


Responsibly Driving Global Gaming

S.p.A.

2010 ANNUAL REPORT

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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 December 31, 2010: €182,682,847 authorized ordinary shares, €1.00 par value per share; 172,015,373 shares paid and subscribed
Registered Office	Roma - Viale del Campo Boario 56/d
Board of Directors (1)	
Chairman	Lorenzo PELLICOLI
Vice Chairman	Robert DEWEY Jr. *
Managing Director and C.E.O.	Marco SALA
Board Members	Pietro BOROLI Paolo CERETTI Marco DRAGO Jeremy HANLEY, KCMG* James MCCANN * Jaymin PATEL Anthony RUYS * Severino SALVEMINI * Gianmario TONDATO DA RUOS ** William Bruce TURNER
* 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

Independent Auditors	Giulio GASLOLI Umile Sebastiano IACOVINO Guido MARTINELLI Marco SGUAZZINI VISCONTINI Reconta Ernst & Young S.p.A.
Members of the Executive Committee (3)	Lorenzo PELLICOLI (Chairman) Pietro BOROLI Paolo CERETTI Marco DRAGO Jaymin PATEL Marco SALA
Members of the Audit and Compliance Committee (3)	Severino SALVEMINI (Chairman) Jeremy HANLEY, KCMG Anthony RUYS
Members of the Remuneration Committee (3)	Gianmario TONDATO DA RUOS (Chairman) Robert DEWEY Jr. James MCCANN

Note:

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

OPERATING AND FINANCIAL REVIEW
As of December 31, 2010

OVERVIEW

Lottomatica Group S.p.A. (sometimes referred to as “*Lottomatica*” or the “*Company*”) is one of the largest lottery operators in the world, based on total wagers, and a leader in the Italian gaming industry.

On August 29, 2006, Lottomatica completed its acquisition of GTECH Holdings Corporation (“*GTECH*”), the world’s leading operator of gaming and services technology and systems.

GTECH’s core market is the lottery industry, for which it designs, sells, and operates a complete suite of lottery-enabled point-of-sale terminals. The GTECH terminals are electronically linked with a centralized transaction processing system, which mediates lottery funds between the retailers where transactions are enabled, and the lottery authorities.

Lottomatica and GTECH together (sometimes referred to collectively with their respective subsidiaries as the “*Lottomatica Group*”) comprise a fully integrated lottery operator and gaming technology solutions provider – a combined company with worldwide scale, considerable financial strength, and industry-leading customer solutions. The combination of Lottomatica and GTECH has positioned the Company to provide a complete offering of technology and services to manage the entire chain of actual and potential clients in the lottery sector. The newly formed Lottomatica group capitalizes on the convergence of operator programs (video lotteries) and commercial activities (casinos) in the world of machine gaming through a wide variety of video terminals, game systems and game content while offering commercial applications over existing infrastructure networks. These goals are achieved by maximizing the competitive advantages derived from the economies of scale in research and development and in access to capital markets resulting from the global dimensions of its own operations.

Lottomatica is majority owned by the De Agostini Group, a century-old publishing, media, and financial services company. Lottomatica is publicly traded on the Italian Stock Exchange (LTO).

At December 31, 2010, Lottomatica had 1.165 employees (compared to 878 at December 31, 2009).

The "Report on corporate governance and ownership structures" for the year 2010, pursuant to art. 123-bis of TUF, is available on the website www.lottomaticagroup.com, Section Governance - Documentation Corporate - Corporate Governance Report.

REVENUE ANALYSIS

Net income for Lottomatica Group S.p.A for the year ended December 31, 2010 total €/000 72,878 (€/000 110,605 at December 31, 2009).

Sales revenues for the years ended December 31, 2010 and 2009 respectively total €/000 337,082 and €/000 362,383.

INCOME STATEMENT – Reclassified €	12/31/2010	12/31/2009
Sales revenues	337,082,223	362,382,858
Other revenues	89,611,104	94,355,365
Total Revenues	426,693,327	456,738,223
Costs for goods and services	190,628,253	212,660,358
ADDED VALUE	236,065,074	243,870,331
Personnel cost	82,022,225	68,830,151
Management costs	3,966,255	2,937,573
Other provisions	(1,999,700)	203,494
Receivable depreciation	68,901	68,000
GROSS OPERATING INCOME (EBITDA)	152,007,393	171,831,113
Intangible assets amortization	3,853,282	6,156,448
Tangible assets amortization	26,526,339	26,305,838
Fixed asset depreciation	181,921	
OPERATING INCOME (EBIT)	121,445,851	139,368,827
Financial income (expense)	33,107,334	5,509,575
Financial asset value adjustment	-	867,790
GROSS INCOME (EBT)	88,338,517	132,991,462
Income taxes	15,460,052	22,386,116
NET INCOME	72,878,465	110,605,346



The overall wagers placed and revenues generated by the fees due to Lottomatica decreased in the year ended December 31, 2010 compared to the same period of the previous year. There are two main types of wagers: “normal” wagers (so-called “core”), which remain structurally stable over time and allow Lottomatica to achieve significant economic results, and “speculative” bets made on late numbers (meaning those numbers that have not been drawn for more than 100 drawings), where some players concentrate an additional amount of bets, with unit values considerably higher than average. Annual wagers total €5.23 billion, a decrease of 7.6% compared to the year ended December 31, 2009.

Lotto wagers saw an overall decline in sales of approximately 14% settling on a value of €4,719 mln, with a decrease on late numbers recorded of €744 million compared to €1.043 million in 2009. “Core wagers” decreased from €4.425 million in the year ended December 31, 2009 to €3.975 million in the year ended December 31, 2010.

Due to the new game modalities introduced in the fourth quarter, 10eLotto recorded a significant increase in wagers, from €179 million in 2009 to €508 million in 2010.

	Wagers (€/000)	Bets x 1,000	Revenues (€/000)
First quarter 2010	1,203,878	541,995	78,224
First quarter 2009	1,433,575	592,730	93,077
Delta %	-16.02%	-8.56%	-15.96%
Second quarter 2010	1,198,917	529,231	77,285
Second quarter 2009	1,420,491	564,937	91,453
Delta %	-15.60%	-6.32%	-15.49%
Third quarter 2010	1,271,836	540,525	81,703
Third quarter 2009	1,379,424	580,950	88,533

Delta %	-7.80%	-6.96%	-7.71%
Fourth quarter 2010	1,556,973	629,378	99,738
Fourth quarter 2009	1,430,304	561,059	89,065
Delta %	8.86%	12.18%	11.98%
December 31, 2010	5,231,604	2,241,129	336,950
December 31, 2009	5,663,794	2,299,676	362,128
Delta %	-7.63%	-2.55%	-6.95%

The total number of wagers in FY2010 was approximately 2.2 billion, which is a slight decrease from the total number of wagers for the previous year.

The decrease in Lotto wagers resulted in a 7% decrease in revenues in FY2010 compared to FY2009, which respectively totalled €337 million and €362 million.

Other revenues total €89.6 million in 2010 compared to €94.4 million in 2009 and include revenues from intercompany operations within the Group.

OPERATING COST AND EBITDA ANALYSIS

Operating costs for the year ended December 31, 2010 total €/000 274,686 (€/000 284,670 at December 31, 2009).

EBITDA for the years ended 31 December 2010 and 2009 respectively total €/000 152,007 and €/000 171,831.

Sales and service contract revenue margins decreased to 35.6% in 2010 from 37.6% in 2009.

The decrease in operating cost of €10,014 million is principally due to:

- **Decrease in advertising costs for €/000 (14,027):** relating to greater promotional and advertising activities carried out in 2009 for new products (“10eLotto”)
- **Increase in personnel costs for €/000 13,192:** relating to the merger by incorporation of Lottomatica Sistemi S.p.A. into Lottomatica Group S.p.A which resulted in an increase of 220 employees.
- **Decrease in network costs for €/000 (23,336):** due to transferring the management of the online network to the subsidiary Sed Multitel, owner of the OLO license, realized in FY2009.
- **Increase in consulting costs €/000 14.157:** due principally to the reinforcement of sales structure and business in order to launch new products and to support existing products.

The *promotional and advertising* activities carried out in FY2010 aimed at:

10eLotto

- Brand Awareness on new game;
- Motivate game trials.

Gioco del Lotto

- Fidelity of core players;
- Maintain brand visibility.

In order to fulfil the above objectives:

10eLotto

- In store promotion: educational activities for “10eLotto” game and invitations to try the new game directly at the point of sale using Hostesses (February – March);
- Continuous Media Relation through the press, tv and internet (January – December);
-
- Creation of promotional and advertisement materials kit for points of sales (every 5 minutes throughout sales network) (April);
- Creation of an official 10eLotto Fan Page on Facebook in order to interact with players and points of sales (June);
- Modifications to “10eLotto” playslip to introduce new ways of playing (possibility to play from 1 to 10 numbers, etc) (August – September);
- Creation of 10eLotto promotional and advertisement materials kit for points of sales(August – September);
- Creation of two 30 second TV commercials, two 15 second TV commercials, two 30 second radio commercials with celebrity Claudio Bisio to launch the new “10eLotto” (September);
- Presentation event to press for the new 10eLotto campaign in the presence of State Monopoly and testimonials (November);
- Advertising campaign (TV/Press/radio/web) to launch the new “10eLotto” using celebrity Claudio Bisio to promote the Key elements of the game: simplicity, immediate and generous (November – December);
- Game promotion at major shopping centers in Rome, Milan, Naples and Palermo (with stands and entertainment) for four weeks (weekends only) (November – December);
- Sponsor of SEAT Pagine Gialle with the promotion of new “10eLotto” on Pagine Bianche, Pagine Gialle, and Tutto città websites through:
 - o The creation of games which aim at supplying number to play at points of sales;
 - o The creation of a demo page explaining the rules of the game;
 - o The creation of an application that offer numbers to play for Facebook (on the official “10eLotto” fan page) and iPhone (December).

