LOTTOMATICA GROUP

Responsibly Driving Global Gaming

THIRD QUARTER 2011 REPORT

FOR THE PERIOD ENDING SEPTEMBER 30, 2011

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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, 2011: €183,332,984 authorized ordinary shares, €1.00 par value per share; 172,140,797 shares underwritten and paid up
Registered Office	Roma - Viale del Campo Boario 56/d
Board of Directors (1)	
Chairman	Lorenzo PELLICIOLI
C.E.O.	Marco SALA
Board Members	Pietro BOROLI Paolo CERETTI Alberto DESSY* Marco DRAGO Jaymin PATEL Severino SALVEMINI * Gianmario TONDATO DA RUOS **

*   *Denotes Independent Directors*
** *Denotes Lead Independent Director*

General Manager (2)	Renato ASCOLI
Board of Statutory Auditors : (1)	
Chairman	Sergio DUCA
Regular Members	Angelo GAVIANI Francesco MARTINELLI
Substitute Members	Gian Piero BALDUCCI Giulio GASLOLI Umile Sebastiano IACOVINO Guido MARTINELLI Marco SGUAZZINI VISCONTINI

Independent Auditors	Reconta Ernst & Young S.p.A.
Members of the Internal Audit and Compliance Committee (3)	Severino SALVEMINI (Chairman) Alberto DESSY Paolo CERETTI (4)
Members of the Remuneration Committee (3)	Gianmario TONDATO DA RUOS (Chairman) Paolo CERETTI Alberto DESSY

Note:

(1) As enacted by the shareholders at a meeting held on April 28, 2011.
(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 29, 2011.
(4) As enacted by the Board of Directors at a meeting held on July 28, 2011.

LOTTOMATICA GROUP

Lottomatica Group S.p.A. is one of the leading gaming operators in the world based on total wagers and, through its subsidiaries, including GTECH Corporation, is a leading provider of lottery and gaming technology solutions and services worldwide. The Group's goal is 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 integrity, responsibility and growth. Lottomatica is listed on the Mercato Telematico Azionario, the Italian screen-based trading system managed by Borsa Italiana S.p.A. (the "Italian Stock Exchange") under the trading symbol "LTO" and has a Sponsored Level 1 American Depository Receipt (ADR) program listed on the United States over the counter market under the trading symbol "LTTOY".

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

The Group's segments are as follows:

- The **Italian Operations segment** operates and provides a full range of gaming services, including online, instant and traditional lotteries, Scratch & 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 **SPIELO International segment** (formerly 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; 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 the real-time transaction processing and information systems for the sports-betting market.

The Group has operations in approximately 60 countries worldwide on six continents and had 7,982 employees at September 30, 2011.

Italian Operations Segment
The Italian Operations segment offers all five product lines of the Group: Lottery, Sports Betting, Machine Gaming, Interactive and Commercial Services.

Lottery
Lottomatica is the sole concessionaire for the Italian Lotto game. Lottomatica manages all the activities along the lottery value chain, such as collecting wagers through its network, paying out prizes, managing accounting and other back office functions, running advertising and promotion, operating data transmission networks and processing centers, training staff, providing retailers with assistance and supplying materials for the game. Lottomatica operates online lotteries and games, which are conducted through computerized systems in which lottery or gaming terminals are connected to a central computer system, with games where players select their own numbers, such as Lotto, and off-line lotteries, with games involving pre-printed paper tickets.

Lottomatica also operates instant lotteries (Scratch & Win game) and traditional lotteries as a member of the consortium Lotterie Nazionali S.r.l., in which it directly and indirectly holds a 51.5% interest.

Sports Betting
Lottomatica has a number of concessions to operate sports and horse betting, and the right to operate sports betting over the internet. Sporting events (including basketball, soccer, cycling, downhill skiing, cross country skiing, tennis, sailing and volleyball), motor sports (car and motorcycle racing), and non-sports events connected with the world of entertainment, music, culture, and current affairs of primary national and international importance are the subject of betting in the Republic of Italy.

Machine Gaming
Lottomatica operates in the machine gaming market, including the direct management of amusement with prize machines ("AWPs") and video lottery terminals ("VLTs") that are installed in various outlets linked to a central system.

Interactive
Lottomatica provides online skill games such as poker and other board and soft games.

Commercial Services
Leveraging its distribution network and transaction processing experience, Lottomatica offers high-volume transaction processing of non-lottery commercial transactions such as prepaid cellular telephone recharges, bill payments, and ticketing for sporting and musical events. Lottomatica also provides collection and payment services in Italy for the payment of utility bills, local fines and duties and also collects payments due on behalf of creditors. Additionally, Lottomatica provides a processing and network service on behalf of third parties, without collecting amounts due. The most significant of these services are telephone top-ups and digital terrestrial TV cards, payment of car road taxes, fidelity card services and stamp duty services.

GTECH Lottery Segment
GTECH is the world's leading operator of highly-secure, online lottery transaction processing systems. 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 is also a rapidly growing and technologically advanced instant game supplier. As an end-to-end provider of instant tickets and related services, GTECH specializes in the fast delivery of high-quality instant ticket games. With the industry's largest, fastest, and highest quality press and the utmost commitment to customer service, GTECH seeks to provide customers with instant tickets as well as development of initial marketing plans throughout the processes of entire graphic design, programming, production, packaging, shipping and delivery.

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. GTECH looks to leverage its technology, distribution and transaction processing competence to provide commercial and financial transaction processing services by delivering reliable, secure, high volume transaction processing solutions to financial institutions and retailers over its existing online lottery networks.

SPIELO International Segment (formerly the Gaming Solutions Segment)
SPIELO International designs, develops, manufactures and provides top-performing cabinets, games, systems and software to customers in legal gaming markets throughout the world. SPIELO International is the world's leading provider of video lottery terminals, central systems and games to government customers in North America and Europe and is a leading provider of video lottery terminals and games to operators in the United States. SPIELO International is also a leading provider of video and traditional mechanical reel slot machines and casino systems to casino operators in Europe, Asia and the Americas and to Native American casinos in the United States. In addition, SPIELO International provides amusement with prize machines and games to government customers in Europe.

GTECH G2 Segment
The GTECH G2 segment, through GTECH's subsidiaries Finsoft Limited, Boss Media AB and its subsidiaries, and St. Minver Limited, provides digitally-distributed, multi-channel gaming entertainment products and services that are delivered across interactive channels as well as retail solutions and information systems that support real time transaction processing for the sports betting market.

Finsoft Limited is a provider of real-time transaction and information management systems for the lotteries' and commercial sports betting market, both interactive and retail.

Boss Media AB and its subsidiaries ("Boss Media") is a leading developer of innovative software and systems for digitally-distributed gaming entertainment. Boss Media customers are licensed gaming operators who use Boss Media platforms to support their interactive gaming services. A large number of these operators are partners within Boss Media's International Poker Network ("IPN"), the sixth largest European poker network hosting more than 7,000 players at peak times.

St. Minver Limited ("St. Minver ") is a leading provider of end-to-end white label gaming services. St. Minver does not offer products and services to end customers under its own brand name, but designs, operates and markets casino, bingo and poker websites for clients under their own well-known brand names. In addition, St. Minver supports Boss Media's IPN.

For additional information on the Group, please refer to the "Business Overview" section of its 2010 Annual Report or visit its website at: www.gruppolottomatica.it/eng/aboutus/index.htm.

MANAGEMENT REPORT

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

In the third quarter of 2011, we experienced growth in revenue, EBITDA and operating income versus the same quarter in 2010, highlighted by the strength of the performance in the Italian Operations segment, sustaining the momentum we established in the first half of the year. In fact, we posted €740.9 million of revenue in the third quarter, a record for the Group.

Revenue in the Italian Operations segment increased approximately 55% in the third quarter of 2011 compared to the same quarter in 2010, principally driven by significant contributions from Machine Gaming, which benefited from the deployment of VLTs. Revenue growth was further fueled by the performance of the Italian Lotto options game "10 and Lotto", higher instant ticket sales, and the increase in the Scratch & Win concession fee.

Our investment in the machine gaming sector in Italy, particularly the new VLTs, continues to drive our growth. Machine gaming wagers in the third quarter of this year was €2.8 billion, fueling a three-fold increase in revenue. Although we anticipated some impact, we have not yet felt significant erosion from the entrance of competitors in the VLT market. We have established a loyal player base that continues to demonstrate a preference for our games, which we believe speaks well for the future, and we were able to maintain our market share in the Italian machine gaming market in terms of total wagers.

Lotto wagers in the third quarter of 2011, driven by the "10 and Lotto" game, continued a strong showing by increasing approximately 38% over the comparable period last year. In fact, "10 and Lotto" performance contributed approximately 34% of total lotto wagers in the third quarter of 2011. Scratch & Win wagers also maintained their growth pattern from the first half by increasing approximately 12% over the third quarter of 2010.

Revenue in the GTECH Lottery segment during the third quarter of 2011 was €226.3 million, an increase of €24.1 million when compared to the same period last year. Contributing to this growth was an increase in product sales, higher same store revenue of approximately 6%, and compensation for management services in Illinois. Same store revenue growth was driven by the strong performance of international lotteries, most notably by large jackpot activity in Poland and the United Kingdom, and in the United States (US), which was helped by growth of instant ticket sales, principally in California and Illinois.

From a commercial perspective, GTECH secured three new contract extensions during the quarter. It is also important to note that the Powerball jackpot game in the US will adjust the price point of its game increasing to $2 in the first quarter of 2012. This represents a significant innovation for the Powerball game which has been offered at the same $1 ticket price since it was launched in 1992. We believe this will be another important contributor to the sustainability of GTECH Lottery same store revenue going forward.

In Illinois, our Northstar Lottery Group took over operations on July 1st of this year and is transforming the Illinois Lottery by instituting best practices and bringing innovations to that market. Since we took over operations, instant ticket sales, which had been an underperforming category, are up 17%. A major rebranding campaign is underway and we are optimizing and expanding our retailer network. To be sure, we've just begun but we are encouraged by the early successes.

In the SPIELO International segment (formerly the Gaming Solutions segment), we achieved service revenue growth of approximately 30% over the same quarter in 2010, primarily attributable to the performance of the Italian market. Overall, revenue was impacted by the cyclicality of product sales. In the third quarter of 2011, SPIELO International continued its successful run in the Canadian gaming replacement cycle by winning a VLT central monitoring system contract in Alberta.

Our GTECH G2 segment contributed €20.3 million of revenue to the Group in the third quarter of 2011, an increase of approximately 19% when compared to the third quarter of the prior year. As another example of Group synergies, the success of Lottomatica's entrance into the Italian interactive market with newly-launched online casino and cash poker games was part of a collaboration with GTECH G2.

We made great progress in improving our net financial position (NFP), as we committed to at the start of the year. NFP improved by €173 million since the end of last year and now totals €2.80 billion at September 30, 2011. Our focus on deleveraging is paying off by improving our NFP, which is one of our top priorities.

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	
	2011	2010	€	%
Revenue	740,885	552,221	188,664	34.2
EBITDA	236,999	199,712	37,287	18.7
Operating income	129,404	111,615	17,789	15.9
EBIT	158,391	38,627	119,764	>200.0
Net income (loss)	65,774	(2,507)	68,281	>200.0
Diluted earnings (loss) per share	0.34	(0.08)	0.42	>200.0

	For the nine months ended			
	September 30,		Increase	
	2011	2010	€	%
Revenue	2,145,594	1,671,388	474,206	28.4
EBITDA	738,289	597,049	141,240	23.7
Operating income	422,112	340,103	82,009	24.1
EBIT	413,825	281,130	132,695	47.2
Net income	156,452	84,496	71,956	85.2
Diluted earnings per share	0.74	0.30	0.44	146.7

Consolidated revenue for the three and nine months ended September 30, 2011 increased 34.2% and 28.4%, respectively, over the same periods in 2010. Service revenue grew 34.0% to €687.9 million during the third quarter of 2011 and 30.1% to €2.027 billion during the first nine months of 2011. Service revenue in both periods grew on the strength of the performance in the Italian Operations segment, highlighted by increased revenue in Machine Gaming and Lottery, and an increase in GTECH Lottery same store revenue. These increases were tempered by the strengthening euro against the US dollar in the GTECH Lottery segment.

Higher revenue from Machine Gaming during both periods resulted from the deployment of VLTs and the increased placement of AWP machines while Lottery benefited from Lotto's performance, higher instant ticket sales and the increased percentage fee for the Scratch & Win concession.

EBITDA increased €37.3 million and €141.2 million during the third quarter of 2011 and the first nine months of 2011, respectively. The third quarter performance was driven by higher revenues and profits from Machine Gaming in Italy and the continued growth of Scratch & Win in Italy. The year to date performance was driven by higher revenues and profits from Machine Gaming in Italy, the improved performance of Lotto, and the continued growth of Scratch & Win in Italy. These improvements were partially offset by the impact of foreign currency fluctuations and the bankruptcy of GTECH's customer in the Czech Republic.

EBITDA AND EBIT

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

EBITDA and EBIT are computed as follows:

	For the three months ended			
	September 30,		Increase (decrease)	
(thousands of euros)	2011	2010	€	%
Operating income	129,404	111,615	17,789	15.9
Depreciation	59,935	62,497	(2,562)	(4.1)
Amortization	45,362	24,417	20,945	85.8
Other	2,298	1,183	1,115	94.3
EBITDA	236,999	199,712	37,287	18.7
Operating income	129,404	111,615	17,789	15.9
Equity loss	-	(23)	23	100.0
Other income	377	699	(322)	(46.1)
Other expense	(1,137)	(2,141)	1,004	46.9
Foreign exchange gain (loss), net	29,747	(71,523)	101,270	141.6
EBIT	158,391	38,627	119,764	>200.0

(thousands of euros)	For the nine months ended September 30, 2011	2010	Increase (decrease) €	%
Operating income	422,112	340,103	82,009	24.1
Depreciation	176,495	180,653	(4,158)	(2.3)
Amortization	134,870	71,176	63,694	89.5
Impairment loss (reversal)	(274)	2,148	(2,422)	(112.8)
Other	5,086	2,969	2,117	71.3
EBITDA	738,289	597,049	141,240	23.7
Operating income	422,112	340,103	82,009	24.1
Equity loss	(53)	(228)	175	76.8
Other income	1,174	1,356	(182)	(13.4)
Other expense	(7,410)	(4,979)	(2,431)	(48.8)
Foreign exchange loss, net	(1,998)	(55,122)	53,124	96.4
EBIT	413,825	281,130	132,695	47.2

COMPARISON OF THE THREE MONTH PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

Consolidated revenue for the three months ended September 30, 2011 increased 34.2% over the same period last year as detailed by operating segment below.

