



THIRD QUARTER 2010 REPORT

**FOR THE PERIOD ENDING
SEPTEMBER 30, 2010**

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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 September 30, 2010: €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 enacted by the shareholders at a meeting held on April 15, 2008.
- (2) As enacted by the Board of Directors at a meeting held on April 28, 2009.
- (3) As enacted by the Board of Directors at a meeting held on April 15, 2008.

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 "LTOY".

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.

As further described in the Business Overview section of 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 principal Italian operating entity of the Group, has built an extensive distribution network in Italy, with approximately 258,600 terminals in about 115,100 points of sale (including approximately 31,300 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 September 30, 2010, 1,642 points of sale have been acquired.

GTECH is the world's leading operator of highly-secure online lottery transaction processing systems, doing business in more than 50 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, 25 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 Manufacturing, ULC ("Spielo"), 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") on its networks. Spielo holds 105 gaming licenses in jurisdictions throughout North America and Europe. Atronic, a leading video gaming machine provider in Europe, Asia and Latin America, operates in the United States and is licensed in approximately 209 worldwide gaming jurisdictions.

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 more than 50 countries worldwide on six continents and had 7,629 employees as of September 30, 2010. 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.

Overall, the Group had a solid third quarter. Year over year, revenues for the quarter were up 11.9%, EBITDA was up 20.4% and operating income increased by 32.5%.

EBIT decreased by €32.4 million versus the third quarter of 2009 due to unrealized foreign exchange losses on derivative instruments that hedge the risk that the Group's US dollar denominated debt, when measured in euro, would increase due to the weakening of the euro below an average exchange rate of \$1.25. Our hedging strategy with respect to the refinancing of a portion of the Group's US dollar denominated debt is discussed in further detail later in this report.

We experienced double digit revenue growth in our Italian Operations and Gaming Solutions segments in the 2010 third quarter. GTECH revenues grew as well primarily due to fluctuations in foreign currency.

Revenue from Italian operations grew approximately 15% driven primarily by higher revenues from sports betting and machine gaming. Sports betting benefited from a lower payout percentage in the 2010 third quarter versus the same period in 2009. Machine gaming revenues increased by approximately 41%, driven by an increase in wagers, the increased placement of AWP machines and the deployment of VLTs.

In July 2010, we opened Italy's first VLT venue. As we deploy VLTs to satisfy our licenses, we expect the development of that market to be a major contributor to our growth. The VLT opportunity in Italy demonstrates the value of the Group. When we created the Lottomatica Group of companies, we envisioned a time when we would be able to integrate and leverage the core competencies of the combined organizations to address an opportunity. That is what is occurring in Italy in our machine gaming and interactive businesses as Gaming Solutions and G2 help our Italian operations differentiate themselves from the competitors.

Gaming Solutions revenue increased substantially in the 2010 third quarter versus the prior year due to intersegment sales of VLTs to Lottomatica. As mentioned above, these VLTs are associated with the 10,761 licenses we purchased in Italy. In the third quarter of 2010, we were awarded a VLT central system contract by Loto Quebec and we were named one of two vendors to replace Loto Quebec's current network of 12,000 VLTs.

GTECH's third quarter revenues grew approximately 10% over the same period last year primarily due to positive fluctuations in foreign currency. During the third quarter of 2010, GTECH, as part of the Northstar Lottery Group, was awarded the 10-year private management agreement by the Illinois Lottery. GTECH signed new lottery contracts with customers in Poland, Malaysia, Switzerland, Portugal, and Nebraska and a four-year contract extension with the Florida Lottery. During the quarter, GTECH continued to expand its complementary retailer network for ONCE, with more than 7,500 locations throughout Spain currently selling tickets. The number of locations in this network, which includes tobacconists, news stands, and convenience stores, will continue to grow in the coming years. Moreover, GTECH successfully completed complex system conversions for both the New York and New Jersey lotteries.

Finally, our GTECH G2 organization is working closely with World Lottery Association customers to develop and execute interactive platforms in several jurisdictions across the globe. In Canada, Loto-Quebec will utilize GTECH G2's online poker platform which will be shared by the British Columbia Lottery Corporation and the Atlantic Lottery Corporation. This holds great promise and strategically is an important example of lotteries entering the interactive space in North America. The GTECH G2 organization is going through the many changes caused by an evolving regulatory environment in Europe and preparing for the potential of the US market being opened for interactive wagering.

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

	For the three months ended			
	September 30,		Increase (decrease)	
	2010	2009	€	%
Revenue	552,221	493,539	58,682	11.9
EBITDA	199,712	165,865	33,847	20.4
Operating income	111,615	84,230	27,385	32.5
EBIT	38,627	70,983	(32,356)	(45.6)
Net income (loss)	(2,507)	23,912	(26,419)	(110.5)
Diluted earnings (loss) per share	(0.08)	0.09	(0.17)	(188.9)

	For the nine months ended			
	September 30,		Increase (decrease)	
	2010	2009	€	%
Revenue	1,671,388	1,592,189	79,199	5.0
EBITDA	597,049	596,425	624	0.1
Operating income	340,103	345,529	(5,426)	(1.6)
EBIT	281,130	329,263	(48,133)	(14.6)
Net income	84,496	143,098	(58,602)	(41.0)
Diluted earnings per share	0.30	0.72	(0.42)	(58.3)

EBITDA increased 20.4% in the third quarter of 2010 driven by higher revenues and profits from Sports Betting and Machine Gaming in Italy, the impact of cost reduction initiatives taken in the fourth quarter of 2009 and the weakening of the euro against the US dollar. The decrease in EBIT was due to unrealized foreign exchange losses on derivative instruments that hedge the risk that the Group's US dollar denominated debt, when measured in euro, would increase due to the weakening of the euro below an average exchange rate of \$1.25. Partially offsetting this decrease in EBIT was higher profits from Sports Betting and Machine gaming in Italy.

For the first nine months of 2010, EBITDA increased slightly driven by higher revenues and profits from Sports Betting and Machine Gaming in Italy, the impact of cost reduction initiatives taken in the fourth quarter of 2009, and the weakening of the euro against the US dollar. These improvements were partially offset by lower revenues and profits from Lotto in Italy along with the impact of contract portfolio changes in the United States.

COMPARISON OF THE THREE MONTH PERIODS ENDED SEPTEMBER 30, 2010 AND 2009

Consolidated revenue for the three months ended September 30, 2010 increased 11.9% over the same period last year as detailed by operating segment below.

<i>(thousands of euros)</i>	For the three months ended			
	September 30,		Increase (decrease)	
	2010	2009	€	%
Italian Operations	296,249	258,255	37,994	14.7
GTECH Lottery	202,225	184,031	18,194	9.9
Gaming Solutions	59,799	34,608	25,191	72.8
GTECH G2	17,067	17,842	(775)	(4.3)
	575,340	494,736	80,604	16.3
Elimination of intersegment revenue	(23,244)	(1,274)	(21,970)	>200.0
Other (a)	125	77	48	62.3
Total revenue	552,221	493,539	58,682	11.9

(a) Represents the amortization of acquired intangible assets in connection with the August 2006 acquisition of GTECH by Lottomatica.

Italian Operations segment

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

<i>(thousands of euros)</i>	For the three months ended			
	September 30,		Increase (decrease)	
	2010	2009	€	%
Lotto	81,916	88,664	(6,748)	(7.6)
Instant tickets	74,661	73,869	792	1.1
Other	265	290	(25)	(8.6)
Lottery	156,842	162,823	(5,981)	(3.7)
Sports Betting	48,965	24,573	24,392	99.3
Machine Gaming	53,470	37,837	15,633	41.3
Interactive	11,367	9,398	1,969	21.0
Commercial Services	25,605	23,624	1,981	8.4
Total revenue	296,249	258,255	37,994	14.7

The Italian Operations segment includes all Italian licenses related activities including our exclusive concessionaires (lotteries) and multi-provider concessionaires (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 September 30, 2010 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 declined 7.6% due to a corresponding decline in Lotto wagers as detailed in the table below.

<i>(millions of euros)</i>	For the three months ended			
	September 30,		Decrease	
	2010	2009	Wagers	%
Core wagers	1,036.2	1,108.2	(72.0)	(6.5)
Wagers for late numbers	235.6	271.2	(35.6)	(13.1)
	<u>1,271.8</u>	<u>1,379.4</u>	<u>(107.6)</u>	<u>(7.8)</u>

Instant tickets

Instant ticket revenue in the three months ended September 30, 2010 was comparable to the same period last year. The €21.7 million increase in instant ticket sales was principally due to an increase in the sale of €5 tickets.

	For the three months ended			
	September 30,		Increase (decrease)	
	2010	2009	Amount	%
Total tickets sold (in millions)	561.2	566.0	(4.8)	(0.8)
Total sales (in millions)	€ 2,142.8	€ 2,121.1	€ 21.7	1.0
Average price point	€ 3.82	€ 3.75	€ 0.07	1.8

Sports Betting

Sports betting revenue increased 99.3% due to a lower payout percentage during the three months ended September 30, 2010 compared to the same period of the prior year. As of September 30, 2010, our market share (in terms of total wagers) with respect to fixed odds sports-betting operations was 22.8% (20.4% during the same period of the prior year) with 1,188 fixed odds sports-betting and 454 sports pool points of sale locations operational.

<i>(millions of euros)</i>	For the three months ended			
	September 30,		Decrease	
	2010	2009	Wagers	%
Fixed odds sports betting wagers	158.9	166.7	(7.8)	(4.7)
Sports pool wagers	14.4	22.6	(8.2)	(36.3)
	<u>173.3</u>	<u>189.3</u>	<u>(16.0)</u>	<u>(8.5)</u>

Machine Gaming

Machine Gaming revenue increased 41.3% driven by a 27.9% increase in wagers, the increased placement of AWP machines, and the deployment of VLTs (beginning in July 2010) that are associated with 10,761 VLT rights, as detailed in the table below.

	For the three months ended			
	September 30,		Increase	
	2010	2009	Amount	%
Wagers (in millions)	€ 1,105.6	€ 864.1	€ 241.5	27.9
Gaming machines installed (end of September)	55,431	50,543	4,888	9.7

Interactive

Interactive revenue increased 21.0% principally driven by an increase in skill game wagers (such as poker, backgammon and blackjack) as detailed in the table below.

<i>(millions of euros)</i>	For the three months ended			
	September 30,		Increase (decrease)	
	2010	2009	Wagers	%
Skill game wagers	100.5	79.7	20.8	26.1

Commercial Services

Commercial Services revenue increased 8.4% principally due to an increase in bill payment services, 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			
	September 30,		Increase	
	2010	2009	€	%
United States	106,931	104,777	2,154	2.1
International	78,670	69,650	9,020	13.0
Service revenue	<u>185,601</u>	<u>174,427</u>	<u>11,174</u>	<u>6.4</u>
United States	3,464	2,174	1,290	59.3
International	13,160	7,430	5,730	77.1
Product sales	<u>16,624</u>	<u>9,604</u>	<u>7,020</u>	<u>73.1</u>
United States	110,395	106,951	3,444	3.2
International	91,830	77,080	14,750	19.1
Total revenue	<u>202,225</u>	<u>184,031</u>	<u>18,194</u>	<u>9.9</u>

GTECH Lottery revenue is principally comprised of service revenue from lottery service contracts which are typically at least five to seven years in duration for the base contract term with one to five years of extension options. 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 increased 2.1% primarily due to the weakening euro against the US dollar which was partially offset by lower same store revenue and net contract losses.

International lottery service revenue increased 13.0% primarily due to fluctuations in foreign currency exchange rates against the euro and contractual and effective rate changes.

Product Sales

International lottery product sale revenue increased €5.7 million during the three months ended September 30, 2010 compared to the same period of the prior year. Product sale revenue from period to period fluctuates due to the mix, volume and timing of product sale transactions. Product sales during the three months ended September 30, 2010 included the sale of a new internet bingo product to our customer in Finland.

Gaming Solutions segment

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

<i>(thousands of euros)</i>	For the three months ended			
	September 30,		Increase	
	2010	2009	€	%
Service Revenue	16,025	13,948	2,077	14.9
Product Sales	43,774	20,660	23,114	111.9
Total revenue	59,799	34,608	25,191	72.8

Gaming Solutions product sale revenue increased €23.1 million during the three months ended September 30, 2010 compared to the same period of the prior year 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			
	September 30,		Decrease	
	2010	2009	€	%
Service Revenue	16,150	16,533	(383)	(2.3)
Product Sales	917	1,309	(392)	(29.9)
Total revenue	17,067	17,842	(775)	(4.3)

Consolidated operating costs

<i>(thousands of euros)</i>	For the three months ended			
	September 30,		Increase (decrease)	
	2010	2009	€	%
Raw materials, services and other costs	264,966	248,972	15,994	6.4
Personnel	111,192	101,859	9,333	9.2
Depreciation	62,497	58,220	4,277	7.3
Amortization	24,417	21,770	2,647	12.2
Capitalization of internal construction costs - labor and overhead	(22,466)	(21,512)	(954)	(4.4)
Total operating costs	440,606	409,309	31,297	7.6
Percentage of total revenue	79.8%	82.9%		

Consolidated operating costs for the three months ended September 30, 2010 increased €31.3 million over the same period of the prior year principally due to higher costs related to the 11.9% increase in revenue and higher costs related to the effect of the weakening euro against the US dollar.

Foreign exchange 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			
	September 30,		Increase (decrease)	
	2010	2009	€	%
Cash foreign exchange loss	(827)	(992)	(165)	(16.6)
Non-cash foreign exchange loss	(70,696)	(9,644)	61,052	>200.0
	(71,523)	(10,636)	60,887	>200.0

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

<i>(thousands of euros)</i>	For the three months ended			
	September 30,		Increase (decrease)	
	2010	2009	€	%
GTECH Senior Credit Facilities hedges	(71,013)	(2,775)	68,238	>200.0
GTECH euro denominated debt	-	(6,020)	(6,020)	(100.0)
Other	317	(849)	(1,166)	(137.3)
	<u>(70,696)</u>	<u>(9,644)</u>	<u>61,052</u>	<u>>200.0</u>

GTECH Senior Credit Facilities hedges

Approximately 45% of the Group's debt at September 30, 2010 is denominated in US dollars and therefore exposed to fluctuations in the euro versus the US dollar exchange rate (\$1.3648 equals €1 at September 30, 2010). A weak euro causes the value of the Group's US dollar denominated debt, when measured in euro, to increase. Revenues and cash flow from US based contracts provide a natural hedge on approximately 53% of this US dollar denominated debt. We intend to refinance the remaining US dollar denominated debt with euro denominated debt in connection with the refinancing of the GTECH Senior Credit Facilities by March 31, 2011. In order to mitigate the risk of higher Group debt from the weakening of the euro versus the US dollar, at varying times during 2010, the Group entered into derivative instruments with notional amounts approximating €600 million. These derivative instruments (which expire at varying dates between December 15, 2010 and March 31, 2011) provide protection against the weakening of the euro versus the US dollar below an average exchange rate of \$1.25, with participation in euro appreciation up to an average rate of \$1.40. We are obligated to sell euro to the counterparties to the derivative instruments at an average rate of \$1.25 when the euro versus the US dollar exchange rate exceeds certain rates (averaging \$1.40) on or prior to the derivative instruments expiration date. Although these derivative instruments do not receive hedge accounting treatment (unrealized gains or losses on the derivative instruments are recorded in the income statement), this hedging strategy eliminates the risk that the Group's US dollar denominated debt, when measured in euro, would increase due to the weakening of the euro below an average exchange rate of \$1.25.

GTECH euro denominated debt

In order to better match future cash flows with the Group's revenue concentration from European countries (which increased in recent years), GTECH borrowed in euro under the GTECH Senior Credit Facilities in 2009. Non-cash foreign exchange loss incurred on these euro denominated borrowings resulted from fluctuations in the US dollar to euro exchange rate.

