricted Stock Reserve	Share- Based Payment Reserve	Ex Art 2349 Reserve	Net Unrealized Gain/ (Loss) Reserve	Translation Reserve	Treasury Share Reserve	Other Reserve	Total
Balance at January 1, 2011	34,403	60,706	2,193	1,834	(1,227)	(1,794)	60,113	(3,078)	153,150
Fair value of interest rate swaps	-	-	-	-	(75)	-	-	-	(75)
Amortization of gain on interest rate swap on discontinued cash flow hedge	-	-	-	-	(143)	-	-	-	(143)
Unrecognized net loss on derivative instruments	-	-	-	-	(5,908)	-	-	-	(5,908)
Unrecognized net loss on available for sale investment	-	-	-	-	(15)	-	-	-	(15)
Foreign currency translation	-	-	-	-	-	(147,118)	-	-	(147,118)
Other comprehensive loss	-	-	-	-	(6,141)	(147,118)	-	-	(153,259)
Share-based payment	-	-	138	-	-	-	-	-	138
Balance at March 31, 2011	34,403	60,706	2,331	1,834	(7,368)	(148,912)	60,113	(3,078)	29

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

17. Other reserves (continued)

Other reserves at March 31, 2010 consist of the following:

<i>(thousands of euros)</i>	Legal Reserve	Stock Option and Restricted Stock Reserve	Share- Based Payment Reserve	Ex Art 2349 Reserve	Net Unrealized Gain/ (Loss) Reserve	Translation Reserve	Treasury Share Reserve	Other Reserve	Total
Balance at January 1, 2010	30,457	31,458	20,382	1,834	(32,220)	(175,845)	382,096	-	258,162
Fair value of interest rate swaps	-	-	-	-	(1,352)	-	-	-	(1,352)
Amortization of gain on interest rate swap on discontinued cash flow hedge	-	-	-	-	(142)	-	-	-	(142)
Unrecognized net gain on derivative instruments	-	-	-	-	1,594	-	-	-	1,594
Unrecognized net gain on available for sale investment	-	-	-	-	91	-	-	-	91
Foreign currency translation	-	-	-	-	-	153,442	-	-	153,442
Other comprehensive income	-	-	-	-	191	153,442	-	-	153,633
Share-based payment	-	-	1,338	-	-	-	-	-	1,338
Purchase of non-controlling interest	-	-	-	-	-	-	-	(2,061)	(2,061)
Balance at March 31, 2010	<u>30,457</u>	<u>31,458</u>	<u>21,720</u>	<u>1,834</u>	<u>(32,029)</u>	<u>(22,403)</u>	<u>382,096</u>	<u>(2,061)</u>	<u>411,072</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

18. Debt

<i>(thousands of euros)</i>	March 31, 2011	December 31, 2010
Long-term debt, less current portion		
Facilities	821,802	848,888
Notes due 2016	742,333	746,016
Capital Securities	736,500	735,836
Notes due 2018	493,983	493,797
Other	829	875
	<u>2,795,447</u>	<u>2,825,412</u>
Short-term borrowings		
Short-term borrowings	33,746	7,458
	<u>33,746</u>	<u>7,458</u>
Current portion of long-term debt		
Facilities	49,209	51,950
Notes due 2016	13,004	2,926
Notes due 2018	8,958	2,240
Capital Securities	-	46,618
Other	14,562	15,088
	<u>85,733</u>	<u>118,822</u>
Total indebtedness	<u>2,914,926</u>	<u>2,951,692</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

18. Debt (continued)

Facilities

In December 2010, Lottomatica and GTECH entered into an agreement with a syndicate of financial institutions for the following facilities:

<u>Facility</u>	<u>Borrower</u>
\$700 million term loan (the "Term Loan Facility")	GTECH
€500 million multi-currency revolving credit facility ("Revolving Facility A")	GTECH
€400 million multi-currency revolving credit facility ("Revolving Facility B")	Lottomatica

Revolving Facility A and Revolving Facility B are collectively referred to as the "Revolving Facilities" and the Term Loan Facility and the Revolving Facilities are collectively referred to as the "Facilities".

The Facilities are unsecured and unsubordinated and expire on December 20, 2015. The Term Loan Facility and Revolving Facility A are fully and unconditionally guaranteed by Lottomatica, GTECH Holdings Corporation ("Holdings"), GTECH Rhode Island Corporation ("GTECH Rhode Island") and Invest Games S.A ("Invest Games") (Holdings, GTECH Rhode Island and Invest Games are collectively referred to as the "Other Guarantors").

Revolving Facility B is fully and unconditionally guaranteed by GTECH and the Other Guarantors. GTECH is required to repay the Term Loan Facility pursuant to the following schedule (US dollars in thousands):

2011	70,000
2012	105,000
2013	140,000
2014	175,000
2015	210,000
Total	<u>700,000</u>

Interest on the Facilities is generally payable between one and six months in arrears. Interest rates are determined by reference to LIBOR for the Term Loan Facility and either LIBOR or EURIBOR for the Revolving Facilities, plus a margin based on the Group's ratio of total net debt to earnings before interest, taxes, depreciation and amortization, and the Group's senior unsecured long-term debt rating. A facility fee is payable quarterly at a rate of 37.5% of margin per annum on the total available commitment under the Facilities. A utilization fee is payable quarterly at a rate between 0% and 0.4% per annum based on the average daily amount outstanding under the Revolving Facilities. At March 31, 2011, the effective interest rate on the Facilities was 2.02%.

The agreement for the Facilities has covenants and restrictions, among other things, requirements relating to the maintenance of certain financial ratios, limitations on acquisitions, and limitations on dividends. Violation of these covenants may result in the full principal amounts of the Facilities being immediately payable upon written notice. At March 31, 2011 and December 31, 2010, we were in compliance with all covenants and restrictions.

Debt issuance costs associated with the Facilities are being amortized over approximately five years beginning January 2011.

As of March 31, 2011, €387.6 million of borrowings and letters of credit are outstanding under the Revolving Facilities.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

18. Debt (continued)

Notes Due 2016

In December 2009, Lottomatica issued €750 million of guaranteed notes due December 5, 2016 (the "2009 Notes"). The 2009 Notes are unconditionally and irrevocably guaranteed by GTECH and the Other Guarantors. The 2009 Notes, which have received ratings of Baa3 and BBB- by Moody's Investors Service and Standard & Poor's Rating Service, respectively, are listed on the Luxembourg Stock Exchange.

Interest on the 2009 Notes is payable annually in arrears on each December 5, commencing on December 5, 2010, at 5.375% per annum, and is subject to adjustment from time to time in the event of a step up rating change or step down rating change. In the event of a step up or step down rating change, the interest rate shall be increased or decreased by 1.25% per annum, provided that at no time during the term of the 2009 Notes will the interest rate be higher than 6.625% or lower than the initial rate of interest of 5.375%.

Unless previously redeemed or purchased and cancelled, the 2009 Notes will be redeemed at 100% of their principal amount on December 5, 2016. The 2009 Notes may be redeemed at any time after January 4, 2010 by Lottomatica, in whole but not in part, at the greater of (i) 100% of their principal amount together with any accrued interest or (ii) an amount specified in the terms and conditions of the 2009 Notes. The 2009 Notes may also be redeemed in whole, but not in part, at 100% of their principal amount at the option of Lottomatica in the event of certain changes affecting taxation in Italy, the United States or Luxembourg. Holders of the 2009 Notes may require Lottomatica to redeem the 2009 Notes in whole or in part at 100% of their principal amount plus accrued interest following the occurrence of certain events specified in the terms and conditions of the 2009 Notes.

Debt issuance costs associated with the 2009 Notes are being amortized over approximately seven years beginning December 2009.

Capital Securities

In May 2006, Lottomatica issued €750 million of subordinated interest-deferrable capital securities due March 2066 (the "Capital Securities"). The Capital Securities have a fixed interest rate of 8.25% payable annually through March 31, 2016 and thereafter have a variable interest rate of six-month EURIBOR plus 505 basis points payable semi-annually. The Capital Securities, which have received ratings of Ba2 and BB by Moody's Investors Service and Standard & Poor's Rating Service, respectively, are listed on the Luxembourg Stock Exchange.