Gioco del Lotto

- Creation of TV show “Il Lotto alle Otto” with live Lotto drawings (February – May);
- Creation of promotional and advertisement materials kit for the new optional game “Lotto 3”;
- Creation of promotional and advertisement materials for points of sales with the aim of offering new numbers to play.
- Production of two kits for:
 - o World Cup (May - June)
 - o Summer (July - August)

- Sponsor of Michele Guardì's musical "I Promessi Sposi" with premier at the stadium Siro of Milan, a summer tour in Sicily and a winter season at the Arcimboldi theatre of Milan (June - December)
- Product Placement for sitcom "Ho sposato uno sbirro 2" on Rai Due:
 - o An entire episode dedicated to Gioco del Lotto;
 - o Three episodes with brand visualization (September-October)
- Sponsor of *Festival del Cinema di Roma*.
- A Gioco del Lotto stand (casting activities) with materials which aim at emphasizing one of the principal elements of the game: the desire to be center of attention. (October-November)
- Continuous Media Relation through press releases regarding most significant events of the year and winnings (January – December).

The company's **financial position** had a negative net balance of €/000 33,107 (financial liabilities of €/000 5,510 at 12/31/2009), consisting of:

Financial income and expenses	12/31/2010	12/31/2009	Changes
Foreign exchange gain (losses)	(77,160)	(669,500)	592,340
-) Realized foreign exchange gain	239,860	255,197	(15,337)
-) Unrealized foreign exchange gain	-	100,499	(100,499)
-) Realized foreign exchange losses	(242,331)	(21,470)	(220,861)
-) Unrealized foreign exchange losses	(74,689)	(240,080)	165,391
-) Gain/losses on derivative foreign exchange realized		(763.646)	763,646
Dividends received	77,708,602	84,750,617	(7,042,015)
-) Dividends received from Partecipation	77,708,602	84,750,617	(7,042,015)
Interest income on intercompany financing	10,412,395	11,984,885	(1,572,490)
Bank interest income	482,797	283,027	199,770
Other income	308,222	316,156	(7,934)
Interest expenses on intercompany financing	(9,464,412)	(6,868,154)	(2,596,258)
Bank interest liabilities	(700,435)	(894,118)	193,683
-) Bank interest	(636,646)	(756,429)	119,783
-) Bank commissions	(63,789)	(137,689)	73,900
Interests on financial instruments	(110,569,752)	(92,783,698)	(17,786,054)
Other financial expenses	(1,207,591)	(1,628,790)	421,199
TOTAL	(33,107,334)	(5,509,575)	(27,597,759)

The negative balance derives largely from interest payments on Capital Securities for ad €/000 110,570 (€/000 92,784 at 12/31/2009), partially compensated by dividends received for €/000 77,709 (€/000 84,751 at 12/31/2009).

Dividends	12/31/2010	12/31/2009	Change
Consorzio Lotterie Nazionali	77,708,602	74,170,277	3,538,325
Lottomatica International S.r.l.	-	4,580,340	(4,580,340)
Lottomatica International Hungary	-	6,000,000	(6,000,000)
Total	77,708,602	84,750,617	(7,042,015)

The most important sum refers to:

- € /000 9,464 (€ /000 6,868 at 12/31/2009) for interest payments on borrowings by Group companies.

Interest expenses on intercompany financing	12/31/2010	12/31/2009	Changes
GTECH Holdings Corporation	5,352,902	2,440,280	2,912,622
Invest Games S.A.	2,189,658	256,162	1,933,496
Consorzio Lotterie Nazionali	697,502	1,255,114	(557,612)
Lottomatica Italia Servizi S.p.A.	452,423	848,432	(396,009)
Totobit Informatica S.p.A.	334,092	560,709	(226,617)
LIS Finanziaria S.r.l.	195,710	266,008	(70,298)
Lotterie Nazionali S.r.l.	115,789	-	115,789
PCC Giochi e Servizi S.p.A.	53,632	106,276	(52,644)
Toto Carovigno S.r.l.	40,868	-	40,868
SED Multitel S.r.l.	29,964	44,081	(14,117)
Labet S.r.l.	1,766	-	1,766
LS Alpha S.r.l.	106	-	106
Lottomatica International Hungary	-	1,020,815	(1,020,815)
Lottomatica International S.r.l.	-	42,071	(42,071)
Lottomatica Videolot Rete S.p.A.	-	28,206	(28,206)
Total	9,464,412	6,868,154	2,596,258

- *Foreign exchange losses* for € /000 371 (€ /000 1,020 at 12/31/2009), of which € /000 75 (€ /000 240 at 12/31/2009) are non-realized (non-monetary) and refer to valorization of foreign exchange towards GTECH. Changes with FY2009 referred to foreign exchange losses on derivatives relative to acquisition operations in USD negotiate in order to hedge for foreign exchange rate fluctuations regarding USD transactions made by Consorzio Lotterie Nazionali.
- € /000 101,570 (€ /000 92,784 at 12/31/2009) for interests on financial instruments, as follow:

Interests on financial instruments	12/31/2010	12/31/2009	Changes
-) Hybrid	(64,530,670)	(64,658,471)	127,801
Hybrid interests	(61,875,000)	(62,002,801)	127,801
Debt issuance cost amortization	(2,655,670)	(2,655,670)	-
Swap Option	570,000	570,000	-
Swap Option amortization	570,000	570,000	-
-) EuroBond 750	(41,274,112)	(3,217,870)	(38,056,242)
EuroBond 750 interests	(40,312,500)	(3,146,857)	(37,165,643)
Debt issuance cost amortization	(961,612)	(71,013)	(890,599)
-) EuroBond 500	(2,298,970)	-	(2,298,970)
EuroBond 500 interests	(2,239,583)	-	(2,239,583)
Debt issuance cost amortization	(59,387)	-	-
-) Long Term Facility 360	-	(18,694,406)	18,694,406
Long Term Facility 360 interests	-	(1,261,755)	1,261,755
Debt issuance cost amortization	-	(17,432,651)	17,432,651
-) Revolving 300 Facility	(2,370,213)	(1,579,055)	(791,158)
Revolving 300 interests	(1,870,222)	(1,326,546)	(543,676)
Debt issuance cost amortization	(499,991)	(252,509)	(247,482)
-) Revolving 400 Facility	(609,981)	-	(609,981)
Revolving 400 commissions	(609,981)	-	(609,981)
-) IRS	-	(5,104,381)	5,104,381
IRS interests	-	(1,832,661)	1,832,661
Other costs	-	(3,271,720)	3,271,720
-) Mandatory	(3,075,186)	-	(3,075,186)

Mandatory amortization	(3,040,784)	-	(3,040,784)
Swap - Effectiveness Impact	(34,402)	-	(34,402)
-) Interest rate Swap	3,021,095	-	3,021,095
-) Others	(1,715)	(99,515)	97,800
TOTAL	(110,569,752)	(92,783,698)	(17,786,054)

INVESTMENTS

Investments made for the period ended December 31, 2010 refer to:

- *Intangible assets*: total €/000 5,008 (€/000 6,216 at December 31, 2009), and refer to software (€/000 2,678) and for license purchasing (€/000 1,292).
- *Fixed assets*: total €/000 45,669 (€/000 10,846 at December 31, 2009), composed of:
 - FDA goods: €/000 7,568, refer to hardware, printers and terminals for the new game "10eLotto" (€/000 32,175);
 - Non FDA goods: €/000 8,101 and refer to investments on office furniture (€/000 4,293).
- *Financial assets*: The increase for a total €/000 1,940,926 (€/000 1,645,548 at December 31, 2009), refers to the following operations:
 - An increase in interest shares in Invest Games S.A. for €/000 1,145,175. of which €/000 845,130 refer to the merger by incorporation of Lottomatica International Hungary on March 23, 2010 and €/000 300,000 due to the share capital increase of December 14, 2010;
 - The constitution of Lotterie Nazionale Holding Srl for €/000 250,000 of December 7, 2010, which was modified into a joint stock company with resolution of December 14, 2010;
 - The constitution of Lotterie Nazionale srl for €/000 512,000, with a percentage of ownership of 64% realized by capital subscriptions and subsequent increases. On December 10, 2010 Lottomatica Group sold its 43,75%, corresponding to a value of €/000 350,000 of its share in Lotterie Nazionali S.r.l. to Lotteria Nazionali Holding S.p.A. ;
 - Due to the sale of Lottomatica Sistemi S.p.A.'s participation in PCC Giochi e Servizi to Lottomatica Group S.p.A. for €/000 20,823 following the merger by incorporation of Lottomatica Sistemi into the parent company;
 - GTECH German Holding for €/000 6,172 following the capital contribution carried out in 2010;
 - The sale of Lottomatica Scommesse Srl's entire participation in Spielo Italia S.r.l. (previously Lottomatica Bingo S.r.l.) for €/000 60,8 to the parent company Lottomatica Group S.p.A. based on the financial situation of Lottomatica Bingo at September 30, 2010. Sale was completed on November 29, 2010.
 - The constitution of Lottomatica International Greece, with share capital of €10,000, on behalf of Lottomatica Group S.p.A. and Vledan Services Limited on June 16, 2010 for €/000 33.