	For the three months ended			
	September 30,		Increase (decrease)	
(thousands of euros)	2011	2010	€	%
Italian Operations	458,503	296,249	162,254	54.8
GTECH Lottery	226,341	202,225	24,116	11.9
SPIELO International (formerly Gaming Solutions)	45,598	59,799	(14,201)	(23.7)
GTECH G2	20,254	17,067	3,187	18.7
	750,696	575,340	175,356	30.5
Elimination of intersegment revenue	(9,876)	(23,244)	13,368	57.5
Other	65	125	(60)	(48.0)
Total revenue	740,885	552,221	188,664	34.2

Italian Operations segment

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

	For the three months ended			
	September 30,		Increase (decrease)	
(thousands of euros)	2011	2010	€	%
Lotto	112,456	81,916	30,540	37.3
Instant tickets	93,608	74,661	18,947	25.4
Other	799	265	534	>200.0
Lottery	206,863	156,842	50,021	31.9
Sports Betting	30,334	48,965	(18,631)	(38.0)
Machine Gaming	167,106	53,470	113,636	>200.0
Interactive	22,772	11,367	11,405	100.3
Commercial Services	31,428	25,605	5,823	22.7
Total revenue	458,503	296,249	162,254	54.8

The Italian Operations segment comprises all Italian licenses related activities including our exclusive concessionaires (lotteries) and multi-provider concessionaires such as sports betting and pools, horse-race betting and pools, machine gaming, 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 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.

An analysis of the performance during the three months ended September 30, 2011 for each product line and service reported within the Italian Operations segment as compared to the same period last year is described below.

Lotto

Lotto revenue increased 37.3% in the three months ended September 30, 2011 compared to the same period in 2010 due to a corresponding increase in Lotto and late number wagers as detailed below. The increase in core wagers was due to higher wagers from the Lotto options game "10 and Lotto".

	For the three months ended			
	September 30,		Increase	
(millions of euros)	2011	2010	Wagers	%
Core wagers	1,350.1	1,036.2	313.9	30.3
Wagers for late numbers	401.1	235.6	165.5	70.2
	1,751.2	1,271.8	479.4	37.7

Instant tickets

Instant ticket revenue in the three months ended September 30, 2011 increased 25.4% compared to the same period in 2010 principally due to an increase in the Scratch & Win concession fee and higher instant ticket sales as detailed below.

	For the three months ended			
	September 30,		Increase (decrease)	
	2011	2010	Amount	%
Total tickets sold (in millions)	548.8	561.2	(12.4)	(2.2)
Total sales (in millions)	€ 2,393.0	€ 2,142.8	€ 250.2	11.7
Average price point	€ 4.36	€ 3.82	€ 0.54	14.1

Sports Betting

Sports betting revenue in the three months ended September 30, 2011 was 38.0% lower than the same period in 2010 due to a decrease in wagers as detailed below. Wagers in the third quarter of the prior year were favorably impacted by World Cup soccer. As of September 30, 2011, our market share (in terms of total wagers) with respect to fixed odds sports betting operations was 21.1% (20.4% as of September 30, 2010) with 1,260 fixed odds sports betting and 454 sports pool points of sale locations operational.

	For the three months ended			
	September 30,		Decrease	
(millions of euros)	2011	2010	Wagers	%
Fixed odds sports and horse betting wagers	143.7	158.9	(15.2)	(9.6)
Sports pool wagers	10.4	14.4	(4.0)	(27.8)
	154.1	173.3	(19.2)	(11.1)

Machine Gaming

Machine Gaming revenue in the three months ended September 30, 2011 more than tripled over the same period in 2010 driven by a 152.5% increase in wagers, the deployment of VLTs (beginning in July 2010), and the increased placement of AWP machines, as detailed below.

	For the three months ended			
	September 30,		Increase	
	2011	2010	Amount	%
Wagers (in millions)	€ 2,791.8	€ 1,105.6	€ 1,686.2	152.5
AWP machines installed (end of September)	56,369	54,588	1,781	3.3
VLTs installed (end of September)	7,353	843	6,510	>200.0

Interactive

Interactive revenue in the three months ended September 30, 2011 more than doubled over the same period in 2010 principally driven by an increase in skill game wagers resulting from the introduction of new games such as Poker Cash and Casino, as detailed below.

	For the three months ended			
	September 30,		Increase	
(millions of euros)	2011	2010	Wagers	%
Online poker wagers	335.0	78.1	256.9	>200.0
Other skill game wagers	222.9	22.4	200.5	>200.0
	557.9	100.5	457.4	>200.0

Commercial Services
Commercial Services revenue in the three months ended September 30, 2011 increased 22.7% over the same period in 2010 principally due to an increase in bill payments, 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:

	For the three months ended September 30,		Increase	
(thousands of euros)	2011	2010	€	%
Service revenue				
United States	112,907	106,947	5,960	5.6
International	82,258	78,654	3,604	4.6
	195,165	185,601	9,564	5.2
Product sales				
United States	3,779	3,557	222	6.2
International	27,397	13,067	14,330	109.7
	31,176	16,624	14,552	87.5
Total revenue				
United States	116,686	110,504	6,182	5.6
International	109,655	91,721	17,934	19.6
	226,341	202,225	24,116	11.9

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

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

Service Revenue

United States lottery service revenue in the three months ended September 30, 2011 increased 5.6% over the same period in 2010 primarily due to the reimbursement of certain operating expenses that Northstar Lottery Group receives from the Illinois Lottery, and a 4% increase in same store revenue. These increases were partially offset by the weakening US dollar against the euro and contract and effective rate changes. Same store revenue benefited from higher jackpot activity and the continued growth of instant ticket sales, principally in California and Illinois.

International lottery service revenue in the three months ended September 30, 2011 increased 4.6% over the same period in 2010 primarily due to a 9.8% increase in same store revenue (including higher jackpot activity), partially offset by fluctuations in foreign currency exchange rates against the euro.

Product Sales

Product sale revenue fluctuates from year to year due to the mix, volume and timing of product sale transactions. Lottery product sale revenue in the three months ended September 30, 2011 increased €14.6 million over the same period in 2010. Product sales during the three months ended September 30, 2011 included the sale of a new lottery central system and terminals to our customer in Malaysia and the sale of lottery terminals to a customer in Canada. Product sales during the three months ended September 30, 2010 included the sale of a new internet bingo product to our customer in Finland.

<u>SPIELO International segment</u>

Consolidated revenue includes the following amounts for the SPIELO International segment:

	For the three months ended			
	September 30,		Increase (decrease)	
(thousands of euros)	2011	2010	€	%
Service Revenue	20,849	16,025	4,824	30.1
Product Sales	24,749	43,774	(19,025)	(43.5)
Total revenue	45,598	59,799	(14,201)	(23.7)

Service revenue in the three months ended September 30, 2011 increased €4.8 million over the same period in 2010 principally due to central system support fees received from VLT concessionaires in Italy.

Product sale revenue in the three months ended September 30, 2011 decreased €19.0 million from the same period in 2010 principally due to lower intersegment sales of VLTs to the Italian Operations segment, partially offset by software sales to customers in the Italian AWP market.

GTECH G2 segment

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

	For the three months ended			
	September 30,		Increase (decrease)	
(thousands of euros)	2011	2010	€	%
Service Revenue	19,542	16,150	3,392	21.0
Product Sales	712	917	(205)	(22.4)
Total revenue	20,254	17,067	3,187	18.7

Consolidated operating costs

	For the three months ended			
	September 30,		Increase (decrease)	
(thousands of euros)	2011	2010	€	%
Raw materials, services and other costs	401,641	264,966	136,675	51.6
Personnel	127,710	111,192	16,518	14.9
Depreciation	59,935	62,497	(2,562)	(4.1)
Amortization	45,362	24,417	20,945	85.8
Capitalization of internal construction costs - labor and overhead	(23,167)	(22,466)	(701)	(3.1)
Total operating costs	611,481	440,606	170,875	38.8
Percentage of total revenue	82.5%	79.8%		

Consolidated operating costs in the three months ended September 30, 2011 increased €170.9 million over the same period in 2010 principally due to higher costs related to the 34.2% increase in revenue, including higher commercial costs to sustain recently-launched products and new products in Italy, higher variable compensation related to the improved performance of the Group, certain provisions for legal fees, and higher amortization resulting from the €800 million upfront payment for the Italian Scratch & Win license renewal which commenced amortization in October 2010 for a period of nine years.

Foreign exchange gain (loss), net

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

	For the three months ended			
	September 30,		Decrease	
(thousands of euros)	2011	2010	€	%
Cash foreign exchange loss	(90)	(827)	(737)	(89.1)
Non-cash foreign exchange gain (loss)	29,837	(70,696)	(100,533)	(142.2)
	29,747	(71,523)	(101,270)	(141.6)

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

	For the three months ended			
	September 30,		Decrease	
(thousands of euros)	2011	2010	€	%
GTECH euro denominated debt	29,463	-	(29,463)	-
GTECH Senior Credit Facilities hedges	-	(71,013)	(71,013)	(100.0)
Other	374	317	(57)	(18.0)
	29,837	(70,696)	(100,533)	(142.2)

GTECH euro denominated debt
GTECH borrows in euro to better match the Group's liabilities with euro denominated cash flows. As of September 30, 2011, €285.0 million of euro borrowings were outstanding under GTECH's €500 million revolver facility which resulted in a non-cash foreign exchange gain during the three months ended September 30, 2011 due to fluctuations in the US dollar to euro exchange rate.

GTECH Senior Credit Facilities hedges
Approximately 45% of the Group's debt at September 30, 2010 was US dollar denominated and therefore exposed to fluctuations in the euro versus the US dollar exchange rate. At September 30, 2010, approximately 53% of this US dollar debt was hedged with collar structures that provided protection at an average euro to US dollar exchange rate of 1.27. Revenues and cash flow from US based contracts provided a natural hedge for the remaining US dollar denominated debt.

Interest expense

	For the three months ended			
	September 30,		Increase (decrease)	
(thousands of euros)	2011	2010	€	%
Capital Securities	(16,260)	(16,260)	-	-
2009 Notes (due 2016)	(9,796)	(9,532)	264	2.8
2010 Notes (due 2018)	(6,911)	-	6,911	-
Facilities	(6,638)	-	6,638	-
GTECH Senior Credit Facilities	-	(13,735)	(13,735)	(100.0)
Other	(2,506)	(3,089)	(583)	(18.9)
	(42,111)	(42,616)	(505)	(1.2)

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

COMPARISON OF THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

Consolidated revenue for the nine months ended September 30, 2011 increased 28.4% over the same period last year as detailed by operating segment below.

	For the nine months ended			
	September 30,		Increase (decrease)	
(thousands of euros)	2011	2010	€	%
Italian Operations	1,370,278	888,118	482,160	54.3
GTECH Lottery	608,115	625,654	(17,539)	(2.8)
SPIELO International (formerly Gaming Solutions)	139,560	129,474	10,086	7.8
GTECH G2	59,111	53,800	5,311	9.9
	2,177,064	1,697,046	480,018	28.3
Elimination of intersegment revenue	(31,665)	(25,930)	(5,735)	(22.1)
Other	195	272	(77)	(28.3)
Total revenue	2,145,594	1,671,388	474,206	28.4

Italian Operations segment

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

	For the nine months ended			
	September 30,		Increase (decrease)	
(thousands of euros)	2011	2010	€	%
Lotto	329,809	237,608	92,201	38.8
Instant tickets	303,801	245,072	58,729	24.0
Other	1,821	1,368	453	33.1
Lottery	635,431	484,048	151,383	31.3
Sports Betting	128,039	140,606	(12,567)	(8.9)
Machine Gaming	464,189	153,773	310,416	>200.0
Interactive	49,830	35,390	14,440	40.8
Commercial Services	92,789	74,301	18,488	24.9
Total revenue	1,370,278	888,118	482,160	54.3

An analysis of the performance during the first nine months of 2011 for each product line and service reported within the Italian Operations segment as compared to the same period last year is described below.

Lotto

Lotto revenue increased 38.8% in the first nine months of 2011 compared to the same period in 2010 due to a corresponding increase in Lotto and late number wagers as detailed below. The increase in core wagers was due to higher wagers from the Lotto options game "10 and Lotto".

	For the nine months ended			
	September 30,		Increase	
(millions of euros)	2011	2010	Wagers	%
Core wagers	4,248.6	3,236.8	1,011.8	31.3
Wagers for late numbers	863.7	437.8	425.9	97.3
	5,112.3	3,674.6	1,437.7	39.1

Instant tickets

Instant ticket revenue in the first nine months of 2011 increased 24.0% compared to the same period in 2010 principally due to an increase in the Scratch & Win concession fee and higher instant ticket sales as detailed below.

	For the nine months ended			
	September 30,		Increase (decrease)	
	2011	2010	Amount	%
Total tickets sold (in millions)	1,769.3	1,813.2	(43.9)	(2.4)
Total sales (in millions)	€ 7,763.9	€ 6,976.1	€ 787.8	11.3
Average price point	€ 4.39	€ 3.85	€ 0.54	14.0

Sports Betting

Sports betting revenue in the first nine months of 2011 was 8.9% lower than the same period in 2010 due to a decrease in wagers as detailed below. The decrease in wagers were partially offset by a lower payout percentage during the year-to-date period. Wagers in the third quarter of the prior year were favorably impacted by World Cup soccer.

	For the nine months ended			
	September 30,		Decrease	
(millions of euros)	2011	2010	Wagers	%
Fixed odds sports and horse betting wagers	610.0	670.2	(60.2)	(9.0)
Sports pool wagers	48.6	63.1	(14.5)	(23.0)
	658.6	733.3	(74.7)	(10.2)

Machine Gaming

Machine Gaming revenue in the first nine months of 2011 increased more than 200% over the same period in 2010 driven by a 132.0% increase in wagers, the deployment of VLTs (beginning in July 2010), and the increased placement of AWP machines, as detailed below.

	For the nine months ended September 30,		Increase	
	2011	2010	Amount	%
Wagers (in millions)	€ 7,778.4	€ 3,352.7	€ 4,425.7	132.0
AWP machines installed (end of September)	56,369	54,588	1,781	3.3
VLTs installed (end of September)	7,353	843	6,510	>200.0

Interactive

Interactive revenue in the first nine months of 2011 increased 40.8% over the same period in 2010 principally driven by an increase in skill game wagers resulting from the introduction of new games such as Poker Cash and Casino, as detailed below.