The Capital Securities are redeemable at maturity, at par value after March 31, 2016, upon the occurrence of certain tax events, through open market purchases, by public cash tender offer or if a change of control event occurs.

Debt issuance costs associated with the Capital Securities are being amortized over 10 years beginning May 2006.

The terms of the Capital Securities allow Lottomatica to optionally defer interest payments and mandates deferral of interest payments if Lottomatica is in breach of the interest coverage ratio as defined in the trust deed for the Capital Securities. Under circumstances described in the trust deed for the Capital Securities, Lottomatica is required to settle deferred interest payments with cash or equity. Lottomatica paid €61.9 million of interest on the Capital Securities in the first three months of 2011 and 2010.

The terms of the Capital Securities require Lottomatica to authorize the issuance of ordinary shares in accordance with a resolution approved by Lottomatica shareholders. At each annual general meeting, the value of the ordinary shares authorized for issuance must be at least equivalent to the interest payments due during the following two-year period. As of March 31, 2011, the authorization was in place for the issuance of capital up to €170 million. Interest payments over the next two years are approximately €124 million.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

18. Debt (continued)

Notes Due 2018

In December 2010, Lottomatica issued €500 million of guaranteed notes due February 2, 2018 (the "2010 Notes"). The 2010 Notes are unconditionally and irrevocably guaranteed by GTECH and the Other Guarantors. The 2010 Notes, which have received ratings of Baa3 and BBB- by Moody's Investors Service and Standard & Poor's Rating Service, respectively, are listed on the Luxembourg Stock Exchange.

Interest on the 2010 Notes is payable annually in arrears on each February 2, commencing on February 2, 2012, at 5.375% per annum, and is subject to adjustment from time to time in the event of a step up rating change or step down rating change. In the event of a step up or step down rating change, the interest rate shall be increased or decreased by 1.25% per annum, provided that at no time during the term of the 2010 Notes will the interest rate be higher than 6.625% or lower than the initial rate of interest of 5.375%.

Unless previously redeemed or purchased and cancelled, the 2010 Notes will be redeemed at 100% of their principal amount on February 2, 2018. The 2010 Notes may be redeemed at any time after January 3, 2011 by Lottomatica, in whole but not in part, at the greater of (i) 100% of their principal amount together with any accrued interest or (ii) an amount specified in the terms and conditions of the 2010 Notes. The 2010 Notes may also be redeemed in whole, but not in part, at 100% of their principal amount at the option of Lottomatica in the event of certain changes affecting taxation in Italy, the United States or Luxembourg. Holders of the 2010 Notes may require Lottomatica to redeem the 2010 Notes in whole or in part at 100% of their principal amount plus accrued interest following the occurrence of certain events specified in the terms and conditions of the 2010 Notes.

Debt issuance costs associated with the 2010 Notes are being amortized over approximately seven years beginning December 2010.

Letters of Credit

In connection with certain customer contracts, we are required to issue letters of credit for the benefit of our customers. The letters of credit primarily secure our performance under the customer contracts. At March 31, 2011, €635.0 million of letters of credit were outstanding with a weighted average annual cost of 0.78%. At December 31, 2010, €570.5 million of letters of credit were outstanding with a weighted average annual cost of 0.74%.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

19. Other liabilities (non-current and current)

<i>(thousands of euros)</i>	March 31, 2011	December 31, 2010
Other non-current liabilities		
Deferred revenue	23,834	27,874
Contingent liabilities related to GTECH acquisition	12,704	13,514
Staff severance fund	7,485	7,491
Other	10,750	8,873
	<u>54,773</u>	<u>57,752</u>

<i>(thousands of euros)</i>	March 31, 2011	December 31, 2010
Other current liabilities		
Accrued expenses	70,553	72,506
Employee compensation	69,147	57,958
Taxes other than income taxes	56,226	64,932
Deferred revenue	44,150	39,998
Advance payments from customers	24,870	17,894
Advance billings	6,282	5,842
Other	1,086	-
	<u>272,314</u>	<u>259,130</u>

20. Raw materials, services and other costs

<i>(thousands of euros)</i>	For the three months ended March 31,	
	2011	2010
Operating expenses	203,021	120,596
Outside services	41,542	34,983
Consumables	33,230	28,866
Insurance, miscellaneous taxes and other	26,413	22,840
Cost of product sales	14,680	15,505
Occupancy	12,640	12,712
Telecommunications	12,378	16,512
Travel	6,243	5,604
Write-down of inventories	379	262
	<u>350,526</u>	<u>257,880</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

21. Personnel

<i>(thousands of euros)</i>	For the three months ended	
	March 31,	
	2011	2010
Payroll	90,234	84,087
Statutory benefits	9,426	9,248
Incentive compensation	8,562	5,266
Company benefits	6,973	6,655
Share-based payment (Note 27)	138	1,338
Other	2,228	1,092
	<u>117,561</u>	<u>107,686</u>

The Group's worldwide employees are comprised of the following personnel:

Personnel Description	Number of employees		
	As of		2011 Average
	March 31, 2011	December 31, 2010	
Executives	418	413	417
Middle Management	1,042	1,015	1,036
All Other Permanent Employees	5,917	5,836	5,869
Employees with Temporary Employment Contracts	369	338	355
	<u>7,746</u>	<u>7,602</u>	<u>7,677</u>

22. Depreciation

<i>(thousands of euros)</i>	For the three months ended	
	March 31,	
	2011	2010
Systems, equipment and other assets related to contracts, net (Note 8)	54,301	53,851
Property, plant and equipment, net (Note 9)	3,122	3,329
	<u>57,423</u>	<u>57,180</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

23. Foreign exchange gain (loss), net

Foreign exchange gains and losses are classified as realized (cash) or unrealized (non-cash) as follows:

<i>(thousands of euros)</i>	For the three months ended March 31,	
	2011	2010
Cash foreign exchange gain	461	72
Non-cash foreign exchange gain (loss)	(34,954)	841
	<u>(34,493)</u>	<u>913</u>

Non-cash foreign exchange gain (loss)

Non-cash foreign exchange gain (loss) was comprised of the following:

<i>(thousands of euros)</i>	For the three months ended March 31,	
	2011	2010
GTECH euro denominated debt	(23,339)	-
Intragroup loan	(9,093)	-
Other	(2,522)	841
	<u>(34,954)</u>	<u>841</u>

GTECH euro denominated debt

GTECH borrows in euro to better match the Group's liabilities with euro denominated cash flows. As of March 31, 2011, €385.0 million of borrowings were outstanding under GTECH's €500 million Revolving Facility A which resulted in a non-cash foreign exchange loss during the first three months of 2011 due to fluctuations in the US dollar to euro exchange rate.

Intragroup loan

In December 2010, Lottomatica loaned €150 million to GTECH in connection with the refinancing of €2.65 billion of Group debt. This euro denominated loan, which is due in full in December 2011, resulted in a non-cash foreign exchange loss during the first three months of 2011 due to fluctuations in the US dollar to euro exchange rate.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

24. Interest expense

The Group incurred interest expense on the following:

<i>(thousands of euros)</i>	For the three months ended	
	March 31,	
	2011	2010
Capital Securities	(15,921)	(15,921)
Notes due 2016	(9,686)	(9,627)
Notes due 2018	(6,906)	-
Facilities	(6,419)	-
Interest accretion on Swap Liability	(606)	(886)
GTECH Senior Credit Facilities	-	(13,192)
Other	(2,199)	(1,632)
	<u>(41,737)</u>	<u>(41,258)</u>

See Note 18 for details of the debt related components.