Further information is provided below.

Activity of Control and Direction

Pursuant to Article 2497-*bis* of the Italian civil code, a summary report of the most recent financial statements approved at the De Agostini S.p.A. Shareholders' Meeting is presented herein. De Agostini is the controlling parent company of Lottomatica.

Related Parties Disclosure

Please refer to the present financial statements for the financial information between Lottomatica Group S.p.A., company that carries out the activity of direction and control, and the Group subsidiaries pursuant to Article 2497-*bis* of the Italian civil code.

On November 15, 2010 the Company's Board of Directors adopted the measures regarding related party transactions set forth according to article 2391-*bis* of the Italian civil code, and article 4, section 7 of the CONSOB Regulations pursuant to resolution no. 17221 of March 12, 2010, as amended by resolution no. 17389 of June 23, 2010. These measures have been released and published on the Company's website pursuant to the conditions prescribed by the above mentioned articles. (www.lottomaticagroup.com - Governance - Documents and Reports - Internal Charter Governing Related Party Transactions)

Other Information

As specifically required by the statutory legislation, the Company informs that no research and development activities were directly carried out during the course of the year.

The Company is included in the National Tax Consolidation of B&D Holding of Marco Drago & C. S.a.p.A., which has issued a new National Tax Consolidation Regulation in effect as of 2008.

EVENTS FOLLOWING THE CLOSING OF THE PERIOD ENDED DECEMBER 31, 2010

There were no significant events occurring after the period ended December 31, 2010.

PREDICTABLE DEVELOPMENTS

Promotional and advertising activities in 2011 will aim at increasing current mid-high spending player fidelity through continuous media relations. At the same time, specific activities to motivate trade and wagers will be carried out.

The communication strategy for the new game "10eLotto" is composed of advertising campaigns on traditional media, as well as media relations and direct/street marketing activities with the goal to:

- Increase public awareness and penetration of the game;
- Strengthen the positioning and image of the game;
- Improve the entertainment and fun in the store;
- Improve performance in terms of collection.

SIGNIFICANT EVENTS FOR THE YEAR ENDED DECEMBER 31, 2010

Following there is a summary of major events related to the activities of Lottomatica Group for the year 2010.

In May 2010, the Board of Directors approved the share buy-back plan which had been authorized at the Shareholders' Meeting in April 2010. The plan, which the Board did not execute in 2010, allows the Company to purchase, in bulk or in several stages, and on a revolving basis, a maximum number of ordinary shares representing an interest not exceeding 20 percent of Lottomatica's share capital.

In April 2010, the Shareholders' Meeting approved the 2010-2014 stock allocation plan and the 2010-2016 stock option plan (the "Plans"), both reserved for employees of Lottomatica and/or its subsidiaries. In July 2010, Lottomatica's Board of Directors approved the Regulations of the Plans; assigned options and shares; resolved, in accordance with the authorization granted by the Extraordinary Shareholders Meeting on October 18, 2006, to increase stock capital up to a nominal amount of €1,825,026 for use in connection with the stock option plan; and determined the exercise price of the options granted at €10.89.

In November 2010, the Board of Directors approved a plan to finalize approximately €1.9 billion of committed bank facilities that mature in 2012. The approval provided that the refinancing be completed through a combination of bank debt and capital market transactions that will strengthen the Group's balance sheet and support its investment grade ratings. Also in November 2010, S&P Investor Service and Standard and Poor's Rating Service announced confirmation of their respective Baa3 and BBB- senior unsecured ratings of Lottomatica.

In December 2010, Lottomatica Group successfully concluded the placement of 7-year senior guaranteed notes for an aggregate amount of approximately €500 million, exclusively with qualified investors outside of the United States. The main conditions of the notes, which are guaranteed by GTECH Corporation, GTECH Holdings Corporation, GTECH Rhode Island Corporation and Invest Games, S.A., all subsidiaries of Lottomatica, are:

- A denomination per note of €50,000;
- A due date of February 2, 2018;
- An annual coupon rate of 5.375%, payable in arrear on February 2 of each year, commencing on February 2, 2012, except that the first payment of interest to be made on February 2, 2012 shall be in respect of the period from and including December 2, 2010, but excluding February 2, 2012; and
- An issue price of 99.387%.

The proceeds from the issue of the notes were used to repay existing indebtedness of the Group and for general corporate purposes of the Group.

In December 2010, Lottomatica Group and GTECH entered into a 5-year loan agreement with a syndicate of Italian and international banks led by Bofa Merrill Lynch, Banca IMI S.p.A. (Intesa Sanpaolo Group) and Mediobanca – Banca di Credito Finanziario S.p.A. as Global Coordinators, Bookrunners and Mandated Lead Arrangers. The new loan includes a US\$700 million term loan facility with GTECH Corporation as the borrower, and €900 million multicurrency revolving credit facilities with GTECH Corporation and Lottomatica as borrowers for €500 million and €400 million, respectively. The loan bears a variable interest rate based upon the ratio between Group net debt and EBITDA and has standard covenants and restrictions. A part of the proceeds of the new loan were used to repay and cancel the GTECH Senior Credit Facilities and Lottomatica Revolving Credit Facility, which therefore no longer exist.

On December 2010, Lottomatica Group closed an investment by the UniCredit Group of €100 million in the Scratch & Win concession operated by Lotterie Nazionali S.r.l., a Lottomatica subsidiary. The investment was carried out through the subscription by UniCredit of 28.6% of the share capital of a newly incorporated company, Lotterie Nazionali Holding S.p.A., a subsidiary of Lottomatica which in turn has a 43.75% interest of the quota capital of Lotterie Nazionali S.r.l., with Lottomatica retaining a 20.25% direct interest. As a result of such transaction, Lottomatica owns, directly and indirectly through Lotterie Nazionali Holding S.p.A., a 64% interest in Lotterie Nazionali S.r.l.

On December 18, 2009 Lottomatica Sistemi S.p.A. and Lottomatica International S.r.l. merged into Lottomatica Group S.p.A. Legal effects resulting from the merger operation begin as of January 1, 2010.

On February 2010 Lottomatica International Hungary kft merged into Lottomatica Group S.p.A., effective as of January 1, 2010. The merger was made based on the financial situation at July 31, 2009.

LONG TERM INCENTIVE PLANS

Long term incentive plans adopted by Lottomatica in favour of directors and/or employees of Lottomatica and/or its direct or indirect subsidiaries provide for stock option grants and restricted stock awards to their directors, executives and key employees. The principal purpose of granting long-term incentives is to assist the Group in attracting and retaining directors, officers and other key employees, to provide a market competitive total compensation package and to motivate recipients to increase shareholder value by enabling them to participate in the value which has been created. Most of the plans are based upon three year performance measurements, generally based upon Lottomatica's EBITDA. The following are summaries of the long term incentive plans in force as of December 31, 2010.

Stock Option Plans

2006 – 2014 Plan

The Lottomatica Board of Directors' Meeting of October 18, 2006 resolved to increase the share capital against payments, in one or more tranches and in divisible form, by a maximum amount of €1,500,000 by issuing up to 1,500,000 new ordinary shares with a par value of €1.00 each, with ordinary rights, excluding the right of option under Article 2441, paragraph 4, second sentence of the Italian Civil Code to be subscribed by December 31, 2014, serving the exercise of 1,188,600 options assigned on the same date by the Board of Directors' Meeting and within the framework of the stock option plan 2006-2014 reserved for employees of Lottomatica and/or its subsidiaries. As of December 31, 2010 there are 678,986 options outstanding under the Plan.

2007 – 2015 Plan

The Lottomatica Board of Directors' Meeting of May 3, 2007 resolved to increase the share capital against payments, in one or more tranches and in divisible form, by a maximum amount of €1,973,790 by issuing up to 1,973,790 new ordinary shares with a par value of €1.00 each, with ordinary rights, excluding the right of option under Article 2441, paragraph 4, second sentence of the Italian Civil Code, to be subscribed by December 31, 2015, serving the exercise of 1,973,790 options assigned on the same date by the Board of Directors' Meeting and not yet due within the framework of the stock option plan 2007-2015 reserved for employees of Lottomatica and/or its subsidiaries, other than 115,200 options that may be exercised prior to the vesting period pursuant to the resolution of the Lottomatica Board of Directors of December 11, 2007. As of December 31, 2010 there are 115,200 options outstanding under the Plan. Please note the Group did not meet the vesting criteria for this plan, as such all outstanding options with the exception of the 115,200 referenced above were cancelled.

2008-2016 Plan

The Lottomatica Board of Directors' Meeting of April 22, 2008 resolved to increase the share capital against payment, in one or more tranches and in divisible form, by a maximum amount of €2,318,045 by issuing up to 2,318,045 new ordinary shares with a par value of €1.00 each, with ordinary rights, excluding the right of option under Article 2441, paragraph 4, second sentence of the Italian Civil Code, to be subscribed by December 31, 2016, serving the exercise of 2,318,045 options assigned on the same date by the Board of Directors' Meeting and not yet due within the framework of the stock option plan 2008-2016 reserved for employees of Lottomatica and/or its subsidiaries. As of December 31, 2010 there are 2,006,717 options outstanding under the Plan.