Interest expense

<i>(thousands of euros)</i>	For the three months ended			
	September 30,		Increase (decrease)	
	2010	2009	€	%
Capital Securities	(16,260)	(16,260)	-	-
GTECH Senior Credit Facilities	(13,735)	(13,280)	455	3.4
5.375% Notes due 2016	(9,532)	-	9,532	-
Lottomatica Term and Revolving Facilities	(881)	(3,295)	(2,414)	(73.3)
Other	(2,208)	(2,444)	(236)	(9.7)
	<u>(42,616)</u>	<u>(35,279)</u>	<u>7,337</u>	<u>20.8</u>

The increase in interest expense was principally due to higher weighted average interest rates resulting from a different mix of our debt given the issuance of €750 million of guaranteed notes in December 2009, along with higher average debt balances.

COMPARISON OF THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2010 AND 2009

Consolidated revenue for the nine months ended September 30, 2010 increased 5.0% over the same period last year as detailed by operating segment below.

<i>(thousands of euros)</i>	For the nine months ended			
	September 30,		Increase (decrease)	
	2010	2009	€	%
Italian Operations	888,118	853,508	34,610	4.1
GTECH Lottery	625,654	591,120	34,534	5.8
Gaming Solutions	129,474	99,338	30,136	30.3
GTECH G2	53,800	52,330	1,470	2.8
	<u>1,697,046</u>	<u>1,596,296</u>	<u>100,750</u>	<u>6.3</u>
Elimination of intersegment revenue	(25,930)	(4,358)	(21,572)	>200.0
Other (a)	272	251	21	8.4
Total revenue	<u>1,671,388</u>	<u>1,592,189</u>	<u>79,199</u>	<u>5.0</u>

(a) Represents the amortization of acquired intangible assets in connection with the August 2006 acquisition of GTECH by Lottomatica.

Italian Operations segment

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

<i>(thousands of euros)</i>	For the nine months ended			
	September 30,		Increase (decrease)	
	2010	2009	€	%
Lotto	237,608	273,677	(36,069)	(13.2)
Instant tickets	245,072	248,270	(3,198)	(1.3)
Other	1,368	1,745	(377)	(21.6)
Lottery	484,048	523,692	(39,644)	(7.6)
Sports Betting	140,606	121,010	19,596	16.2
Machine Gaming	153,773	110,384	43,389	39.3
Interactive	35,390	28,635	6,755	23.6
Commercial Services	74,301	69,787	4,514	6.5
Total revenue	888,118	853,508	34,610	4.1

A detailed analysis of the performance during the first nine months of 2010 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 declined 13.2% due to a corresponding decline in Lotto wagers as detailed in the table below. The decline in core wagers was partially offset by an increase in wagers from the Lotto options game “10eLotto”, which began sales in June 2009.

<i>(millions of euros)</i>	For the nine months ended			
	September 30,		Decrease	
	2010	2009	Wagers	%
Core wagers	3,236.8	3,558.5	(321.7)	(9.0)
Wagers for late numbers	437.8	675.0	(237.2)	(35.1)
	3,674.6	4,233.5	(558.9)	(13.2)

Instant tickets

Instant ticket revenue decreased 1.3% primarily due to lower sales of Scratch & Win tickets as detailed in the table below.

	For the nine months ended			
	September 30,		Increase (decrease)	
	2010	2009	Amount	%
Total tickets sold (in millions)	1,813.2	1,862.0	(48.8)	(2.6)
Total sales (in millions)	€ 6,976.1	€ 7,083.4	(€ 107.3)	(1.5)
Average price point	€ 3.85	€ 3.80	€ 0.05	1.4

Sports Betting

Sports betting revenue increased 16.2% due to a 6.5% increase in wagers as detailed in the table below, along with a lower payout percentage during the nine months ended September 30, 2010 compared to the same period of the prior year. As of September 30, 2010, our market share (in terms of total wagers) with respect to fixed odds sports-betting operations was 22.8% (20.4% during the same period of the prior year) with 1,188 fixed odds sports-betting and 454 sports pool points of sale locations operational.

(millions of euros)	For the nine months ended			
	September 30,		Increase (decrease)	
	2010	2009	Wagers	%
Fixed odds sports betting wagers	670.2	598.3	71.9	12.0
Sports pool wagers	63.1	90.2	(27.1)	(30.0)
	733.3	688.5	44.8	6.5

Machine Gaming

Machine Gaming revenue increased 39.3% driven by a 13.8% increase in wagers, the increased placement of AWP machines, and the deployment of VLTs (beginning in July 2010) that are associated with 10,761 VLT rights, as detailed in the table below.

	For the nine months ended			
	September 30,		Increase	
	2010	2009	Amount	%
Wagers (in millions)	€ 3,352.7	€ 2,947.3	€ 405.4	13.8
Gaming machines installed (end of September)	55,431	50,543	4,888	9.7

Interactive

Interactive revenue increased 23.6% principally driven by an increase in skill game wagers (such as poker, backgammon and blackjack) as detailed in the table below.

<i>(millions of euros)</i>	For the nine months ended			
	September 30,		Increase	
	2010	2009	Wagers	%
Skill game wagers	306.1	241.6	64.5	26.7

Commercial Services

Commercial Services revenue increased 6.5% principally due to an increase in bill payment services, 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 nine months ended			
	September 30,		Increase (decrease)	
	2010	2009	€	%
United States	336,224	341,169	(4,945)	(1.4)
International	239,110	204,536	34,574	16.9
Service revenue	575,334	545,705	29,629	5.4
United States	10,665	9,588	1,077	11.2
International	39,655	35,827	3,828	10.7
Product sales	50,320	45,415	4,905	10.8
United States	346,889	350,757	(3,868)	(1.1)
International	278,765	240,363	38,402	16.0
Total revenue	625,654	591,120	34,534	5.8

Service Revenue

United States lottery service revenue decreased 1.4% primarily due to net contract losses which was partially offset by the weakening euro against the US dollar.

International lottery service revenue increased 16.9% primarily due to contractual and effective rate changes, net contract wins and fluctuations in foreign currency exchange rates against the euro.

Gaming Solutions segment

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

<i>(thousands of euros)</i>	For the nine months ended			
	September 30,		Increase	
	2010	2009	€	%
Service Revenue	47,422	43,852	3,570	8.1
Product Sales	82,052	55,486	26,566	47.9
Total revenue	129,474	99,338	30,136	30.3

Gaming Solutions product sale revenue increased €26.6 million in the nine months ended September 30, 2010 over the same period of the prior year 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 nine months ended			
	September 30,		Increase	
	2010	2009	€	%
Service Revenue	50,324	48,960	1,364	2.8
Product Sales	3,476	3,370	106	3.1
Total revenue	53,800	52,330	1,470	2.8

Consolidated operating costs

<i>(thousands of euros)</i>	For the nine months ended			
	September 30,		Increase (decrease)	
	2010	2009	€	%
Raw materials, services and other costs	805,751	739,931	65,820	8.9
Personnel	334,925	317,143	17,782	5.6
Depreciation	180,653	178,354	2,299	1.3
Amortization	71,176	70,158	1,018	1.5
Impairment loss	2,148	57	2,091	>200.0
Capitalization of internal construction costs - labor and overhead	(63,368)	(58,983)	(4,385)	(7.4)
Total operating costs	1,331,285	1,246,660	84,625	6.8
Percentage of total revenue	79.7%	78.3%		

Consolidated operating costs during the first nine months of 2010 increased €84.6 million over the same period of the prior year principally due to higher costs related to the 5.0% increase in revenue and higher costs related to the effect of the weakening euro against the US dollar.

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 during the nine months ended September 30, 2010 and 2009 was €40.6 million and €47.2 million, respectively.

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

Personnel Description	Number of employees		
	As of		2010 Average
	September 30, 2010	December 31, 2009	
Executives	416	400	405
Middle Management	998	977	986
All Other Permanent Employees	5,854	6,131	5,944
Employees with Temporary Employment Contracts	361	164	377
	<u>7,629</u>	<u>7,672</u>	<u>7,712</u>

Foreign exchange 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 nine months ended			
	September 30,		Increase	
	2010	2009	€	%
Cash foreign exchange loss	(1,477)	(1,282)	195	15.2
Non-cash foreign exchange loss	(53,645)	(10,199)	43,446	>200.0
	<u>(55,122)</u>	<u>(11,481)</u>	<u>43,641</u>	<u>>200.0</u>

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

<i>(thousands of euros)</i>	For the nine months ended			
	September 30,		Increase (decrease)	
	2010	2009	€	%
GTECH Senior Credit Facilities hedges	(55,432)	(2,775)	52,657	>200.0
GTECH euro denominated debt	-	(12,072)	(12,072)	(100.0)
Other	1,787	4,648	2,861	61.6
	<u>(53,645)</u>	<u>(10,199)</u>	<u>43,446</u>	<u>>200.0</u>

GTECH Senior Credit Facilities hedges

Approximately 45% of the Group's debt at September 30, 2010 is denominated in US dollars and therefore exposed to fluctuations in the euro versus the US dollar exchange rate (\$1.3648 equals €1 at September 30, 2010). A weak euro causes the value of the Group's US dollar denominated debt, when measured in euro, to increase. Revenues and cash flow from US based contracts provide a natural hedge on approximately 53% of this US dollar denominated debt. We intend to refinance the remaining US dollar denominated debt with euro denominated debt in connection with the refinancing of the GTECH Senior Credit Facilities by March 31, 2011. In order to mitigate the risk of higher Group debt from the weakening of the euro versus the US dollar, at varying times during 2010, the Group entered into derivative instruments with notional amounts approximating €600 million. These derivative instruments (which expire at varying dates between December 15, 2010 and March 31, 2011) provide protection against the weakening of the euro versus the US dollar below an average exchange rate of \$1.25, with participation in euro appreciation up to an average rate of \$1.40. We are obligated to sell euro to the counterparties to the derivative instruments at an average rate of \$1.25 when the euro versus the US dollar exchange rate exceeds certain rates (averaging \$1.40) on or prior to the derivative instruments expiration date. Although these derivative instruments do not receive hedge accounting treatment (unrealized gains or losses on the derivative instruments are recorded in the income statement), this hedging strategy eliminates the risk that the Group's US dollar denominated debt, when measured in euro, would increase due to the weakening of the euro below an average exchange rate of \$1.25.

GTECH euro denominated debt

In order to better match future cash flows with the Group's revenue concentration from European countries (which increased in recent years), GTECH borrowed in euro under the GTECH Senior Credit Facilities in 2009. Non-cash foreign exchange loss incurred on these euro denominated borrowings resulted from fluctuations in the US dollar to euro exchange rate.

Interest expense

<i>(thousands of euros)</i>	For the nine months ended			
	September 30,		Increase (decrease)	
	2010	2009	€	%
Capital Securities	(48,271)	(48,399)	(128)	(0.3)
GTECH Senior Credit Facilities	(41,541)	(43,689)	(2,148)	(4.9)
5.375% Notes due 2016	(28,669)	-	28,669	-
Lottomatica Term and Revolving Facilities	(1,729)	(12,546)	(10,817)	(86.2)
Other	(6,187)	(8,775)	(2,588)	(29.5)
	<u>(126,397)</u>	<u>(113,409)</u>	<u>12,988</u>	<u>11.5</u>

The increase in interest expense was principally due to higher weighted average interest rates resulting from a different mix of our debt given the issuance of €750 million of guaranteed notes in December 2009, along with higher average debt balances.

Weighted Average Diluted Shares

Weighted average diluted shares during the first nine months of 2010 totaled 168.1 million shares, an increase of 19.4 million shares over the same period of the prior year primarily due to the issuance of 19.7 million shares in November 2009 to support development plans in Italy, primarily for the renewal of the Gratta & Vinci (Scratch & Win) concession and the purchase of video lottery terminal (“VLT”) rights.

Income Taxes

The Group's effective income tax rate during the first nine months of 2010 was 46.1% compared to 34.5% during the same period last year. The rate increase was primarily due to the termination of the Group's intercompany debt funding structure, along with losses in certain foreign subsidiaries without any associated tax benefit.

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, bank overdrafts and bank loans. 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 and to pay dividends. 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 and BBB- from Standard and Poor's contribute to our ability to access capital markets at attractive prices.

Summary Statements of Cash Flows

<i>(thousands of euros)</i>	For the nine months ended	
	September 30,	
	2010	2009
Net cash flows from operating activities	527,554	451,930
Purchases of intangible assets	(532,096)	(12,611)
Purchases of systems, equipment and other assets related to contracts	(190,638)	(169,476)
Medströms Invest AB put right payment	(20,415)	-
Acquisitions, net of cash acquired	(10,210)	(22,318)
Other investments	(9,700)	(8,699)
Purchases of property, plant and equipment	(7,218)	(13,306)
Other investing activities, net	(3,665)	(5,452)
Net cash flows used in investing activities	(773,942)	(231,862)
Dividends paid	(124,815)	(100,940)
Interest paid	(120,195)	(127,559)
Dividends paid - non-controlling interest	(45,638)	(43,560)
Net proceeds from debt	74,475	101,437
Capital increase - non-controlling interest	187,502	-
Other financing activities, net	(7,301)	(1,254)
Net cash flows used in financing activities	(35,972)	(171,876)
Net cash flows	(282,360)	48,192

Analysis of Cash Flows

During the first nine months of 2010, we generated €527.6 million of net cash flows from operating activities, an increase of €75.6 million over the same period of 2009, primarily due to changes in net working capital.

Investing activities

Intangible asset additions of €532.1 million were principally related to the €520 million partial payment for the Scratch & Win license in Italy. The €190.6 million of capital additions for systems, equipment and other assets were principally related to spending in Italy, New York, Spain, California, Kentucky, and Washington. The €20.4 million put right payment increased our ownership interest in GEMed (the shareholder of Boss Media AB) to 100%. We paid €10.2 million for acquisitions of entities engaged in the Sports Betting and Machine Gaming markets within our Italian Operations segment.

Financing activities

Dividends of €124.8 million (€0.74 per share) were paid to our shareholders for calendar 2009 results. Interest paid of €120.2 million in the first nine months of the current year principally relates to the Capital Securities and GTECH Senior Credit Facilities. Capital contributions of €187.5 million were principally received in June 2010 from our partners in the Scratch & Win concession. At September 30, 2010, we had €191.3 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 GTECH Senior Credit Facilities (totaling US\$500 million) and LTO Revolving Credit Facility (totaling €300 million). At September 30, 2010, there was €607.1 million of committed undrawn capacity under the GTECH Senior Credit Facilities and LTO Revolving Credit Facility. These facilities have covenants and restrictions including, among other things, requirements relating to the maintenance of certain financial ratios, limitations on capital expenditures and acquisitions and limitations on dividends, none of which are expected to impact the Group's liquidity or capital resources. At September 30, 2010, 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, to fund organic growth and to pay dividends. It is our strategy to maintain committed undrawn capacity under existing borrowing facilities to allow us the flexibility to fund unforeseen investment opportunities.

During 2009, we made a €80.7 million non-refundable payment representing 50% of the total cost of 10,761 VLT rights in Italy (€7,500 per right, representing 50% of the total €15,000 per right) which was included in intangible assets, net in our December 31, 2009 consolidated statement of financial position. On April 30, 2010, we elected to purchase all 10,761 VLT rights, payment of which is currently due on November 30, 2010 (€80.7 million).

Summary Statements of Financial Position

<i>(thousands of euros)</i>	September 30,	December 31,	Increase (decrease)	
	2010	2009	€	%
Systems, equipment and other assets related to contracts, net	846,645	774,558	72,087	9.3
Goodwill	3,142,818	3,006,783	136,035	4.5
Intangible assets, net	1,690,900	822,886	868,014	105.5
Deferred income taxes	2,611	6,030	(3,419)	(56.7)
Other non-current assets	134,998	118,966	16,032	13.5
Total non-current assets	<u>5,817,972</u>	<u>4,729,223</u>	<u>1,088,749</u>	<u>23.0</u>
Inventories	173,444	134,080	39,364	29.4
Trade and other receivables	689,740	791,803	(102,063)	(12.9)
Cash and cash equivalents	191,257	469,335	(278,078)	(59.2)
Other current assets	118,483	74,258	44,225	59.6
Non-current assets classified as held for sale	4,161	5,890	(1,729)	(29.4)
Total assets	<u>6,995,057</u>	<u>6,204,589</u>	<u>790,468</u>	<u>12.7</u>
Equity	2,123,892	1,896,807	227,085	12.0
Long-term debt, less current portion	2,698,709	2,621,990	76,719	2.9
Deferred income taxes	134,486	134,127	359	0.3
Non-current financial liabilities	132,460	142,317	(9,857)	(6.9)
Other non-current liabilities	72,475	78,154	(5,679)	(7.3)
Total non-current liabilities	<u>3,038,130</u>	<u>2,976,588</u>	<u>61,542</u>	<u>2.1</u>
Accounts payable	874,494	905,677	(31,183)	(3.4)
Short-term borrowings	22,226	5,079	17,147	>200.0
Current financial liabilities	124,633	59,885	64,748	108.1
Current portion of long-term debt	134,582	67,186	67,396	100.3
Income taxes payable	90,494	20,945	69,549	>200.0
Other current liabilities	586,606	272,422	314,184	115.3
Total equity and liabilities	<u>6,995,057</u>	<u>6,204,589</u>	<u>790,468</u>	<u>12.7</u>

The €72.1 million increase in systems, equipment and other assets related to contracts, net was principally due to €208.8 million of capital additions and €37.2 million of foreign currency translation, which was partially offset by €170.3 million of depreciation.