	For the nine months ended September 30,		Increase	
(millions of euros)	2011	2010	Wagers	%
Online poker wagers	513.5	256.7	256.8	100.0
Other skill game wagers	269.5	49.4	220.1	>200.0
	783.0	306.1	476.9	155.8

Commercial Services

Commercial Services revenue in the first nine months of 2011 increased 24.9% over the same period in 2010 principally due to an increase in bill payments, 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:

	For the nine months ended			
	September 30,		Increase (decrease)	
(thousands of euros)	2011	2010	€	%
Service revenue				
United States	330,031	336,196	(6,165)	(1.8)
International	225,148	239,138	(13,990)	(5.9)
	555,179	575,334	(20,155)	(3.5)
Product sales				
United States	9,815	10,590	(775)	(7.3)
International	43,121	39,730	3,391	8.5
	52,936	50,320	2,616	5.2
Total revenue				
United States	339,846	346,786	(6,940)	(2.0)
International	268,269	278,868	(10,599)	(3.8)
	608,115	625,654	(17,539)	(2.8)

Service Revenue

United States lottery service revenue in the first nine months of 2011 decreased 1.8% from the same period in 2010 primarily due to the weakening US dollar against the euro, contract and effective rate changes and contract portfolio changes, which was partially offset by a 3.8% increase in same store revenue and the continued growth of instant ticket sales, principally in California and Illinois.

International lottery service revenue in the first nine months of 2011 decreased 5.9% from the same period in 2010 primarily due to fluctuations in foreign currency exchange rates against the euro, net contract portfolio changes, effective rate changes and the impact of the Czech Republic customer bankruptcy. These decreases were partially offset by a 3.9% increase in same store revenue.

Product Sales

Product sale revenue fluctuates from year to year due to the mix, volume and timing of product sale transactions. Lottery product sale revenue in the first nine months of 2011 increased €2.6 million over the same period in 2010. Product sales during the first nine months of 2011 included sales to customers in Malaysia and Canada during the third quarter of 2011 as previously discussed. Product sales during the first nine months of 2010 included the sale of a new central system and lottery terminals to our customer in South Australia, the sale of lottery terminals and project implementation services to our customer in Spain, along with the sale of a new internet bingo product to our customer in Finland.

SPIELO International segment

Consolidated revenue includes the following amounts for the SPIELO International segment:

	For the nine months ended			
	September 30,		Increase (decrease)	
(thousands of euros)	2011	2010	€	%
Service Revenue	59,593	47,422	12,171	25.7
Product Sales	79,967	82,052	(2,085)	(2.5)
Total revenue	139,560	129,474	10,086	7.8

Service revenue in the first nine months of 2011 increased €12.2 million over the same period in 2010 principally due to central system support fees received from VLT concessionaires in Italy.

Product sale revenue in the first nine months of 2011 decreased €2.1 million from the same period in 2010 principally due to lower intersegment sales of VLTs to the Italian Operations segment, partially offset by software sales to customers in the Italian AWP market.

GTECH G2 segment

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

	For the nine months ended			
	September 30,		Increase (decrease)	
(thousands of euros)	2011	2010	€	%
Service Revenue	56,233	50,324	5,909	11.7
Product Sales	2,878	3,476	(598)	(17.2)
Total revenue	59,111	53,800	5,311	9.9

Consolidated operating costs

(thousands of euros)	For the nine months ended September 30, 2011	2010	Increase (decrease) €	%
Raw materials, services and other costs	1,121,144	805,751	315,393	39.1
Personnel	358,406	334,925	23,481	7.0
Depreciation	176,495	180,653	(4,158)	(2.3)
Amortization	134,870	71,176	63,694	89.5
Impairment loss (reversal)	(274)	2,148	(2,422)	(112.8)
Capitalization of internal construction costs - labor and overhead	(67,159)	(63,368)	(3,791)	(6.0)
Total operating costs	1,723,482	1,331,285	392,197	29.5
Percentage of total revenue	80.3%	79.7%		

Consolidated operating costs in the first nine months of 2011 increased €392.2 million over the same period in 2010 principally due to higher costs related to the 28.4% increase in revenue, including higher commercial costs to sustain recently-launched products and new products in Italy, higher variable compensation related to the improved performance of the Group, certain provisions for legal fees, and higher amortization resulting from the €800 million upfront payment for the Italian Scratch & Win license renewal which commenced amortization in October 2010 for a period of nine years.

The Group devotes substantial resources to enhance our present products and systems and develop new products. The aggregate amount of research and development expenditures recognized as expense in the nine months ended September 30, 2011 and 2010 was €43.1 million and €40.6 million, respectively.

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

Personnel Description	Number of employees As of September 30, 2011	December 31, 2010	2011 Average
Executives	436	413	424
Middle Management	1,107	1,015	1,067
All Other Permanent Employees	6,122	5,836	6,010
Employees with Temporary Employment Contracts	317	338	366
	7,982	7,602	7,867

Foreign exchange loss, net

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

	For the nine months ended September 30,		Decrease	
(thousands of euros)	2011	2010	€	%
Cash foreign exchange gain (loss)	945	(1,477)	(2,422)	(164.0)
Non-cash foreign exchange loss	(2,943)	(53,645)	(50,702)	(94.5)
	(1,998)	(55,122)	(53,124)	(96.4)

Non-cash foreign exchange loss

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

	For the nine months ended September 30,		Increase (decrease)	
(thousands of euros)	2011	2010	€	%
GTECH euro denominated debt	(665)	-	665	-
GTECH Senior Credit Facilities hedges	-	(55,432)	(55,432)	(100.0)
Other	(2,278)	1,787	4,065	>200.0
	(2,943)	(53,645)	(50,702)	(94.5)

GTECH Senior Credit Facilities hedges

Approximately 45% of the Group's debt at September 30, 2010 was US dollar denominated and therefore exposed to fluctuations in the euro versus the US dollar exchange rate. At September 30, 2010, approximately 53% of this US dollar debt was hedged with collar structures that provided protection at an average euro to US dollar exchange rate of 1.27. Revenues and cash flow from US based contracts provided a natural hedge for the remaining US dollar denominated debt.

Interest expense

	For the nine months ended			
	September 30,		Increase (decrease)	
(thousands of euros)	2011	2010	€	%
Capital Securities	(48,271)	(48,271)	-	-
2009 Notes (due 2016)	(29,173)	(28,669)	504	1.8
2010 Notes (due 2018)	(20,725)	-	20,725	-
Facilities	(19,813)	-	19,813	-
GTECH Senior Credit Facilities	-	(41,541)	(41,541)	(100.0)
Other	(7,846)	(7,916)	(70)	(0.9)
	(125,828)	(126,397)	(569)	(0.5)

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

Weighted Average Diluted Shares

Weighted average diluted shares during the first nine months of 2011 totaled 172.0 million shares, an increase of 3.9 million shares over the same period of the prior year primarily due to the May 2011 distribution of 3.4 million treasury shares to Lottomatica shareholders in lieu of a cash dividend.

Income Taxes

The Group's effective income tax rate of 46.0% during the first nine months of 2011 was comparable to the same period of the prior year.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION

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

Summary Statements of Cash Flows

(thousands of euros)	For the nine months ended September 30, 2011	2010
Net cash flows from operating activities	641,530	527,554
Purchases of systems, equipment and other assets related to contracts	(260,223)	(190,638)
Purchases of intangible assets	(9,601)	(532,096)
Purchases of property, plant and equipment	(6,356)	(7,218)
Italian operations contingent consideration	(3,966)	(10,219)
Other investments	(5)	(9,700)
Medströms Invest AB put right payment	-	(20,415)
Other investing activities, net	(1,358)	(3,656)
Net cash flows used in investing activities	(281,509)	(773,942)
Interest paid	(102,458)	(120,195)
Net proceeds from (payments on) debt	(43,618)	74,475
Dividends paid - non-controlling interest	(38,420)	(45,638)
Cash paid on derivative instruments	(24,846)	-
Capital increase (return of capital) - non-controlling interest	(8,491)	187,502
Capital increase - Northstar Lottery Group LLC	8,440	-
Dividends paid	-	(124,815)
Other financing activities, net	(9,207)	(7,301)
Net cash flows used in financing activities	(218,600)	(35,972)
Net cash flows	141,421	(282,360)

Analysis of Cash Flows

During the first nine months of 2011, we generated €641.5 million of net cash flows from operating activities, an increase of €114.0 million over the same period of 2010, primarily due to higher EBITDA generated by the Italian Operations segment.

Investing activities

The €260.2 million of capital additions for systems, equipment and other assets were principally related to spending in Italy for Machine Gaming and Lotto, as well as lottery system implementations in Texas, Illinois and Poland.

Financing activities

During the first nine months of 2011, we paid €102.5 million of interest that was primarily related to the Capital Securities and Facilities and made €43.6 million of net principal payments predominately related to GTECH's €500 million revolving credit facility. Cash paid for derivative instruments of €24.8 million related to interest rate swaps that expire in June 2012.

We paid €38.4 million of dividends and returned €8.5 million of capital to non-controlling shareholders. Capital contributions of €8.4 million were received from the 20% non-controlling shareholder in Northstar Lottery Group LLC, a consortium in which GTECH holds an 80% controlling interest, that manages the day-to-day operations of the Illinois Lottery under a 10-year private management agreement. At September 30, 2011, we had €296.0 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 €900 million of committed revolver facilities. At September 30, 2011, there was €557.2 million of committed undrawn capacity under the revolver facilities. These facilities have covenants and restrictions including, among other things, requirements relating to the maintenance of certain financial ratios and limitations on acquisitions and dividends, none of which are expected to impact the Group's liquidity or capital resources. At September 30, 2011, we were in compliance with all applicable covenants.

We currently expect that our excess cash flow from operations, existing cash, undrawn capacity under existing borrowing facilities and access to additional sources of capital will be sufficient, for the foreseeable future, to fund our anticipated working capital and capital expenditure needs, to service our debt obligations and to fund organic growth. Our strategy is to maintain committed undrawn capacity under existing borrowing facilities to allow us the flexibility to fund unforeseen investment opportunities.

Summary Statements of Financial Position

(thousands of euros)	September 30, 2011	December 31, 2010	Increase (decrease) €	%
Systems, equipment and other assets related to contracts, net	957,903	887,132	70,771	8.0
Goodwill	3,129,496	3,157,279	(27,783)	(0.9)
Intangible assets, net	1,532,867	1,639,198	(106,331)	(6.5)
Other non-current assets	145,397	141,981	3,416	2.4
Total non-current assets	5,765,663	5,825,590	(59,927)	(1.0)
Inventories	185,838	165,314	20,524	12.4
Trade and other receivables	584,989	712,239	(127,250)	(17.9)
Other current assets	92,335	80,369	11,966	14.9
Cash and cash equivalents	295,999	152,405	143,594	94.2
Non-current assets classified as held for sale	-	27,000	(27,000)	(100.0)
Total assets	6,924,824	6,962,917	(38,093)	(0.5)
Equity	2,447,619	2,358,885	88,734	3.8
Long-term debt, less current portion	2,786,075	2,825,412	(39,337)	(1.4)
Deferred income taxes	150,970	133,578	17,392	13.0
Non-current financial liabilities	58,530	113,619	(55,089)	(48.5)
Other non-current liabilities	83,068	77,086	5,982	7.8
Total non-current liabilities	3,078,643	3,149,695	(71,052)	(2.3)
Accounts payable	764,655	978,509	(213,854)	(21.9)
Short-term borrowings	12,865	7,458	5,407	72.5
Current financial liabilities	103,091	69,200	33,891	49.0
Current portion of long-term debt	152,388	118,822	33,566	28.2
Income taxes payable	107,651	19,410	88,241	>200.0
Other current liabilities	257,912	260,938	(3,026)	(1.2)
Total equity and liabilities	6,924,824	6,962,917	(38,093)	(0.5)

The €70.8 million increase in systems, equipment and other assets related to contracts, net was principally due to €247.5 million of capital additions which was partially offset by €166.9 million of depreciation and €7.9 million of foreign currency translation.

The €27.8 million decrease in goodwill was principally due to foreign currency translation.

The €106.3 million decrease in intangible assets, net was principally due to €134.9 million of amortization which was partially offset by the reclassification of €27.0 million of VLT rights from non-current assets classified as held for sale.

The €127.3 million decrease in trade and other receivables was principally due to lower receivables from intermediaries in the Italian Operations segment.

The €27.0 million decrease in non-current assets classified as held for sale was principally due to the reclassification of VLT rights to intangible assets. During the fourth quarter of 2010, the Group implemented a commercial strategy to offer VLT rights, machines, and systems to other operators in the Italian machine gaming market in return for a percentage of net sales and was holding discussions with other operators whereby they would purchase these VLT rights held by the Group. During the third quarter of 2011, the Italian courts issued Law n.111/2011 which modified the previous rules for the renewal of the present concessions for the operation of amusement with prize machines and VLTs. Under this new law, the present concessionaires retain VLT rights previously acquired by virtue of the present concession but only in the case of a favorable award of the new tender, which is open to new operators. By following the guidelines indicated in the Law, on August 11, 2011 the Italian gaming regulator, Amministrazione Autonoma dei Monopoli di Stato ("AAMS"), issued a new tendering procedure. The deadline for the submission of offers for this tender expired on October 10, 2011. AAMS has clearly stated in the tender documents that the present concessionaires commit themselves to keep the VLT rights already acquired. In light of this new information, management of the Group decided to no longer offer these VLT rights for sale and these assets have been reclassified to intangible assets.

The €88.7 million increase in equity was primarily due to €156.5 million of net income which was partially offset by €38.4 million of dividends paid to non-controlling shareholders and €36.6 million of foreign currency translation.

The €39.3 million decrease in long-term debt, less current portion was primarily due to net principal payments under GTECH’s €500 million revolving credit facility.

The €17.4 million increase in deferred income taxes was principally due to the expiration of certain United States state operating losses and the effect of foreign currency translation.

The €55.1 million decrease in non-current financial liabilities was principally due to the reclassification of interest rate swap liabilities that expire in June 2012 to current financial liabilities.

The €213.9 million decrease in accounts payable was principally due to the timing of payments to suppliers and intermediaries in the Italian Operations segment.