2009-2015 Plan

The Lottomatica Board of Directors' Meeting of July 30, 2009 resolved to increase the share capital against payment, in one or more tranches and in divisible form, by a maximum amount of €1,850,510 by issuing up to 1,850,510 new ordinary shares with a par value of €1.00 each, with ordinary rights, excluding the right of option under Article 2441, paragraph 4, second sentence of the Italian Civil Code, to be subscribed by December 31, 2015, serving the exercise of 1,850,510 options assigned on the same date by the Board of Directors' Meeting and not yet due within the framework of the stock option plan 2009-2015 reserved for employees of Lottomatica and/or its subsidiaries. As of December 31, 2010 there are 1,770,450 options outstanding under the Plan.

2010-2016 Plan

The Lottomatica Board of Directors' Meeting of July 29, 2010 resolved to increase the share capital against payment, in one or more tranches and in divisible form, by up to a maximum of €1,825,026, divisible, through the issuance in one or more tranches of up to a maximum of 1,825,026 new ordinary shares each of a nominal value €1.00, with ordinary rights, excluding the right of option under Article 2441, paragraph 4, second sentence of the Italian Civil Code, to be subscribed by December 31, 2016, serving the exercise of 1,825,026 options assigned on the same date by the Board of Directors' Meeting reserved for employees of Lottomatica Group and/or its subsidiaries. As of December 31, 2010 there are 1,747,164 options outstanding under the Plan.

Restricted Stock

Share Allocation Plans (article 2349 of the Italian Civil Code)

- 2006-2011 Share Allocation Time Based Plan, Reserved for Employees of Lottomatica and/or its subsidiaries, approved by the Shareholders' Meeting of Lottomatica of October 18, 2006;
- 2007-2010 Share Allocation Plan, Reserved for Employees of Lottomatica and/or its subsidiaries, approved by the Shareholders' Meeting of Lottomatica Group of April 23, 2007 that, at the same time, empowered the Board of Directors for five years to increase the share capital in one or more tranches by a maximum amount of €3,200,000 by issuing up to 3,200,000 new ordinary shares, with a par value of €1 each;
- 2008-2011 Share Allocation Plan, Reserved for Employees of Lottomatica and/or its subsidiaries, approved by the Shareholders' Meeting of Lottomatica of April 15, 2008 that, at the same time, empowered the Board of Directors to purchase a maximum number of Company owned shares equal to 10% of the share capital also available for the implementation of the stock plans;
- 2009-2013 Share Allocation Plan, Reserved for Employees of Lottomatica and/or its subsidiaries;
- 2010-2014 Share Allocation Plan, Reserved for Employees of Lottomatica and/or its subsidiaries, approved by the Shareholders' Meeting of Lottomatica of April 30, 2010.

Originally Approved Grants

The Board of Directors' Meeting of Lottomatica of October 18, 2006 resolved to assign up to 733,125 of ordinary shares within the framework of the time-based plan 2006-2011, of which the Board of Directors resolved:

- On May 3 and December 11, 2007 an increase in share capital, for an overall maximum nominal amount of €154,752 by issuing up to 154,752 new ordinary shares, with a par value of €1 each, with ordinary rights;
- On July 31, 2008 and on July 30, 2009, to assign an overall maximum amount of 192,645 Lottomatica owned shares;

- On September 9, 2010 to assign an overall maximum amount of 83,528 Lottomatica owned shares.

The Board of Directors' Meeting of Lottomatica of May 3, 2007 resolved to assign up to 285,130 ordinary shares within the framework of the 2007-2010 Share Allocation Plan, of which the Board of Directors resolved:

- On December 11, 2007 and on April 22, 2008 an increase in share capital, for an overall maximum nominal amount of €108,842 by issuing up to 108,842 new ordinary shares, with a par value of €1 each, with ordinary rights;
- On April 28, 2009 to assign a maximum amount of 67,337 Lottomatica owned shares;
- On June 8, 2010 to assign an overall maximum amount of 72,890 Lottomatica owned shares.

The Board of Directors' Meeting of Lottomatica of April 22, 2008 resolved to assign up to 286,916 ordinary shares within the framework of the 2008-2011 Share Allocation Plan, of which the Board of Directors resolved:

- On April 28, 2009 to assign a maximum amount of 76,765 Lottomatica owned shares;
- On June 8, 2010 to assign an overall maximum amount of 22,301 Lottomatica owned shares.

The Board of Directors' Meeting of Lottomatica of July 30, 2009 resolved to assign up to 673,729 ordinary shares within the framework of the 2009-2013 Share Allocation Plan.

The Board of Directors' Meeting of Lottomatica of July 29, 2010 resolved to assign up to 755,205 ordinary shares within the framework of the 2010-2014 Share Allocation Plan.

Current Plan Balances

As of December 31, 2010, the following numbers of shares are outstanding in each plan: 114,472.00 in the framework of the *time-based* 2006-2011 Plan, 159,659 ordinary shares in the framework of the 2008-2011 Plan and 644,525 ordinary shares in the framework of 2009-2013 Plan, 722,580 ordinary shares in the framework of 2010-2014. There were no shares outstanding under the 2007-2010 Plan.

SHAREHOLDING STRUCTURE

Based on most recent information available to the Company as at December 31, 2010

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

Lottomatica Group S.p.A. owns 3,167,552 of treasury shares, equal to about 1,841 % of share capital.

¹ 11.469% of Mediobanca's 12.742% 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 11.469% interest.

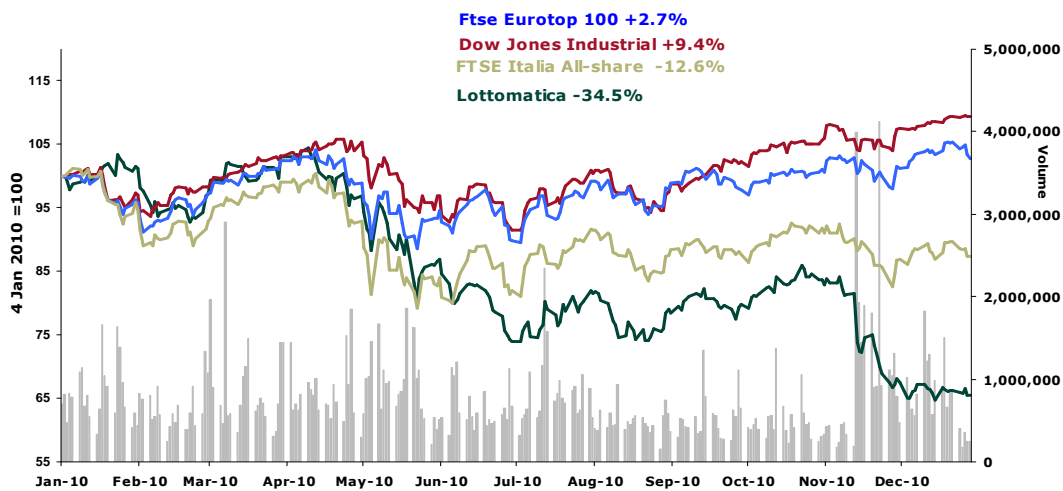
Underwritten and paid up share capital as of December 31, 2010 amounts to €172,015,373.00, composed of 172,015,373 ordinary shares with a nominal value of €1.00 each.

Authorized share capital amounts to €182,682,847.00, composed of 182,682,847 ordinary shares with a nominal value of €1.00 each.

LOTOMATICA GROUP S.p.A. STOCK PERFORMANCE FOR THE PERIOD ENDED DECEMBER 31, 2010

The average price of the stock for the year ended December 31, 2010 was €12.1. Over 195 million shares were traded in 2010, with a daily exchange of approximately 762,053 shares.

Lottomatica’s market capitalization was approximately €1.6 billion on December 31, 2010.



(Source: Bloomberg Borsa Italiana)

REGULATORY REFERENCE FRAMEWORK
(issued on the Official Journal)

Bank of Italy – Regulation issued on December 16, 2009 – Guideline for the preparation of financial reports of registered financial intermediaries, E-money institutions, mutual funds and real estate brokers.