The €136.0 million increase in goodwill was primarily due to foreign currency translation.

The €868.0 million increase in intangible assets, net was principally due to €800 million for the Italian Scratch & Win license, €80.7 million for the final 50% of 10,761 VLT rights in Italy and €36.6 million of foreign currency translation. These increases were partially offset by €71.2 million of amortization.

The €102.1 million decrease in trade and other receivables was principally due to the timing of collections in the Italian Operations segment.

The €44.2 million increase in other current assets was principally due to a €33.8 million increase in income taxes receivable primarily due to income tax refunds due from various foreign tax jurisdictions.

The €227.1 million increase in equity was primarily due to €187.5 million of capital contributions from our partners in the Scratch & Win concession, €131.4 million of foreign currency translation, and €84.5 million of net income. These increases were partially offset by €124.8 million of dividends paid to shareholders of the parent and €45.6 million of dividends paid to non-controlling shareholders.

The €76.7 million increase in long-term debt, less current portion was principally due to €58.9 million of net borrowings primarily under the GTECH Senior Credit Facilities and LTO Revolving Credit Facility along with foreign currency translation. These increases were partially offset by the reclassification of €60.7 million of debt coming due within twelve months to current portion of long-term debt.

The €31.2 million decrease in accounts payable was principally due to the timing of payments in Italy and for GTECH's ongoing lottery system implementations, along with a decrease in accounts payable primarily related to lower Lotto wagers.

The €64.7 million increase in current financial liabilities was principally due to the recognition of unrealized (non-cash) foreign exchange losses on derivative instruments that hedge a portion of the GTECH Senior Credit Facilities.

The €67.4 million increase in current portion of long-term debt was primarily due to the reclassification of €60.7 million of debt coming due within twelve months as described above.

The €69.5 million increase in income taxes payable was primarily due to the timing of estimated tax payments.

The €314.2 million increase in other current liabilities was primarily due to accruals of €280 million for the Italian Scratch & Win license and €80.7 million for the final 50% of 10,761 VLT rights in Italy, which are expected to be paid by November 30, 2010. These increases were partially offset by payments made for entities acquired in 2008 and 2009.

Consolidated Net Financial Position

The Group's consolidated net financial position at September 30, 2010 changed by €493.9 million when compared to December 31, 2009. This change was principally due to the partial payment for the Scratch & Win license, net of capital contributions from our partners. Consolidated net financial position is calculated as follows:

<i>(thousands of euros)</i>	September 30, 2010	December 31, 2009	Change
Cash on hand	495	453	42
Cash at bank	190,762	468,882	(278,120)
Cash and cash equivalents	191,257	469,335	(278,078)
Current financial receivables	4,986	4,613	373
Foreign currency forward contracts	62,823	599	62,224
GTECH Senior Credit Facilities	54,576	203	54,373
5.375% Notes due 2016	33,381	3,147	30,234
Capital Securities	31,023	46,618	(15,595)
Swap Liability	30,229	29,924	305
Short-term borrowings	22,226	5,079	17,147
Boss Media contingent liability	-	17,521	(17,521)
Other	47,183	29,059	18,124
Current financial debt	281,441	132,150	149,291
Net current financial debt (cash)	85,198	(341,798)	426,996
GTECH Senior Credit Facilities	1,211,920	1,145,100	66,820
5.375% Notes due 2016	750,701	740,821	9,880
Capital Securities	735,172	733,180	1,992
Interest rate swaps	55,858	53,094	2,764
Swap Liability	43,179	56,391	(13,212)
Other	34,339	35,721	(1,382)
Non current financial debt	2,831,169	2,764,307	66,862
Net financial position	2,916,367	2,422,509	493,858

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, 2010	2,088,214	(250,480)	59,073	1,896,807	
Net income for the period	73,393	(22,293)	33,396	84,496	
Fair value of interest rate swaps	-	(183)	-	(183)	
Amortization of gain on interest rate swap on discontinued cash flow hedge	(427)	-	-	(427)	
Unrecognized net loss on derivative instruments	-	(6,020)	-	(6,020)	
Unrecognized net loss on available for sale investment	-	(11)	-	(11)	
Foreign currency translation	-	131,355	-	131,355	
Dividend distribution	(124,815)	-	(45,638)	(170,453)	
Share-based payment	2,634	-	-	2,634	
Change in fair value of put/call option arising from business combination	-	618	-	618	
Purchase of non-controlling interest	-	(3,078)	-	(3,078)	
Capital increase	-	-	187,502	187,502	
Intragroup merger (a)	112,662	(112,662)	-	-	
Other movements in equity	200	452	-	652	
Balance at September 30, 2010	<u>2,151,861</u>	<u>(262,302)</u>	<u>234,333</u>	<u>2,123,892</u>	

(a) Effective January 1, 2010, Lottomatica Sistemi S.p.A., Lottomatica International S.r.l. and Lottomatica International Hungary kft were merged into Lottomatica Group S.p.A.

Transactions with Related Parties

During the first nine months of 2010 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 29 of the Interim Consolidated Financial Statements included herein.

SIGNIFICANT DEVELOPMENTS

Since the start of the third quarter of 2010, the Group has reported a number of significant developments.

Developments During the Third Quarter of 2010

In July 2010, following a competitive procurement, a consortium of GTECH companies was chosen by Totalizator Sportowy Sp. z o.o., a government-owned organization in Warsaw, Poland, to provide a wide array of lottery technology and ongoing services. The seven (7) year contract will commence on December 1, 2011, and includes the option for three (3) extension years.

In July 2010, GTECH signed a three (3) year contract with the Connecticut Lottery Corporation to provide instant ticket vending machines. The contract allows for the three (3) one-year extensions.

In August 2010, GTECH signed a contract with the Kentucky Lottery Corporation to provide a complete array of online lottery products and services. The seven (7) year contract is expected to commence in June 2011 and allows for eight (8) additional one year extension options.

In August 2010, GTECH Printing Corporation signed a contract with Lotterywest, the official state lottery of Western Australia, to serve as its primary instant ticket vendor. The five (5) year contract, which is the result of a competitive procurement, will commence immediately and will allow for extension options for an additional five (5) years.

In August 2010, GTECH and GTECH Printing Corporation were awarded a new contract by the Nebraska Lottery to provide a unified online/instant lottery system, terminals, an IP-communications network, full service instant ticket printing, warehousing/distribution and ongoing services. The award followed a competitive procurement and is subject to the execution of a formal contract. The proposed six-year contract is expected to commence in July 2011, and includes four one-year extension options.

In August 2010, GTECH signed a contract with Société de la Loterie de la Suisse Romande (“LoRo”) to provide an end-to-end solution, including a core central system, terminals and ongoing support services, which will allow LoRo to improve the management of several of its lottery games as well as replace its Electronic Instants Lottery system.

In September 2010, Lottomatica’s subsidiary, Spielo Manufacturing ULC, was awarded a contract by Société des lotteries video du Québec, a subsidiary of Loto-Québec, to provide a new central system that will manage, monitor and control its entire network of 12,000 video lottery terminals (“VLTs”). Spielo is also one of two vendors selected to replace Loto-Québec’s 12,000 VLTs.

In September 2010, GTECH signed a 10-year contract to provide a new lottery central system, terminals and ongoing services to Pan Malaysian pools Sdn. Bhd. (“PMP”), following a competitive procurement. PMP administers and operates lottery games in Malaysia, and has the option to extend the contract beyond its initial 10-year term in three-year periods triennially. The new system is expected to go live in August 2011.

In September 2010, Lottomatica announced that the Northstar Lottery Group LLC (“Northstar”), a consortium in which GTECH holds an 80 percent controlling interest, has been selected as the private manager by the Illinois Lottery, following a competitive procurement. Scientific Games International holds the remaining 20 percent interest in the consortium. Supporting Northstar as its advertising and consumer marketing partner is Chicago-based Energy BBDO. The 10-year private-management agreement is expected to be signed within the next several weeks. Subject to the Illinois Lottery's control over significant business decisions, Northstar will manage the day-to-day operations of the Illinois Lottery and its core functions, including lottery game development, supply of goods and services (including instant ticket production), retailer recruitment and marketing and advertising.

Developments After the Third Quarter of 2010

In October 2010, after the close of the third quarter of 2010, GTECH signed a four year contract extension with the Florida Lottery to continue providing online lottery technology and ongoing services, as well as instant ticket vending machines. The contract extension will commence in March 2011.

In October 2010, after the close of the third quarter of 2010, GTECH signed a contract to provide a new lottery system solution and ongoing support services to La Française Des Jeux, the operator of the French National Lottery. The 12-year contract will run through June 2024.

In November 2010, after the close of the third quarter of 2010, Lottomatica announced that GTECH signed a contract to upgrade an existing Keno system, commence selling online lottery games, increase the terminal base and provide ongoing software, operations and marketing services for Shenzhen Welfare Lottery Center, which administers and operates lottery games in Shenzhen, China. The 10-year contract, which is expected to go live in May 2011, will run through April 2021, following which the contract will be automatically extended for up to two consecutive 18-month periods unless a party chooses to terminate.

In November 2010, after the close of the third quarter of 2010, GTECH signed three related contracts with GAMLOT Technologies Ltd., REEL MADA SA and DAMALOT Technical Services Ltd. for the provision of central system hardware, terminals and related equipment and ongoing support services to enable REEL MADA to develop and operate an online lottery in Madagascar.

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 and manage. 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 contracts in Italy have required an upfront payment for a license to operate the contract. GTECH contracts typically require upfront capital expenditures. The ability of the Group to maintain existing contracts upon their renewal and invest in new contracts opportunities depends on the ability of the Group to access new sources of capital to fund these investments.

(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 on-line 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 to honor 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.

(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. Unfavourable resolution of such proceedings or significant delays in adjudicating such proceedings could have a material adverse effect on the Group's results of operations, business, financial condition or prospects. For a description of certain legal proceedings to which the Group is a party, see Note 30 to the consolidated financial statements.

(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 individual suitability standards for officers, directors, major shareholders and key employees. The Group believes that it has developed procedures designed to comply with such regulatory requirements. However, any failure by the Group to so comply and/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 and after the award of a lottery or gaming contract or the issuance of a gaming license. Authorities are generally empowered to disqualify the Group from receiving a lottery or gaming contract, operating a lottery system or receiving a gaming license 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 efforts to obtain and/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

The financial crisis and the consequential economic downturn have caused substantial changes around the world. Although some signs of recovery have recently emerged, the economic rebound has yet to manifest its influence.

In 2009, governments around the globe supported 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. In early 2010, another wave of instability was created by developments in some European states that have severe deficits, and which require a tight financial discipline by governments.

While markets remain unstable, current prevailing expectations are indicating a scenario of low interest rates for the near term and very volatile currencies. 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. In our traditional Italian market, new games have been launched (VLT), and a new nine-year license for instant lottery has been awarded to our Group. As a result of these new licenses acquired, bids successfully completed in the last couple of years and several extensions to existing contracts negotiated, our weighted average contract length is approximately seven years (assuming all extension options are exercised).

Another goal recently achieved by the Group is the award of 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; this could therefore create 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.

LOTTOMATICA STOCK INFORMATION

SHAREHOLDING STRUCTURE

Based on most recent information available to the Company as of September 30, 2010

<u>Shareholder</u>	<u>Numbers of Shares</u>	<u>% of Outstanding Shares</u>
Gruppo De Agostini	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 September 30, 2010 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.

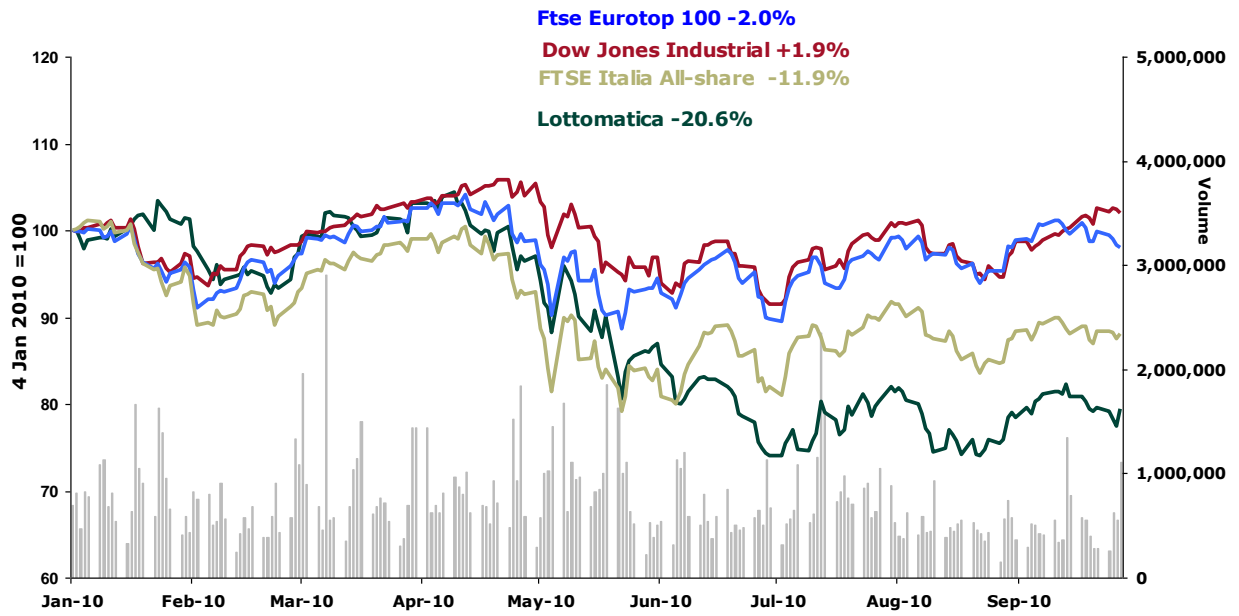
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LOTTOMATICA STOCK PERFORMANCE FOR THE PERIOD ENDED SEPTEMBER 30, 2010

The average price of the stock for the nine months ended September 30, 2010 was €12.6. Over 142 million shares were traded in the first nine months of 2010, with a daily exchange of approximately 744,201 shares.

Lottomatica's market capitalization was approximately €1.9 billion on September 30, 2010.

⁽¹⁾ 11.469% of Mediobanca's 12.742% share ownership 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

Lottomatica's Environment Commitments in Italy

The activities normally managed by the Lottomatica Group in Italy can be defined as having low environmental impact. Nevertheless the Company recognizes the importance of supporting efforts on environmental issues together with those already undertaken in other areas of corporate social responsibility. Therefore, since 2008 Lottomatica has undertaken to finalize its own environmental policy and has commenced programs of monitoring and reducing the environmental consequences of its activities and products. The Group's programs are primarily related to locations in Italy and the United States, where 60% of the workforce is concentrated, but its commitments are relevant to all locations worldwide.

The Environmental Initiatives of Lottomatica

In 2009 Lottomatica identified the main impacts of its 2008 activities and those areas involved in developing the environmental policy of Lottomatica's Italian operations. On the basis of findings from this phase of analysis and preliminary evaluation, Lottomatica defined its environmental policy and a plan of action for the mitigation of its impacts and the safeguarding of the environment.