The €33.9 million increase in current financial liabilities was principally due to the reclassification of interest rate swap liabilities that expire in June 2012 from non-current financial liabilities.

The €33.6 million increase in current portion of long-term debt was principally due to interest accrued on €750 million of Notes due 2016 and €500 million of Notes due 2018, which is paid annually in arrears in December and February, respectively. This increase was partially offset by interest paid on the Capital Securities.

The €88.2 million increase in income taxes payable was principally due to the timing of estimated tax payments.

Consolidated Net Financial Position

The Group's consolidated net financial position at September 30, 2011 changed by €173.5 million when compared to December 31, 2010 principally due to €141.4 million of net cash flows during the first nine months of 2011. Consolidated net financial position is calculated as follows:

(thousands of euros)	September 30, 2011	December 31, 2010	Change
Cash on hand	582	430	152
Cash at bank	295,417	151,975	143,442
Cash and cash equivalents	295,999	152,405	143,594
Current financial receivables	15,028	6,673	8,355
Facilities	51,473	51,950	(477)
2009 Notes (due 2016)	33,160	2,926	30,234
Swap Liability	31,468	32,410	(942)
Capital Securities	31,022	46,618	(15,596)
Interest rate swaps	23,273	-	23,273
2010 Notes (due 2018)	22,396	2,240	20,156
Short-term borrowings	12,865	7,458	5,407
Other	62,686	51,878	10,808
Current financial debt	268,343	195,480	72,863
Net current financial debt (cash)	(42,684)	36,402	(79,086)
Facilities	801,188	848,888	(47,700)
2009 Notes (due 2016)	751,777	746,016	5,761
Capital Securities	737,828	735,836	1,992
2010 Notes (due 2018)	494,365	493,797	568
Swap Liability	15,856	29,953	(14,097)
Interest rate swaps	-	47,414	(47,414)
Other	43,591	37,127	6,464
Non current financial debt	2,844,605	2,939,031	(94,426)
Net financial position	2,801,921	2,975,433	(173,512)

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:

	Attributable to owners of the parent			
(thousands of euros)	Lottomatica Group S.p.A.	All other subsidiaries	Non-Controlling interests	Consolidated
Balance at January 1, 2011	2,145,847	(231,454)	444,492	2,358,885
Net income for the period	67,505	59,058	29,889	156,452
Amortization of gain on interest rate swap on discontinued cash flow hedge	(428)	-	-	(428)
Unrecognized net gain on derivative instruments	-	3,117	427	3,544
Unrecognized net gain on available for sale investment	-	52	-	52
Foreign currency translation	-	(36,624)	-	(36,624)
Other comprehensive income (loss)	(428)	(33,455)	427	(33,456)
Treasury shares purchased (208,655 shares)	(2,940)	-	-	(2,940)
Share-based payment	7,149	-	-	7,149
Dividend distribution	-	-	(38,420)	(38,420)
Return of capital	-	-	(8,491)	(8,491)
Capital increase - Northstar Lottery Group LLC	-	-	8,440	8,440
Balance at September 30, 2011	2,217,133	(205,851)	436,337	2,447,619

Transactions with Related Parties

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

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

COMMITMENTS AND CONTINGENCIES

Northstar Lottery Group LLC

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

As compensation for its management services, Northstar receives reimbursement of certain operating expenses, which is recorded as service revenue in the consolidated income statement. Northstar is also entitled to receive annual incentive compensation to the extent net income earned by the State each fiscal year exceeds the State established base net income levels for such fiscal year. Northstar will earn incentive compensation that is awarded based on various levels of performance, up to an annual maximum of 5% of the actual net income earned by the State.

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

Czech Republic

GTECH's lottery customer in the Czech Republic, SAZKA a.s. ("SAZKA"), was declared insolvent on March 29, 2011 and on May 27, 2011 was declared bankrupt by the municipal court of Prague. Throughout the insolvency proceedings and in bankruptcy, the lottery was operated under the management of the court appointed Insolvency Trustee (the "Trustee"). GTECH had a long-term relationship with this customer which began in 1992. Under the terms of the current facility management contract, which was confirmed by the Trustee and has over ten years remaining, GTECH provides facilities management services, including approximately 7,000 terminals, central system hardware and software, ongoing lottery support services, communication services and operational support to this customer. At September 30, 2011, trade receivables, net of reserves from this customer were €3.2 million, €0.3 million of which was collected in October 2011. Subsequent to the close of the third quarter of 2011, on November 1, 2011, Ceska Sazkova a.s. ("CS") purchased SAZKA for CZK 3.81 billion (€151.3 million at the November 1, 2011 exchange rate). The GTECH facilities management agreements remain in place with CS and the parties expect to finalize new agreements on substantially the same terms as the agreements currently in place. The Group also has approximately €12.5 million of systems, equipment and other assets related to contracts and approximately €16.4 million of intangible assets on its consolidated statement of financial position related to its contracts with this customer. Although the lottery's operating and revenue trends started to improve under management of the court appointed Trustee, its year to date revenues have been impacted materially. The Czech Republic's performance is expected to ultimately attain pre-bankruptcy levels under new ownership. Future events will determine the recoverability of these assets, and therefore the financial impact to the Group is not currently estimable.

SIGNIFICANT DEVELOPMENTS

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

Developments During the Third Quarter of 2011

Contract Developments

In July 2011, following a competitive procurement, Lottomatica's subsidiary Spielo International Canada ULC entered into a five (5) year contract to provide the INTELLIGEN™ video lottery terminal central system to the Alberta Gaming and Liquor Commission in Canada. The system is expected to be installed in late 2011 and be deployed by mid-2012. The contract includes the potential for five (5) one-year extensions.

In July 2011, Lottomatica's subsidiary GTECH Latin America Corporation signed an eighteen (18) month contract extension with the National Lotteries Control Board of Trinidad and Tobago (NLCB) to continue providing online lottery technology and a full range of support services. Under the terms of the extension, the NLCB has the option to extend the term for an additional twelve (12) months beyond the awarded 18-month contract extension, which offers the NLCB the ability to increase the contract extension period to thirty (30) months.

In August 2011, GTECH signed a three (3) year contract extension with the Missouri Lottery to continue providing lottery technology as well as additional self-service lottery products, multimedia displays and player subscription services. The 3 year extension will commence on July 1, 2012.

In August 2011, GTECH signed a two (2) year contract extension with the Milli Piyango Idaresi Genel Mudurlugu, the National Lottery in Turkey, to provide a wide array of new lottery technology, products and ongoing services. The 2 year extension will commence on the start-up date of the upgrade of Milli Piyango's central system.

Other Business Developments

On July 28, 2011, the Lottomatica Group S.p.A. Board of Directors implemented the 2011-2017 Stock Option Plan and the 2011-2015 Stock Allocation Plan, both approved by the Ordinary Shareholders' Meeting on April 28, 2011. The Board approved the terms and conditions of the Plans, assigned Options and Shares, and resolved, in accordance with the authorization granted by the Extraordinary Shareholders' Meeting on April 28, 2011, to increase the authorized share capital by a nominal amount of €1,850,240, serving both the 2011-2017 Stock Option Plan, for which the exercise price of the Options has been determined to be €12.87, and the last tranche of the 2006-2011 Stock Based Retention Plan.

Management Developments

Following Stefano Bortoli's resignation as Chief Financial Officer of the Group on May 27, 2011 effective June 1, 2011, on July 28, 2011, the Board of Directors of Lottomatica Group S.p.A. appointed the CEO, Marco Sala, as the interim manager responsible for preparing financial reports, also effective June 1, 2011. The Board of Directors also appointed Paolo Ceretti as a member of the Internal Audit and Compliance Committee further to the resignation of Gianmario Tondato da Ruos.

On September 26, 2011, Alberto Fornaro joined the Group as the new Chief Financial Officer, reporting directly to CEO Marco Sala. Mr. Fornaro is responsible for managing the financial strategy of the Group and its operating businesses.

RISKS AND UNCERTAINTIES

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

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

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

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

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

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

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

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

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

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

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

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

PREDICTABLE DEVELOPMENTS

Markets continue to be challenged by a new wave of political instability originating from North Africa and the Middle East, the continuation of high unemployment rates, and the sovereign debt crisis in Europe.

Governments around the globe continue to support a strategy of increased liquidity to ease credit conditions; these policies, which have been moderately effective on the financial markets, have left unresolved the issues around sovereign debt levels and high unemployment rates in several countries. Expectations are for interest rates to remain at current levels in both the U.S. and Europe as inflation risks have eased globally.

The European debt crisis worsened during 2011 due to rising concerns for a potential Greece debt default, rating agency downgrades of sovereign and bank debt and uncertainty about the ability of some European banks to survive the crisis. Governments are reacting by introducing austerity packages aimed at reducing debt, causing many economists to predict another global slowdown.

The Group serves many customers around the world (mostly governments or government-related entities) that are considering opportunities to grow gaming revenues to help achieve deficit reduction targets. 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, while 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; and
- Roll out new distribution platforms, focusing particularly on interactive channels.

We are experiencing growth of revenues and EBITDA and a reduction of net debt in 2011. Despite the global environment, GTECH same store sales are doing well both internationally and in the US driven primarily by new initiatives. Spielo International and G2 are meeting expectations.

In Italy, our new products and games are enjoying very high player acceptance and participation. VLTs, 10eLotto and new Scratch & Win games are all producing very positive results.

We are encouraged by the positive trends in our business fundamentals and believe we are well positioned to meet our commitments for the year.

LOTTOMATICA STOCK INFORMATION

SHAREHOLDING STRUCTURE
Based on most recent information available to the Company as of September 30, 2011

Shareholder	Numbers of Shares	% of Outstanding Shares
De Agostini Group	90,705,192	52.692
DeA Partecipazioni	9,871,546	5.735
Mediobanca [1]	21,918,941	12.733
Assicurazioni Generali	4,901,354	2.847

Lottomatica owns no treasury shares.

As of September 30, 2011, the authorized share capital amounts to €183,332,984, underwritten and paid up for €172,140,797, composed of 172,140,797 ordinary shares with a nominal value of €1 each with equal voting rights.

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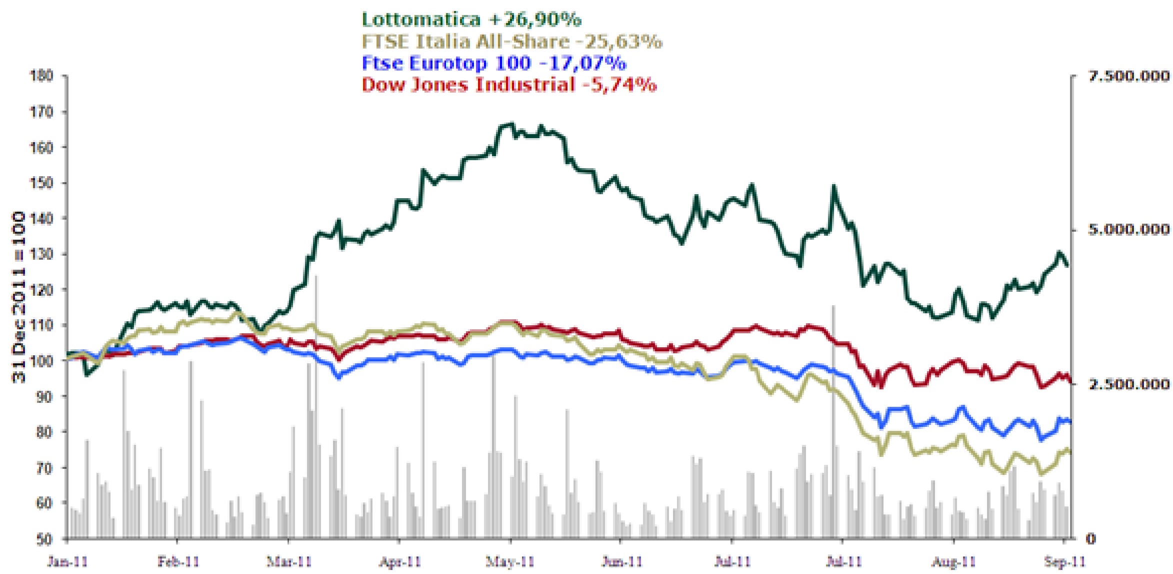
LOTTOMATICA STOCK PERFORMANCE FOR THE PERIOD ENDED SEPTEMBER 30, 2011

The average price of the stock for the nine months ended September 30, 2011 was €12.2. Approximately 166 million shares were traded in the period, with a daily exchange of approximately 865,389 shares.

Lottomatica's market capitalization was approximately €2.0 billion on September 30, 2011.

(1) 11.461% of Mediobanca's 12.733% share ownership is being held solely and exclusively to serve the conversion of a certain Mandatory Exchangeable Bond issued by UBI Banca International SA in 2009. Mediobanca has relinquished all of the voting, administrative, beneficial and economic rights related to that 11.461% interest.