Decree issued by Ministry of Finance on December 21, 2009 – Specification of events for the 2010 national lotteries

Decree of December 23, 2009 – Technical specifications for the online instant lottery “*L’isola del tesoro online*”

Decree of December 28, 2009 – Regulations for system fixed odds betting

Decree of December 30, 2009 – Technical specifications for the instant lottery “*Turista per sempre*”

Decree of January 13, 2010 – Regulations for the implementation of the industrial property code as adopted by Decree n. 30 of February 10, 2005

Decree of January 18, 2010 – Conclusion of the online instant lottery “*L’albero dei premi online*”

Decree of January 18, 2010 – Gaming regulation for the supplementary Lotto game “*Lotto3*”

Decree of January 19, 2010 – Technical specifications for lotteries “*Sanremo 2010*” and “*La casa viaggiante di Sogni – Anche il carnevale sostiene i sogni*”

Decree of January 27, 2010– Technical specifications for the online instant lottery “*Crazy 7 online*”

Legislative Decree n. 11 of January 27, 2010– Implementation of European Directive 2007/64/CE regarding payment services in the European market and which modified Directives 97/7/CE, 2002/65/CE, 2005/60/CE, 2006/48/CE, and abolished Directive 97/5/CE

Decree of February 1, 2010– Technical specifications for the instant lottery “*Bowling*”

Decree of February 5, 2010 – Regulations for skill games, fixed odds games of chance, and card games other than online tournaments

Decree of February 22, 2010 – Technical specifications for the instant lottery “*Sbanca tutto*”

Decree of February 22, 2010 – Technical specifications for the online instant lottery “*I dolcetti della fortuna online*”

Decree of March 10, 2010 – Amendments to Decree of May 12, 2008 regarding horse race sports pool “*V7*”

Decree of March 11, 2010 – Determination of the 2009 average tax rate to use for the PREU tax on gaming machines

Decree of March 17, 2010 – Amendments to Decree of August 6, 2009 confirming the number of installations authorized by the concessionaires

Decree of March 24, 2010- Technical specifications for the instant national lottery “*Monopoly*”

Decree of April 1, 2010- Technical specifications for the online instant lottery “*L'identità misteriosa online*”

Decree of April 21, 2010 - Technical specifications for the instant lottery “*Forza Azzurri*”

Decree of May 14, 2010 - Technical specifications for the online instant lottery “*In alto la coppa online*”

Law n. 73 of May 22, 2010 – Anti-crisis law assigning tax revenues to stimulate spending in specific sectors

Law n. 96 of June 4, 2010 - 2009 EU legal obligations

Decree of August 3, 2010 - Technical specifications for the instant lottery “*L'eredità - La ghigliottina*”

Decree of September 2, 2010 – Improvements to Gioco del Lotto

Decree of September 29, 2010 - Technical specifications for the instant lottery “*Vivere alla grande*”

Decree of September 30, 2010 - Technical specifications for the instant lottery “*Oroscopo*”

Decree of September 30, 2010 - Technical specifications for the instant lottery “*Nuovo Batti il banco*”

Decree of October 8, 2010 - Technical specifications for the online instant lottery “*Pachinko online*”

Decree of October 14, 2010 - Technical specifications for the instant lottery “*Mega Miliardario*”

Decree of October 14, 2010- Technical specifications for the instant lottery “*Sette e Mezzo*”

Decree of October 14, 2010- Technical specifications for the instant lottery “*Miliardario*”

Decree of October 14, 2010- Technical specifications for the instant lottery “*Nuovo Dado matto*”

Decree of October 14, 2010 - Technical specifications for the instant lottery “*La fortuna gira*”

Decree of October 18, 2010 - Technical specifications for the instant lottery “*Tanti Auguri*”

Decree of October 21, 2010 - Technical specifications for the instant lottery “*Portafortuna*”

Decree of October 21, 2010 - Technical specifications for the instant lottery “*Nuovo Fai Scoppa*”

Decree of October 21, 2010 - Technical specifications for the instant lottery “*L'eredità - La ghigliottina*”

Decree of October 21, 2010 - Technical specifications for the online instant lottery *“Il Caminetto di Natale online”*

Decree of November 8, 2010 - Technical specifications for the online instant lottery *“Il tesoro di Cleopatra online”*

Decree of November 22, 2010 - Technical specifications for the instant lottery *“Bowling”*

Decree of November 22, 2010 - Technical specifications for the instant lottery *“Sbanca tutto”*

Decree of November 29, 2010 - Technical specifications for the instant lottery *“Maxi Miliardario”*

Decrees issued by the Ministry of Finance on November 30, 2010 (from the Official Journal n. 288 of December 10, 2010):

- Technical specifications for the online instant lottery *“Briscola online”*;
- Technical specifications for the online instant lottery *“Scala reale online”*;
- Technical specifications for the online instant lottery *“Risultato finale online”*;
- Technical specifications for the online instant lottery *“Il mercante in fiera online”*;
- Technical specifications for the online instant lottery *“Sette e mezzo online”*;
- Technical specifications for the online instant lottery *“I dolcetti della fortuna online”*

Decree of December 17, 2010 - Technical specifications for the instant lottery *“Turista per sempre”*

STATEMENT REQUIRED BY ARTICLE 2.6.2, SUBSECTIONS 12 AND 13 OF THE ITALIAN STOCK EXCHANGE REGULATION ABOUT COMPLIANCE WITH CONDITIONS SET FORTH IN ARTICLES 36 AND 37 OF CONSOB RESOLUTION NO. 16191 OF OCTOBER 29, 2007 (SO-CALLED “MARKET REGULATIONS”)

Lottomatica meets the conditions for the listing of companies with subsidiaries incorporated pursuant to and governed by the laws of non-EU countries, as provided for by Section 36 of the Market Regulations, and the conditions for the listing of companies subject to management and coordination by other companies, as provided for by Section 37 of the Market Regulations.

COMPLIANCE MODEL UNDER LEGISLATIVE DECREE NO. 231/01

The Compliance Model pursuant to Legislative Decree No. 231 of June 8, 2001 as subsequently amended and integrated was updated in 2010. The amendments resulted in the definition of new criminal offences and the identification of their relative processes. The new Compliance Model was adopted by the Lottomatica Group SpA Board of Directors on September 9, 2010.

PROCESSING OF PERSONAL DATA

Article 34 of Legislative Decree No. 196 of June 30, 2003, requires certain security measures to be taken in the event of the electronic processing of personal data, according to the procedures set forth in the technical specifications under Annex B to the law. Among these requirements is the one specified in letter (g) for “an updated Security Policy Statement” (DPS, Documento Programmatico sulla Sicurezza).

DPS, in compliance with the law, specifies the technical and organizational security measures adopted on the basis of risk analysis as well as task and responsibility distribution within the data processing structure in order to protect personal data regarding their correct storage and handling. Lottomatica Group S.p.A. regularly reviews and updates the DPS which it did most recently on March 2010 in accordance with Legislative Decree No. 196/03.

Shareholders' Meeting Proposals

We have convened in the ordinary Shareholders' Assembly to receive approval on the financial statements for the year ended December 31, 2010, which report a net gain of €72.878.465.

We invite you to:

- carry forward all new earnings for the period ended December 31, 2010 in so far as the legal reserve is already at its 20% limit of paid and subscribed share capital;
- allocate ordinary shares of €1.00 par value, of which no. 3.167.552 already in portfolio. The Board recommends a distribution of treasury shares at a ratio of one share for every 50 shares owned.

FOR THE BOARD OF DIRECTORS

Chairman

(Lorenzo PELLICOLI)

EXHIBIT 3C-ter

Certification of the annual stand alone financial statements, pursuant to Article 81-ter of the Consob Regulations no. 11971 of May 14, 1999 with any following amendments

1. The undersigned, Marco Sala, Managing Director and Chief Executive Officer, and Stefano Bortoli, Chief Financial Officer and Manager in charge of drawing up corporate reports and financial documents of Lottomatica Group S.p.A., also taking into account Article 154-bis, Section 3 and 4 of the Legislative Decree no. 58 of February 24, 1998, certify:
- the adequacy – with respect to the characteristic of Lottomatica, and;
 - the effective application,

of the administrative and accounting procedures relating to the preparation of the annual stand alone financial statements throughout the year ended December 31, 2010.

2. With reference to the above, material issues were identified.

3. It is further certified that:

3.1 The annual stand alone financial statements:

- a. are prepared in accordance to the applicable international financial reporting standards admitted by the European Community pursuant to European Regulation (CE) no. 1606/2002 of July 19, 2002, of the European Parliament and Council;
- b. correspond to the accounting books and entries; and
- c. are suitable to offer truthful and accurate representations of the assets, financial position and result of operations of Lottomatica.

3.2 The management report contains a reliable analysis of the ongoing business and results, as well as of the status of Lottomatica, jointly with a description of the main risks and uncertainties to which it is exposed.

Date: _____

Managing Director and CEO

CFO and Manager in charge of drawing up

corporate reports and financial documents

.....
Marco Sala

.....
Stefano Bortoli

FINANCIAL STATEMENTS

AND FOOTNOTES

December 31, 2010

STATEMENTS OF FINANCIAL POSITION (Euros)	Notes	December 31, 2010	Related parties 2010 Note 38	December 31, 2009	Related parties 2009 Note 38
ASSETS					
Not current assets					
System, equipment and other assets related to contract, net	1	60,706,213		43,327,870	
Goodwill	2	622,896,606		622,896,606	
Intangible assets, net	3	5,586,312		4,950,608	
Investments in associates and others	4	3,664,646,761		2,828,424,974	
Other non-current assets		4,221,857		675,562	
Total not current assets		4,358,057,749		3,500,275,620	
Current assets					
Inventories	7	2,780,090		1,843,552	
Trade and other receivables	8	191,625,602	185,579,973	93,560,982	79,604,322
Current financial assets	5	593,744,349	591,143,159	417,075,799	416,943,124
Other current assets	9	11,386,364		9,836,073	
Income tax receivables	10	2,060,587		1,637,225	
Cash and cash equivalents	11	33,615,190		375,163,819	
Total current assets		835,212,182		899,117,450	
TOTAL ASSETS		5,193,269,931		4,399,393,070	
EQUITY AND LIABILITIES					
Equity					
Share Capital		172,015,373		172,015,373	
Legal Reserve		34,403,075		30,457,367	
Share Premium Reserve		1,705,627,693		1,404,251,887	
Treasury shares		(60,113,044)		(63,501,857)	
Other reserves		108,372,703		419,866,283	
Profit (loss) carried forward		112,661,986		14,518,492	
Profit (loss) for the period		72,878,465		110,605,346	
Total equity	12	2,145,846,251		2,088,212,891	
Not current liabilities					
Long-term Debt, less current portion	13	2,085,201,570	79,600,907	1,532,949,530	
Staff Severance Fund (TFR)	14	5,822,656		4,906,888	
Deferred tax liability	15	36,561,269		21,289,785	
Long-term provisions	16	9,249,676		11,406,846	
Total non current liabilities		2,136,835,171		1,570,553,049	
Current liabilities					
Trade and other payables	17	134,843,730	71,252,203	101,660,912	45,517,432
Short-term borrowings	13	664,738,897	664,587,637	535,456,948	535,456,948
Current portion of long-term debt	13	84,213,203		78,812,102	
Other current liabilities	18	25,381,832		23,550,168	
Income tax payables	19	1,410,847		1,147,000	
Total current liabilities		910,588,509		740,627,130	
TOTAL EQUITY AND LIABILITIES		5,193,269,931		4,399,393,070	