A first step, already taken and whose consolidation was a priority in 2009, is the establishment of a systematic process and a structured collection and analysis of environmental data in order to make the measurement of performance reliable and efficient.

In early 2010 Lottomatica continued working on the systematic process defined in 2009, and further improved the process which was used for collecting data and monitoring Lottomatica's environmental impact during 2009.

The Identification of Impacts

The main environmental impacts of Lottomatica's activities are associated with use of paper as a raw material, energy consumption and transport of persons and goods. The Company is also responsible for consumption of water resources and for waste generation. These impacts are due to the activities of corporate offices, play slips and other printing activities by Lottomatica's subsidiary PCC Giochi e Servizi S.p.A., and the management activities of the business.

Environmental Impacts

Use of resources

- Paper
- Combustible materials
- Electricity
- Water
- Atmospheric emissions
- Waste water discharges
- Waste production

Identification of Areas of Intervention

As a result of the identification of impacts and its initial analysis of the available data, the Company identified the following areas of intervention in which it endeavoured to improve its environmental commitment during early 2010.

Reducing the Impacts

- EN 16001 standard compliance: Lottomatica has applied for the EN 16001 standard, which specifies requirements for establishing, implementing, maintaining and improving an energy management system. This standard lays down requirements for continual improvement in the form of 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 improved 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 timescale of this continual improvement process are determined by the organization in the light of economic and other circumstances. Improvements in the energy management system are intended to result in improvements in energy performance.

This standard requires 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.

The organization carried out an initial review to identify areas of energy use and opportunities for improvement. This resulting information provides the basis for setting the energy management work, program, objectives and targets.

- Efficient use of office paper and purchase of 50% ecological paper
- Purchase of 100% of energy from renewable energy sources. Lottomatica's electric supplier provides it with a certification and guarantee that 80% of its electric power comes from hydroelectric sources and 20% from wind power.

Involvement and Awareness

- Spread of best practices for an environmentally friendly office
- Information on the environmental impacts of the Group's activities
- Reduction of CO₂ emissions: compensation of CO₂ emissions generated by production of the Lotto Game play slips through reforestation activities in a national park, according to the principles of Kyoto Protocol.

Lottomatica is continuing its policy of reduction of emissions. At the end of 2009 the Company started a new project in the biggest national park of Italy, Parco del Pollino, which was burned in recent years and suffered the loss of thousand of its trees. Under the Lottomatica project, 2,200 trees are being planted in the park, a significant portion of which are endangered species.

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 October 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. An integral part of keeping GTECH Green is earning ISO 14001 EMS certification in 2010. Certification will include the establishment of an Environmental Management System ("EMS"). In establishing such a system, it is GTECH's intent to meet the objectives of reducing pollution, reducing waste and conserving energy. GTECH's EMS consists of planning, documenting and implementing policies, procedures and methodologies that define and support its environmental policy and objectives. A key component to maintaining GTECH's EMS is ensuring that GTECH consistently reviews, analyzes and measures the EMS' effectiveness to demonstrate GTECH's ongoing commitment to improve its processes.

GTECH created a "Green Committee" comprised of employees who are assigned the task of the development and measurement of energy-efficient products, services and behaviors. The Committee has conducted a GREENovation Contest that offered rewards to GTECH employees for innovative ideas implemented as part of the GREEN GTECH pledge.

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. GTECH was also the recipient of a recycling certificate of achievement from Hanna Paper Recycling. GTECH's paper recycling partnership with Hanna Paper Recycling contributed to the preservation of 5,595 trees and the saving of 26,330 cubic feet of landfill space.

Also in 2009, GTECH's Corporate Headquarters facility in Providence was awarded the Rhode Island Hospitality Green Certification from the Rhode Island Hospitality Association and Rhode Island Department of Environmental Management in connection with its self-operated food service department. This certification was awarded to the Company for attaining performance standards, implementing best management practices, and complying with the environmental regulatory requirements in the operation of a green facility.

In 2010, GTECH is working 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 will participate in a pilot program to include food composting in the overall recycling initiative.

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 computers; application to laptop computers is still in the testing phase, but anticipated to rollout in 2010; 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 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 exceeds the compliance of all state and federal air and water regulatory bodies, and the primary and backup facilities do not discharge any process liquids. GPC has:

- Eliminated the use of all solvent based overprint inks with the conversion to water-based systems;
- Replaced all solvent-based graphic inks with Ultraviolet Cured graphic ink systems;
- Developed and implemented the use of a 100% water based system for base coat and overprint coating systems;
- Replaced all solvent-based security seal and release varnishes with UV-curable systems;
- Replaced its solvent-based plate making system with an all digital process; and
- Entered into agreements to recycle 100% of its offset printing plates.

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 has reduced its emitted VOCs even further with the development of a water based black scratch off system.

Interim Consolidated Financial Statements and Footnotes

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(thousands of euros)</i>	<i>Notes</i>	September 30, 2010	December 31, 2009
ASSETS			
Non-current assets			
Systems, equipment and other assets related to contracts, net	8	846,645	774,558
Property, plant and equipment, net	9	89,997	88,522
Goodwill	10	3,142,818	3,006,783
Intangible assets, net	11	1,690,900	822,886
Investments in associates		221	443
Other non-current assets	12	22,285	22,692
Non-current financial assets		22,495	7,309
Deferred income taxes		2,611	6,030
Total non-current assets		<u>5,817,972</u>	<u>4,729,223</u>
Current assets			
Inventories	13	173,444	134,080
Trade and other receivables	14	689,740	791,803
Other current assets	12	71,633	61,577
Current financial assets		4,986	4,613
Income taxes receivable		41,864	8,068
Cash and cash equivalents	15	191,257	469,335
Total current assets		<u>1,172,924</u>	<u>1,469,476</u>
Non-current assets classified as held for sale	16	4,161	5,890
TOTAL ASSETS		<u>6,995,057</u>	<u>6,204,589</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Issued capital		172,015	172,015
Share premium		1,708,081	1,404,252
Treasury shares		(60,113)	(63,502)
Retained earnings (deficit)		(6,147)	66,807
Other reserves	17	75,723	258,162
		1,889,559	1,837,734
Non-controlling interests		<u>234,333</u>	<u>59,073</u>
Total equity		<u>2,123,892</u>	<u>1,896,807</u>
Non-current liabilities			
Long-term debt, less current portion	18	2,698,709	2,621,990
Deferred income taxes		134,486	134,127
Long-term provisions		20,466	22,970
Other non-current liabilities	19	52,009	55,184
Non-current financial liabilities		132,460	142,317
Total non-current liabilities		<u>3,038,130</u>	<u>2,976,588</u>
Current liabilities			
Accounts payable		874,494	905,677
Short-term borrowings	18	22,226	5,079
Other current liabilities	19	584,926	270,564
Current financial liabilities		124,633	59,885
Current portion of long-term debt	18	134,582	67,186
Short-term provisions		1,680	1,858
Income taxes payable		90,494	20,945
Total current liabilities		<u>1,833,035</u>	<u>1,331,194</u>
TOTAL EQUITY AND LIABILITIES		<u>6,995,057</u>	<u>6,204,589</u>

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED INCOME STATEMENTS

<i>(thousands of euros)</i>	<i>Notes</i>	For the nine months ended September 30	
		2010	2009
Service revenue		1,558,647	1,489,785
Product sales		112,741	102,404
Total revenue	7	<u>1,671,388</u>	<u>1,592,189</u>
Raw materials, services and other costs	20	805,751	739,931
Personnel	21	334,925	317,143
Depreciation	22	180,653	178,354
Amortization	23	71,176	70,158
Impairment loss	16	2,148	57
Capitalization of internal construction costs - labor and overhead		<u>(63,368)</u>	<u>(58,983)</u>
Total costs		1,331,285	1,246,660
Operating income	7	340,103	345,529
Interest income		2,032	2,615
Equity loss		(228)	(1,480)
Other income		1,356	1,070
Other expense		(4,979)	(4,375)
Foreign exchange loss, net	24	(55,122)	(11,481)
Interest expense	25	<u>(126,397)</u>	<u>(113,409)</u>
		<u>(183,338)</u>	<u>(127,060)</u>
Income before income tax expense		156,765	218,469
Income tax expense	26	<u>72,269</u>	<u>75,371</u>
Net income		<u>84,496</u>	<u>143,098</u>
Attributable to:			
Owners of the parent		51,100	107,198
Non-controlling interests		<u>33,396</u>	<u>35,900</u>
		<u>84,496</u>	<u>143,098</u>
Earnings per share/ADRs			
Basic - net income attributable to owners of the parent		€ 0.30	€ 0.72
Diluted - net income attributable to owners of the parent		€ 0.30	€ 0.72

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED INCOME STATEMENTS

<i>(thousands of euros)</i>	<i>Notes</i>	For the three months ended September 30	
		2010	2009
Service revenue		513,225	462,479
Product sales		38,996	31,060
Total revenue	7	552,221	493,539
Raw materials, services and other costs	20	264,966	248,972
Personnel	21	111,192	101,859
Depreciation	22	62,497	58,220
Amortization	23	24,417	21,770
Capitalization of internal construction costs - labor and overhead		(22,466)	(21,512)
Total costs		440,606	409,309
Operating income	7	111,615	84,230
Interest income		519	803
Equity loss		(23)	(447)
Other income		699	259
Other expense		(2,141)	(2,423)
Foreign exchange loss, net	24	(71,523)	(10,636)
Interest expense	25	(42,616)	(35,279)
		(115,085)	(47,723)
Income (loss) before income tax expense		(3,470)	36,507
Income tax expense (benefit)	26	(963)	12,595
Net income (loss)		(2,507)	23,912
Attributable to:			
Owners of the parent		(13,192)	13,203
Non-controlling interests		10,685	10,709
		(2,507)	23,912
Earnings (loss) per share/ADRs			
Basic - net income (loss) attributable to owners of the parent		€ (0.08)	€ 0.09
Diluted - net income (loss) attributable to owners of the parent		€ (0.08)	€ 0.09

LOTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(thousands of euros)</i>	<i>Notes</i>	For the nine months ended September 30	
		2010	2009
Net income		84,496	143,098
Other comprehensive income			
Net gain (loss) on interest rate swaps (cash flow hedges)		(368)	10,536
Income tax benefit (expense)		185	(5,191)
		(183)	5,345
Amortization of gain on interest rate swap on discontinued cash flow hedge		(427)	(428)
Net loss on derivative instruments (cash flow hedges)	27	(8,986)	(5,298)
Income tax benefit		2,966	1,911
		(6,020)	(3,387)
Net loss on available-for-sale financial assets		(11)	(67)
Net gain (loss) on translation of foreign operations	27	131,251	(73,372)
Income tax benefit		104	7,615
		131,355	(65,757)
Other comprehensive income (loss) for the period, net of tax		124,714	(64,294)
Total comprehensive income for the period, net of tax		209,210	78,804
Attributable to:			
Owners of the parent		175,814	42,904
Non-controlling interests		33,396	35,900
		209,210	78,804

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(thousands of euros)</i>	Notes	For the three months ended September 30	
		2010	2009
Net income (loss)		<u>(2,507)</u>	<u>23,912</u>
Other comprehensive income			
Net gain (loss) on interest rate swaps (cash flow hedges)		910	(5,798)
Income tax benefit (expense)		<u>(351)</u>	<u>1,765</u>
		559	(4,033)
Amortization of gain on interest rate swap on discontinued cash flow hedge		(142)	(143)
Net loss on derivative instruments (cash flow hedges)	27	(20,065)	(2,273)
Income tax benefit		<u>7,035</u>	<u>844</u>
		(13,030)	(1,429)
Net gain (loss) on available-for-sale financial assets		(84)	3
Net loss on translation of foreign operations	27	(237,249)	(47,446)
Income tax benefit		<u>-</u>	<u>10,746</u>
		<u>(237,249)</u>	<u>(36,700)</u>
Other comprehensive loss for the period, net of tax		<u>(249,946)</u>	<u>(42,302)</u>
Total comprehensive loss for the period, net of tax		<u>(252,453)</u>	<u>(18,390)</u>
Attributable to:			
Owners of the parent		(263,138)	(29,099)
Non-controlling interests		<u>10,685</u>	<u>10,709</u>
		<u>(252,453)</u>	<u>(18,390)</u>

LOTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	For the nine months ended	
		September 30	
		2010	2009
<i>(thousands of euros)</i>			
Operating activities			
Income before income tax expense		156,765	218,469
Non-cash adjustments to reconcile income before income tax expense to net cash flows			
Depreciation	22	180,653	178,354
Intangibles amortization	23	71,176	70,279
Other amortization	23	-	(121)
Impairment loss	16	2,148	57
Interest income		(2,032)	(2,615)
Interest expense	25	126,397	113,409
Non-cash foreign exchange loss	24	53,645	10,199
Share-based payment expense	28	2,634	122
Other non-cash items		(1,429)	3,821
Income tax paid		(71,820)	(83,122)
Cash flows before changes in operating assets and liabilities		518,137	508,852
Changes in operating assets and liabilities:			
Inventories		(45,105)	(7,956)
Trade and other receivables		91,874	(10,087)
Other current assets		(10,400)	(2,110)
Accounts payable		941	(36,679)
Accrued expenses		(24,017)	(1,816)
Advance payments from customers		(8,496)	(12,287)
Taxes other than income taxes		618	15,719
Current financial liabilities		21,982	7,209
Other assets and liabilities		(17,980)	(8,915)
Net cash flows from operating activities		527,554	451,930
Investing activities			
Purchases of intangible assets		(532,096)	(12,611)
Purchases of systems, equipment and other assets related to contracts		(190,638)	(169,476)
Medströms Invest AB put right payment	31	(20,415)	-
Acquisitions	6	(10,219)	(22,509)
Acquisitions - cash acquired	6	9	191
Other investments		(9,700)	(8,699)
Purchases of property, plant and equipment		(7,218)	(13,306)
Realized gain on net investment hedge		(6,271)	(4,623)
Dynamite Design and Marketing Limited contingent consideration		(1,006)	(1,507)
Interest received		1,885	2,479
Toto Carovigno S.p.A. advance and escrow refund		-	4,621
Loans receivable, net of repayments		-	(2,442)
Other		1,727	(3,980)
Net cash flows used in investing activities		(773,942)	(231,862)
Financing activities			
Dividends paid		(124,815)	(100,940)
Interest paid		(120,195)	(127,559)
Dividends paid - non-controlling interests		(45,638)	(43,560)
Principal payments on long-term debt		(2,550)	(53,619)
Net proceeds from short-term borrowings		17,225	53,246
Proceeds from issuance of long-term debt		59,800	101,810
Capital increase - non-controlling interests		187,502	-
Other		(7,301)	(1,254)
Net cash flows used in financing activities		(35,972)	(171,876)
Net increase (decrease) in cash and cash equivalents		(282,360)	48,192
Effect of exchange rate changes on cash		4,282	(9,390)
Cash and cash equivalents at the beginning of the period		469,335	109,274
Cash and cash equivalents at the end of the period	15	191,257	148,076

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended September 30, 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	-	-	-	51,100	-	51,100	33,396	84,496
Other comprehensive income	-	-	-	-	124,714	124,714	-	124,714
Total comprehensive income	-	-	-	51,100	124,714	175,814	33,396	209,210
Dividend distribution (€0.74 per share)	-	(3,637)	-	(121,178)	-	(124,815)	-	(124,815)
Appropriation of 2009 income in accordance with Italian law	-	-	-	(3,946)	3,946	-	-	-
Share-based payment (Note 28)	-	-	-	-	2,634	2,634	-	2,634
Shares issued under stock award plans	-	-	3,389	-	(3,389)	-	-	-
Change in fair value of put/call option arising from business combination	-	-	-	618	-	618	-	618
Purchase of non-controlling interest	-	-	-	-	(3,078)	(3,078)	-	(3,078)
Capital increase	-	-	-	-	-	-	187,502	187,502
Dividend distribution	-	-	-	-	-	-	(45,638)	(45,638)
Expiration of share buy-back program	-	307,266	-	-	(307,266)	-	-	-
Other movements in equity	-	200	-	452	-	652	-	652
Balance at September 30, 2010	<u>172,015</u>	<u>1,708,081</u>	<u>(60,113)</u>	<u>(6,147)</u>	<u>75,723</u>	<u>1,889,559</u>	<u>234,333</u>	<u>2,123,892</u>

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended September 30, 2009

	Attributable to owners of the parent						Non-Controlling Interests	Total Equity
	Issued Capital	Share Premium	Treasury Shares	Retained Earnings	Other Reserves (Note 17)	Total		
<i>(thousands of euros)</i>								
Balance at January 1, 2009	152,287	1,139,071	(73,184)	95,647	295,174	1,608,995	58,428	1,667,423
Net income for the period	-	-	-	107,198	-	107,198	35,900	143,098
Other comprehensive loss	-	-	-	-	(64,294)	(64,294)	-	(64,294)
Total comprehensive income (loss)	-	-	-	107,198	(64,294)	42,904	35,900	78,804
Dividend distribution (€0.68 per share)	-	-	-	(100,940)	-	(100,940)	-	(100,940)
Appropriation of 2008 income in accordance with Italian law	-	-	-	(77)	77	-	-	-
Share-based payment (Note 28)	-	-	-	-	122	122	-	122
Shares issued under stock award plans	-	-	9,682	-	(9,682)	-	-	-
Change in fair value of put/call option arising from business combination	-	-	-	(722)	-	(722)	-	(722)
Dividend distribution	-	-	-	-	-	-	(43,560)	(43,560)
Balance at September 30, 2009	<u>152,287</u>	<u>1,139,071</u>	<u>(63,502)</u>	<u>101,106</u>	<u>221,397</u>	<u>1,550,359</u>	<u>50,768</u>	<u>1,601,127</u>

LOTOMATICA 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 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 the De Agostini Group, a century-old publishing, media, and financial services company and is publicly traded on the Stock Exchange of Milan 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 nine months ended September 30, 2010 were approved for issuance in accordance with a resolution of the Board of Directors on November 15, 2010.