(Source: Bloomberg Borsa Italiana)

Interim Consolidated Financial Statements and Footnotes

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(thousands of euros)	*Notes*	September 30, 2011	December 31, 2010
ASSETS			
Non-current assets			
Systems, equipment and other assets related to contracts, net	8	957,903	887,132
Property, plant and equipment, net	9	87,103	91,496
Goodwill	10	3,129,496	3,157,279
Intangible assets, net	11	1,532,867	1,639,198
Investments in associates		8	237
Other non-current assets	12	26,755	25,611
Non-current financial assets		22,362	15,626
Deferred income taxes		9,169	9,011
Total non-current assets		5,765,663	5,825,590
Current assets			
Inventories	13	185,838	165,314
Trade and other receivables	14	584,989	712,239
Other current assets	12	58,679	64,169
Current financial assets		15,028	6,673
Income taxes receivable		18,628	9,527
Cash and cash equivalents	15	295,999	152,405
Total current assets		1,159,161	1,110,327
Non-current assets classified as held for sale	16	-	27,000
TOTAL ASSETS		6,924,824	6,962,917
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Issued capital		172,140	172,015
Share premium		1,702,688	1,705,628
Treasury shares		-	(60,113)
Retained earnings (deficit)		70,276	(56,287)
Other reserves	17	66,178	153,150
		2,011,282	1,914,393
Non-controlling interests		436,337	444,492
Total equity		2,447,619	2,358,885
Non-current liabilities			
Long-term debt, less current portion	18	2,786,075	2,825,412
Deferred income taxes		150,970	133,578
Long-term provisions		32,176	19,334
Other non-current liabilities	19	50,892	57,752
Non-current financial liabilities		58,530	113,619
Total non-current liabilities		3,078,643	3,149,695
Current liabilities			
Accounts payable		764,655	978,509
Short-term borrowings	18	12,865	7,458
Other current liabilities	19	255,977	259,130
Current financial liabilities		103,091	69,200
Current portion of long-term debt	18	152,388	118,822
Short-term provisions		1,935	1,808
Income taxes payable		107,651	19,410
Total current liabilities		1,398,562	1,454,337
TOTAL EQUITY AND LIABILITIES		6,924,824	6,962,917

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED INCOME STATEMENTS

		For the nine months ended September 30	
(thousands of euros)	*Notes*	2011	2010
Service revenue		2,027,175	1,558,647
Product sales		118,419	112,741
Total revenue	7	2,145,594	1,671,388
Raw materials, services and other costs	20	1,121,144	805,751
Personnel	21	358,406	334,925
Depreciation	22	176,495	180,653
Amortization	11	134,870	71,176
Impairment loss (reversal)		(274)	2,148
Capitalization of internal construction costs - labor and overhead		(67,159)	(63,368)
Total costs		1,723,482	1,331,285
Operating income	7	422,112	340,103
Interest income		1,728	2,032
Equity loss		(53)	(228)
Other income		1,174	1,356
Other expense		(7,410)	(4,979)
Foreign exchange loss, net	23	(1,998)	(55,122)
Interest expense	24	(125,828)	(126,397)
		(132,387)	(183,338)
Income before income tax expense		289,725	156,765
Income tax expense	25	133,273	72,269
Net income		156,452	84,496
Attributable to:			
Owners of the parent		126,563	51,100
Non-controlling interests		29,889	33,396
		156,452	84,496
Earnings per share/ADRs			
Basic - net income attributable to owners of the parent		€ 0.74	€ 0.30
Diluted - net income attributable to owners of the parent		€ 0.74	€ 0.30

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED INCOME STATEMENTS

(thousands of euros)	*Notes*	For the three months ended September 30 2011	2010
Service revenue		687,935	513,225
Product sales		52,950	38,996
Total revenue	7	740,885	552,221
Raw materials, services and other costs	20	401,641	264,966
Personnel	21	127,710	111,192
Depreciation	22	59,935	62,497
Amortization		45,362	24,417
Capitalization of internal construction costs - labor and overhead		(23,167)	(22,466)
Total costs		611,481	440,606
Operating income	7	129,404	111,615
Interest income		725	519
Equity loss		-	(23)
Other income		377	699
Other expense		(1,137)	(2,141)
Foreign exchange gain (loss), net	23	29,747	(71,523)
Interest expense	24	(42,111)	(42,616)
		(12,399)	(115,085)
Income (loss) before income tax expense		117,005	(3,470)
Income tax expense (benefit)	25	51,231	(963)
Net income (loss)		65,774	(2,507)
Attributable to:			
Owners of the parent		58,486	(13,192)
Non-controlling interests		7,288	10,685
		65,774	(2,507)
Earnings (loss) per share/ADRs			
Basic - net income (loss) attributable to owners of the parent		€ 0.34	€ (0.08)
Diluted - net income (loss) attributable to owners of the parent		€ 0.34	€ (0.08)

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(thousands of euros)	*Notes*	For the nine months ended September 30 2011	2010
Net income		156,452	84,496
Other comprehensive income			
Net loss on interest rate swaps (cash flow hedges)		-	(368)
Income tax benefit		-	185
		-	(183)
Amortization of gain on interest rate swap on discontinued cash flow hedge		(428)	(427)
Net gain (loss) on derivative instruments (cash flow hedges)	26	4,135	(8,986)
Income tax benefit (expense)		(591)	2,966
		3,544	(6,020)
Net gain (loss) on available-for-sale financial assets		52	(11)
Net gain (loss) on translation of foreign operations	26	(39,152)	131,251
Income tax benefit		2,528	104
		(36,624)	131,355
Other comprehensive income (loss) for the period, net of tax		(33,456)	124,714
Total comprehensive income for the period, net of tax		122,996	209,210
Attributable to:			
Owners of the parent		92,680	175,814
Non-controlling interests		30,316	33,396
		122,996	209,210

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(thousands of euros)	*Notes*	For the three months ended September 30 2011	2010
Net income (loss)		65,774	(2,507)
Other comprehensive income			
Net gain on interest rate swaps (cash flow hedges)		-	910
Income tax expense		-	(351)
		-	559
Amortization of gain on interest rate swap on discontinued cash flow hedge		(142)	(142)
Net gain (loss) on derivative instruments (cash flow hedges)	26	14,671	(20,065)
Income tax benefit (expense)		(3,864)	7,035
		10,807	(13,030)
Net gain (loss) on available-for-sale financial assets		23	(84)
Net gain (loss) on translation of foreign operations	26	160,269	(237,249)
Income tax expense		(1,872)	-
		158,397	(237,249)
Other comprehensive income (loss) for the period, net of tax		169,085	(249,946)
Total comprehensive income (loss) for the period, net of tax		234,859	(252,453)
Attributable to:			
Owners of the parent		226,768	(263,138)
Non-controlling interests		8,091	10,685
		234,859	(252,453)

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of euros)	*Notes*	For the nine months ended September 30 2011	2010
Cash flows from operating activities			
Income before income tax expense		289,725	156,765
Adjustments for:			
Depreciation	22	176,495	180,653
Intangibles amortization	11	134,870	71,176
Interest expense	24	125,828	126,397
Provisions		13,309	(2,567)
Share-based payment expense	27	7,149	2,634
Non-cash foreign exchange loss	23	2,943	53,645
Non-cash loss on interest rate swaps		2,089	-
Impairment loss (reversal)		(274)	2,148
Interest income		(1,728)	(2,032)
Other non-cash items		3,762	(1,284)
Cash foreign exchange (gain) loss, net	23	(945)	1,477
Income tax paid		(55,462)	(71,820)
Cash flows before changes in operating assets and liabilities		697,761	517,192
Changes in operating assets and liabilities:			
Inventories		(19,983)	(45,105)
Trade and other receivables		114,139	94,642
Other current assets		3,940	(10,400)
Accounts payable		(153,681)	(1,596)
Accrued expenses		(731)	(24,017)
Taxes other than income taxes		(13,469)	618
Advance payments from customers		10,967	(8,496)
Current financial liabilities		6,742	21,982
Other assets and liabilities		(4,155)	(17,266)
Net cash flows from operating activities		641,530	527,554
Cash flows from investing activities			
Purchases of systems, equipment and other assets related to contracts		(260,223)	(190,638)
Purchases of intangible assets	11	(9,601)	(532,096)
Purchases of property, plant and equipment		(6,356)	(7,218)
Italian operations contingent consideration	29	(3,966)	(10,219)
Realized loss on net investment hedge		(2,157)	(6,271)
Other investments		(5)	(9,700)
Interest received		1,578	1,885
Medstroms Invest AB put right payment		-	(20,415)
Other		(779)	730
Net cash flows used in investing activities		(281,509)	(773,942)
Cash flows from financing activities			
Interest paid		(102,458)	(120,195)
Principal payments on long-term debt, net		(47,521)	(2,550)
Dividends paid - non-controlling interest		(38,420)	(45,638)
Cash paid on derivative instruments		(24,846)	-
Capital increase (return of capital) - non-controlling interest		(8,491)	187,502
Treasury shares purchased		(2,940)	-
Net proceeds from short-term borrowings		3,903	17,225
Capital increase - Northstar Lottery Group LLC		8,440	-
Proceeds from issuance of long-term debt		-	59,800
Dividends paid		-	(124,815)
Other		(6,267)	(7,301)
Net cash flows used in financing activities		(218,600)	(35,972)
Net increase (decrease) in cash and cash equivalents		141,421	(282,360)
Effect of exchange rate changes on cash		2,173	4,282
Cash and cash equivalents at the beginning of the period		152,405	469,335
Cash and cash equivalents at the end of the period	15	295,999	191,257

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the nine months ended September 30, 2011

(thousands of euros)	Attributable to owners of the parent: Issued Capital	Share Premium	Treasury Shares	Retained Earnings (Deficit)	Other Reserves (Note 17)	Total	Non-Controlling Interests	Total Equity
Balance at January 1, 2011	172,015	1,705,628	(60,113)	(56,287)	153,150	1,914,393	444,492	2,358,885
Net income for the period	-	-	-	126,563	-	126,563	29,889	156,452
Other comprehensive income (loss)	-	-	-	-	(33,883)	(33,883)	427	(33,456)
Total comprehensive income	-	-	-	126,563	(33,883)	92,680	30,316	122,996
Treasury shares issued in lieu of a cash dividend (3,372,851 shares)	-	-	62,989	-	(62,989)	-	-	-
Treasury shares purchased (208,655 shares)	-	(2,940)	(2,940)	-	2,940	(2,940)	-	(2,940)
Share-based payment (Note 27)	-	-	-	-	7,149	7,149	-	7,149
Shares issued under stock award plans	125	-	64	-	(189)	-	-	-
Dividend distribution	-	-	-	-	-	-	(38,420)	(38,420)
Return of capital	-	-	-	-	-	-	(8,491)	(8,491)
Capital increase - Northstar Lottery Group LLC	-	-	-	-	-	-	8,440	8,440
Balance at September 30, 2011	172,140	1,702,688	-	70,276	66,178	2,011,282	436,337	2,447,619

LOTTOMATICA GROUP AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the nine months ended September 30, 2010

(thousands of euros)	Attributable to owners of the parent: Issued Capital	Share Premium	Treasury Shares	Retained Earnings (Deficit)	Other Reserves (Note 17)	Total	Non-Controlling Interests	Total Equity
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 27)	-	-	-	-	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	172,015	1,708,081	(60,113)	(6,147)	75,723	1,889,559	234,333	2,123,892

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

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

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

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

The interim consolidated financial statements for the nine months ended September 30, 2011 were approved for issuance in accordance with a resolution of the Board of Directors on November 3, 2011.

2. Basis of preparation

The interim consolidated financial statements for the nine months ended September 30, 2011 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. As such, they do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of December 31, 2010.

The interim consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (€000) (except share and per share data) unless otherwise indicated. Information for the nine months ended September 30, 2011 is unaudited and for the year ended December 31, 2010 is audited.

The interim consolidated financial statements for September 30, 2011 are consistent with the December 31, 2010 presentation.

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

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

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

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies

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

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

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

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

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

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

- ***IFRS 3 Business Combinations –*** This amendment clarifies the measurement method for non-controlling interests, specifies how to measure unreplaced and voluntary replaced share-based payment awards, and clarifies the transitional requirements for contingent consideration from a business combination that occurred before the July 1, 2009 effective date of IFRS 3.

- ***IFRS 7 Financial Instruments: Disclosures -*** This amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

- ***IAS 1 Presentation of Financial Statements -*** This amendment clarifies that an entity may present the analysis of other comprehensive income by item either in the statement of changes in equity or in the notes to the financial statements.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

- ***IAS 27 Consolidated and Separate Financial Statements (Revised) -*** This amendment clarifies the transitional requirements for the consequential amendments made to other standards as a result of IAS 27.

- ***IAS 34 Interim Financial Reporting -*** This amendment clarifies the disclosures required for significant events and transactions and financial instruments and their fair values.

- ***IFRIC 13 Customer Loyalty Programmes -*** This amendment clarifies the accounting for the fair value of award credits.

4. Significant accounting judgments, estimates and assumptions

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

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

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

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

Impairment of Systems, Equipment and Other Assets Related to Contracts
The carrying values of systems, equipment and other assets related to contracts are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. This requires management to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of systems, equipment and other assets related to contracts at September 30, 2011 and December 31, 2010 was €957.9 million and €887.1 million, respectively. Further details are provided in Note 8.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Impairment of Goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" or "fair value less costs to sell" of the cash-generating units to which the goodwill is allocated. Estimating a value in use or fair value less costs to sell amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at September 30, 2011 and December 31, 2010 was €3.1 billion and €3.2 billion, respectively. Further details are provided in Note 10.

Impairment of Intangible Assets
The Group determines whether intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires management to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of intangible assets at September 30, 2011 and December 31, 2010 was €1.5 billion and €1.6 billion, respectively. Further details are provided in Note 11.

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments on the date they are granted. The fair value must be estimated using an appropriate option-pricing model, which is dependent on the terms and conditions of the grant, and incorporates assumptions to the valuation model inputs, including the expected life of the option, volatility, dividend yield and risk-free interest rate.

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

	September 30, 2011	December 31, 2010
Recognized deferred tax assets related to operating losses	105.7	112.9
Unrecognized deferred tax assets related to operating losses	28.6	22.1
Recognized tax assets related to tax credits	0.6	1.3
Unrecognized tax assets related to tax credits	19.1	22.8

Fair value measurement of contingent consideration

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

Fair value of financial instruments

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

5. International Financial Reporting Standards issued but not yet effective

The new, amended and revised Standards and Interpretations that were issued by the IASB and IFRIC, but not yet effective up to the date of issuance of the Group's financial statements, and neither endorsed nor adopted by the European Union, are described below.

IFRS 1 First-time Adoption of International Financial Reporting Standards
The amendments to IFRS 1 regarding severe hyperinflation were issued in December 2010 and become effective for annual periods beginning on or after July 1, 2011 but do not apply to the Group.

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

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

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

IFRS 10 Consolidated Financial Statements
IFRS 10 was issued in May 2011 and will be applied retrospectively for annual periods beginning on or after January 1, 2013. The standard establishes a single control model that applies to all entities, including "special purpose entities", that will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent. Therefore, the standard may change which entities are within a group. The Group is evaluating the impact the standard will have on the consolidated financial statements when adopted on January 1, 2013.

IFRS 11 Joint Arrangements
IFRS 11 was issued in May 2011 and will be applied retrospectively for annual periods beginning on or after January 1, 2013. The standard describes the accounting for a "joint arrangement", which is defined as a contractual arrangement over which two or more parties have joint control. In addition, the standard removes the option to account for jointly controlled entities using proportionate consolidation and instead must be accounted for using the equity method. The Group is evaluating the impact the standard will have on the consolidated financial statements when adopted on January 1, 2013.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

IFRS 12 Disclosure of Interest in Other Entities
IFRS 12 was issued in May 2011 and will be applied retrospectively for annual periods beginning on or after January 1, 2013. The standard requires enhanced disclosures related to an entity's interest in subsidiaries, joint arrangements, associates and special purpose entities so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. One of the most significant changes introduced by the standard is that an entity is now required to disclose the judgments made to determine whether it controls another entity. The Group is evaluating the impact the standard will have on the consolidated financial statements when adopted on January 1, 2013.