25. Income tax

The significant components of income tax expense are as follows:

<i>(thousands of euros)</i>	For the three months ended	
	March 31,	
	2011	2010
Current		
Italy	41,716	27,129
Foreign	5,472	4,122
Total Current	<u>47,188</u>	<u>31,251</u>
Deferred		
Italy	(12,064)	5,240
Foreign	3,078	(417)
Total Deferred	<u>(8,986)</u>	<u>4,823</u>
Income tax expense	<u>38,202</u>	<u>36,074</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

26. Components of other comprehensive income

<i>(thousands of euros)</i>	For the three months ended	
	March 31,	
	2011	2010
Derivative instruments (cash flow hedges):		
Gains (losses) arising during the period	(9,674)	2,756
Reclassification adjustments for (gains) losses included in the income statement	458	(478)
	<u>(9,216)</u>	<u>2,278</u>

27. Share-based payment plans

The expense recognized during the three months ended March 31, 2011 and 2010 arising from employee share-based payment plans and included in personnel in our consolidated income statement was as follows:

<i>(thousands of euros)</i>	For the three months ended	
	March 31,	
	2011	2010
Performance based stock option plans	-	354
Performance based restricted shares	-	718
Time based restricted shares	138	266
	<u>138</u>	<u>1,338</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

28. Related party disclosures

<i>(thousands of euros)</i>	March 31, 2011	December 31, 2010
Accounts receivable		
De Agostini Group	19,788	19,333
Spain UTE	2,088	2,331
Taiwan Sports Lottery Corporation	111	3
CLS-GTECH Company Limited	1	-
	<u>21,988</u>	<u>21,667</u>
Accounts payable		
De Agostini Group	<u>52,653</u>	<u>53,025</u>
	For the three months ended	
	March 31,	
<i>(thousands of euros)</i>	2011	2010
Service revenue and product sales		
Spain UTE	1,629	1
Taiwan Sports Lottery Corporation	137	354
De Agostini S.p.A.	121	3
CLS-GTECH Company Limited	47	59
	<u>1,934</u>	<u>417</u>
Raw materials, services and other costs		
De Agostini Editore S.p.A. - service fees	1,496	38
De Agostini S.p.A.- management fees	68	67
	<u>1,564</u>	<u>105</u>

De Agostini Group

The De Agostini Group includes De Agostini S.p.A (“De Agostini”), the majority shareholder of Lottomatica and De Agostini Editore S.p.A, a subsidiary of De Agostini. Outstanding accounts receivable balances at March 31, 2011 and December 31, 2010 are non-interest bearing.

Spain UTE

GTECH has a 50% interest in a Spanish joint venture (“Spain UTE”) which is accounted for using the proportionate consolidation method. Spain UTE provided to the National Organization of the Spanish Blind (“ONCE”), end-to-end lottery technology, marketing services, logistics, and retailer services for a lottery retailer network that will complement ONCE’s existing lottery network. ONCE is authorized by the Spanish government to administer lottery and wagering games in Spain.

Taiwan Sports Lottery Corporation

GTECH has a 24.5% interest in Taiwan Sports Lottery Corporation (“TSLC”) which is accounted for using the equity method of accounting. TSLC is the agency commissioned by Taipei Fubon Bank (the sports lottery license holder through December 2013) to be Taiwan’s sport betting solutions and services provider.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

28. Related party disclosures (continued)

CLS-GTECH Company Limited

GGSC has a 50% interest in CLS-GTECH Company Limited ("CLS-GTECH"), which is accounted for using proportionate consolidation. CLS-GTECH is a corporate joint venture that was formed to provide a nationwide KENO system for Welfare lotteries throughout China.

29. Commitments and contingencies

Northstar Lottery Group LLC

In January 2011, the Northstar Lottery Group LLC ("Northstar"), a consortium in which GTECH holds an 80% controlling interest, signed a 10-year private management agreement with the Illinois Lottery (the "State"). Under the agreement, Northstar, subject to the State's oversight, will manage the day-to-day operations of the lottery and its core functions.

As compensation for its management services, Northstar will receive annual fees for reimbursement of certain operating and lottery expenses. Northstar is also entitled to receive annual incentive compensation payments should it achieve certain sales targets but is also subject to provide payments to the State if a minimum, agreed-upon performance level is not achieved.

To the extent net income earned by the State each year exceeds the State established base net income levels for such year, Northstar will earn incentive compensation that is awarded based on various levels of performance, up to an annual maximum of 5% of the actual net income earned by the State.

Northstar's proposal guaranteed a minimum profit level for each of the first five years of the agreement, commencing with the State's fiscal year ending June 30, 2012. The incentive compensation Northstar may earn could be reduced by a shortfall payment in the event Northstar's performance does not achieve the levels it has guaranteed. The annual shortfall payment may not exceed 5% of the net income for such contract year. Given that this agreement is in its early stages, management is currently unable to estimate the financial impact of the minimum profit level guarantee.

Czech Republic

GTECH's lottery customer in the Czech Republic was declared insolvent by a court on March 29, 2011 and is now in insolvency proceedings in the Czech Republic. GTECH has a long-term relationship with this customer which began in 1992. Under the terms of the current facility management contract, which has over ten years remaining, GTECH provides facilities management services, including approximately 7,000 terminals, central system hardware and software, ongoing lottery support services, communication services and operational support to this customer. At March 31, 2011, trade receivables from this customer were €8.1 million. The recoverability of outstanding trade receivables will depend on the resolution of certain future events which are outside the Group's control, however, both GTECH and the Czech customer share a common goal of continued generation of revenues. The Group also has approximately €13.1 million of systems, equipment and other assets related to contracts and approximately €16.3 million of intangible assets on its consolidated statement of financial position related to its contracts with this customer. Although the Czech customer is operating its business, revenues have been impacted materially. Future events will determine the recoverability of these assets, and therefore the financial impact to the Group is not currently estimable.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

29. Commitments and contingencies (continued)

Acquisitions in the Italian Operations segment

The Group has made a number of acquisitions in the Italian Operations segment consisting of strategic investments to exploit growth opportunities in the Sports Betting and Machine Gaming markets. Some of these acquisitions include provisions for the payment of contingent consideration if certain wager or network performance conditions are achieved. Contingent consideration of €1.9 million and €4.3 million, respectively, was paid during the first three months of 2011 and 2010. If the performance conditions continue to be achieved, the Group expects to pay the following additional amounts:

<i>(thousands of euros)</i>	As of March 31,	
	2011	2010
Within one year	7,962	19,248
After one year but not more than five years	1,819	1,900
	<u>9,781</u>	<u>21,148</u>

CLS-GTECH Company Limited

As described above, GGSC has a 50% interest in CLS-GTECH. In December 2007, GGSC made a capital commitment to CLS-GTECH of AUD\$7.5 million in the form of a promissory note to be repaid at the discretion of the CLS-GTECH board of directors. On August 11, 2008, the outstanding commitment remaining under the promissory note was converted from AUD\$6.4 million to US\$5.4 million. At March 31, 2011, the outstanding commitment was US\$3.8 million (€2.7 million at the March 31, 2011 exchange rate).

Loto Real Del Cibao, C.X.A.

On August 28, 2008, GTECH and GGSC entered into a 20-year contract with Loto Real Del Cibao, C.X.A. (“Loto Real”) to be the exclusive technology provider to Loto Real for an online lottery system, terminals, and future commercial services and other gaming opportunities in the Dominican Republic. The contract has a provision that allows GTECH the right to acquire 35% of the outstanding capital of Loto Real within sixty days after receiving audited financial statements and applicable due diligence for the year ended December 31, 2012 at a price equal to 4.5 times calendar 2012 EBITDA.

Guarantees and indemnifications

Loxley GTECH Technology Co., LTD guarantee

GTECH has a 49% interest in Loxley GTECH Technology Co., LTD (“LGT”), which is accounted for using proportionate consolidation. LGT is a corporate joint venture that was formed to provide an online lottery system in Thailand.

At March 31, 2011, GTECH guaranteed, along with the 51% shareholder in LGT, performance bonds from trade finance facilities made to LGT by an unrelated commercial lender. GTECH is jointly and severally liable with the other shareholder in LGT for this guarantee. GTECH’s guarantee obligation is scheduled to terminate on June 30, 2011. At March 31, 2011, the maximum amount guaranteed and outstanding is Baht 375 million (€8.7 million).

Commonwealth of Pennsylvania indemnification

GTECH will indemnify the Commonwealth of Pennsylvania and any related state agencies for claims made relating to the state’s approval of GTECH’s manufacturer’s license in the Commonwealth of Pennsylvania.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation

Lottomatica's Italian Business

1. Lotto Game Concession: Lottomatica/AAMS Arbitration – Stanley International Betting Limited Appeal – Sisal Appeal

Arbitration Lottomatica/AAMS

Pursuant to the arbitration clause set out in article 30 of the Lotto Concession, on January 24, 2005 Lottomatica Group S.p.A. ("Lottomatica") initiated an arbitration proceeding to ascertain the effective initial date of said Concession. Lottomatica asked the Board of Arbitrators to ascertain and state that the initial starting date of the Lotto Concession was June 8, 1998 (date in which the European Commission in Brussels notified the Italian Government that the infringement procedure no. 91/0619 was closed) and that, as a result, the final expiration date of the Lotto Concession is June 8, 2016. Lottomatica's conclusion had been confirmed by an opinion given by Professor Guarino and declared in the 2001 Lottomatica Listing Prospectus.