2. Basis of preparation

The interim consolidated financial statements for the three and nine months ended September 30, 2010 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, 2009.

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 and nine months ended September 30, 2010 is unaudited and for the year ended December 31, 2009 is audited.

The interim consolidated financial statements for September 30, 2010 are consistent with the December 31, 2009 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 as a single line (i.e. comprehensive income). 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.

LOTOMATICA 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, 2009, 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, 2010 noted below. Adoption of these Standards and Interpretations did not have a material effect on the financial position or performance of the Group.

IFRS 2 Share-Based Payment: Group Cash-Settled Share-Based Payment Transactions (Revised)

The Revised IFRS 2 clarifies the scope and the accounting for group cash-settled share-based payment transactions.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Revised)

The Revised IFRS 3 introduces significant changes in the accounting for business combinations occurring after July 1, 2009. The changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The Revised IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by these revised standards affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after January 1, 2010.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendment to IFRS 5 (resulting from Improvements to IFRSs issued in May 2008) clarifies that assets and liabilities of a subsidiary should be classified as held for sale if the parent is committed to a plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment to IAS 39 clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item, including the designation of inflation as a hedged risk in particular situations.

IFRIC 17 Distributions of Non-Cash Assets to Owners

IFRIC 17 provides guidance on how to account for non-cash distributions to owners and clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the assets and liability.

Improvements to IFRSs issued in April 2009

In April 2009 the IASB issued an omnibus of amendments to twelve of its standards, primarily with a view of removing inconsistencies and clarifying wording. The effect of each standard is described below.

- ***IFRS 2 Share-Based Payment*** – This amendment confirms that contributions of a business on the formation of a joint venture and common control transactions are excluded from the scope of IFRS 2.
- ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*** – This amendment clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

- **IFRS 8 Operating Segments** - This amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- **IAS 1 Presentation of Financial Statements** – This amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.
- **IAS 7 Statement of Cash Flows** – This amendment explicitly states that only expenditures that result in recognizing an asset in the statement of financial position can be classified as a cash flow from investing activities.
- **IAS 17 Leases** – This amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as a finance or operating lease separately.
- **IAS 18 Revenue** – This amendment provides additional guidance on how to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
 - Has primary responsibility for providing the goods or service
 - Has inventory risk
 - Has discretion in establishing prices
 - Bears the credit risk
- **IAS 36 Impairment of Assets** – This amendment clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.
- **IAS 38 Intangible Assets** – Two amendments to IAS 38 clarify the accounting for intangible assets acquired in a business combination and the description of valuation techniques commonly used when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets.
- **IAS 39 Financial Instruments: Recognition and Measurement** – This amendment clarifies the type of forward contracts the guidance applies to and provides additional guidance regarding embedded prepayment penalties and hedging transactions.
- **IFRIC 9 Reassessment of Embedded Derivatives** – This amendment clarifies that the scope of IFRIC 9 excludes contracts with embedded derivatives acquired in a combination between entities under common control or in the formation of a joint venture.
- **IFRIC 16 Hedges of a Net Investment in a Foreign Operation** - This amendment removes the restriction on the entity that can hold hedging instruments.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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 September 30, 2010 and December 31, 2009 was €846.6 million and €774.6 million, respectively. Further details are provided in Note 8.

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 September 30, 2010 and December 31, 2009 was €3.1 billion and €3.0 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 September 30, 2010 and December 31, 2009 was €1.7 billion and €822.9 million, respectively. Further details are provided in Note 11.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies. The carrying value of recognized tax losses and unrecognized tax losses at September 30, 2010 and December 31, 2009 was €78.9 million and €23.1 million, respectively.

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 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 9 Financial Instruments

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 step in the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* and introduces new requirements for classifying and measuring financial assets. The IASB intends to expand the standard during 2010 to add new requirements for classifying and measuring financial liabilities, derecognition of financial instruments, impairment and hedge accounting. The Group is evaluating the impact the standard will have on the consolidated financial statements when adopted on January 1, 2013.

IAS 24 Related Party Disclosures (Revised)

The Revised IAS 24 was issued in November 2009 and becomes effective for annual periods beginning on or after January 1, 2011. The revised standard simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and provides a partial exemption from the disclosure requirements for government-related entities. The Group is evaluating the impact the standard will have on the consolidated financial statements when adopted on January 1, 2011.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Revised)

The Revised IAS 32 was issued in October 2009 and becomes effective for annual periods beginning on or after February 1, 2010. The revised standard amends 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. The Group is evaluating the impact the standard will have on the consolidated financial statements when adopted on January 1, 2011.

IFRIC 14 Prepayments of a Minimum Funding Requirement

The amendment to IFRIC 14 was issued in November 2009 and becomes effective for annual periods beginning on or after January 1, 2011. The amendment applies to pension accounting in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of an early payment as an asset. The adoption of this amendment is not expected to have a material impact on the financial position or performance of the Group when adopted on January 1, 2011.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 was issued in November 2009 and becomes effective for annual periods beginning on or after July 1, 2010. The interpretation provides guidance on the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The adoption of this interpretation is not expected to have a material impact on the financial position or performance of the Group when adopted on January 1, 2011.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

5. International Financial Reporting Standards issued but not yet effective (continued)

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. There are separate transitional provisions for each standard that are effective for periods starting after the date of these financial statements and therefore have yet to be adopted by the Group as described below. The Group anticipates that these changes will not have a material effect on the consolidated financial statements when adopted.

- ***IFRS 1 First-time Adoption of International Financial Reporting Standards*** – This amendment becomes effective for annual periods beginning on or after January 1, 2011 but does not apply to the Group.
- ***IFRS 3 Business Combinations (Revised)*** – This amendment becomes effective for annual periods beginning on or after July 1, 2010 and 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 becomes effective for annual periods beginning on or after January 1, 2011 and 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 becomes effective for annual periods beginning on or after January 1, 2011 and 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.
- ***IAS 27 Consolidated and Separate Financial Statements (Revised)*** - This amendment becomes effective for annual periods beginning on or after July 1, 2010 and 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 becomes effective for annual periods beginning on or after January 1, 2011 and clarifies the disclosures required for significant events and transactions and financial instruments and their fair values.
- ***IFRIC 13 Customer Loyalty Programmes*** - This amendment becomes effective for annual periods beginning on or after January 1, 2011 and clarifies the accounting for the fair value of award credits.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

6. Business combinations

The Group's business combination activity during the first nine months of 2010, which occurred in the Italian Operations segment, is summarized as follows:

<i>(thousands of euros)</i>	Labet	Other	Total
Cash purchase price	23,493	12,581	36,074
Cash acquisition costs	144	350	494
Total cash acquisition cost	23,637	12,931	36,568
Net payable to acquired companies	3,340	8,663	12,003
Total non-cash acquisition cost	3,340	8,663	12,003
Total acquisition cost	<u>26,977</u>	<u>21,594</u>	<u>48,571</u>
Cash cost paid in 2008	1,180	351	1,531
Cash cost paid in 2009	19,147	5,671	24,818
Cash cost paid in 2010	3,310	6,909	10,219
Total cash acquisition cost	<u>23,637</u>	<u>12,931</u>	<u>36,568</u>
Cash cost paid in 2010	3,310	6,909	10,219
Net cash acquired	-	(9)	(9)
Net cash outflow in 2010	<u>3,310</u>	<u>6,900</u>	<u>10,210</u>

Business combination activity in the Italian Operations segment consists of strategic investments to exploit growth opportunities in the Sports Betting and Machine Gaming markets. The aim is to acquire additional sports betting rights or to increase our directly-managed gaming machine base (amusement with prize machines).

Other

Other acquisitions during 2010 primarily relate to the June 15, 2010 acquisition of 100% of the shares of Coin Net S.r.l. ("Coin Net"), an Italian entity that owns and operates amusement with prize machines.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

6. Business combinations (continued)

Acquisitions in 2009

The Group's business combination activity during the first nine months of 2009, which occurred in the Italian Operations segment, is summarized as follows:

<i>(thousands of euros)</i>	Labet	Europa Gestione	Other	Total
Cash purchase price	15,075	-	8,389	23,464
Cash acquisition costs	144	149	622	915
Total cash acquisition cost	<u>15,219</u>	<u>149</u>	<u>9,011</u>	<u>24,379</u>
Payable to acquired companies	9,786	14,633	5,430	29,849
Receivable from acquired companies	-	-	210	210
Total non-cash acquisition cost	<u>9,786</u>	<u>14,633</u>	<u>5,640</u>	<u>30,059</u>
Total acquisition cost	<u><u>25,005</u></u>	<u><u>14,782</u></u>	<u><u>14,651</u></u>	<u><u>54,438</u></u>
Cash cost paid in 2008	1,324	134	412	1,870
Cash cost paid in 2009	13,895	15	8,599	22,509
Total cash acquisition cost	<u>15,219</u>	<u>149</u>	<u>9,011</u>	<u>24,379</u>
Cash cost paid in 2009	13,895	15	8,599	22,509
Net cash acquired	-	(71)	(120)	(191)
Net cash outflow in 2009	<u>13,895</u>	<u>(56)</u>	<u>8,479</u>	<u>22,318</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

6. Business combinations (continued)

Labet

On June 25, 2009, Lottomatica acquired 100% of the shares of Labet, an Italian entity that is engaged in the sports betting business for a cash purchase price of €23.5 million. The purchase accounting for Labet was finalized in December 2009. The following table summarizes the final fair values of Labet's assets acquired and liabilities assumed at the date of the acquisition (in thousands of euros):

	Fair Value	Carrying Value
Identifiable assets and liabilities on the date of acquisition		
Systems, equipment and other assets relating to contracts, net	284	284
Goodwill	-	22,707
Intangible assets, net	9,912	2,601
Other non-current assets	37	37
Current assets	618	618
Total assets acquired	10,851	26,247
Deferred income taxes	2,446	-
Other current liabilities	1,435	1,435
Total liabilities assumed	3,881	1,435
Fair value of net assets acquired	6,970	24,812
Goodwill arising on acquisition	18,035	
Total acquisition cost	25,005	

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

6. Business combinations (continued)

Europa Gestione

On June 4, 2009, Lottomatica acquired 100% of the shares of Europa Gestione, an Italian entity that owns and operates amusement with prize machines. The purchase accounting for Europa Gestione was finalized in May 2010. The following table summarizes the final fair values of Europa Gestione's assets acquired and liabilities assumed at the date of the acquisition (in thousands of euros):

	Fair Value	Carrying Value
Identifiable assets and liabilities on the date of acquisition		
Systems, equipment and other assets relating to contracts, net	1,334	1,334
Intangible assets, net	5,924	-
Current assets	88	88
Total assets acquired	<u>7,346</u>	<u>1,422</u>
Deferred income taxes	1,888	-
Other non-current liabilities	14	14
Other current liabilities	13	13
Total liabilities assumed	<u>1,915</u>	<u>27</u>
Fair value of net assets acquired	<u>5,431</u>	<u>1,395</u>
Goodwill arising on acquisition	<u>9,351</u>	
Total acquisition cost	<u><u>14,782</u></u>	

Other

Other acquisitions during 2009 primarily relate to the January 7, 2009 acquisition of 100% of the shares of Topolino S.r.l. ("Topolino"), an Italian entity that owns and operates amusement with prize machines, for a cash purchase price of €3.5 million. The purchase accounting for Topolino was finalized in January 2010.

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.

Prior to the first quarter of 2010, certain corporate overhead costs were presented within the GTECH Lottery segment. These costs are now presented as a reconciling item because they are not attributable to any one reportable segment. Prior period amounts have been reclassified to conform to the current year presentation.

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 and nine months ended September 30, 2010 and 2009, respectively. Prior period amounts have been reclassified to conform to the current year presentation.

	For the three months ended September 30, 2010			
<i>(thousands of euros)</i>	Total revenue	Intersegment revenue	Third-party revenue	Operating income/(loss)
Operating Segments				
Italian Operations	296,249	-	296,249	107,791
GTECH Lottery	202,225	(1,688)	200,537	26,690
Gaming Solutions	59,799	(20,730)	39,069	4,754
GTECH G2	17,067	(826)	16,241	(1,323)
	<u>575,340</u>	<u>(23,244)</u>	<u>552,096</u>	<u>137,912</u>
Eliminations	(23,244)	23,244	-	(4,565)
Corporate overhead	-	-	-	(4,286)
Other (a)	125	-	125	(17,446)
	<u>552,221</u>	<u>-</u>	<u>552,221</u>	<u>111,615</u>

	For the three months ended September 30, 2009			
<i>(thousands of euros)</i>	Total revenue	Intersegment revenue	Third-party revenue	Operating income/(loss)
Operating Segments				
Italian Operations	258,255	-	258,255	77,805
GTECH Lottery	184,031	(524)	183,507	29,879
Gaming Solutions	34,608	-	34,608	(4,451)
GTECH G2	17,842	(750)	17,092	1,103
	<u>494,736</u>	<u>(1,274)</u>	<u>493,462</u>	<u>104,336</u>
Eliminations	(1,274)	1,274	-	(171)
Corporate overhead	-	-	-	(2,866)
Other (a)	77	-	77	(17,069)
	<u>493,539</u>	<u>-</u>	<u>493,539</u>	<u>84,230</u>

(a) Principally represents the depreciation and 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)

	For the nine months ended September 30, 2010			
	Total revenue	Intersegment revenue	Third-party revenue	Operating income/(loss)
<i>(thousands of euros)</i>				
Operating Segments				
Italian Operations	888,118	-	888,118	320,378
GTECH Lottery	625,654	(2,480)	623,174	92,330
Gaming Solutions	129,474	(20,730)	108,744	(1,524)
GTECH G2	53,800	(2,720)	51,080	(4,007)
	<u>1,697,046</u>	<u>(25,930)</u>	<u>1,671,116</u>	<u>407,177</u>
Eliminations	(25,930)	25,930	-	(4,526)
Corporate overhead	-	-	-	(8,917)
Other (a)	272	-	272	(53,631)
	<u><u>1,671,388</u></u>	<u><u>-</u></u>	<u><u>1,671,388</u></u>	<u><u>340,103</u></u>

	For the nine months ended September 30, 2009			
	Total revenue	Intersegment revenue	Third-party revenue	Operating income/(loss)
<i>(thousands of euros)</i>				
Operating Segments				
Italian Operations	853,508	-	853,508	326,716
GTECH Lottery	591,120	(1,913)	589,207	104,616
Gaming Solutions	99,338	-	99,338	(12,298)
GTECH G2	52,330	(2,445)	49,885	(1,026)
	<u>1,596,296</u>	<u>(4,358)</u>	<u>1,591,938</u>	<u>418,008</u>
Eliminations	(4,358)	4,358	-	92
Corporate overhead	-	-	-	(8,592)
Other (a)	251	-	251	(63,979)
	<u><u>1,592,189</u></u>	<u><u>-</u></u>	<u><u>1,592,189</u></u>	<u><u>345,529</u></u>

(a) Principally represents the depreciation and 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 and nine months ended September 30, 2010 and 2009, respectively.