IFRS 13 Fair Value Measurement
IFRS 13 was issued in May 2011 and becomes effective for annual periods beginning on or after January 1, 2013. The standard defines fair value, provides guidance on how to determine fair value, and requires disclosures about fair value measurements. However, the standard does not change the requirements regarding which items should be measured or disclosed at fair value but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The Group is evaluating the impact the standard will have on the consolidated financial statements when adopted on January 1, 2013.

IAS 1 Presentation of Financial Statements (Amended)
The amendments to IAS 1 were issued in June 2011 and become effective for annual periods beginning on or after July 1, 2012. The amendments require the grouping of items presented within other comprehensive income (OCI) that may be reclassified to the income statement at a future point in time. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The adoption of these amendments is not expected to have a material impact on the financial position or performance of the Group when adopted on January 1, 2013.

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

IAS 19 Employee Benefits (Amended)
The amendments to IAS 19 were issued in June 2011 and will be applied retrospectively for annual periods beginning on or after January 1, 2013. The amendments improve the accounting for pensions and other post-employment benefits by eliminating an option to defer the recognition of gains and losses, known as the "corridor method"; streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in OCI; and enhancing the disclosure requirements for defined benefit plans. The adoption of these amendments is not expected to have a material impact on the financial position or performance of the Group when adopted on January 1, 2013.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

IAS 27 Separate Financial Statements (Amended)

The amended IAS 27 was issued in May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12 and becomes effective for annual periods beginning on or after January 1, 2013. The amended standard contains accounting and disclosure requirement for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The amended standard requires an entity preparing separate financial statement to account for those investments at cost or in accordance with IFRS 9 *Financial Instruments*. The adoption of the amended standard is not expected to have a material impact on the financial position or performance of the Group when adopted on January 1, 2013.

IAS 28 Investments in Associates and Joint Ventures (Amended)

The amended IAS 28 was issued in May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12 and becomes effective for annual periods beginning on or after January 1, 2013. The amended standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The adoption of the amended standard is not expected to have a material impact on the financial position or performance of the Group when adopted on January 1, 2013.

6. Acquisition of non-controlling interests

St. Enodoc Holdings Limited

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

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

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. Operating segment information

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

- The Italian Operations segment operates and provides a full range of gaming services, including online, instant and traditional lotteries, Scratch & 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 SPIELO International segment (formerly 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 and are eliminated in consolidation.

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. Operating segment information (continued)

The following tables present revenue and operating income (loss) information regarding the Group's reportable operating segments for the three and nine months ended September 30, 2011 and 2010, respectively.

	For the three months ended September 30, 2011			
(thousands of euros)	Total revenue	Intersegment revenue	Third-party revenue	Operating income (loss)
Operating Segments				
Italian Operations	458,503	-	458,503	122,823
GTECH Lottery	226,341	(3,221)	223,120	22,885
SPIELO International	45,598	(3,572)	42,026	2,885
GTECH G2	20,254	(3,083)	17,171	330
	750,696	(9,876)	740,820	148,923
Eliminations	(9,876)	9,876	-	(1,733)
Corporate overhead	-	-	-	(3,498)
Other	65	-	65	(14,288)
	740,885	-	740,885	129,404

	For the three months ended September 30, 2010			
(thousands of euros)	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
SPIELO International	59,799	(20,730)	39,069	4,754
GTECH G2	17,067	(826)	16,241	(1,323)
	575,340	(23,244)	552,096	137,912
Eliminations	(23,244)	23,244	-	(4,565)
Corporate overhead	-	-	-	(4,286)
Other	125	-	125	(17,446)
	552,221	-	552,221	111,615

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. Operating segment information (continued)

	For the nine months ended September 30, 2011			
(thousands of euros)	Total revenue	Intersegment revenue	Third-party revenue	Operating income (loss)
Operating Segments				
Italian Operations	1,370,278	-	1,370,278	412,078
GTECH Lottery	608,115	(6,518)	601,597	61,733
SPIELO International	139,560	(19,360)	120,200	7,088
GTECH G2	59,111	(5,787)	53,324	(1,755)
	2,177,064	(31,665)	2,145,399	479,144
Eliminations	(31,665)	31,665	-	(5,345)
Corporate overhead	-	-	-	(8,814)
Other	195	-	195	(42,873)
	2,145,594	-	2,145,594	422,112

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

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. Operating segment information (continued)

The following tables present depreciation, amortization and impairment information regarding the Group's reportable operating segments for the three and nine months ended September 30, 2011 and 2010, respectively.

	For the three months ended September 30, 2011		
(thousands of euros)	Depreciation	Amortization	Impairment
Operating Segments			
Italian Operations	19,073	32,162	-
GTECH Lottery	33,801	486	
SPIELO International	2,942	435	-
GTECH G2	958	1,064	-
	56,774	34,147	-
Corporate overhead	15	-	-
Other	3,146	11,215	-
	59,935	45,362	-

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

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

7. Operating segment information (continued)

(thousands of euros)	For the nine months ended September 30, 2011 Depreciation	Amortization	Impairment reversal
Operating Segments			
Italian Operations	53,751	95,620	-
GTECH Lottery	99,750	1,538	(274)
SPIELO International	9,900	1,494	-
GTECH G2	2,923	3,219	-
	166,324	101,871	(274)
Corporate overhead	45	-	-
Other	10,126	32,999	-
	176,495	134,870	(274)

(thousands of euros)	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	-
SPIELO International	11,383	3,727	2,148
GTECH G2	2,236	3,849	-
	166,563	31,375	2,148
Corporate overhead	45	-	-
Other	14,045	39,801	-
	180,653	71,176	2,148

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

(thousands of euros)	Land	Buildings	Terminals and Systems	Furniture and Equipment	Contracts in Progress	Total
Net book value						
Balance at January 1, 2011	552	25,532	738,160	56,476	66,412	887,132
Additions	-	2,042	37,883	7,184	200,376	247,485
Depreciation (Note 22)	-	(5,352)	(149,402)	(12,147)	-	(166,901)
Impairment reversal	-	-	274	-	-	274
Disposals	-	-	(2,109)	(122)	(1,241)	(3,472)
Foreign currency translation	1	(3)	(8,916)	(49)	1,063	(7,904)
Transfers	-	-	208,312	10,299	(216,173)	2,438
Other	-	(130)	(1,015)	(4)	-	(1,149)
Balance at September 30, 2011	553	22,089	823,187	61,637	50,437	957,903
Balance at January 1, 2011						
Cost	552	52,095	1,679,752	110,602	66,412	1,909,413
Accumulated depreciation	-	(26,563)	(941,592)	(54,126)	-	(1,022,281)
Net book value	552	25,532	738,160	56,476	66,412	887,132
Balance at September 30, 2011						
Cost	553	53,996	1,875,015	125,915	50,437	2,105,916
Accumulated depreciation	-	(31,907)	(1,051,828)	(64,278)	-	(1,148,013)
Net book value	553	22,089	823,187	61,637	50,437	957,903

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

9. Property, plant and equipment, net

(thousands of euros)	Land	Buildings	Furniture and Equipment	Construction in Progress	Total
Net book value					
Balance at January 1, 2011	1,934	28,184	60,569	809	91,496
Additions	-	97	7,994	1,166	9,257
Depreciation (Note 22)	-	(1,175)	(8,419)	-	(9,594)
Disposals	-	(46)	(180)	-	(226)
Transfers	-	-	(2,068)	(370)	(2,438)
Foreign currency translation	(26)	(515)	(874)	23	(1,392)
Balance at September 30, 2011	1,908	26,545	57,022	1,628	87,103
Balance at January 1, 2011					
Cost	1,934	36,352	103,281	809	142,376
Accumulated depreciation	-	(8,168)	(42,712)	-	(50,880)
Net book value	1,934	28,184	60,569	809	91,496
Balance at September 30, 2011					
Cost	1,908	35,793	107,350	1,628	146,679
Accumulated depreciation	-	(9,248)	(50,328)	-	(59,576)
Net book value	1,908	26,545	57,022	1,628	87,103

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

10. Goodwill

(thousands of euros)	September 30, 2011	December 31, 2010
Balance at beginning of period	3,157,279	3,006,783
Acquisitions	-	6,658
Adjustments:		
Foreign currency translation	(26,660)	179,432
Revisions to fair value of other assets and liabilities acquired	(1,123)	(183)
Subsequent changes in fair value of contingent liabilities	-	2,274
Impairment loss	-	(37,685)
	(27,783)	143,838
Balance at end of period	3,129,496	3,157,279
Balance at beginning of period		
Cost	3,270,013	3,079,155
Accumulated impairment loss	(112,734)	(72,372)
	3,157,279	3,006,783
Balance at end of period		
Cost	3,240,703	3,270,013
Accumulated impairment loss	(111,207)	(112,734)
	3,129,496	3,157,279

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 2011. The €37.7 million impairment loss recorded during 2010 relates to the GTECH G2 segment.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

11. Intangible assets, net

(thousands of euros)	September 30, 2011	December 31, 2010
Balance at beginning of period	1,639,198	822,886
Intangible assets acquired during the period:		
Purchase business combination related:		
Sports betting rights and horse racing betting rights	-	2,740
Other	-	29
	-	2,769
All other intangible assets acquired:		
Patents	4,666	12,328
Concessions and licenses	2,776	888,709
Sports betting rights and horse racing betting rights	411	314
Other	1,748	1,666
	9,601	903,017
Total intangible assets acquired	9,601	905,786
Non-current assets classified as held for sale (Note 16)	27,000	(27,000)
Revisions to fair value of assets and liabilities acquired	125	18,522
Foreign currency translation	(8,187)	49,436
Impairment loss	-	(13,217)
Amortization	(134,870)	(117,215)
Balance at end of period	1,532,867	1,639,198
Balance at beginning of period		
Cost	2,072,604	1,131,426
Accumulated amortization	(433,406)	(308,540)
	1,639,198	822,886
Balance at end of period		
Cost	2,091,460	2,072,604
Accumulated amortization	(558,593)	(433,406)
	1,532,867	1,639,198

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

12. Other assets (non-current and current)

(thousands of euros)	September 30, 2011	December 31, 2010
Other non-current assets		
Deferred asset	6,712	7,475
Customer receivables	5,323	3,303
Prepaid expenses	5,093	4,685
Deposits	4,669	4,482
Sales-type lease receivables	856	2,603
Other	4,102	3,063
	26,755	25,611

(thousands of euros)	September 30, 2011	December 31, 2010
Other current assets		
Value-added tax receivable	12,059	12,529
Prepaid expenses	11,626	10,936
Other tax receivables	11,376	10,368
Restricted cash	10,758	1,001
Other receivables	9,052	26,552
Other	3,808	2,783
	58,679	64,169

13. Inventories

(thousands of euros)	September 30, 2011	December 31, 2010
Raw materials	17,791	25,564
Work in progress	100,895	84,352
Finished goods	67,152	55,398
	185,838	165,314

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

14. Trade and other receivables

(thousands of euros)	September 30, 2011	December 31, 2010
Trade receivables	653,390	751,857
Sales-type lease receivables	4,090	2,553
Related party receivables (Note 28)	2,430	21,667
Allowance for doubtful accounts	(74,921)	(63,838)
	584,989	712,239

Trade receivables include receivables from intermediaries, which represent amounts due from point of sale facilities where the Group provides third-party processing services related to their commercial services networks in the Italian Operations and GTECH Lottery segments. 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

(thousands of euros)	September 30, 2011	December 31, 2010
Cash on hand	582	430
Cash at bank	295,417	151,975
Cash and cash equivalents	295,999	152,405
Current financial receivables	15,028	6,673
Facilities	51,473	51,950
2009 Notes (due 2016)	33,160	2,926
Swap Liability	31,468	32,410
Capital Securities	31,022	46,618
Interest rate swaps	23,273	-
2010 Notes (due 2018)	22,396	2,240
Short-term borrowings	12,865	7,458
Other	62,686	51,878
Current financial debt	268,343	195,480
Net current financial debt (cash)	(42,684)	36,402
Facilities	801,188	848,888
2009 Notes (due 2016)	751,777	746,016
Capital Securities	737,828	735,836
2010 Notes (due 2018)	494,365	493,797
Swap Liability	15,856	29,953
Interest rate swaps	-	47,414
Other	43,591	37,127
Non current financial debt	2,844,605	2,939,031
Net financial position	2,801,921	2,975,433
Total debt included in net financial position	2,951,328	2,951,692

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

16. Non-current assets classified as held for sale

VLT rights

During the fourth quarter of 2010, the Group implemented a commercial strategy to offer video lottery terminal ("VLT") rights, machines, and systems to other operators in the Italian machine gaming market in return for a percentage of net sales and was holding discussions with other operators whereby they would purchase these VLT rights held by the Group. Accordingly, €27 million of these assets were reclassified from intangible assets within the Italian Operations segment to an asset held for sale.