The Arbitration Award issued by the Board of Arbitrators accepted Lottomatica's request by lodging its award on August 1, 2005 stating that the Lotto Concession became operative only once the infringement procedure initiated by the European Commission was closed. In addition the Board of Arbitrators stated that during the European Litigation there was a so-called stand still period and that the approval by the European Commission was a so-called "*condicio juris*". AAMS challenged the Arbitration Award before the Rome Court of Appeal (pursuant to art. 828 of the Italian code of civil procedure) by serving a deed to defending counsel on December 15, 2005, and to Lottomatica on December 30, 2005. The first hearing was held on April 20, 2006, and was adjourned to January 28, 2010 to hear the conclusions.

In the interim, on January 18, 2008, upon AAMS's request to advance said hearing, the Court of Appeal advanced the hearing date to January 15, 2009.

On January 15, 2009 Lottomatica appeared before the Court of Appeal. Lottomatica specified in its response to the charges brought forth by AAMS that it is of the opinion that they are groundless.

At the July 2, 2009 hearing, the Court of Appeal deferred the hearing to September 26, 2011.

On June 18, 2007 Stanley International Betting Limited served upon AAMS and Lottomatica a summons before TAR of Lazio seeking the annulment and/or the non-application of the note of April 19, 2007, as well as the acts of the Lotto Concession, in connection with which AAMS, on the assumption that the Concession is still in force in favour of Lottomatica, has rejected the request of the plaintiff's co-management of the service of the Lotto. Similar summons were also served by Sisal S.p.A., which also intervened in the appeal of Stanley Betting. Lottomatica appeared in the proceeding and demanded the dismissal of appeals.

TAR of Lazio rejected the two appeals for procedural reasons. Notice of the judgment of the TAR of Lazio was provided by Lottomatica to both Sisal and Stanley on June 24, 2010. Stanley Betting appealed against the decision before the Council of State (Consiglio di Stato) and Lottomatica appeared in the proceeding while Sisal did not, and so for that company the term for the appeal expired on October 8, 2010 (60 days from notification).

As of the date of this report a hearing date was not yet set for the said appeal.

Given the judgment of the TAR of Lazio which seems correctly and adequately motivated, the risk that the action brought by Stanley will be successful seems to be remote.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

2. Ticket One S.P.A. Litigation

On August 12, 2003, Ticket One S.p.A. ("Ticket One"), which operates in the services business sector primarily in the ticketing services area, filed a suit with the TAR of Lazio against Lottomatica and Lottomatica Italia Servizi S.p.A. ("LIS") to obtain, among other things, an order requiring Lottomatica to offer its network to third parties under the same conditions as those offered to the controlled company LIS.

Before serving the appeal dated March 12, 2003, Ticket One had asked Lottomatica for the right to use its network. Lottomatica rejected Ticket One's request.

On December 3, 2003, Ticket One also commenced civil proceedings before the Court of Appeal of Rome, substantially repeating the same claims made in the administrative proceedings before the TAR of Lazio. In addition, Ticket One requested €10 million in damages for alleged unfair competition and illegal use of the network by Lottomatica and LIS, and an order enjoining them from committing any further acts of unfair competition and, alternatively, access to Lottomatica's electronic network.

The Judge issued the ruling on June 25 – August 4, 2009 stating that Lottomatica has no obligation to allow third parties use of its network and therefore dismissing all charges brought forth by Ticket One. On March 13, 2010 Ticket One filed an appeal of the Judge's ruling. At the first hearing held on September 17, 2010, Ticket One did not appear. The Judge, under the principle contained in article 348 of the Italian Civil Procedure Code, postponed the discussion of the litigation proceedings to the hearing of January 28, 2011. At the hearing, Ticket One did not appear and for the reason the appeal has been declared null and void by a ruling issued on February 4, 2011. With the ruling issued on February 4, 2011, the Court of Appeal of Rome dismissed the appeal brought forth by Ticket One.

By ruling of October 28, 2009, November 25, 2009 and December 9, 2009, TAR of Lazio dismissed the appeal of Ticket One. In particular, the above decision: upheld the traceability of network properties in the hands of Lottomatica; did not detect any evidence to consider the network already in use by Lottery – and usable in the specific segment dedicated to the sale of tickets online – as special and exclusive rights given that this market segment does not appear to be prevented or significantly subtracted from third parties; and finally, confirmed the validity of the Concession of Lotto.

At present, the time limits for bringing appeal by Ticket One against the sentence expired.

3. Summons to Formula Giochi Shareholders

On October 26, 2005, the companies Karissa Holding S.A., Cored International S.A., Mr. Massimo Maci and shareholders of Formula Giochi S.p.A. in liquidation (operating in the gaming collection and wagering market) served summons on Lottomatica and Sisal S.p.A. ("Sisal"), to appear - on January 30, 2006- before the Court of Appeal of Rome.

The plaintiffs requested the assessment of the liability of Lottomatica and Sisal for engaging in the anticompetitive conduct enjoined by the order of the Italian Antitrust Authority of November 23, 2004, which conduct, the plaintiffs allege, was responsible for (i) their inability to sell their stake (for €3.0 million) and (ii) Formula Giochi S.p.A.'s inability to enter the gaming and wagering market, which caused the business value of Formula Giochi to decrease by €34.2 million.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

The plaintiffs also requested, that Lottomatica and Sisal be ordered, jointly and severally, to pay directly to the plaintiffs' damages totaling €37.2 million in the aggregate.

Lottomatica contested a number of prejudicial issues concerning, *inter alia*, plaintiff legitimacy and stated that the documents of the proceedings initiated by the Italian Antitrust do not indicate that Lottomatica's conduct was prejudicial and detrimental to Formula Giochi. On the contrary, the documents in the trial dossier, literally transposed in the Authority order to close the case, and in particular, the statements made during the November 10, 2003 hearing by the managing director of Formula Giochi, show that "*the dissolution of the recently established third pole*" derives from causes that are not related to Lottomatica.

Lottomatica duly appeared before the Court of Appeal on January 10, 2006. Formula Giochi S.p.A. appeared through its receiver at the January 30, 2006 hearing. At the February 6, 2006 hearing the Court of Appeal granted the parties 30 days to submit their remarks. By order of March 15, 2006 the Court of Appeal granted the parties 30 days to file their briefs as well as to state and amend their claims, objections and conclusions already made in addition to 30 more days for their replies.

In a brief dated March 31, 2006, Karissa and others, by presenting their motions consequent to the appearance of Formula Giochi S.p.A., admitted the entrance into a settlement agreement between Formula Giochi and Sisal to settle the lawsuit pending between them. This agreement envisaged payment of €0.5 million to Formula Giochi.

In a brief duly filed by Lottomatica, Lottomatica asserted that Karissa Holding S.A.'s active legitimacy no longer existed following the appearance of Formula Giochi, as well as the non-admissibility of the action by Formula Giochi, in addition to the already-formulated preliminary and merit objections.

It was noted how, in the merit, the €0.5 million settlement between Sisal and Formula Giochi against claims by the latter amounting to €34.0 million provided an idea of Formula Giochi's claims, so much so that it attributed the failure of the third pole to Sisal, who had a Director in common with Formula Giochi. Such circumstances do not exist for Lottomatica, which had no relations with Sisal with regard to Formula Giochi (as shown by the Authority order), nor with Formula Giochi itself.

On November 29, 2006, the Court of Appeals, accepting the request made by the opposing party, designated Angelo Novellino as expert witness in order to estimate any damages. The hearing was postponed to February 19, 2007 for the swearing and queries formulation.