<i>(thousands of euros)</i>	For the three months ended September 30, 2010		
	Depreciation	Amortization	Impairment
Operating Segments			
Italian Operations	18,055	7,958	-
GTECH Lottery	35,686	659	-
Gaming Solutions	3,740	1,191	-
GTECH G2	724	1,308	-
	<u>58,205</u>	<u>11,116</u>	<u>-</u>
Corporate overhead	17	-	-
Other (a)	4,275	13,301	-
	<u>62,497</u>	<u>24,417</u>	<u>-</u>

<i>(thousands of euros)</i>	For the three months ended September 30, 2009		
	Depreciation	Amortization	Impairment
Operating Segments			
Italian Operations	15,960	6,130	-
GTECH Lottery	32,193	803	-
Gaming Solutions	3,932	1,232	-
GTECH G2	706	1,862	-
	<u>52,791</u>	<u>10,027</u>	<u>-</u>
Corporate overhead	7	-	-
Other (a)	5,422	11,743	-
	<u>58,220</u>	<u>21,770</u>	<u>-</u>

(a) Represents the depreciation and 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)

<i>(thousands of euros)</i>	For the nine months ended September 30, 2010		
	Depreciation	Amortization	Impairment
Operating Segments			
Italian Operations	49,653	21,845	-
GTECH Lottery	103,291	1,954	-
Gaming Solutions	11,383	3,727	2,148
GTECH G2	2,236	3,849	-
	<u>166,563</u>	<u>31,375</u>	<u>2,148</u>
Corporate overhead	45	-	-
Other (a)	14,045	39,801	-
	<u>180,653</u>	<u>71,176</u>	<u>2,148</u>

<i>(thousands of euros)</i>	For the nine months ended September 30, 2009		
	Depreciation	Amortization	Impairment
Operating Segments			
Italian Operations	44,011	15,294	57
GTECH Lottery	100,673	2,519	-
Gaming Solutions	12,318	4,063	-
GTECH G2	1,970	5,649	-
	<u>158,972</u>	<u>27,525</u>	<u>57</u>
Corporate overhead	21	-	-
Other (a)	19,361	42,633	-
	<u>178,354</u>	<u>70,158</u>	<u>57</u>

(a) Represents the depreciation and 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

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, 2010	19,197	614,430	49,936	90,995	774,558
Acquisitions	-	686	54	-	740
Additions	10,955	46,833	12,337	138,675	208,800
Depreciation (Note 22)	(4,285)	(154,707)	(11,343)	-	(170,335)
Disposals	(624)	(2,550)	(1,133)	(55)	(4,362)
Foreign currency translation	21	29,292	1,742	6,161	37,216
Transfers	-	158,506	3,356	(161,840)	22
Other	(2)	(5)	33	(20)	6
Balance at September 30, 2010	<u>25,262</u>	<u>692,485</u>	<u>54,982</u>	<u>73,916</u>	<u>846,645</u>
Balance at January 1, 2010					
Cost	39,746	1,368,519	90,857	90,995	1,590,117
Accumulated depreciation	<u>(20,549)</u>	<u>(754,089)</u>	<u>(40,921)</u>	-	<u>(815,559)</u>
Net book value	<u>19,197</u>	<u>614,430</u>	<u>49,936</u>	<u>90,995</u>	<u>774,558</u>
Balance at September 30, 2010					
Cost	50,042	1,572,002	104,971	73,916	1,800,931
Accumulated depreciation	<u>(24,780)</u>	<u>(879,517)</u>	<u>(49,989)</u>	-	<u>(954,286)</u>
Net book value	<u>25,262</u>	<u>692,485</u>	<u>54,982</u>	<u>73,916</u>	<u>846,645</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

9. Property, plant and equipment, net

<i>(thousands of euros)</i>	Land and Buildings	Furniture and Equipment	Construction in Progress	Total
Net book value				
Balance at January 1, 2010	29,481	58,596	445	88,522
Additions	2	6,652	564	7,218
Depreciation (Note 22)	(1,254)	(9,064)	-	(10,318)
Disposals	(48)	(256)	-	(304)
Foreign currency translation	1,651	3,217	22	4,890
Transfers	-	600	(622)	(22)
Other	-	11	-	11
Balance at September 30, 2010	<u>29,832</u>	<u>59,756</u>	<u>409</u>	<u>89,997</u>
Balance at January 1, 2010				
Cost	35,485	87,926	445	123,856
Accumulated depreciation	(6,004)	(29,330)	-	(35,334)
Net book value	<u>29,481</u>	<u>58,596</u>	<u>445</u>	<u>88,522</u>
Balance at September 30, 2010				
Cost	37,392	98,584	409	136,385
Accumulated depreciation	(7,560)	(38,828)	-	(46,388)
Net book value	<u>29,832</u>	<u>59,756</u>	<u>409</u>	<u>89,997</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10. Goodwill

<i>(thousands of euros)</i>	September 30, 2010	December 31, 2009
Balance at beginning of period	3,006,783	3,074,571
Acquisitions:		
Coin Net	7,216	-
Labet	-	18,035
Europa Gestione	-	13,387
Other	2,013	7,835
	9,229	39,257
Adjustments:		
Foreign currency translation	128,423	(67,141)
Subsequent changes in fair value of contingent liabilities	1,690	(8,341)
Revisions to fair value of other assets and liabilities acquired	(3,307)	(4,668)
Revisions to fair value of Atronic assets and liabilities acquired	-	(3,046)
Impairment loss	-	(23,849)
	126,806	(107,045)
Balance at end of period	3,142,818	3,006,783
Balance at beginning of period		
Cost	3,079,349	3,123,288
Accumulated impairment loss	(72,566)	(48,717)
	3,006,783	3,074,571
Balance at end of period		
Cost	3,217,270	3,079,349
Accumulated impairment loss	(74,452)	(72,566)
	3,142,818	3,006,783

Goodwill of €9.2 million arising from acquisitions during 2010 primarily relates to the Coin Net acquisition which occurred on June 15, 2010. Goodwill of €39.3 million arising from acquisitions during 2009 primarily relates to the Labet and Europa Gestione acquisitions which occurred on June 25, 2009 and June 4, 2009, respectively.

Subsequent changes in fair value of contingent liabilities during the first nine months of 2010 primarily resulted from changes in estimated put/call payments related to the Boss Media AB acquisition. Goodwill related to this acquisition was finalized in April 2010 when the put right payment was made. See Note 31 for further details.

Subsequent changes in fair value of contingent liabilities during 2009 primarily resulted from changes in estimated contingent consideration related to the Finsoft Limited ("Finsoft") and St. Enodoc Holdings Limited ("St. Enodoc") acquisitions along with changes in estimated put/call payments related to the Boss Media acquisition. Goodwill related to the Finsoft and St. Enodoc acquisitions is provisional as the costs of these acquisitions include contingent consideration and put/call payments, respectively. See Note 31 for further details.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10. Goodwill (continued)

Revisions to fair value of other assets and liabilities acquired during 2010 primarily resulted from the finalization of the Labet and Europa Gestione purchase accounting, which occurred during May 2010. Revisions to fair value of other assets and liabilities acquired during 2009 primarily resulted from the finalization of the Royal Gold S.r.l. (“Royal Gold”) purchase accounting, which occurred during September 2009.

Revisions to fair value of Atronic assets and liabilities acquired resulted from the finalization of the Atronic purchase accounting, which occurred during January 2009.

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 nine months of 2010. The €23.8 million impairment loss recorded during 2009 relates primarily 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>	September 30, 2010	December 31, 2009
Balance at beginning of period	822,886	847,281
Intangible assets acquired during the period:		
Purchase business combination related:		
Sports betting rights and horse racing betting rights	2,403	-
Customer contracts	-	15,767
Other	86	-
	2,489	15,767
All other intangible assets acquired:		
Concessions and licenses	882,233	88,092
Patents	9,667	9,271
Sports betting rights and horse racing betting rights	-	1,963
Other	903	3,449
	892,803	102,775
Total intangible assets acquired	895,292	118,542
Foreign currency translation	36,630	(13,632)
Revisions to fair value of assets and liabilities acquired	7,268	15,034
Impairment loss	-	(49,817)
Amortization (Note 23)	(71,176)	(94,522)
Balance at end of period	1,690,900	822,886
Balance at beginning of period		
Cost	1,121,489	1,074,762
Accumulated amortization	(298,603)	(227,481)
	822,886	847,281
Balance at end of period		
Cost	2,075,938	1,121,489
Accumulated amortization	(385,038)	(298,603)
	1,690,900	822,886

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

11. Intangible assets, net (continued)

Purchase business combination related intangible assets in 2010 principally resulted from the Prima S.r.l. acquisition. The intangible assets are provisional because they are based on preliminary estimates and assumptions. Revisions to the fair values, which may be significant, will be recorded when the Group receives final information, including appraisals and other analyses, but not later than June 7, 2011 for this acquisition.

Other intangible assets acquired in 2010 principally relate to the Italian Scratch & Win license and the final 50% of 10,761 VLT rights in Italy. In June 2010, capital contributions of €187.2 million were received from our partners in the Scratch & Win concession.

Revisions to fair value of assets and liabilities acquired in 2010 primarily resulted from the finalization of the Europa Gestione purchase accounting, which occurred during May 2010. See Note 10 for additional information.

Purchase business combination related intangible assets in 2009 principally resulted from the Labet acquisition, the purchase accounting for which was finalized in December 2009.

Other intangible assets acquired in 2009 principally relate to the non-refundable payment representing 50% of the total cost of 10,761 VLT rights in Italy.

Revisions to fair value of assets and liabilities acquired in 2009 primarily resulted from the finalization of the Atronic and Royal Gold purchase accounting, which occurred during January 2009 and September 2009, respectively. See Note 10 for additional information.

12. Other assets (non-current and current)

<i>(thousands of euros)</i>	September 30, 2010	December 31, 2009
Other non-current assets		
Long-term deferred asset	7,546	6,978
Long-term prepaid expenses	4,240	3,075
Deposits	4,231	3,470
Long-term customer receivables	4,107	6,517
Sales-type lease receivables	713	1,113
Other	1,448	1,539
	<u>22,285</u>	<u>22,692</u>

<i>(thousands of euros)</i>	September 30, 2010	December 31, 2009
Other current assets		
Prepaid expenses	20,052	10,429
Value-added tax receivable	18,562	10,188
Other receivables	17,493	28,104
Other tax receivables	12,392	9,676
Other	3,134	3,180
	<u>71,633</u>	<u>61,577</u>

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13. Inventories

<i>(thousands of euros)</i>	September 30, 2010	December 31, 2009
Raw materials	14,653	25,374
Work in progress	96,967	48,665
Finished goods	61,824	60,041
	<u>173,444</u>	<u>134,080</u>

14. Trade and other receivables

<i>(thousands of euros)</i>	September 30, 2010	December 31, 2009
Trade receivables	607,926	577,504
Receivables from intermediaries	139,914	275,794
Related party receivables (Note 29)	7,207	2,647
Sales-type lease receivables	641	666
Allowance for doubtful accounts (including related party)	(65,948)	(64,808)
	<u>689,740</u>	<u>791,803</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>	September 30, 2010	December 31, 2009
Cash on hand	495	453
Cash at bank	190,762	468,882
Cash and cash equivalents	<u>191,257</u>	<u>469,335</u>
Current financial receivables	4,986	4,613
Foreign currency forward contracts	62,823	599
GTECH Senior Credit Facilities	54,576	203
5.375% Notes due 2016	33,381	3,147
Capital Securities	31,023	46,618
Swap Liability	30,229	29,924
Short-term borrowings	22,226	5,079
Boss Media contingent liability	-	17,521
Other	47,183	29,059
Current financial debt	<u>281,441</u>	<u>132,150</u>
Net current financial debt (cash)	85,198	(341,798)
GTECH Senior Credit Facilities	1,211,920	1,145,100
5.375% Notes due 2016	750,701	740,821
Capital Securities	735,172	733,180
Interest rate swaps	55,858	53,094
Swap Liability	43,179	56,391
Other	34,339	35,721
Non current financial debt	<u>2,831,169</u>	<u>2,764,307</u>
Net financial position	<u><u>2,916,367</u></u>	<u><u>2,422,509</u></u>
Total indebtedness included in net financial position	<u><u>2,855,517</u></u>	<u><u>2,694,255</u></u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

16. Non-current assets classified as held for sale

In August 2008, the Group classified certain property acquired in connection with its acquisition of Atronic (Gaming Solutions segment) located in Scottsdale, Arizona, USA as held for sale. During the fourth quarter of 2009, the Group recorded an impairment charge of €1.4 million (€0.9 million net of tax benefit) on the remeasurement to fair value less costs to sell for this property. In June 2010, the Group entered into a nonbinding letter of intent with respect to the sale of the property and recorded an additional impairment charge of €2.1 million (€1.3 million net of tax benefit).

The major classes of assets held for sale are as follows:

<i>(thousands of euros)</i>	September 30, 2010	December 31, 2009
Building	3,096	3,957
Land	2,794	3,499
	5,890	7,456
Foreign currency translation	419	(179)
Asset impairment loss	(2,148)	(1,387)
Non-current assets classified as held for sale	<u>4,161</u>	<u>5,890</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

17. Other reserves

Other reserves at September 30, 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	-	-	-	-	(183)	-	-	-	(183)
Amortization of gain on interest rate swap on discontinued cash flow hedge	-	-	-	-	(427)	-	-	-	(427)
Unrecognized net loss on derivative instruments	-	-	-	-	(6,020)	-	-	-	(6,020)
Unrecognized net loss on available for sale investment	-	-	-	-	(11)	-	-	-	(11)
Foreign currency translation	-	-	-	-	-	131,355	-	-	131,355
Appropriation of 2009 income in accordance with Italian law	3,946	-	-	-	-	-	-	-	3,946
Share-based payment	-	-	2,634	-	-	-	-	-	2,634
Shares issued under stock award plans	-	-	-	-	-	-	(3,389)	-	(3,389)
Purchase of non-controlling interest	-	-	-	-	-	-	-	(3,078)	(3,078)
Expiration of share buy-back program	-	29,361	(18,033)	-	-	-	(318,594)	-	(307,266)
Balance at September 30, 2010	<u>34,403</u>	<u>60,819</u>	<u>4,983</u>	<u>1,834</u>	<u>(38,861)</u>	<u>(44,490)</u>	<u>60,113</u>	<u>(3,078)</u>	<u>75,723</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

17. Other reserves (continued)

Other reserves at September 30, 2009 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	Total
Balance at January 1, 2009	30,380	34,066	26,540	1,834	(43,987)	(135,755)	382,096	295,174
Fair value of interest rate swaps	-	-	-	-	5,345	-	-	5,345
Amortization of gain on interest rate swap on discontinued cash flow hedge	-	-	-	-	(428)	-	-	(428)
Unrecognized net loss on derivative instruments	-	-	-	-	(3,387)	-	-	(3,387)
Unrecognized net loss on available for sale investment	-	-	-	-	(67)	-	-	(67)
Foreign currency translation	-	-	-	-	-	(65,757)	-	(65,757)
Appropriation of 2008 income in accordance with Italian law	77	-	-	-	-	-	-	77
Share-based payment	-	-	122	-	-	-	-	122
Shares issued under stock award plans	-	(2,608)	(7,074)	-	-	-	-	(9,682)
Balance at September 30, 2009	<u>30,457</u>	<u>31,458</u>	<u>19,588</u>	<u>1,834</u>	<u>(42,524)</u>	<u>(201,512)</u>	<u>382,096</u>	<u>221,397</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

18. Debt

<i>(thousands of euros)</i>	September 30, 2010	December 31, 2009
	<u> </u>	<u> </u>
Long-term debt, less current portion		
GTECH Senior Credit Facilities	1,211,920	1,145,100
5.375% Notes due 2016	750,701	740,821
Capital Securities	735,172	733,180
Other	916	2,889
	<u>2,698,709</u>	<u>2,621,990</u>
Short-term borrowings		
Short-term borrowings	<u>22,226</u>	<u>5,079</u>
Current portion of long-term debt		
GTECH Senior Credit Facilities	54,576	203
5.375% Notes due 2016	33,381	3,147
Capital Securities	31,023	46,618
LTO Revolving Credit Facility	34	22
Other	15,568	17,196
	<u>134,582</u>	<u>67,186</u>
Total indebtedness	<u>2,855,517</u>	<u>2,694,255</u>

GTECH Senior Credit Facilities

GTECH is a party to an agreement with a syndicate of financial institutions for senior unsecured credit facilities (the "GTECH Senior Credit Facilities") which expire on August 29, 2012. The GTECH Senior Credit Facilities are unsecured and unsubordinated and 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 herein as the "Other Guarantors").