During the third quarter of 2011, the Italian courts issued Law n.111/2011 which modified the previous rules for the renewal of the present concessions for the operation of amusement with prize machines and VLTs. Under this new law, the present concessionaires retain VLT rights previously acquired by virtue of the present concession but only in the case of a favorable award of the new tender, which is open to new operators. By following the guidelines indicated in the Law, on August 11, 2011 the Italian gaming regulator, Amministrazione Autonoma dei Monopoli di Stato ("AAMS"), issued a new tendering procedure. The deadline for the submission of offers for this tender expired on October 10, 2011. AAMS has clearly stated in the tender documents that the present concessionaires commit themselves to keep the VLT rights already acquired. In light of this new information, management of the Group decided to no longer offer these VLT rights for sale and these assets have been reclassified to intangible assets.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

17. Other reserves

Other reserves at September 30, 2011 consist of the following:

(thousands of euros)	Legal Reserve	Stock Option and Restricted Stock Reserve	Share-Based Payment Reserve	Ex Art 2349 Reserve	Net Unrealized Gain/ (Loss) Reserve	Translation Reserve	Treasury Share Reserve	Other Reserve	Total
Balance at January 1, 2011	34,403	60,706	2,193	1,834	(1,227)	(1,794)	60,113	(3,078)	153,150
Amortization of gain on interest rate swap on discontinued cash flow hedge	-	-	-	-	(428)	-	-	-	(428)
Unrecognized net gain on derivative instruments	-	-	-	-	3,117	-	-	-	3,117
Unrecognized net gain on available for sale investment	-	-	-	-	52	-	-	-	52
Foreign currency translation	-	-	-	-	-	(36,624)	-	-	(36,624)
Other comprehensive income (loss)	-	-	-	-	2,741	(36,624)	-	-	(33,883)
Treasury shares issued in lieu of a cash dividend (3,372,851 shares)	-	-	-	-	-	-	(62,989)	-	(62,989)
Treasury shares purchased (208,655 shares)	-	-	-	-	-	-	2,940	-	2,940
Share-based payment	-	-	7,149	-	-	-	-	-	7,149
Shares issued under stock award plans	-	3,310	(3,310)	(125)	-	-	(64)	-	(189)
Balance at September 30, 2011	34,403	64,016	6,032	1,709	1,514	(38,418)	-	(3,078)	66,178

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

17. Other reserves (continued)

Other reserves at September 30, 2010 consist of the following:

(thousands of euros)	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
Other comprehensive income (loss)	-	-	-	-	(6,641)	131,355	-	-	124,714
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	34,403	60,819	4,983	1,834	(38,861)	(44,490)	60,113	(3,078)	75,723

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

18. Debt

(thousands of euros)	September 30, 2011	December 31, 2010
Long-term debt, less current portion		
Facilities	801,188	848,888
2009 Notes (due 2016)	751,777	746,016
Capital Securities	737,828	735,836
2010 Notes (due 2018)	494,365	493,797
Other	917	875
	2,786,075	2,825,412
Short-term borrowings		
Short-term borrowings	12,865	7,458
	12,865	7,458
Current portion of long-term debt		
Facilities	51,473	51,950
2009 Notes (due 2016)	33,160	2,926
Capital Securities	31,022	46,618
2010 Notes (due 2018)	22,396	2,240
Other	14,337	15,088
	152,388	118,822
Total debt	2,951,328	2,951,692

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

18. Debt (continued)

Facilities

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

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

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

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

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

2011	70,000
2012	105,000
2013	140,000
2014	175,000
2015	210,000
Total	700,000

At September 30, 2011, the euro equivalent of the US$700 million Term Loan Facility was €518.4 million.

Interest on the Facilities is generally payable between one and six months in arrears. Interest rates are determined by reference to LIBOR for the Term Loan Facility and either LIBOR or EURIBOR for the Revolving Facilities, plus a margin based on the Group's ratio of total net debt to earnings before interest, taxes, depreciation and amortization, and the Group's senior unsecured long-term debt rating. A facility fee is payable quarterly at a rate of 37.5% of margin per annum on the total available commitment under the Facilities. A utilization fee is payable quarterly at a rate between 0% and 0.4% per annum based on the average daily amount outstanding under the Revolving Facilities. At September 30, 2011, the effective interest rate on the Facilities was 1.92%.

The agreement for the Facilities has covenants and restrictions, among other things, requirements relating to the maintenance of certain financial ratios, limitations on acquisitions, and limitations on dividends. Violation of these covenants may result in the full principal amounts of the Facilities being immediately payable upon written notice. At September 30, 2011 and December 31, 2010, we were in compliance with all covenants and restrictions.

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

As of September 30, 2011, €342.8 million of borrowings and letters of credit are outstanding under the Revolving Facilities.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

18. Debt (continued)

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

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

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

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

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

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

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

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

The terms of the Capital Securities require Lottomatica to authorize the issuance of ordinary shares in accordance with a resolution approved by Lottomatica shareholders. At each annual general meeting, the value of the ordinary shares authorized for issuance must be at least equivalent to the interest payments due during the following two-year period. As of September 30, 2011, the authorization was in place for the issuance of capital up to €125 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)

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

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

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

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

Letters of Credit
In connection with certain customer contracts, we are required to issue letters of credit for the benefit of our customers. The letters of credit primarily secure our performance under the customer contracts. At September 30, 2011, €637.7 million of letters of credit were outstanding with a weighted average annual cost of 0.77%. At December 31, 2010, €570.5 million of letters of credit were outstanding with a weighted average annual cost of 0.74%.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

19. Other liabilities (non-current and current)

(thousands of euros)	September 30, 2011	December 31, 2010
Other non-current liabilities		
Deferred revenue	23,486	27,874
Contingent liabilities related to GTECH acquisition	11,672	13,514
Staff severance fund	7,454	7,491
Other	8,280	8,873
	50,892	57,752

(thousands of euros)	September 30, 2011	December 31, 2010
Other current liabilities		
Accrued expenses	67,470	72,506
Employee compensation	54,570	57,958
Taxes other than income taxes	50,372	64,932
Deferred revenue	40,841	39,998
Advance payments from customers	29,059	17,894
Advance billings	9,235	5,842
Other	4,430	-
	255,977	259,130

20. Raw materials, services and other costs

	For the three months ended September 30,		For the nine months ended September 30,	
(thousands of euros)	2011	2010	2011	2010
Operating expenses	229,677	124,684	647,913	367,022
Outside services	53,035	35,104	138,815	113,267
Cost of product sales	32,593	20,235	66,793	66,834
Consumables	31,163	28,774	95,669	86,873
Insurance, miscellaneous taxes and other	23,010	19,388	74,616	62,560
Occupancy	13,775	13,078	38,885	39,316
Telecommunications	11,985	16,665	37,481	49,080
Travel	7,155	6,610	21,078	19,897
Write-down of inventories	(752)	428	(106)	902
	401,641	264,966	1,121,144	805,751

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

21. Personnel

	For the three months ended September 30,		For the nine months ended September 30,	
(thousands of euros)	2011	2010	2011	2010
Payroll	94,542	85,831	270,664	259,344
Incentive compensation	8,539	7,210	23,507	18,861
Statutory benefits	7,980	7,720	26,640	26,015
Company benefits	6,960	6,332	20,900	19,576
Share-based payment (Note 27)	6,862	603	7,149	2,634
Net benefits for staff severance fund	943	1,024	2,958	2,938
Other	1,884	2,472	6,588	5,557
	127,710	111,192	358,406	334,925

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

	Number of employees		
	As of		
Personnel Description	September 30, 2011	December 31, 2010	2011 Average
Executives	436	413	424
Middle Management	1,107	1,015	1,067
All Other Permanent Employees	6,122	5,836	6,010
Employees with Temporary Employment Contracts	317	338	366
	7,982	7,602	7,867

22. Depreciation

	For the three months ended September 30,		For the nine months ended September 30,	
(thousands of euros)	2011	2010	2011	2010
Systems, equipment and other assets related to contracts, net (Note 8)	56,627	59,049	166,901	170,335
Property, plant and equipment, net (Note 9)	3,308	3,448	9,594	10,318
	59,935	62,497	176,495	180,653

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

23. Foreign exchange gain (loss), net

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

	For the three months ended September 30,		For the nine months ended September 30,	
(thousands of euros)	2011	2010	2011	2010
Cash foreign exchange gain (loss)	(90)	(827)	945	(1,477)
Non-cash foreign exchange gain (loss)	29,837	(70,696)	(2,943)	(53,645)
	29,747	(71,523)	(1,998)	(55,122)

Non-cash foreign exchange gain (loss)

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

	For the three months ended September 30,		For the nine months ended September 30,	
(thousands of euros)	2011	2010	2011	2010
GTECH euro denominated debt	29,463	-	(665)	-
GTECH Senior Credit Facilities hedges	-	(71,013)	-	(55,432)
Other	374	317	(2,278)	1,787
	29,837	(70,696)	(2,943)	(53,645)

GTECH euro denominated debt

GTECH borrows in euro to better match the Group's liabilities with euro denominated cash flows. As of September 30, 2011, €285.0 million of euro borrowings were outstanding under GTECH's €500 million Revolving Facility A which resulted in a non-cash foreign exchange gain (loss) during the three and nine month periods ended September 30, 2011, respectively, due to fluctuations in the US dollar to euro exchange rate.

GTECH Senior Credit Facilities hedges

Approximately 45% of the Group's debt at September 30, 2010 was US dollar denominated and therefore exposed to fluctuations in the euro versus the US dollar exchange rate. At September 30, 2010, approximately 53% of this US dollar debt was hedged with collar structures that provided protection at an average euro to US dollar exchange rate of 1.27. Revenues and cash flow from US based contracts provided a natural hedge for the remaining US dollar denominated debt.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

24. Interest expense

The Group incurred interest expense on the following:

	For the three months ended September 30,		For the nine months ended September 30,	
(thousands of euros)	2011	2010	2011	2010
Capital Securities	(16,260)	(16,260)	(48,271)	(48,271)
2009 Notes (due 2016)	(9,796)	(9,532)	(29,173)	(28,669)
2010 Notes (due 2018)	(6,911)	-	(20,725)	-
Facilities	(6,638)	-	(19,813)	-
Interest accretion on Swap Liability	(458)	(734)	(1,535)	(2,405)
GTECH Senior Credit Facilities	-	(13,735)	-	(41,541)
Other	(2,048)	(2,355)	(6,311)	(5,511)
	(42,111)	(42,616)	(125,828)	(126,397)

See Note 18 for details of the debt related components.

25. Income tax

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

	For the three months ended September 30,		For the nine months ended September 30,	
(thousands of euros)	2011	2010	2011	2010
Current				
Italy	35,849	19,777	103,407	65,123
Foreign	5,249	4,647	10,270	6,545
Total Current	41,098	24,424	113,677	71,668
Deferred				
Italy	(4,977)	6,655	10,360	20,553
Foreign	15,110	(32,042)	9,236	(19,952)
Total Deferred	10,133	(25,387)	19,596	601
Income tax expense (benefit)	51,231	(963)	133,273	72,269

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

26. Components of other comprehensive income

	For the three months ended September 30,		For the nine months ended September 30,	
(thousands of euros)	2011	2010	2011	2010
Derivative instruments (cash flow hedges):				
Gains (losses) arising during the period	14,321	(19,576)	2,587	(7,042)
Reclassification adjustments for (gains) losses included in the income statement	350	(489)	1,548	(1,944)
	14,671	(20,065)	4,135	(8,986)
Translation of foreign operations:				
Gains (losses) arising during the period	159,544	(237,134)	(39,676)	131,366
Reclassification adjustments for (gains) losses on foreign operations disposed of during the period	725	(115)	524	(115)
	160,269	(237,249)	(39,152)	131,251

27. Share-based payment plans

The expense recognized during the three and nine months ended September 30, 2011 and 2010 arising from employee share-based payment plans and included in personnel in our consolidated income statement was as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
(thousands of euros)	2011	2010	2011	2010
Performance based restricted shares	4,124	21	4,124	1,011
Performance based stock option plans	2,020	(37)	2,020	457
Time based restricted shares	718	619	1,005	1,166
	6,862	603	7,149	2,634

Stock option grants

During the nine months ended September 30, 2011, 1,724,698 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) over a three-year period and net financial debt at the end of the 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.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

27. Share-based payment plans (continued)

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, 2011 was €1.54 per share using the following assumptions:

Dividend yield (%)	4.07
Expected volatility (%)	26.77
Risk-free interest rate (%)	3.25
Expected life of options (in years)	4.50
Weighted average share price (€)	11.32
Exercise price (€)	12.87

Restricted stock grants

During the nine months ended September 30, 2011, 855,358 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 over a three-year period and net financial debt at the end of the 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 €11.32 per share, which represents the average share price during the employee grant acceptance period.

Modifications

During the third quarter of 2011, modifications were made to the performance conditions of certain of our performance based plans but did not result in any incremental fair value required to be recognized as expense. These modifications, along with changes to current vesting expectations, resulted in a cumulative expense adjustment for the three and nine month periods ended September 30, 2011.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

28. Related party disclosures

(thousands of euros)	September 30, 2011	December 31, 2010
Accounts receivable		
Spain UTE	1,332	2,331
De Agostini Group	981	19,333
Taiwan Sports Lottery Corporation	116	3
CLS-GTECH Company Limited	1	-
	2,430	21,667
Accounts payable		
De Agostini Group	9,213	53,025

	For the three months ended September 30,		For the nine months ended September 30,	
(thousands of euros)	2011	2010	2011	2010
Service revenue and product sales				
Spain UTE	4,299	3,155	7,661	11,803
Taiwan Sports Lottery Corporation	363	577	945	1,638
De Agostini Group	220	-	413	3
CLS-GTECH Company Limited	79	52	194	174
	4,961	3,784	9,213	13,618
Raw materials, services and other costs				
De Agostini Group	1,217	2,546	3,247	2,752

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.

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, 2011 and December 31, 2010 are non-interest bearing.

Taiwan Sports Lottery Corporation

GTECH had a 24.5% interest in Taiwan Sports Lottery Corporation ("TSLC") which was 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. In July 2011, GTECH transferred its 24.5% interest in TSLC to another shareholder in TSLC for nominal consideration.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

28. Related party disclosures (continued)

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

29. Commitments and contingencies

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

As compensation for its management services, Northstar receives reimbursement of certain operating expenses, which is recorded as service revenue in the consolidated income statement. Northstar is also entitled to receive annual incentive compensation to the extent net income earned by the State each fiscal year exceeds the State established base net income levels for such fiscal year. Northstar will earn incentive compensation that is awarded based on various levels of performance, up to an annual maximum of 5% of the actual net income earned by the State.