After hearing the expert witness's testimony, the Court of Appeals admitted the following queries:

- a) the profits which Formula Giochi would have earned if it had had access to the gaming market according to conservative criteria which took into account the company's size, its ability to penetrate the market and its investment capacities;
- b) whether Formula Giochi had suffered any damages from the inability to present itself as an operator other than Sisal and Lottomatica in the Italian gaming market;
- c) if the response to point 2 was positive, whether it was possible to quantify the damages suffered by Formula Giochi for having missed said opportunity, referring to valid economic parameters and according to rational methods leading to statistically plausible conclusions, and a prudent evaluation.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

The expert opinion presented on February 21, 2008 stated that:

- *“the financial reports of Formula Giochi and its subsidiaries demonstrate that at the launch of the strategic plan in March 2003 the group did not generate revenues and was in a liquidity crisis which resulted in serious financial tensions”, “the group was in need of an immediate injection of over €4 million only to cover the losses incurred in 2002 and was therefore not able to independently undertake an operation in the ex Coni gaming market”. The expert witness further includes that based on the economic information supplied by Lottomatica regarding the management of ex Coni games, the Formula Giochi group would not have generated any profits if it had been granted free access to the ex Coni gaming market;*
- *“the absence of Formula Giochi from the ex Coni games tender resulted from the group’s financial difficulties, the lack of authorization of the strategic plan and the lack of financial support from the shareholders”.*

The expert witness concluded that Lottomatica and Sisal did not cause any damage to Formula Giochi and that it was the company’s financial and economic difficulties which prevented the company from participating in the ex CONI games tender.

Due to the extremely favorable outcome of the expert opinion, Lottomatica and its legal representatives determined that it was not necessary to submit any additional brief regarding the expert opinion.

At the June 9, 2008 hearing the Court of Appeals reserved any observations regarding some objections presented by Formula Giochi pertaining to the expert witness testimony. The Court of Appeals claimed that the objections should be however included during the decision-making process. The closing hearing has been set to July 4, 2011.

4. “LAS VEGAS” Instant Lottery Petition

Non-winning “Las Vegas” instant lottery (Scratch and Win) tickets have been presented to the Consorzio Lotterie Nazionali (“Consorzio”) for payment starting in April 2006.

To the date of March 31, 2011, 798 petitions and 102 requests for injunctive payments for alleged prizes and liquidated damages, for a total sum of about €5.9 million, have been presented to the Consorzio Lotterie Nazionali. There have also been numerous requests for out-of-court payments with the same demand.

The claims relate to:

- a) payment of prizes for non-winning tickets. In particular, the players claim that, according to their interpretation of the Rules of the games established by Decree of the Ministry of Economy and Finance dated February 16, 2005, the amounts corresponding to the prizes listed in the various areas of the game tickets are to be paid every time the cards from 10 to K appear assuming that these cards have the same value. The Consorzio considers unfounded the claims of the applicants, being contrary to the Rules of the games that are explicit regarding the qualification of the winning ticket; and
- b) claims for damages, since the Consorzio, following the bulk of the judgments undertaken by players referred to in subparagraph a), has released a series of tickets bearing the words “The card K, Q, J, A have different scores” and so changing the rules. Consorzio contends that the wording inserted later on tickets released for sale is merely a clarification, not an amendment.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

At March 31, 2011, 255 sentences were handed down with judgment as positive, and 236 as negative (the latter referring to all judgments made by "Judges of the Peace").

The Consorzio Lotterie Nazionale has instructed its counsel to file an appeal against the unfavourable rulings.

5. TOTOBIT – Navale Assicurazione Arbitration

Totobit Informatica Software e Sistemi S.p.A. ("Totobit"), a company of the Lottomatica Group, within the scope of its business activities enters into contracts regarding IT services (cellular phone top-ups) with third party retailers.

On January 23, 2002 Totobit executed with Navale Assicurazioni S.p.A. an insurance policy in order to guarantee the fulfillment of payment obligations under the corresponding contracts regarding the above mentioned activities performed by the retailers. The insurance policy had a 3 year duration beginning from January 28, 2002. According to the policy provisions, any breach on the part of the retailers may be reported by Totobit to Navale Assicurazioni within and not later than 3 months of the policy's annual expiration; the guarantee outside this deadline would no longer be valid.

On November 22, 2004 Navale Assicurazioni sent Totobit a notice informing the same that the policy would be terminated effective as of January 28, 2005, thus blocking the settlement of claims allegedly reported late by Totobit for a total of €1.5 million. In view of said missed payment, the arbitration proceeding was initiated on November 8, 2005.

The Arbitration Board approved the expert witness Mr. Enrico Proia to make a technical-accounting review of the documents produced by Totobit on request by Navale Assicurazioni.

On January 22, 2007 the Arbitration Award partly accepted the requests made by Totobit and ruled Navale Assicurazioni S.p.A. to pay the sum of €239,911.66.

The amount referred exclusively to enforcement actions prior to April 28, 2005. The Arbitration Award partly accepted the counterclaim of Navale Assicurazioni S.p.A. regarding some requests of payment made by Totobit and for this reason ordered Totobit to pay the sum of €200,654.19.

Totobit and its counsels filed the appeal against the arbitration award. At the June 6, 2008 hearing the Court of Appeals of Rome set the pre-trial evidentiary hearing to November 18, 2011.

6. Request for Conclusions from the Audit Department on the Setting-Up and Operation of a Screen-Based Gaming Management Network

On June 1, 2007, the Regional Public Prosecutor of the Government Audit Department (Corte dei Conti) served Lottomatica Videolot Rete S.p.A. ("Videolot") and all other nine concessionaires for the operation of gaming machines, an invitation to submit their briefs with regard to an investigation on possible damages to the State Treasury.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

The Regional Prosecutor contested that Videolot, in conjunction with some AAMS officials, inaccurately did not fulfill a number of obligations relating to the concession and failed to comply with certain service levels.

The damage to the State Treasury supposedly caused by Videolot, in conjunction with said AAMS officials, is alleged to add up to approximately €4.0 billion.

Videolot filed a motion on June 27, 2007, contesting the outcome of the Regional Prosecutor and arguing to have always complied with its obligations as concessionaire and requesting the dismissal of the case.

At the same time, AAMS served Videolot and the other nine concessionaires the same charges as those filed by the Regional Prosecutor and requested the payment of damages for the same amount.

Videolot challenged the charges brought forth by AAMS and appealed before the TAR of Lazio requesting the annulment of the above.

Through an order dated July 25, 2007 the TAR of Lazio accepted the appeals brought forth by Videolot and the other concessionaires and annulled the request for damages presented by AAMS. The hearing to discuss the merit was set to January 23, 2008. Videolot presented a technical report prepared by sector experts demonstrating its complete adherence to the concession contract obligations. The report illustrates how Videolot implemented a complete gaming system that is efficient and entirely functional.

On April 1, 2008 the TAR of Lazio issued a ruling annulling the damages request lodged by AAMS for the payment of €4.0 billion by Videolot.

On January 8, 2008, the Regional Public Prosecutor for the Audit Department served notice to Videolot regarding the charges brought forth which partially reduced the penalties to approximately €3 billion, breaking down to:

- 1) €400,000.00 plus interests for the “delay in the launch of the online network” (which should have been launched by September 13, 2004 – effective launch date was October 31, 2004);
- 2) € 1.0 million plus interests for the “delay in the activation of the network” (which should have been completed by October 31, 2004 – effective completion date was December 31, 2004);
- 3) € 991,456.00 plus interests for the “delay in the connection of the gaming machines to the online network” (which should have occurred no later than December 31, 2004 – effective completion date was February 2, 2006);
- 4) € 3.0 billion plus interests for “not having fulfilled all service level obligations provided for in section 2, letter b) of the concession”.

The first hearing before the Audit Department was set to December 4, 2008.

At the same time, on March 13, 2008 AAMS and Videolot signed an amendment to the original Concession contract, amending, among others, the first 3 penalties.

With regard to the indications set forth by the above mentioned TAR ruling and based on the above mentioned additional clause signed between the parties, AAMS, with letters dated as of May 23 and 27, 2008, notified Videolot of the start of investigations with reference to the inaccurately fulfilling the online activation and management obligations relating to the concession and failure to comply with service levels. The Ministry of Finance nominated an ad hoc technical commission for the calculation of the fourth penalty.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

Through letters dated September 2, 2008, October 1 and October 16, 2008, AAMS communicated the completion of the investigation and application of the following penalties:

- a) €33,490.00 for the failure to comply with the timing obligations to launch the online network;
- b) €152,768.00 for the failure to comply with the obligations to complete the activation of the online network;
- c) €216,565.00 for the failure to comply with the obligations to connect the remaining 5% of the gaming machines.