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

18. Debt (continued)

The GTECH Senior Credit Facilities consist of the following facilities (US dollars in thousands):

	Committed amount available		Amount
	December 31, 2009	September 30, 2010	borrowed at September 30, 2010
Term Facility A	1,256,018	1,256,018	1,256,018
Term Facility B	403,982	403,982	403,982
Revolver A	250,000	250,000	80,000
Revolver B	250,000	250,000	842 (a)
	<u>2,160,000</u>	<u>2,160,000</u>	<u>1,740,842</u>

(a) Represents letters of credit that reduce the amount available under Revolver B

The GTECH Senior Credit Facilities require that GTECH repay Term Facility A and Term Facility B (Term Facility A and Term Facility B are collectively referred to as the "GTECH Term Facilities") pursuant to the following schedule (US dollars in thousands):

2011	180,000
2012	1,480,000
Total	<u>1,660,000</u>

Interest is generally payable three months in arrears at rates determined by reference to LIBOR 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 0.24% per annum on the total available commitment of Revolver A and Revolver B. At September 30, 2010, the effective interest rate on the GTECH Senior Credit Facilities was 0.88%.

The GTECH Senior Credit Facilities have covenants and restrictions including, among other things, requirements relating to the maintenance of certain financial ratios, limitations on capital expenditures and acquisitions, and limitations on dividends. Violation of these covenants may result in the full principal amount of the GTECH Senior Credit Facilities becoming immediately payable upon written notice. At September 30, 2010 and December 31, 2009, we were in compliance with all covenants and restrictions.

Debt issuance costs associated with the GTECH Senior Credit Facilities are being amortized over approximately six years beginning September 2006.

Notes

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

LOTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

18. Debt (continued)

Interest is payable annually in arrears, with the first payment due 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 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 Notes will be redeemed at 100% of their principal amount on December 5, 2016. The 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 to the Notes. The 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 Notes may require Lottomatica to redeem the 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 Notes.

In December 2009, the proceeds of the Notes, net of associated fees and costs, were used to repay a €360 million senior unsecured term loan facility, a portion of the GTECH Senior Credit Facilities and other debt.

Debt issuance costs associated with the 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 have received a rating equal to a BB and Ba3 by Standard & Poor's Rating Service and Moody's Investors Service Limited, respectively. The Capital Securities 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 ten years beginning May 2006.

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 Capital Securities agreement. Under circumstances described in the Capital Securities trust deed, Lottomatica is required to settle deferred interest payments in cash or equity. During the first nine months of 2010 and 2009, €61.9 million and €61.9 million, respectively, of interest on the Capital Securities was paid.

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 December 31, 2009, 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)

LTO Revolving Credit Facility

In May 2008, Lottomatica entered into an agreement with a syndicate of financial institutions for a €300 million senior unsecured revolving credit facility (the "LTO Revolving Credit Facility"). The LTO Revolving Credit Facility expires on August 29, 2012. The LTO Revolving Credit Facility is unsecured and unsubordinated and is fully and unconditionally guaranteed by GTECH and the Other Guarantors.

Interest is generally payable monthly in arrears at rates determined by reference to EURIBOR 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 0.36% per annum on the total available commitment of the LTO Revolving Credit Facility.

The LTO Revolving Credit Facility has covenants and restrictions including, among other things, requirements relating to the maintenance of certain financial ratios, limitations on capital expenditures and acquisitions, and limitations on dividends. Violation of these covenants may result in the full principal amount becoming immediately payable upon written notice. At September 30, 2010 and December 31, 2009, we were in compliance with all covenants and restrictions.

Debt issuance costs associated with the LTO Revolving Credit Facility are being amortized over approximately four years beginning May 2008.

As of September 30, 2010, there was no outstanding balance under the LTO Revolving Credit Facility.

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 September 30, 2010, €578.5 million of letters of credit were outstanding with a weighted average annual cost of 0.77%. At December 31, 2009, €619.9 million of letters of credit were outstanding with a weighted average annual cost of 0.79%.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

19. Other liabilities (non-current and current)

<i>(thousands of euros)</i>	September 30, 2010	December 31, 2009
Other non-current liabilities		
Deferred revenue	25,083	27,628
Contingent liabilities related to GTECH acquisition	13,898	13,503
Staff severance fund	8,162	8,082
Other	4,866	5,971
	<u>52,009</u>	<u>55,184</u>

<i>(thousands of euros)</i>	September 30, 2010	December 31, 2009
Other current liabilities		
Scratch & Win license fee	280,000	-
VLT rights	80,707	-
Accrued expenses	66,805	99,763
Taxes other than income taxes	52,308	49,763
Employee compensation	49,421	56,841
Deferred revenue	38,086	38,259
Advance payments from customers	10,509	18,647
Advance billings	7,090	7,291
	<u>584,926</u>	<u>270,564</u>

20. Raw materials, services and other costs

<i>(thousands of euros)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Operating expenses	125,112	117,723	367,924	338,488
Outside services	35,104	34,322	113,267	99,129
Consumables	28,774	26,813	86,873	84,172
Cost of product sales	20,235	19,220	66,834	62,578
Insurance, miscellaneous taxes and other	19,388	18,888	62,560	55,622
Telecommunications	16,665	14,209	49,080	45,886
Occupancy	13,078	11,616	39,316	35,074
Travel	6,610	6,181	19,897	18,982
	<u>264,966</u>	<u>248,972</u>	<u>805,751</u>	<u>739,931</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

21. Personnel

<i>(thousands of euros)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Payroll	85,831	80,727	259,344	248,107
Statutory benefits	7,720	7,072	26,015	24,395
Company benefits	6,332	5,548	19,576	20,088
Incentive compensation	7,210	4,252	18,861	18,226
Stock compensation (Note 28)	603	2,241	2,634	122
Other	3,496	2,019	8,495	6,205
	<u>111,192</u>	<u>101,859</u>	<u>334,925</u>	<u>317,143</u>

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

Personnel Description	Number of employees		
	As of		
	September 30, 2010	December 31, 2009	2010 Average
Executives	416	400	405
Middle Management	998	977	986
All Other Permanent Employees	5,854	6,131	5,944
Employees with Temporary Employment Contracts	361	164	377
	<u>7,629</u>	<u>7,672</u>	<u>7,712</u>

22. Depreciation

<i>(thousands of euros)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Systems, equipment and other assets related to contracts, net (Note 8)	59,049	54,793	170,335	169,314
Property, plant and equipment, net (Note 9)	3,448	3,427	10,318	9,040
	<u>62,497</u>	<u>58,220</u>	<u>180,653</u>	<u>178,354</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

23. Amortization

<i>(thousands of euros)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Intangibles amortization (Note 11)	24,417	21,791	71,176	70,279
Other	-	(21)	-	(121)
	<u>24,417</u>	<u>21,770</u>	<u>71,176</u>	<u>70,158</u>

24. Foreign exchange 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 September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Cash foreign exchange loss	(827)	(992)	(1,477)	(1,282)
Non-cash foreign exchange loss	(70,696)	(9,644)	(53,645)	(10,199)
	<u>(71,523)</u>	<u>(10,636)</u>	<u>(55,122)</u>	<u>(11,481)</u>

Non-cash foreign exchange loss

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

<i>(thousands of euros)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
GTECH Senior Credit Facilities hedges	(71,013)	(2,775)	(55,432)	(2,775)
GTECH euro denominated debt	-	(6,020)	-	(12,072)
Other	317	(849)	1,787	4,648
	<u>(70,696)</u>	<u>(9,644)</u>	<u>(53,645)</u>	<u>(10,199)</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

24. Foreign exchange loss, net (continued)

GTECH Senior Credit Facilities hedges

Approximately 45% of the Group's debt at September 30, 2010 is denominated in US dollars and therefore exposed to fluctuations in the euro versus the US dollar exchange rate (\$1.3648 equals €1 at September 30, 2010). A weak euro causes the value of the Group's US dollar denominated debt, when measured in euro, to increase. Revenues and cash flow from US based contracts provide a natural hedge on approximately 53% of this US dollar denominated debt. In order to mitigate the risk of higher Group debt from the weakening of the euro versus the US dollar, at varying times during 2010, the Group entered into derivative instruments with notional amounts approximating €600 million. These derivative instruments (which expire at varying dates between December 15, 2010 and March 31, 2011) provide protection against the weakening of the euro versus the US dollar below an average exchange rate of \$1.25, with participation in euro appreciation up to an average rate of \$1.40. We are obligated to sell euro to the counterparties to the derivative instruments at an average rate of \$1.25 when the euro versus the US dollar exchange rate exceeds certain rates (averaging \$1.40) on or prior to the derivative instruments expiration date. Although these derivative instruments do not receive hedge accounting treatment (unrealized gains or losses on the derivative instruments are recorded in the income statement), this hedging strategy eliminates the risk that the Group's US dollar denominated debt, when measured in euro, would increase due to the weakening of the euro below an average exchange rate of \$1.25.

GTECH euro denominated debt

In order to better match future cash flows with the Group's revenue concentration from European countries (which increased in recent years), GTECH borrowed in euro under the GTECH Senior Credit Facilities in 2009. Non-cash foreign exchange loss incurred on these euro denominated borrowings during the three and nine months ended September 30, 2009 resulted from fluctuations in the US dollar to euro exchange rate.

25. Interest expense

The Group incurred interest expense on the following components of debt:

<i>(thousands of euros)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Capital Securities	(16,260)	(16,260)	(48,271)	(48,399)
GTECH Senior Credit Facilities	(13,735)	(13,280)	(41,541)	(43,689)
5.375% Notes due 2016	(9,532)	-	(28,669)	-
LTO Term and Revolving Facilities	(881)	(3,295)	(1,729)	(12,546)
Other	(2,208)	(2,444)	(6,187)	(8,775)
	(42,616)	(35,279)	(126,397)	(113,409)

See Note 18 for details of the debt facilities.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

26. Income tax

The significant components of income tax expense (benefit) are as follows:

<i>(thousands of euros)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Current				
Italy	19,777	28,976	65,123	102,167
Foreign	4,647	3,054	6,545	13,931
Total Current	24,424	32,030	71,668	116,098
Deferred				
Italy	6,655	(9,748)	20,553	(8,092)
Foreign	(32,042)	(9,687)	(19,952)	(32,635)
Total Deferred	(25,387)	(19,435)	601	(40,727)
Income tax expense (benefit)	(963)	12,595	72,269	75,371

27. Components of other comprehensive income

<i>(thousands of euros)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Derivative instruments (cash flow hedges):				
Losses arising during the period	(20,554)	(950)	(10,930)	(4,589)
Reclassification adjustments for gains (losses) included in the income statement	489	(1,323)	1,944	(709)
	(20,065)	(2,273)	(8,986)	(5,298)
Translation of foreign operations:				
Gains (losses) arising during the period	(237,364)	(47,446)	131,136	(73,372)
Reclassification adjustments for gains included in the income statement	115	-	115	-
	(237,249)	(47,446)	131,251	(73,372)

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

28. Share-based payment plans

The expense recognized during the three and nine months ended September 30, 2010 and 2009 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		For the nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Equity settled share-based payment	(603)	(2,241)	(2,634)	(122)
Cash settled share-based payment	-	-	-	-
	<u>(603)</u>	<u>(2,241)</u>	<u>(2,634)</u>	<u>(122)</u>

Stock option grants

During the nine months ended September 30, 2010, 1,750,644 stock options were granted to certain directors, executives, and other key employees of the Group as approved by the Board of Directors. The exercise price of the options is generally equal to the average price of the Group's ordinary shares one month prior to the grant date. The options vest subject to the satisfaction of performance conditions related to the Group's EBITDA (earnings before interest, taxes, depreciation and amortization) and net financial debt over a three-year period and to the employees remaining in service to the Group. Options partially vest upon achievement of 90% or more of the performance conditions and if the performance conditions are not met, the options are forfeited. The contractual life of each option granted is six years and there are no cash settlement alternatives.

The fair value of the options granted is estimated at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The fair value of options granted during the nine months ended September 30, 2010 was €1.45 per share using the following assumptions:

Dividend yield (%)	6.15
Expected volatility (%)	26.24
Risk-free interest rate (%)	3.00
Expected life of options (in years)	4.50
Weighted average share price (€)	11.08
Exercise price (€)	10.89

Restricted stock grants

During the nine months ended September 30, 2010, 724,020 performance based share awards (the "awards") were granted to certain employees of the Group as approved by the Board of Directors. Recipients of the awards do not pay the Group any cash consideration for the awards. The awards vest subject to the satisfaction of performance conditions related to the Group's EBITDA and net financial debt over a three-year period and to the employees remaining in service to the Group. Awards partially vest upon achievement of 90% or more of the performance conditions and if the performance conditions are not met, the awards are forfeited. The contractual life of the awards is five years and they may be settled in cash at the Group's option. The Group does not have a past practice of cash settlement and does not plan to cash settle awards in the future. The fair value of the share awards on the date of grant was €11.08 per share, which represents the average share price during the employee grant acceptance period.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

29. Related party disclosures

<i>(thousands of euros)</i>	September 30, 2010	December 31, 2009
Accounts receivable		
Spain UTE	4,892	456
Taiwan Sports Lottery Corporation	1,468	95
De Agostini Group	847	2,096
	<u>7,207</u>	<u>2,647</u>
Allowance for doubtful accounts	(942)	-
	<u>6,265</u>	<u>2,647</u>
Accounts payable		
De Agostini Group	<u>14,569</u>	<u>43,232</u>

<i>(thousands of euros)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Service revenue and product sales				
Spain UTE	3,155	-	11,803	-
Taiwan Sports Lottery Corporation	577	516	1,637	1,343
	<u>3,732</u>	<u>516</u>	<u>13,440</u>	<u>1,343</u>
Raw materials, services and other costs				
De Agostini S.p.A.- management fees	52	80	180	230
De Agostini Editore S.p.A. - service fees	2,494	13	2,572	195
	<u>2,546</u>	<u>93</u>	<u>2,752</u>	<u>425</u>

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

29. Related party disclosures (continued)

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.

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 September 30, 2010 and December 31, 2009 are non-interest bearing.

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, 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 was notified 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 had reached said conclusion as a result of the Ministerial Decree dated November 8, 1993 that envisaged the Concession to be enforced only subject to the condition that the EU Commission deem the Concession not to be in violation of the provisions of the Treaty of Rome.

The Arbitration Award issued by the Board of Arbitrators accepted Lottomatica's request by lodging its award on August 1, 2005. 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 favor 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.

Stanley Betting appealed against the decision before the Council of State (Consiglio di Stato).

As of the date of this report a hearing date was not yet set for the said appeal. Notice of the judgment of the TAR of Lazio concerning the Sisal case was provided to Lottomatica on June 24, 2010. The term, therefore, to appeal against that ruling expired on October 8, 2010 (60 days from notification).

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 Lottomatica Italia Servizi S.p.A. (“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.