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

Czech Republic
GTECH's lottery customer in the Czech Republic, SAZKA a.s. ("SAZKA"), was declared insolvent on March 29, 2011 and on May 27, 2011 was declared bankrupt by the municipal court of Prague. Throughout the insolvency proceedings and in bankruptcy, the lottery was operated under the management of the court appointed Insolvency Trustee (the "Trustee"). GTECH had a long-term relationship with this customer which began in 1992. Under the terms of the current facility management contract, which was confirmed by the Trustee and has over ten years remaining, GTECH provides facilities management services, including approximately 7,000 terminals, central system hardware and software, ongoing lottery support services, communication services and operational support to this customer. At September 30, 2011, trade receivables, net of reserves from this customer were €3.2 million, €0.3 million of which was collected in October 2011. Subsequent to the close of the third quarter of 2011, on November 1, 2011, Ceska Sazkova a.s. ("CS") purchased SAZKA for CZK 3.81 billion (€151.3 million at the November 1, 2011 exchange rate). The GTECH facilities management agreements remain in place with CS and the parties expect to finalize new agreements on substantially the same terms as the agreements currently in place. The Group also has approximately €12.5 million of systems, equipment and other assets related to contracts and approximately €16.4 million of intangible assets on its consolidated statement of financial position related to its contracts with this customer. Although the lottery's operating and revenue trends started to improve under management of the court appointed Trustee, its year to date revenues have been impacted materially. The Czech Republic's performance is expected to ultimately attain pre-bankruptcy levels under new ownership. Future events will determine the recoverability of these assets, and therefore the financial impact to the Group is not currently estimable.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

29. Commitments and contingencies (continued)

Acquisitions in the Italian Operations segment
The Group has made a number of acquisitions in the Italian Operations segment consisting of strategic investments to exploit growth opportunities in the Sports Betting and Machine Gaming markets. Some of these acquisitions include provisions for the payment of contingent consideration if certain wager or network performance conditions are achieved. Contingent consideration of €4.0 million and €10.2 million, respectively, was paid during the first nine months of 2011 and 2010. If the performance conditions continue to be achieved, the Group expects to pay the following additional amounts:

	As of September 30,	
(thousands of euros)	2011	2010
Within one year	6,204	15,266
After one year but not more than five years	602	1,578
	6,806	16,844

CLS-GTECH Company Limited
As previously described, GGSC has a 50% interest in CLS-GTECH. In December 2007, GGSC made a capital commitment to CLS-GTECH of AUD$7.5 million in the form of a promissory note to be repaid at the discretion of the CLS-GTECH board of directors. On August 11, 2008, the outstanding commitment remaining under the promissory note was converted from AUD$6.4 million to US$5.4 million. At September 30, 2011, the outstanding commitment was US$3.8 million (€2.8 million at the September 30, 2011 exchange rate).

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

Guarantees and indemnifications

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

At September 30, 2011, GTECH guaranteed, along with the 51% shareholder in LGT, performance bonds from trade finance facilities made to LGT by an unrelated commercial lender. GTECH is jointly and severally liable with the other shareholder in LGT for this guarantee. GTECH’s guarantee obligation is scheduled to terminate on December 31, 2011. At September 30, 2011, the maximum amount guaranteed and outstanding is Baht 375 million (€8.9 million).

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation

Lottomatica's Italian Business

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

Arbitration Lottomatica/AAMS

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

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

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

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

At the July 2, 2009 hearing, the Court of Appeal deferred the hearing to September 29, 2011.

On August 8, 2011, Stanley International Betting Limited ("Stanley") intervened in the appeal, seeking the annulment of the Arbitration Award issued on August 1, 2005. In consideration of the above intervention, the hearing of September 29, 2011 was postponed to October 6, 2011. At the October 6, 2011 hearing, the parties presented their conclusions, and the Court of Appeal held the cases for decision and granted the parties 60 days to file their final briefs and 20 days for their respective rejoinders.

Stanley International Betting Limited Appeal – Sisal Appeal

On June 18, 2007 Stanley 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.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

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

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

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

2. Summons to Formula Giochi Shareholders

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

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

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

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

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

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

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

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 stated that:

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

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

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

At the June 9, 2008 hearing the Court of Appeals reserved any observations regarding some objections presented by Formula Giochi pertaining to the expert witness testimony. The Court of Appeals claimed that the objections should be however included during the decision-making process. At the closing hearing of July 4, 2011, the cases were held for decision. To date no rulings have been notified to Lottomatica.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

3. "LAS VEGAS" Instant Lottery Petition

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

To the date of September 30, 2011, 837 petitions and 102 requests for injunctive payments for alleged prizes and liquidated damages, for a total sum of about €5.9 million, have been presented to the Consorzio Lotterie Nazionali. There have also been numerous requests for out-of-court payments with the same demand.

The claims relate to:

a) payment of prizes for non-winning tickets. In particular, the players claim that, according to their interpretation of the Rules of the games established by Decree of the Ministry of Economy and Finance dated February 16, 2005, the amounts corresponding to the prizes listed in the various areas of the game tickets are to be paid every time the cards from 10 to K appear assuming that these cards have the same value. The Consorzio considers unfounded the claims of the applicants, being contrary to the Rules of the games that are explicit regarding the qualification of the winning ticket; and

b) claims for damages, since the Consorzio, following the bulk of the judgments undertaken by players referred to in subparagraph a), has released a series of tickets bearing the words "The card K, Q, J, A have different scores" and so changing the rules. Consorzio contends that the wording inserted later on tickets released for sale is merely a clarification, not an amendment.

At September 30, 2011, 327 sentences were handed down with judgment as positive, and 236 as negative (the latter referring to all judgments made by "Judges of the Peace").

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

The Court of Cervinara has recently issued the first appeal judgments, overruling the first degree judgments made by the "Judges of the Peace" for lack of jurisdiction and ordering the reimbursement of the sums paid by the Consorzio. The Consorzio has initiated the procedures necessary for the recovery of said sums.

4. 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.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

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

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

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

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

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

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

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

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

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

The TAR of Lazio dismissed the motions filed by Videolot on November 30, 2009 and in January 2010 Videolot filed the appeal before the State Council.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

At the hearing of May 17, 2011 the cases were held for decision and with the rulings deposited on August 22, 2011, the State Council upheld the appeals filed by Videolot, confirming the decisions already expressed in the previous rulings issued in favour of other concessionaires. In particular, the Appeals Judge said that there was no damage (and in addition not proof of damage) and also considered that the breach of contract ascribed to the concessionaires did not have any impact in the eventual delay of starting of the public service under the concession, since the delay would depend on a number of factors (technical and administrative) largely unrelated to the sphere of control of the concessionaires themselves. On the contrary, the concessionaires were "passive" to the technical changes introduced by AAMS through Sogei S.p.A. ("Sogei"), the information and technology company of the Ministry of Economy and Finance. Sogei objected to the State Council ruling of November 23, 2010 issued in favour of the concessionaire B PLUS GIOCO LEGALE LTD and filed an appeal to said ruling on March 31, 2011 on the grounds that in its opinion the aforesaid ruling is erroneous insofar as it suggests that the delay in the launch of the online network was partially determined by the behaviour of Sogei. Specifically, Sogei underlines its third party relation in the concession contract (AAMS – Concessionaire).

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

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

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

a) whether the difficulties reported by AAMS, in particular relating to the delay, even intentionally, with which the managers of "the Apparatus" of the transitional period have required concessionaires to be contracted for the connection of the computer system of the concessionaires themselves, the shortage of dedicated communications lines to be used by concessionaires and the presence of gaming machines with different communication ports, may have played a predominant role in the verification of the delay in activating the system;
b) whether the above circumstances could be predictable and preventable and whether in the concession or in the Rules could have been introduced clauses or provision to take account of these circumstances;
c) if the concessionaires, in fulfilling their obligations, have complied with all the technical requirements necessary to the proper and timely activation of the communication network, of its completion, of the connection of all gaming machines and the subsequent running of the network;
d) if the technical characteristics of the Central System AAMS-Sogei were appropriate to the type of service and whether, more generally, network design and equipment connections are adequate to perform the function of control over the legal gaming and ultimately, whether failures are detected and/or inefficiencies in the system or network.

Digit PA was granted a period of 9 months from the date of publication of the above sentence for filing answers to the questions raised and so its term, as clarified by the Auditors Court on September 5, 2011, expired on October 1, 2011.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

The Auditors Court also sued Sogei which filed an appeal against such a decision asking for the dismissal of the case against it by saying that no evidence has been given by the Regional Prosecutor of any default or noncompliance of Sogei. As a consequence of the appeal of Sogei, all the 10 concessionaires filed their partial appeal against the ruling by asking for a dismissal of the case. Videolot filed its appeal against the same decision requesting its annulment, asserting that the ruling issued by the Auditors Court is affected by various flaws, asserting also that no damages arising from SLA breaches of the Concession exist and denouncing that the liquidated damages requested by the Auditors Court are an illegal duplication with the fines claimed by AAMS against the concessionaires. The hearing for the discussion of the appeal filed by Videolot was set by the Auditors Court for November 24, 2011.

Digit PA has completed its round of hearings with the concessionaires, AAMS, AAMS management at the time of the launch, and Sogei. Upon completion, on June 17, 2011 AAMS and the concessionaires, including Videolot, filed with the Auditors Court and Digit PA the documentation requested by the latter together with the additional documentation deemed useful. On October 1, 2011, Digit PA filed its report regarding the questions raised by the above specified term and the Auditors Court set for November 14, 2011 the term for filing deductions by the parties.

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

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

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

On May 11, 2011, Videolot accessed and reviewed part of the documentation regarding the proceeding related to the fourth penalty notified by AAMS. Consequently, Videolot deposited its conclusions on June 10, 2011 and requested the annulment of the fourth penalty. Videolot has also reserved the right to integrate its own conclusions following the second access requested to AAMS in order to address the further documentation regarding the fourth penalty proceeding, held by Sogei and not available during the first access.

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

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

On October 4, 2011 Videolot accessed the further documentation requested after the first access and, on the basis of a preliminary examination of such further documentation, all the arguments above indicated seem to be confirmed.

Videolot is completing the examination of the documentation accessed during the second access, in order to deposit its further conclusions within the term of November 3, 2011.

6. SUPERENALOTTO Tender Appeal

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

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

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

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

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

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

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

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

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

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

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

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

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

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

Because of that acquittal, the Auditors Court ordered the liquidation of legal costs of €1,000 in favor of Videolot.

The Regional Prosecutor at the Auditors Court, on April 13, 2011, appealed the ruling of the Judicial Section of the Lazio Region Auditors Court which rejected, for gross negligence, the motion to rule negatively against Videolot for failing to pay the penalties as provided by Article 46 of Decree 1214 of 1934.

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

GTECH's Business

1. CEF Contract Proceedings

Background

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

Criminal Allegations Against Certain Employees

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

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

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

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

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

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

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

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

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

LOTTOMATICA GROUP AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30. Litigation (continued)

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

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

Civil Action By The Public Ministry Attorneys

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

This lawsuit seeks to impose damages equal to the sum of all amounts paid to GTECH Brazil under the 1997 Contract and the 2000 Contract, and certain other permitted amounts, minus GTECH's proven investment costs. The applicable statute also permits the assessment of interest and, in the discretion of the court, penalties of up to three times the amount of the damages imposed. GTECH estimates that through the date of the lawsuit, GTECH Brazil received under the 1997 Contract and the 2000 Contract a total of approximately 1.5 billion Brazilian Reals (or approximately €591.1 million at currency exchange rates in effect as of September 30, 2011). In addition, although it is unclear how investment costs would be determined for purposes of this lawsuit, GTECH estimates that its investment costs through the date of the lawsuit were approximately between 1.2 billion and 1.4 billion Brazilian Reals (or approximately between €472.8 million and €551.6 million at currency exchange rates in effect as of September 30, 2011) in aggregate; however, these investment costs could be disputed by CEF, and are ultimately subject to approval by the court.

The civil action relies heavily on a June 2003 audit (the "2003 TCU Audit Report") by the Federal Court of Accounts ("TCU"), the court charged with auditing agencies of the Brazilian federal government and its subdivisions. The TCU summoned GTECH Brazil, together with several then current and former employees of CEF, to appear before TCU's Brasilia court to show cause why the defendants should not be required to jointly pay a base amount determined on a preliminary basis by the TCU to be due of 91,974,625 Brazilian Reals (or approximately €36.2 million at currency exchange rates in effect as of September 30, 2011), duly indexed for inflation and interest as of May 26, 2000 (Decision No. 692/2003). The central allegation of the 2003 TCU Audit Report is that under the 1997 Contract, GTECH Brazil was accorded certain payment increases respecting lottery services, and it contracted to supply to CEF certain lottery-related services that were not contemplated by the procurement process respecting the 1997 Contract and that are not otherwise permitted under applicable Brazilian law. The 2003 TCU Audit Report alleges that as a result of this, CEF overpaid GTECH Brazil under the 1997 Contract for the period commencing in January 1997 through May 26, 2000, and that GTECH Brazil is liable with respect to such alleged overpayments as specified above. The 2003 TCU Audit Report did not allege that GTECH Brazil acted improperly. In April 2008, a panel of judges at the TCU ruled in GTECH Brazil's favour to dismiss this matter. In the panel's decision, it ruled that CEF actually received savings from the contract amendments as GTECH Brazil had argued.

Recently, GTECH was advised by Brazilian counsel that civil matter proceedings brought by the Public Ministry Attorneys may be decided by the first quarter of 2012. 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 €157.6 million at currency exchange rates in effect as of September 30, 2011).

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

2. ICMS Tax

On July 26, 2005, the State of São Paulo challenged GTECH Brazil for classifying the remittances of printing ribbons, rolls of paper and wagering slips ("Consumables") to lottery outlets in Brazil as non-taxable shipments. The tax authorities disagree with that classification and argue that these Consumables would be subject to ICMS tax as opposed to the lower rate ISS tax that GTECH Brazil paid. The tax authorities argue that in order for printed matter to be considered non-taxable it has to be "personalized." To be considered personalized, the Consumables must be intended for the exclusive use of the one ordering them. GTECH Brazil filed its defense against the Tax Assessment Notice, which was dismissed. GTECH Brazil filed an Ordinary Appeal and a Special Appeal to the Court of Taxes and Fees, both of which were not granted. The State Treasury of São Paulo has filed a tax foreclosure to collect the tax obligation amounting to 22,910,722 Brazilian Reals (approximately €9.02 million at exchange rates in effect as of September 30, 2011) plus statutory interest, penalties and fees of approximately 67.2 million Brazilian Reals for a total obligation of approximately 90.1 million Brazilian Reals (approximately €35.5 million at exchange rates in effect as of September 30, 2011). GTECH Brazil is preparing to file an appeal of this matter with the First District Court of the State Treasury (Barueri). Prior to filing the appeal, it is likely that GTECH Brazil will be required to provide security for the tax obligation in the event it is unsuccessful in the appeal. GTECH Brazil has been advised by Brazilian counsel that these proceedings are likely to take several years, and could take longer than seven years to litigate through the appellate process to final judgment. GTECH Brazil believes that these claims are groundless.

Additional Required Disclosure

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

Mr. Alberto Fornaro, Chief Financial Officer and Manager in charge of preparing corporate reports and financial documents of Lottomatica Group S.p.A., pursuant to Article 154-bis, Paragraph 2 of the Consolidated Law on Finance, certifies that the accounting information contained in the Third Quarter 2011 Report as of September 30, 2011 corresponds to the document results, books and accounting records of the Company.

Rome, ______________________________, 2011

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Executed by CFO, Manager in charge of
preparing corporate reports and financial documents