LOTTOMATICA GROUP S.p.A. – INCOME STATEMENTS
(Euros)

	Notes	12/31/2010	Related parties 2010 Note 28	12/31/2009	Related parties 2009 Nota 28
Revenues	20	337,082,223		362,382,858	
Other revenues	20	89,611,104	87,342,860	94,355,365	93,592,307
Total Revenues		426,693,327		456,738,223	
Raw materials, services and other costs	22	192,594,808	47,799,400	216,008,959	69,518,102
Personnel	23	82,022,225		68,830,151	
Depreciation, Amortization and Write-downs	24	30,630,443		32,530,286	
Total costs		305,247,476		317,369,396	
Operating income		121,445,851		139,368,827	
Dividends	25	77,708,602		84,750,617	
Interest incomes		482,797		283,027	
Interest incomes on intercompany financing		10,412,395	10,412,395	11,984,885	11,984,885
Other incomes		308,222		316,157	
Other expenses		(1,207,591)		(1,029,605)	
Foreign exchange gains (loss) net	26	(77,160)	(74,688)	(664,410)	355,622
Interest expenses on intercompany financing	27	(9,464,412)	(9,464,412)	(7,610,119)	(7,610,119)
Interest expenses on financial instruments	28	(110,569,752)		(92,783,698)	
Interest expenses	25	(700,435)		(756,429)	
		<u>(33,107,334)</u>		<u>(5,509,575)</u>	
Financial assets value adjustments		-		(867,790)	
Gross income		88,338,517		132,991,462	
Income taxes	29	(15,460,052)		(22,386,116)	
Net income		72,878,465		110,605,346	
Attributable to:					
Owners of the parent		43,481,479		67,093,203	
Non-controlling interests		29,396,986		43,512,143	
		<u>72,878,465</u>		<u>110,605,346</u>	
Earning per share/ADRs					
Basic – net income attributable to owners of the parent		-		€0,45	
Diluted – net income attributable to owners of the parent		-		€0,45	

STATEMENTS OF COMPREHENSIVE INCOME

(thousand of euros)

	December 31,	
	2010	2009
Net income	72.878	110.605
Other comprehensive income		
Net gain (loss) on interest rate swaps (cash flow hedges)	-	-
Income tax benefit (expense)	-	-
Amortization of gain on interest rate swap on discontinued cash flow hedge	(570)	(570)
Net gain (loss) on derivative instruments (cash flow hedges)	-	-
Income tax benefit (expense)	-	-
Net gain (loss) on available-for-sale financial assets	-	-
Net gain (loss) on translation of foreign operations	-	-
Income tax benefit (expense)	-	-
Other comprehensive income (loss) for the year, net of tax	(570)	(570)
Total comprehensive income for the year, net of tax	72.308	110.035
Attributable to:		
Owners of the parent	43.141	66.747
Non-controlling interests	29.167	43.288
	72.308	110.035

CASH FLOW STATEMENTS <i>Lottomatica Group S.p.A.</i>	12/31/2010	31/12/2009
Profit before taxes	88,338,517	132,991,462
Amortizations and Depreciations	-	-
- Fixed assets depreciations	26,526,339	26,305,838
- Fixed assets svalutations	181,962	-
- Intangible assets depreciations	3,853,282	6,1536,448
<i>Total</i>	30,561,583	32,462,286
Interest incomes and other incomes		
- Bank interest income	(482,797)	(283,027)
- Interest on intercompany financing	(10,412,395)	(11,984,885)
- Dividends	(77,708,602)	(84,750,617)
<i>Total</i>	(88,603,794)	(97,018,529)
Interest expenses and other expenses		
- Interest expenses on financing	9,166,520	6,868,154
- Bank commissions	1,305,399	1,450,323
- Interests on financial instruments	110,569,752	92,783,698
- Bank interest expenses	636,645	756,429
<i>Total</i>	121,678,316	101,858,604
Other non monetary items:		
- Unrealized Exchange gains	74,688	139,581
<i>Total</i>	74,688	139,581
Other		
- Using long-term fund	(2,157,170)	1,839,380
- TFR fund	915,768	97,072
<i>Total</i>	(1,241,402)	1,936,452
Non monetary subtotal	150,325,111	172,369,856
Stock option and other Equity movements	95,360,241	280,338,553
Derivative instruments	-	763,646
Realized foreign Exchange (gains)	(41,876)	(233,727)
Taxes paid	(12,235,289)	(33,644,272)
Cash flow from operating activities before changes in net working capital	233,890,984	419,594,056
Inventories	(936,538)	1,454,940
Trade and other receivables::		
- Trade and other receivables	6,063,896	(1,371,616)
- Intercompany receivables	(88,369,964)	13,661,977
<i>Total</i>	(82,306,068)	12,290,361
Trade liabilities:		
- Other	2,419,179	(2,856,965)
- Trade payables	7,490,467	(2,319,865)
- Intercompany payables	21,788,194	22,549,158
<i>Total</i>	31,697,840	17,372,328
Other receivables		
Other	(1,489,941)	(4,021,336)
Social contributions	(593,361)	(139,045)
<i>Other changes in Net Workin Capital</i>	(2,083,302)	3,882,291
Chhanges in Net Working Capital	(53,628,068)	34,999,920
Net cash flow from operating activities	180,262,916	454,593,976
Purchases		
- Purchases of fixed assests	(45,669,415)	(10,846,332)
- Purchases of intangible assets	(5,008,491)	(6,216,333)
- Purchases of financial assets	(836,221,787)	(380,979,061)
<i>Total</i>	(886,899,693)	(398,041,726)

- Proceeds from sale of assets	2,108,121	1,694,967)
<i>Total investments</i>	<i>(884,791,572)</i>	<i>(396,346,759)</i>
Other		
- Derivatives	-	(763,646)
- Guarantees	6.474	91,060
- Other	(3,552,769)	-
<i>Total</i>	<i>(3,546,295)</i>	<i>(672,586)</i>
Net cash flow used in investing activities	(888,337,867)	(397,019,345)
Financial receivables		
- Intercompany receivables	(163,787,640)	(176,191,278)
- Interests on receivables	422,447	247,649
- Other	(2,468,515)	(132,675)
<i>Total</i>	<i>(165,833,708)</i>	<i>(176,076,304)</i>
Financial liabilities		
- Intercompany liabilities	199,565,076	212,075,839
- Other	367,633,742	285,735,917
<i>Total</i>	<i>567,198,818</i>	<i>497,811,756</i>
Interests and dividends (paid)/collected		
- Interests paid	(636,645)	(756,429)
- Interests receivables paid	(1,305,399)	(1,450,323)
- Dividends paid	(110,605,346)	(115,536,213)
- Dividends collected	77,708,602	84,750,617
<i>Total</i>	<i>(34,838,788)</i>	<i>(32,992,348)</i>
Net cash flow from financing activities	366,526,322	288,743,104
Net increase (decrease) in cash and cash equivalents	(341,548,629)	346,317,735
Cash and cash equivalents at the beginning of the year	375,163,819	28,846,084
Cash and cash equivalent at the end of the year	33,615,190	375,163,819

- STATEMENT OF CHANGES IN EQUITY -

<i>(Euros)</i>	Share capital	Legal reserve	Share Premium Reserve	Treasury reserve	Other	Net income carried forward	Net income	Total
Balance at 12/31/2008	152,286,837	30,379,839	1,139,070,820	(73,184,181)	448,715,675	-	115,536,213	1,812,805,203
Distribution 2008								
- Dividend (€0,68 per share)	-	-	-	-	-	-	(100,940,193)	(100,940,193)
- Other	-	-	-	-	-	14,518,492	(14,518,492)	-
- Legal reserve	-	77,528	-	-	-	-	(77,528)	-
Capital increase 11/24/2009	19,728,536	-	265,181,067	-	-	-	-	284,909,603
Treasury	-	-	-	9,682,324	(9,682,324)	-	-	-
Swap amortization	-	-	-	-	(570,000)	-	-	(570,000)
Stock option costs	-	-	-	-	915,400	-	-	915,400
Gaming Solution Transaction	-	-	-	-	(19,512,468)	-	-	(19,512,468)
Net income	-	-	-	-	-	-	110,605,346	110,605,346
Balance at 12/31/2009	172,015,373	30,457,367	1,404,251,887	(63,501,857)	419,866,283	14,518,492	110,605,346	2,088,212,891
Distribution 2009								
- Dividend (€0,74 per share)	-	-	(3,637,055)	-	-	(14,518,492)	(106,659,638)	(124,815,185)
- Legal reserve	-	3,945,708	-	-	-	-	(3,945,708)	-
Mergers	-	-	-	-	-	112,661,986	-	112,661,986
Reserve recostitution	-	-	307,266,164	-	(307,266,164)	-	-	-
Treasury	-	-	-	3,388,813	(3,388,813)	-	-	-
Mandatory	-	-	(2,253,303)	-	-	-	-	(2,253,303)
Swap amortization	-	-	-	-	(570,000)	-	-	(570,000)
Stock option costs	-	-	-	-	(268,603)	-	-	(268,603)
Net income	-	-	-	-	-	-	72,878,465	72,878,465
Balance at 12/31/2010	172,015,373	34,403,075	1,705,627,693	(60,113,044)	108,372,703	112,661,986	72,878,465	2,145,846,251

ACCOUNTING PRINCIPLES AND NOTES TO THE FINANCIAL STATEMENT

1. CORPORATE INFORMATION

Lottomatica Group S.p.A. ("*Lottomatica*") is one of the largest lottery operators in the world, based on total wagers, and a leader in the Italian gaming industry. Lottomatica has leveraged its distribution and processing competence to expand its activities beyond gaming and also provides commercial, payment and other processing services through its extensive terminal network.