Lottomatica and LIS responded to both lawsuits and, since Ticket One had filed the same claims with two different courts, filed an appeal with the Supreme Court sitting in joint session, requesting a preliminary proceeding to resolve the issue of jurisdiction and the suspension of the proceedings.

At the hearing on June 24, 2004, the TAR of Lazio accepted the request filed by Lottomatica and Lottomatica Italia Servizi S.p.A. and suspended the proceeding, arranging for the documents to be sent to the Supreme Court of Cassation. The Supreme Court declared Lottomatica and LIS’s appeal to be inadmissible on February 9, 2006. As a result of the Supreme Court’s declaration, Ticket One motioned for a hearing set for October 28, 2009 during which the TAR of Lazio closed the presentation of the arguments by the parties. To date the TAR of Lazio has not issued a ruling.

According to the opinion of Lottomatica’s counsels the request to set the hearing brought forth by Ticket One is insufficient and therefore it is not possible to proceed.

As for the procedure before the Court of Appeal, the Civil Judge after reserving on the request of suspension of the proceeding raised by Lottomatica and LIS, by order dated July 28, 2004 rejected it and postponed the hearing to June 21, 2006. At this hearing, where admitted witnesses were to be deposed, the Judge declared a suspension because of the merger of Lottomatica into NewGames S.p.A. On June 23, 2006, Ticket One presented a petition to revoke the suspension decision. On October 27, 2006, the Court of Rome revoked the decision whereby the action had come to a halt and postponed the hearing to January 26, 2007 for the examination of witnesses.

The testimonies of Elisabetta Cragnotti (former SS Lazio soccer team manager) and Fabrizio Conti (Milan Indoor Tennis Championship organizer) were heard on January 26, 2007. At the July 5, 2007 hearing the Judge, having taken note of Ticket One’s waiver to depose additional witnesses, upon the parties’ request adjourned the case to the December 18, 2008 hearing for stating his conclusions. As of the December 18, 2008 hearing, the Judge has closed the presentation of the arguments by the parties.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

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. According to the opinion of external counsels who are assisting Lottomatica and Lis in these litigation proceedings, the appeal proceedings should confirm the judgment already rendered by the Court of Rome.

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, 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 S.p.A. 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.

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

On January 10, 2006 Lottomatica presented before the Court of Appeal that apart from a number of prejudicial issues concerning, *inter alia*, plaintiff legitimacy, the documents of the proceedings initiated by the Italian Antitrust do not indicate that Lottomatica's conduct was prejudicial and detrimental to Formula Giochi. Conversely, 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 occurred appearance of Formula Giochi S.p.A. have acknowledged the entrance into a settlement agreement between the same Formula Giochi and Sisal S.p.A. 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, to be added to the already-formulated preliminary and merit objections.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

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.

The expert opinion presented on February 21, 2008 included:

- *"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 included 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.

LOTTOMATICA GROUP AND SUBSIDIARIES

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30. Litigation (continued)

4. “LAS VEGAS” Instant Lottery Petition

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

To date 592 petitions and 102 requests for injunctive payments for a total sum of about €5.8 million have been presented to the Consorzio Lotterie Nazionali. There have also been numerous requests for out-of-court payments. All the claims (whether in or out of court) are the same – contesting the rules of the game and the basis for winning on the Las Vegas instant lottery tickets. The Consorzio Lotterie Nazionali deems these requests to be without merit in that they do not follow the game regulations which explicitly describe the qualifications of a winning ticket.

To date, the following rulings have been issued:

- a) 245 rulings in favour of the Consorzio Lotterie Nazionali;
- b) 15 rulings in favour of the Consorzio Lotterie Nazionali as to the rules of the game and the basis for winning, but against the Consorzio Lotterie Nazionali for deceptive advertising in the notices printed on the back of the tickets (about €250 per claim);
- c) 43 rulings in favour of the Consorzio Lotterie Nazionali as to the rules of the game and the basis for winning, but the Consorzio Lotterie Nazionali was sentenced to reimburse the cost of the tickets, in addition to a damages payment (about €300 per claim), for it was not proven during the trial that the game regulations had been posted in the individual retailers’ premises; and
- d) 178 rulings against the Consorzio Lotterie Nazionali, requiring payment of the prize amount in addition to claim compensation.

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.

LOTTOMATICA GROUP AND SUBSIDIARIES

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30. Litigation (continued)

In the hearing of May 24, 2006, 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, and scheduled the following hearing for June 7, 2006.

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 refers 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. The Arbitration Board resulted in the sentencing of Totobit to pay the sum of €200,654.19. Half the arbitration proceeding expenses are equally divided between both parties; the other half is to be borne by Totobit.

Lottomatica and its counsels lodged the appeal for the sentencing in question. 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., 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.

The Regional Prosecutor contested that Lottomatica Videolot Rete S.p.A., 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 Lottomatica Videolot Rete S.p.A., in conjunction with said AAMS officials, is alleged to add up to approximately €4.0 billion.

Lottomatica Videolot Rete S.p.A. 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 Lottomatica Videolot Rete 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.

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

Through court order dated July 25, 2007 the TAR of Lazio accepted the appeals brought forth by Lottomatica Videolot Rete 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. Lottomatica Videolot Rete presented a technical report prepared by sector experts demonstrating its complete adherence to the concession contract obligations. The report illustrates how Lottomatica Videolot Rete 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 Lottomatica Videolot Rete.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

On January 8, 2008, the Regional Public Prosecutor for the Audit Department served notice to Lottomatica Videolot Rete 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 Lottomatica Videolot Rete signed an amendment to the original Concession contract, more favourable to the Concessionaires.

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 Lottomatica Videolot Rete 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.

To date, AAMS has not yet issued any communication regarding the fourth penalty.

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.

Though the above fines do not regard the fourth and largest fine (calculated by the Regional Prosecutor as €3.0 billion) they nevertheless have been significantly reduced compared to the original calculation presented by AAMS and dismissed by both the TAR of Lazio and the Audit Department Prosecutor.

Lottomatica Videolot Rete filed the appeals against the above indicated 3 fines before the Regional Administrative Court (TAR) of Lazio.

The TAR of Lazio dismissed the motions filed by Lottomatica Videolot Rete on November 30, 2009 and in January 2010 Lottomatica Videolot Rete filed the appeal before the State Council. The hearing before the State Council has not yet been scheduled.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

In the meantime, Lottomatica Videolot Rete 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, Lottomatica Videolot Rete 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.

It should, however, be noted that in the meantime 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 reasonableness 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 Lottomatica Videolot Rete 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 Lottomatica Videolot Rete executed a new addendum to the concession. This addendum specifies the new rules for the calculation of the penalty for non-compliance with service levels of the gateway 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. Lottomatica Videolot Rete 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.

7. SUPERENALOTTO Tender Appeal

On October 24, 2007, Stanley International Betting Limited served an appeal on AAMS, Lottomatica, Sisal and Snai before the TAR of Lazio asking for the annulment, upon measure of suspension, of the deeds of the tender launched by AAMS on June 29, 2007 for granting the exclusive concession for operating SuperEnalotto. Stanley believes that the tender deeds are in conflict with European Community rules and principles with regards to freedom of establishment and service provision.

A similar appeal, which however has not been served on Lottomatica but to AAMS and Sisal, was filed by Index Group.

On November 21, 2007, the TAR of Lazio declared the appeal brought forth by Stanley to be inadmissible in part and rejected it in part upon merits. Stanley contested the TAR of Lazio's ruling before the Council of State, presenting again the same arguments as presented before the TAR and requested the suspension of the tender deeds because of being near to the conclusion.

LOTTOMATICA GROUP AND SUBSIDIARIES

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30. Litigation (continued)

On January 26, 2008, upon the completion of opening of the envelopes containing the economic offers, the tender was awarded to Sisal S.p.A. On February 11, 2008 Stanley appealed the awarding procedure.

On July 8, 2008 the Council of State denied the appeal issued by Stanley and claimed the reasons set forth by said appeal to be inadmissible.

The award of the tender was also challenged by Snai who claimed of errors in the valuations carried out by the Tender Award Commission.

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 and the other nine concessionaires, a summons for the rendering of the judicial accounts related to 2004-05 years.

Lottomatica Videolot Rete appeared before the Court on March 2, 2009 by submitting before the Supreme Court ("Corte di Cassazione") a regulation of jurisdiction in order to challenge the Auditing Court's jurisdiction in that Lottomatica Videolot Rete 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, 2009 the Supreme Court declared the jurisdiction of the Auditing Court, despite the fact that the Prosecutor of the Supreme Court had previously recognised that Lottomatica Videolot Rete's position was based on a solid ground.

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 Lottomatica Videolot Rete of a new summons ordering Lottomatica Videolot Rete 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 Lottomatica Videolot Rete, 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, which was required to be done by September 17, 2010.

Lottomatica Videolot Rete's external legal counsels are of the opinion that the risk of losing would be remote because the second part of art. 46 of the above law would apply. This law provides for a fine equal to €1,000. In fact, the "fee" (the so-called "aggio") to which the above-mentioned rule refers is not a method of calculating the fee of the concessionaire, but a sort of consideration payable to the civil servants as salary and allowances mentioned, together with the "fee", in the first part of art. 46 of the above law.

As Lottomatica Videolot Rete's external legal counsels highlighted in their defense, the case in question should be subject to the second part of art. 46 which sets at about €1,000 the penalty to be imposed.

In addition, external legal counsels also stated the following arguments on behalf of Lottomatica Videolot Rete: (i) the absence of wilful misconduct or negligence by the concessionaire as it legitimately assumed not to be subject to this obligation (as also assumed the General Attorney ("Procuratore Generale") at the Joined Section of the Supreme Court; (ii) its having always and promptly deposited the judicial account to AAMS through computerized data transmission of the stakes; and (iii) its having, however, filed the bill to the Court of Auditors without any form of damage deriving from delay.

LOTTOMATICA GROUP AND SUBSIDIARIES

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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, which has been sent 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 formal 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 late 2010, GTECH received copies of the following two related sets of new criminal charges (each, a "Denuncia") that Public Ministry Attorneys recommend be brought against individuals (including one current and two former GTECH employees), respecting CEF's contracts with Racimec and GTECH Brazil.

(1) 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 new facts that would support this new allegation.

(2) 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)

Each of these charges 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 in Denuncia 2, including Messrs. Rocha and Andrade, an opportunity to present a defense prior to his decision to accept or reject Denuncia 2. We have not been advised as to whether the judge in Denuncia 3 will likewise allow the defendants to present a defense prior to deciding whether to accept or reject each of the charges in Denuncia 3. Messrs. Rocha, Rovaand 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 €651.3 million at currency exchange rates in effect as of September 30, 2010). 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 €521.1 million and €607.9 million at currency exchange rates in effect as of September 30, 2010) 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 €39.9 million at currency exchange rates in effect as of September 30, 2010), 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.

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.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

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 €173.7 million at currency exchange rates in effect as of September 30, 2010).

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 €9.9 million at exchange rates in effect as of September 30, 2010) 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 €39.1 million at exchange rates in effect as of September 30, 2010). 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.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

31. Commitments and contingencies

Commitments

Italy VLT Rights

In 2009, Lottomatica applied to the Amministrazione Autonoma Monopoli di Stato (“AAMS”) to buy up to 10,761 VLT rights in Italy and made a €80.7 million non-refundable payment representing 50% of the total cost of such VLT rights which was included in intangible assets, net in our December 31, 2009 consolidated statement of financial position. On April 30, 2010, Lottomatica elected to purchase all 10,761 VLT rights. The remaining €80.7 million is due to be paid by November 30, 2010.

Italy Scratch and Win Concession

In October 2009, following a competitive procurement for a new Scratch & Win concession in Italy, Consorzio Lotterie Nazionali (a consortium in which Lottomatica owns a 63% interest) was the only party who submitted a proposal for the license to operate the national instant lotteries in Italy for a period of nine years. In May 2010, Lottomatica was informed that the Consorzio Lotterie Nazionali was the only bidder for the Scratch & Win tender and made a €520 million partial payment to AAMS for the license. The remaining €280 million is due to be paid by November 30, 2010.

Acquisition of Finsoft Limited

On July 2, 2007, we acquired Finsoft Limited (“Finsoft”), a provider of real-time transaction and information management systems for the commercial sports-betting market for a cash purchase price of £29.6 million (€43.9 million at the July 2, 2007 exchange rate). In consideration of performance targets which were met for Finsoft’s fiscal year ended September 30, 2007, contingent consideration of £10.3 million (€13.4 million) was paid in May 2008. Based on performance targets for Finsoft’s fiscal years ended September 30, 2008 and 2009, contingent consideration is anticipated to be paid in 2010. The maximum consideration that could be paid is £18.5 million (€21.3 million at the September 30, 2010 exchange rate).

Acquisition of Dynamite Design and Marketing Limited

On April 1, 2008, Boss Media, a GTECH subsidiary, acquired 100% of Dynamite Design and Marketing Limited (“Dynamite”), a developer and supplier of unique, innovative online interactive betting games for £5.9 million in cash (€7.4 million at the April 1, 2008 exchange rate). In consideration of performance targets which were met in 2009 and 2010, contingent consideration of £2.7 million (€3.1 million) was paid as follows (in thousands):

Payment Date	£
January 2009	636
August 2009	749
December 2009	430
July 2010	836
	2,651

LOTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

31. Commitments and contingencies (continued)

Medstroms AB Put/Call

At March 31, 2010, GTECH Global Services Corporation (“GGSC”) had an 87.454% interest in GEMed AB (“GEMed”), a Swedish private limited liability company that owns 100% of Boss Media AB, a leading developer of innovative software and systems for digitally-distributed gaming entertainment. GGSC had the option, which it could exercise between April 1, 2010 and June 30, 2010 to require Medströms Invest AB (“Medströms”) to sell its 12.546% interest in GEMed to GTECH and Medströms had an identical put right. On April 1, 2010, Medströms exercised its put right and on April 12, 2010, GGSC paid Medströms SEK 200 million (€20.4 million) for the remaining 12.546% interest in GEMed.

Acquisition of St. Enodoc Holdings Limited

On April 30, 2008, GTECH acquired 90% of Gibraltar-based St. Enodoc Holdings Limited and its subsidiaries including St. Minver Limited (collectively “St. Minver”), the leading provider of end-to-end white label gaming services for £23.8 million in cash (€30.4 million at the April 30, 2008 exchange rate). In consideration of performance targets that were met in 2008 and 2009, contingent consideration of £4.5 million (€5.7 million) and £0.2 million (€0.2 million) was paid in October 2008 and December 2009, respectively.

Ten percent of St. Minver remains with Gary Shaw, Founder and Chairman, until at least 2012, at which point both Mr. Shaw and GTECH have the right to cause GTECH 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. GTECH may exercise the call right and Mr. Shaw may exercise the put right at any time after December 31, 2011 and before March 31, 2012 or during each subsequent yearly period between December 31st and March 31st.

CLS-GTECH Company Limited

GTECH Global Services Corporation Ltd. (“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.

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 September 30, 2010, the outstanding commitment was US\$3.8 million (€2.8 million at the September 30, 2010 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.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

31. Commitments and contingencies (continued)

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 September 30, 2010, 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. There is no scheduled termination date for GTECH's guarantee obligation. The maximum amounts guaranteed and the outstanding balances at September 30, 2010 are as follows (in millions):

	Baht	€
Maximum amounts guaranteed by GTECH	375.0	9.1
Amounts outstanding	375.0	9.1

Lottery Technology Enterprises guarantee

GTECH has a 1% interest in Lottery Technology Enterprises ("LTE"), a joint venture between GTECH, New Tech Games, Inc. ("New Tech") and Opportunity Systems, Inc. ("OSI"). The joint venture agreement terminates on December 31, 2019. LTE recently extended its contract with the District of Columbia Lottery and Charitable Games Control Board ("DCLB") through November 22, 2010, extending LTE's 10 year contract with the DCLB, which expired on November 22, 2009. Under Washington, D.C. law, by virtue of our 1% interest in LTE, GTECH may be jointly and severally liable, with New Tech and OSI, for the obligations of the joint venture.

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.

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 Third Quarter 2010 Report corresponds to the document results, books and accounting records of the Company.

Rome, _____, 2010

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