Videolot filed the appeals against the above indicated 3 fines before the TAR of Lazio.

The TAR of Lazio dismissed the motions filed by Videolot on November 30, 2009 and in January 2010 Videolot filed the appeal before the State Council. The hearing before the State Council has been set for May 17, 2011.

It should be noted that the Council of State (Consiglio di Stato), with ruling of November 23, 2010, upheld the appeal filed by the concessionaire "B PLUS GIOCO LEGALE LTD". In particular, the Council of State said that there was no damage (and in addition not proven) and also considered that the breach of contract against the eligible concessionaire does not have any impact in the eventual delay of starting of the public service under the concession, since the delay would depend on a number of factors (technical and administrative) largely unrelated to the sphere of control of the concessionaires themselves. Sogei S.p.A. ("Sogei"), the information and communication technology company of the Ministry of Economy and Finance, objected to the ruling in question on the grounds that in its opinion the aforesaid ruling is erroneous insofar as it suggests that the delay in the launch of the online network was partially determined by the behaviour of Sogei. Specifically, Sogei underlines its third party relation in the concession contract (AAMS – Concessionaire) and its functions refer mainly to the supply of technology to AAMS.

In the meantime, Videolot filed before the Supreme Court a motion whether the application of the penalties provided for the concession fall within the "administrative reserve" of AAMS.

On December 4, 2009 the Supreme Court declared the jurisdiction to be that of the Audit Department. After the judgment of the Supreme Court, Videolot was notified of the resumption of the proceedings before the Audit Department. A hearing was held on October 11, 2010 at which the case was discussed and held for decision.

With a partial ruling and order notified to Videolot on November 17, 2010, the Auditors Court decided: (i) that the damage (if any) to be paid by the concessionaires to the Italian state treasury is different from the fine claimed by AAMS on the basis of non-compliance by the concessionaires with certain service levels under the concession; and (ii) to appoint Digit PA as consultant to verify:

- a) whether the difficulties reported by AAMS, in particular relating to the delay, even intentionally, with which the managers of "the Apparatus" of the transitional period have required concessionaires to be contracted for the connection of the computer system of the concessionaires themselves, the shortage of dedicated communications lines to be used by concessionaires and the presence of gaming machines with different communication ports, may have played a predominant role in the verification of the delay in activating the system;
- b) whether the above circumstances could be predictable and preventable and whether in the concession or in the Rules could have been introduced clauses or provision to take account of these circumstances;
- c) if the concessionaires, in fulfilling their obligations, have complied with all the technical requirements necessary to the proper and timely activation of the communication network, of its completion, of the connection of all gaming machines and the subsequent running of the network;

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

- d) if the technical characteristics of the Central System AAMS-Sogei were appropriate to the type of service and whether, more generally, network design and equipment connections are adequate to perform the function of control over the legal gaming and ultimately, whether failures are detected and/or inefficiencies in the system or network.

Digit PA was granted a period of 9 months from the date of publication of the above sentence for filing answers to the questions raised and so its term will expire on August 11, 2011.

The Auditors Court also sued Sogei which filed an appeal against such a decision asking for the dismissal of the case against it by saying that no evidence has been given by the Regional Prosecutor of any default or noncompliance of Sogei. As a consequence of the appeal of Sogei, all the 10 concessionaires filed their partial appeal against the ruling by asking for a dismissal of the case. Videolot filed its appeal against the same decision requesting its annulment, asserting that the ruling issued by the Auditors Court is affected by various flaws, asserting also that no damages arising from SLA breaches of the Concession exist and denouncing that the liquidated damages requested by the Auditors Court are an illegal duplication with the fines claimed by AAMS against the concessionaires.

It should, however, be noted that in the meantime (July 2009) the Technical Committee appointed by the Minister of Economy for the determination of the fourth penalty has reversed its own conclusions. Such findings showed the non-proportionality and unreasonableness of the criteria set forth in the Convention and therefore AAMS sought advice on how to proceed from the Avvocatura dello Stato (that is, the Attorney General of the Government) and then from the Consiglio di Stato (that is, the Council of State). The Council of State transmitted its legal opinion to Videolot on October 8, 2010 (very close to the hearing set before the Court of Auditors). In this document the Council of State declared that it shared AAMS' opinion regarding the need to bring fairness and reasonableness to the fourth penalty as already had been done for the first three penalties, under the provision of art. 1, Law n. 40/2010. The Council of State also expressed a positive opinion regarding AAMS' intention to use a special addendum to the Convention to bring back reasonableness and fairness in the concession agreement and above all in the fourth penalty.

On October 22, 2010, AAMS and Videolot executed a new addendum to the concession. This addendum specifies the new rules for the calculation of the fourth penalty for non-compliance with service levels for the period July 2005 – March 2008. The addendum also sets forth the maximum annual penalty that may be paid by a concessionaire as equal to 11% of its annual remuneration to be calculated in accordance with article 6 of paragraph 3 of the AAMS network decree. Videolot has specified that its execution of the addendum does not imply any default on its part and has stated that the concessionaire's remuneration must be its actual compensation.

On February 24, 2011 AAMS notified Videolot of the calculation of the fourth penalty, keeping to the maximum annual penalty amount that may be paid by a concessionaire as equal to 11% of its annual remuneration, for a total of €9,737,625.44. The calculation was carried out based on the Council of State's presumed acceptance of the October 16, 2008 appeal brought forth by Videolot requesting the annulment of the AAMS penalties (€216,565.00). If the Council of State formally accepts said appeal, the fourth penalty will therefore be reduced to €9,521,060.44.

Videolot considered the penalty imposed by AAMS as illegitimate, insofar as (i) it duly carried out its requirements, (ii) no damage was incurred, and no proof presented of any damage, (iii) no proportionality between the fourth penalty compared to the first three which, according to the Council of State, may be considered penalties beyond the extent of possible damages resulting from not adhering to the service levels, and (iv) incorrect calculations.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

In addition, Videolot asked AAMS to have access to all the data regarding the calculation of the fourth penalty and also for a postponement of the deadline for the submission of its defense after the access. AAMS responded by saying that the access will be granted once the data is received by Sogei and acknowledging that the 30 day period for responding will start after the access is completed.

7. SUPERENALOTTO Tender Appeal

On June 6, 2008 Lottomatica filed an appeal with the TAR of Lazio challenging the April 2, 2008 AAMS communication (protocol no. 2008/12798/giochi/Ena) in which Lottomatica was notified of the definitive awarding of the tender to Sisal. With said appeal, Lottomatica challenged the offer presented by Sisal. Stanley included its statement in the appeal brought forth by Lottomatica. Snai has filed its own separate appeal.

At the October 8, 2008 hearing, the TAR of Lazio postponed the negotiation for the preliminary motion brought forth by Lottomatica to October 22, 2008 in order to obtain all necessary deeds relating to the awarding procedure (the discussion of the same preliminary motion brought forth by Snai was set for the same date).

The award of the tender to Sisal was also challenged by Snai on the grounds of erroneous evaluations carried out by the Awarding Commission. The TAR of Lazio issued a court order on June 4, 2008 requesting the tender documentation from AAMS.

On October 22, 2008 the TAR of Lazio issued a court order granting Lottomatica and Snai the opportunity to examine all tender deeds.

On April 16, 2009 AAMS sent Lottomatica an official copy of Decree of April 7, 2009 which constituted a specific Committee to control the anomalies in the offer presented by Sisal. Said Committee communicated the conclusion of its review and evaluation of the offer in question on May 25, 2009. In addition AAMS notified Lottomatica on June 23, 2009 of the Decree of June 10, 2009 with which the final review of the tender award to Sisal was completed with a positive outcome.

AAMS presented the said conclusions regarding the offer presented by Sisal at the May 27, 2009 hearing. SNAI has already submitted additional claims against the above mentioned evaluation of the Sisal offer. Lottomatica is doing the same.