Lottomatica is licensed by the Italian Government to manage Lotto and other public games, as well as the parent company of a Group active in the gaming, automated services and ticketing services markets. In addition, Lottomatica has extensive know-how in the following areas:

- gaming systems and products;
- hardware and software (terminals and systems) to process sports pools and horse-race betting; and
- assistance to the operations management of the Italian National Horse Racing Pari-Mutuel System Help Desk.

On August 29, 2006, Lottomatica acquired GTECH Holdings Corporation, the world's leading provider of highly-secure online lottery transaction processing systems.

Lottomatica is a joint stock company incorporated and domiciled in Italy, whose registered office is located at Viale del Campo Boario, Rome, Italy.

The majority shareholder of company interests is De Agostini S.p.A., whose wholly owned by Marco Drago's B&D Holding and C. S.a.p.A. Pursuant to Article 2497 of the Italian civil code, the Company is subject to the management and coordination of De Agostini S.p.A., and is publicly traded on the Italian Stock Exchange (LTO).

The financial statements for the year ended December 31, 2010 were approved for issuance in accordance with a resolution of the Board of Directors on March 10, 2011.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements have been prepared on a historical cost basis, except as disclosed in the accounting policies below. Investment properties, derivative instruments and available-for-sale assets have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

2.2 Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, as well as the amendments of the Legislative Decree no. 38/2005, Article 9, and Consob resolutions.

The financial statements are prepared in accordance IAS 1 (Amended) with the following:

- current and non-current assets, as well as current and non-current liabilities, are reported separately in the balance sheet;
- income statement, who shows net income composition;
- cost analysis is carried out based on the nature of the cost in the comprehensive income statement;

- the indirect method is used for the cash flow statement;
- the statements of changes in equity.

The 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.

The 2010 Annual Report has been prepared in accordance with the principle of corporate continuity. The exchange rates used are those supplied by the Italian Exchange Rate Office (*Ufficio Italiano Cambi*) for the specific reference dates, pursuant to the principles of the De Agostini Group.

3. ADOPTION OF NEW AND REVISED ACCOUNTING PRINCIPLES

New and amended accounting principles

The Company's accounting policies are consistent with those of the previous financial year except the Company's adopted new International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) standards, amendments and interpretations as of January 1, 2010 as described below. Adoption of these Standards and Interpretations did not have a material effect on the financial position or performance of the Company.

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

The amendment to IFRS 2 clarifies the scope and the accounting for group cash-settled share-based payment transactions. The Company adopted the amendment to the principle as of January 1, 2010. There were no material impacts to the financial position or performance of the Company.

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

The amended IFRS 3 introduces significant changes in the accounting for business combinations occurring after July 1, 2009. The changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

The amendment to IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by this revised and amended standard affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

On February 14, 2008, the International Accounting Standards Board issued amendments to IAS 32 on Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation. The modifications require the classification of such instruments, which currently are classified as liabilities notwithstanding their similar characteristics to ordinary shares, as capital. Further information is required and it is advisable to apply new norms to their reclassification.

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

The amendment to IAS 39 clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item, including the designation of inflation as a hedged risk in particular situations. No material impact is expected to the financial position or performance of the Company given that no similar hedge is used.

IFRIC 12 Service Concession Arrangements

The objective of IFRIC 12 is to clarify how certain aspects of existing IASB literature are to be applied to service concession arrangements, illustrating the contractual obligations and rights received by an operator and distinguishing between two types of possible arrangements. In one arrangement the operator receives an intangible asset, in another a financial asset, and there is also the possibility of a mixed model arrangement, according to the degree of uncertainty to which the concessionaire is exposed in terms of cash flows deriving from the operation of the concession as well as obligations arising from the infrastructure used.

IFRIC 15 Agreements for the Construction of Real Estate

On July 3, 2008 the International Financial Reporting Interpretations Committee released an interpretation of IFRIC 15 Agreements for the Construction of Real Estate. IFRIC 15 provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue from the construction of real estate.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

On July 3, 2008 the International Financial Reporting Interpretations Committee released an interpretation of IFRIC 16 Hedges of a Net Investment in a Foreign Operation. IFRIC 16 clarifies the application of the accounting principles IAS 21 and IAS 39 for cases where an entity hedges the foreign exchange risk deriving from net investments in foreign operations.

IFRIC 17 Distributions of Non-Cash Assets to Owners

IFRIC 17 provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

Improvements to IFRSs

In May 2008 and April 2009 the IASB issued an omnibus of amendments to its standards, primarily with a view of removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Company has not adopted yet the following amendments. No material impacts are expected to the financial position or performance of the Company.

Improvements to IFRSs issued in May 2008

- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations** – This amendment clarifies that when subsidiary is classified held for sale, both its assets and liabilities are classified as held for sale, even in cases where, upon transfer, it represents a minority interest .

Improvements to IFRSs issued in April 2009

- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations** – This amendment clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.

- **IFRS 8 Operating Segments** - This amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- **IAS 7 Statement of Cash Flows** – This amendment explicitly states that only expenditures that result in recognizing an asset in the statement of financial position can be classified as a cash flow from investing activities. The application of this amendment will modify the presentation of the cash flow statement of potential compensation resulting from business combinations completed in 2010.
- **IAS 36 Impairment of Assets** – This amendment clarifies that the largest unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- ▶ IFRS 2 Share-based payments
- ▶ IAS 1 Presentation of Financial Statements
- ▶ IAS 17 Leasing
- ▶ IAS 34 Interim Financial Reporting
- ▶ IAS 38 Intangible assets
- ▶ IAS 39 Financial Instruments – Classification and Measurement
- ▶ IFRIC 9 Reassessment of embedded derivative
- ▶ IFRIC 16 Hedges of a Net Investment in a Foreign Operation

Upcoming accounting principles and standards

The accounting principles and standards listed below will soon be introduced and an estimate is reported of their potential impact for periods following the presentation of these financial statements.

IFRIC 14 Prepayments of a Minimum Funding Requirement

On November 15, 2009, the International Financial Reporting Interpretations Committee issued amendments to the interpretation of IFRIC 14 Prepayments of a Minimum Funding Requirement. The amendment corrects an unintended consequence of IFRIC 14 in cases when entities are not permitted to recognize as an asset instead of as expenditure some voluntary prepayments for minimum funding contributions.

IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

On November 26, 2009, the International Financial Reporting Interpretations Committee issued the interpretation of IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments, offering guidance for the accounting, on behalf of the debtor, of equity instruments issued to extinguish all or part of a financial liability following a renegotiation of contractual conditions. The Company applies IFRIC 19 and amendments to IFRS 1 as of the annual periods beginning after June 30, 2010.

IAS 24: Related Party Disclosures

On November 4, 2009 the International Accounting Standards Board issued a revised version of IAS 24 Related Party Disclosures that simplifies the disclosure requirements for government-related

entities and clarifies the definition of a related party. The Company applies IAS 24 and amendments to IFRS 8 as of the annual periods beginning after December 31, 2010.

Standards issued but not yet effective

The new, amended and revised Standards and Interpretations that were issued by the IASB and IFRIC but not yet effective up to the date of issuance of the Group's financial statements are described below. The list below refers to the principles and interpretations the Company believes will be reasonable applicable. The Company does not intend to apply these principles once they are effective.

IAS 24 Related Party Disclosures (Amended)

The Amended IAS 24 becomes effective for annual periods beginning on or after January 1, 2011. The revised standard 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. The Company does not expect any impacts to the Company's financial position and performance. The early adoption is permitted only of the partial disclosure exemption for government-related entities or of the new principle in its entirety.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues

The amendment to IAS 32 becomes effective for annual periods beginning on or after February 1, 2010. The amendment 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. The amendment to the principle will have no impact on the financial statements after adoption.