The April 16, 2009 appeal brought forth by Lottomatica requested the TAR of Lazio to ascertain its right to review the administrative documents requested on February 24 and March 19, 2009 (Sisal and points of sale contract and AAMS authorization, as well as documentation regarding AAMS review). AAMS denied Lottomatica access to said documents on March 20, 2009. The ruling issued on June 10, 2009 by the TAR of Lazio admitted the appeal presented by Lottomatica and ordered AAMS to grant Lottomatica access to said documents. Lottomatica executed the abovementioned access in order to verify the irregular offer presented by Sisal. The next hearing has not been set.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

8. Auditing Court – Judicial Account Appeal (years 2004-2005)

The Regional Public Prosecutor of the Auditing Court ("Corte dei Conti") served Lottomatica Videolot Rete S.p.A ("Videolot") and the other nine concessionaires, a summons for the rendering of the judicial accounts related to 2004-2005 years.

Videolot appeared before the Court on March 2, 2009 by submitting a regulation of jurisdiction in order to challenge the Auditing Court's jurisdiction due to the fact that Videolot is not an accounting agent but a "fiscal passive subject" as so also qualified by the rules in PREU ("Prelievo Erariale Unico") sector.

On April 20, 2010 the Supreme Court of Cassation declared the jurisdiction of the Auditing Court.

On April 13, 2010 the Regional Prosecutor of the Auditing Court (irrespective of the fact that at that time was still pending the decision of the Supreme Court), having considered definitely expired the term for delivery of the rendering of accounts (May 2009), notified Videolot with a new summons ordering Videolot to pay a penalty of €80 million because of its failure to submit the rendering of account.

The new penalty has been set in the amount of 50% of the profit assumed to be obtained by Videolot, and calculated in the amount of 11.5% of the wagers for the years 2004-2006 as registered by AAMS ("Amministrazione Autonoma dei Monopoli"). The hearing was held on October 7, 2010 after the parties filed their written defences and also the judicial accounts related to 2004-2009 years duly approved by AAMS.

With a ruling notified to Videolot on November 18, 2010, the Auditors Court rejected the instance of the Prosecutor. Videolot was also acquitted in that (i) the same cannot be accused of the subjective element of intent or gross negligence, because he could legitimately be presumed not to be subject to the filing of the judicial accounts; (ii) Videolot has always deposited promptly the above accounts to AAMS by transmitting electronic data of the amounts played; and (iii) Videolot has also deposited the accounts to the Auditors Court as soon as it learned that there was an obligation to do so.

Because of that acquittal, the Auditors Court ordered the liquidation of legal costs of €1,000 in favour of Videolot. On April 13, 2011, the Regional Public Prosecutor of the Government Audit Department (Corte dei Conti) filed an appeal of the Auditors Court's ruling. As of the date of this report, a hearing date was not yet set for the said appeal.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

GTECH's Business

1. CEF Contract Proceedings

Background

In January 1997, Caixa Economica Federal ("CEF"), the operator of Brazil's National Lottery, and Racimec Informática Brasileira S.A. ("Racimec"), the predecessor of GTECH Brazil, entered into a four-year contract pursuant to which GTECH Brazil agreed to provide on-line lottery services and technology to CEF (the "1997 Contract"). In May 2000, CEF and GTECH Brazil terminated the 1997 Contract and entered into a new agreement (the "2000 Contract") obliging GTECH Brazil to provide lottery goods and services and additional financial transaction services to CEF for a contract term that, as subsequently extended, was scheduled to expire in April 2003. In April 2003, GTECH Brazil entered into an agreement with CEF (the "2003 Contract Extension") pursuant to which: (a) the term of the 2000 Contract was extended into May 2005, and (b) fees payable to GTECH Brazil under the 2000 Contract were reduced by 15%. On August 13, 2006, all agreements between GTECH and CEF terminated in accordance with their terms.

Criminal Allegations Against Certain Employees

a. In late March 2004, federal attorneys with Brazil's Public Ministry (the "Public Ministry Attorneys") recommended that criminal charges be brought against nine individuals, including four senior officers of CEF, Antonio Carlos Rocha, the former Senior Vice President of GTECH and President of GTECH Brazil, and Marcelo Rovai, then GTECH Brazil's marketing director and currently employed in GTECH's Latin America Group ("Denuncia 1").

The Public Ministry Attorneys had recommended that Messrs. Rocha and Rovai be charged with offering an improper inducement in connection with the negotiation of the 2003 Contract Extension, and co-authoring, or aiding and abetting, certain allegedly fraudulent or inappropriate management practices of the CEF management who agreed to enter into the 2003 Contract Extension. Neither GTECH nor GTECH Brazil were the subject of this criminal investigation, and under Brazilian law, entities cannot be subject to criminal charges in connection with this matter.

In June 2004, the judge reviewing the charges in Denuncia 1 prior to their being filed refused to initiate the criminal charges against the nine individuals but instead granted a request by the Brazilian Federal Police to continue the investigation which had been suspended upon the recommendation of the Public Ministry Attorneys that criminal charges be brought. The Brazilian Federal Police subsequently ended their investigation and presented a report of their findings to the court. This report did not recommend that indictments be issued against Messrs. Rocha or Rovai, or against any current or former employee of GTECH or GTECH Brazil. The Public Ministry Attorneys then requested that the Brazilian Federal Police reopen their investigation. We understand that the Federal Police subsequently completed their investigation and, in August 2010 issued a report, based entirely upon the June 21, 2006 Brazilian congressional report described below, and sent the report to the Public Ministry Attorneys.

b. Notwithstanding the favourable resolution of the Brazilian Federal Police's initial investigation, on June 21, 2006, a special investigating panel of the Brazilian congress issued a report and voted, among other things, to ask the Public Ministry Attorneys to indict 84 individuals, including one current and three former employees of GTECH Brazil, alleging that the individuals helped GTECH Brazil to illegally obtain the 2003 Contract Extension. GTECH found nothing in the congressional report to cause it to believe that any present or former employee of GTECH or GTECH Brazil committed any criminal offence in connection with obtaining the 2003 Contract Extension.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

c. GTECH conducted an internal investigation of the 2003 Contract Extension under the supervision of the independent directors of GTECH Holdings Corporation. GTECH found no evidence that GTECH, GTECH Brazil, or any of their current or former employees violated any law, or is otherwise guilty of any wrongdoing in connection with these matters.

The U.S. SEC began an informal inquiry in February 2004, which informal inquiry became a formal investigation in July 2004, into the Brazilian criminal allegations against Messrs. Rocha and Rovai, and GTECH's involvement in the facts surrounding the 2003 Contract Extension, to ascertain whether there has been any violation of United States law in connection with these matters. In addition, in May 2005, representatives of the United States Department of Justice asked to participate in a meeting with GTECH and the SEC. GTECH cooperated fully with the SEC and the United States Department of Justice with regard to these matters, including by responding to their requests for information and documentation. In August 2009, GTECH was advised by the SEC that the SEC had concluded its investigation and did not intend to recommend enforcement action.

d. These favourable developments notwithstanding, in September 2010, GTECH received a copy of new criminal charges that Public Ministry Attorneys recommend to a Brazilian Federal judge be filed against 16 individuals, including 14 current or former CEF officers and employees, Antonio Carlos Rocha and Marcos Andrade, a former officer of GTECH Brazil ("Denuncia 2"). The Public Ministry Attorneys assert that the defendants "swindled public money" through entering into successive illegal price changes, contract extensions and other amendments to CEF's contracts with Racimec and GTECH Brazil, and agreeing to reduce or eliminate contractual fines and penalties that should properly have been imposed upon Racimec and GTECH Brazil. Such allegations echo charges, discussed below, which have been made in the past by the: (i) Public Ministry Attorneys in their April 2004 civil action, and (ii) Federal Court of Accounts in their 2003 TCU Audit Report. These more recent allegations by the Public Ministry Attorneys include the claim made in the April 2004 civil action that a consulting company in which a former CEF director held an interest served as an intermediary in contract negotiations between CEF and a Brazilian public utility pursuant to which CEF allowed the public utility to provide prepaid cellular phone cards through the CEF lottery network operated by GTECH Brazil. GTECH Brazil was not a party to this agreement, entered into in 1999. The Public Ministry Attorneys advance the theory that the consulting company received the 1999 contract in consideration for the former CEF director's assistance in influencing CEF negotiations to the advantage of GTECH Brazil. The Public Ministry Attorneys advance no facts (old or new) that would support this new allegation. The charges in Denuncia 2 must be approved by a Brazilian Federal judge prior to their being filed. As part of this process, the judge has allowed each of the defendants, including Messrs. Rocha and Andrade, an opportunity to present a defense prior to his decision to accept or reject Denuncia 2.

e. In November 2010, GTECH received a copy of criminal charges that Public Ministry Attorneys recommend to a Brazilian Federal judge be filed against nine individuals, including Antonio Carlos Rocha, Marcelo Rovai and Marcos Andrade ("Denuncia 3"). The Public Ministry Attorneys assert that the defendants be charged with corruption for using improper influence and offering undue advantage as a form of payment to obtain the 2003 Contract Extension. The Public Ministry Attorneys advance no new facts that would support this new allegation.

GTECH finds nothing in these charges that would lead it to believe that any present or former employee of GTECH or GTECH Brazil committed any criminal offense involving any contract between Racimec or GTECH Brazil and CEF. Neither GTECH nor GTECH Brazil is named as a defendant in these criminal charges and, as noted above, under Brazilian law entities cannot be subject to criminal charges in connection with these matters.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

The Brazilian Federal judge has approved the filing of the charges in Denuncia 3 to be brought against all but one defendant in this matter. The judge is allowing one defendant, because he was a former government employee, the opportunity to present a defense prior to determining whether to accept Denuncia 3. The Company believes Mr. Rocha is appealing the decision to deny certain defendants from presenting a defense at this point in the process.

Messrs. Rocha, Rovai and Andrade have not yet been served with any Denuncia setting forth charges against them. GTECH believes that its two former employees and one current employee involved have strong substantive and procedural defenses and that the assertions made against them are groundless.

Civil Action By The Public Ministry Attorneys

In April 2004 the Public Ministry Attorneys initiated a civil action in the Federal Court of Brasilia against GTECH Brazil; 17 former officers and employees of CEF; the former president of Racimec; Antonio Carlos Rocha; and Marcos Andrade, another former officer of GTECH Brazil. This civil action alleges that the defendants acted illegally in entering into, amending and performing, the 1997 Contract, and the 2000 Contract.

This lawsuit seeks to impose damages equal to the sum of all amounts paid to GTECH Brazil under the 1997 Contract and the 2000 Contract, and certain other permitted amounts, minus GTECH's proven investment costs. The applicable statute also permits the assessment of interest and, in the discretion of the court, penalties of up to three times the amount of the damages imposed. GTECH estimates that through the date of the lawsuit, GTECH Brazil received under the 1997 Contract and the 2000 Contract a total of approximately 1.5 billion Brazilian Reals (or approximately €647.02 million at currency exchange rates in effect as of March 31, 2011). In addition, although it is unclear how investment costs would be determined for purposes of this lawsuit, GTECH estimates that its investment costs through the date of the lawsuit were approximately between 1.2 billion and 1.4 billion Brazilian Reals (or approximately between €517.6 million and €603.8 million at currency exchange rates in effect as of March 31, 2011) in aggregate; however, these investment costs could be disputed by CEF, and are ultimately subject to approval by the court.

The civil action relies heavily on a June 2003 audit (the "2003 TCU Audit Report") by the Federal Court of Accounts ("TCU"), the court charged with auditing agencies of the Brazilian federal government and its subdivisions. The TCU summoned GTECH Brazil, together with several then current and former employees of CEF, to appear before TCU's Brasilia court to show cause why the defendants should not be required to jointly pay a base amount determined on a preliminary basis by the TCU to be due of 91,974,625 Brazilian Reals (or approximately €39.6 million at currency exchange rates in effect as of March 31, 2011), duly indexed for inflation and interest as of May 26, 2000 (Decision No. 692/2003). The central allegation of the 2003 TCU Audit Report is that under the 1997 Contract, GTECH Brazil was accorded certain payment increases respecting lottery services, and it contracted to supply to CEF certain lottery-related services that were not contemplated by the procurement process respecting the 1997 Contract and that are not otherwise permitted under applicable Brazilian law. The 2003 TCU Audit Report alleges that as a result of this, CEF overpaid GTECH Brazil under the 1997 Contract for the period commencing in January 1997 through May 26, 2000, and that GTECH Brazil is liable with respect to such alleged overpayments as specified above. The 2003 TCU Audit Report did not allege that GTECH Brazil acted improperly. In April 2008, a panel of judges at the TCU ruled in GTECH Brazil's favour to dismiss this matter. In the panel's decision, it ruled that CEF actually received savings from the contract amendments as GTECH Brazil had argued.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

GTECH has been advised by Brazilian counsel that civil matter proceedings brought by the Public Ministry Attorneys are likely to take several years, and could take longer than 15 years in certain circumstances to litigate through the appellate process to final judgment. GTECH believes that these claims are groundless.

TCU Audit

In June 2005, the TCU issued a preliminary report (the "2005 TCU Audit Report") with respect to GTECH Brazil's contracts with CEF. While GTECH Brazil has not been formally served with a copy of the 2005 TCU Audit Report, GTECH understands that its central allegations are that the 1997 Contract was improperly transferred from Racimec to GTECH Brazil; it was accorded certain payment increases respecting financial services transactions that were not contemplated by the procurement process respecting the 1997 Contract or otherwise permitted under applicable Brazilian law; and the 2003 Contract Extension was entered into a manner inconsistent with Brazilian law and the procurement process respecting the 1997 Contract. The 2005 TCU Audit Report alleges that as a result of these considerations, CEF overpaid GTECH Brazil under the 1997 Contract and the 2000 Contract. The 2005 TCU Audit Report seeks payment from GTECH of a base amount determined on a preliminary basis by TCU to be approximately 400 million Brazilian Reals (approximately €172.5 million at currency exchange rates in effect as of March 31, 2011).

In October 2010, a panel of judges at the TCU ruled in GTECH Brazil's favour to dismiss the charges contained in the 2005 TCU Audit Report without liability to GTECH Brazil.

2. ICMS Tax

On July 26, 2005, the State of São Paulo challenged GTECH Brazil for classifying the remittances of printing ribbons, rolls of paper and wagering slips ("Consumables") to lottery outlets in Brazil as non-taxable shipments. The tax authorities disagree with that classification and argue that these Consumables would be subject to ICMS tax as opposed to the lower rate ISS tax that GTECH Brazil paid. The tax authorities argue that in order for printed matter to be considered non-taxable it has to be "personalized." To be considered personalized, the Consumables must be intended for the exclusive use of the one ordering them. GTECH Brazil filed its defense against the Tax Assessment Notice, which was dismissed. GTECH Brazil filed an Ordinary Appeal and a Special Appeal to the Court of Taxes and Fees, both of which were not granted. The State Treasury of São Paulo has filed a tax foreclosure to collect the tax obligation amounting to 22,910,722 Brazilian Reals (approximately €9.8 million at exchange rates in effect as of March 31, 2011) plus statutory interest, penalties and fees of approximately 67.2 million Brazilian Reals for a total obligation of approximately 90.1 million Brazilian Reals (approximately €38.8 million at exchange rates in effect as of March 31, 2011). GTECH Brazil is preparing to file an appeal of this matter with the First District Court of the State Treasury (Barueri). Prior to filing the appeal, it is likely that GTECH Brazil will be required to provide security for the tax obligation in the event it is unsuccessful in the appeal. GTECH Brazil has been advised by Brazilian counsel that these proceedings are likely to take several years, and could take longer than seven years to litigate through the appellate process to final judgment. GTECH Brazil believes that these claims are groundless.

Additional Required Disclosure

**DECLARATION OF MANAGER RESPONSIBLE FOR THE PREPARATION OF
THE LOTTOMATICA GROUP S.p.A. FINANCIAL REPORTS
PURSUANT TO ARTICLE 154-bis, PAR. 2 OF LEGISLATIVE DECREE
N. 58/1998, AS SUBSEQUENTLY AMENDED AND INTEGRATED (THE
“CONSOLIDATED LAW ON FINANCE”)**

Mr. Stefano Bortoli, the Manager responsible for preparing the Lottomatica Group S.p.A. financial reports, pursuant to Article 154-bis, Paragraph 2 of the Consolidated Law on Finance, certifies that the accounting information contained in the First Quarter 2011 Report corresponds to the document results, books and accounting records of the Company.

Rome, _____, 2011

Executed by Stefano Bortoli as the
Manager Responsible for Lottomatica Group S.p.A.
Financial Reports