IFRIC 14 Prepayments of a Minimum Funding Requirement

The amendment to IFRIC 14 becomes effective for annual periods beginning on or after January 1, 2011 with retrospective application. The amendment 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. The adoption of this amendment is not expected to have a material impact on the financial position or performance of the Company.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 becomes effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to IFRSs issued in May 2010

In May 2010 the IASB issued an omnibus of amendments to its standards. There are separate transitional provisions for each standard that are effective for periods starting after July 1, 2010 or January 1, 2011. The Company anticipates that these changes may have possible effects when adopted:

- ▶ IFRS 3 Business combinations
- ▶ IFRS 7 Financial Instruments: additional information
- ▶ IAS 1 Presentation of Financial statements
- ▶ IAS 27 Consolidated and stand-alone financial statements

- ▶ IFRIC 13 Customer loyalty programs

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

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

Transactions and balances

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

Prior to January 1, 2005, the Group measured as Group assets and liabilities any goodwill and possible variations to fair value which modified the book value of assets and liabilities upon acquisition. Such assets and liabilities are expressed in functional currency or are non-monetary items and therefore no further translation difference is presented.

i) Group companies

At the closing date of these financial statements, assets and liabilities of Group companies, as well as their income statements, are translated to the presentation currency of Lottomatica Group S.p.A. (the Euro) using the exchange rates as of the date of the reporting date.

According the Italian Exchange Rate Office the USD/Euro exchange rate as of December 31, 2010 is 1.3362 (USD/Euro 1.4406 as of December 31, 2009).

Systems, equipment and other assets related to contract, net

Systems, equipment and other assets are stated on the basis of cost, net of ordinary maintenance costs, less accumulated depreciation and/or accumulated impairment loss, if any. Repair and maintenance costs are recognized in the periods in which these costs have been incurred. When significant parts of systems, equipment and other assets have to be periodically substituted, the Group recognizes these parts as autonomous assets with definite useful lives and relative amortizations. Similarly, when important revisions are carried, the cost is included as a substitution in the carrying value of the plan or machinery. All other repair and maintenance costs are recognized in the income statement for the periods in which the costs were incurred. Land and property are recognized at fair value net of amortization and impairment, if any, recognized following the revaluation date. Reviews for impairment are carried out frequently in order to ensure that the fair value of the asset does not vary significantly from its carrying value.

Increases in carrying value following revaluation are recognized in the comprehensive income statement and accumulated in equity as revaluation reserves. In case of write off of a revaluation decrease of the same asset previously recorded as cost, the resulting increase is recognized as revenue. A decrease in carrying value following revaluation is recognized as a cost, with the exception of a decrease that directly zeroes out a revaluation surplus. In this case, the decrease is deducted from the revaluation reserve.

An amount equal to the difference between amortization based on revaluated assets values and amortization based on historical cost is transferred annually from the revaluation reserve to carried-forward gains reserve. Furthermore, accumulated amortization provisions upon revaluation are eliminated by the compensation of the gross asset value. The net asset value is revaluated to fair value. Following the sale of an asset, any revaluation reserve is reclassified to carried-forward gains reserve.

The amortization of these costs will be carried out upon the effective use of the assets.

An asset is derecognized upon disposal or when no future economic benefits are expected from the assets' use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if appropriate.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment loss. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and any expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least annually, during the fourth quarter ending on December 31. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization expense on intangible assets with finite lives is recorded in our income statement.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, during the fourth quarter ending on December 31, either individually or at the cash generating unit level, as appropriate. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognized initially at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The acquisition or sale of a financial asset through contracts terms requiring the transfer of the asset within a period of time generally established by regulation or market conventions is defined as a regular way sale and is recognized as of contractual date (for example, when the Company commits its acquisition or sale).

The Company's financial assets include cash and cash equivalents, trade and other receivables, loans and other receivables, available-for-sale financial investments, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in the income statement.

The Company evaluated its financial assets held for trading, other than derivatives, to verify whether the intent to sell in the short term is still appropriate. In rare occasions, the Company may choose to reclassify these financial activities when the Company is no longer able to sell due to inactive markets, or when management's intent to sell in a foreseeable future changes significantly. The reclassification of a financial asset or liability, available for sale, or held until expiration depends on the nature of the asset. This evaluation has no impact on any financial asset at fair value through profit and loss.

Embedded derivatives in principal contracts are recognized as separate derivatives and recorded at fair value if their economic characteristics and risks are not strictly connected to the principal contract, and the principal contract is not held for trading or recognized at fair value through profit and loss.

Embedded derivatives are recognized at fair value with variations in fair value recorded in the income statement. Reconsiderations occur only in case of changes to contract conditions that significantly modify expected cash flows.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate method amortization and losses arising from impairment are recognized in the income statement as financial expenditure.

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the net unrealized gain/(loss) reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the income statement, or determined to be impaired, at which time the cumulative loss is recognized in the income statement and removed from the net unrealized gain/(loss) reserve.

The Company evaluated its available-for-sale financial investments to determine whether the ability and intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intent to hold the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest rate method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;

- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass through” arrangement; and either
 - (a) the Company has transferred substantially all the risks and rewards of the asset; or
 - (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued

on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recorded in the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement, is removed from other comprehensive income and recognized in the income statement. Impairment loss on equity investments is not reversed through the income statement; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in the income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

Investment in subsidiaries and affiliated companies

Investment in subsidiaries and affiliated companies are measured at cost adjusted for impairment. The positive difference, resulting at the time of acquisition, between the cost of acquisition and the current net equity value is included in the carrying value of the financial asset. Interests in subsidiaries and affiliated companies are submitted to annual impairment tests, or more frequently if deemed necessary, to verify any eventual loss in value. In the case that a loss of value arises, it is recognized in the comprehensive income statement as depreciation. If the company quote of loss value of the subsidiary exceeds the carrying value, the equity value is annulled and the resulting surplus is registered in the liabilities provisions. In case that the loss of value is less or reduced, it is reported in income statement as a value restoration of the cost limits.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is

derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the comprehensive income statement.

Interests in minor companies for which a market price is not available are recognized at cost and, if needed, depreciated for impairment.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecasts that are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecasts cover a period of five to nine years (the "base period"). For periods beyond the base period, a long term growth rate is applied to project future cash flows beyond the fifth year.

Impairment on functioning assets, including inventor impairment, is recognized in the income statement, with the exception of assets previously revaluated and to which revaluation has been recorded as other earnings and classified as revaluation reserve. In these cases, impairment is recognized in other earnings.

The Company assesses at each reporting date whether there is an indication of a reduction in the impaired value of an asset, other than goodwill. If any indication exists the Company estimates the asset's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the assets in prior years. Such reversal is recognized in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase

For assets excluding goodwill and indefinite lived intangible assets, an assessment is made at each reporting date as to whether there is any indication that a previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount.

The same criteria are also applied in assessing impairment of the following:

Goodwill

Goodwill is tested for impairment annually, as of December 31, or more frequently when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGU's) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment loss relating to goodwill cannot be reversed in future periods.

Inventories

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

Cash and cash equivalents

Cash and cash equivalents are comprised of cash at banks and on hand and short-term, highly liquid investments with an original maturity of three months or less at the date of purchase.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, directly attributable debt issuance costs.

The Group's financial liabilities include accounts and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts, finance lease obligations, loan guarantees, Swap Liability and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the income statement. The Company has not recorded, upon initial recognition, any financial liability as fair value with difference in values expensed in the income statement.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated income statement when the liabilities are derecognized as well as through the effective interest rate method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate method amortization is included in interest expense in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

Derecognition

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

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market bid prices or dealer price quotations (bid price for long position and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis; or other valuation models. An analysis of fair values of financial instruments and further details as to how they are measured are provided in these financial statements.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Company uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial

assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of raw material contracts that satisfy the definition of derivative as outlined by IAS 39, but are prepared pursuant to acquisition conditions required by the Company, are recognized at cost in the income statement.

Any gains or losses arising from changes in fair value on derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges and hedges of a net investment in a foreign operation, which are recognized in statements of financial position.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk); or
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of an interest rate hedging derivative is recognized in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognized in the income statement.

For fair value hedges relating to items carried at amortized cost, the adjustment to the carrying value may be amortized, using the effective interest method, as soon as the adjustment exists (through the income statement over the remaining term to maturity) or may begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedge item is derecognized, the unamortized fair value is recognized immediately in the income statement.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the income statement.

Current versus non-current classification

Derivative instruments that are not a designated and effective hedging instrument are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e. the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting), for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item;
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract;
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

Convertible Bonds

Convertible bonds are considered, based on contractual conditions, as liabilities and capital components. Upon emission, the fair value of the liability component is determined using market prices of similar and equivalent non convertible bonds. This amount, classified as long term debt, is recorded using the cost amortization method (net of transaction costs) until extinguished via either conversion or reimbursement.

Residual provisions are attributed to the conversion option recognized in equity, net of transaction costs. These transaction costs are carried decreasing values at equity, net of relative income taxes. The carrying value of the conversion option is not modified in successive periods.

Transaction costs connected to the emission of a financial instrument are considered as liability and capital components in proportion to their respective values recognized prior to subscription.

Treasury shares

Lottomatica's own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration paid or received is recognized in other reserves. The right to vote and to receive dividends, related to treasury shares, is null and void. Treasury shares are used in case stock options shares are vested.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Post employment benefits

The Company has a defined benefit plan (staff severance fund) to provide certain post employment benefits to Italian employees following termination from the Company. Italian employees may choose to participate in an unfunded plan within the Company or transfer their plan balance to independent external funds. These benefits are funded only to the extent paid to the external funds. The staff severance fund is to be considered as a benefits plan for shares matured prior to January 1, 2007, whereas following this date, it is more similar to a defined contributions plan. The cost of providing benefits under the plan, for those employees that participate in the unfunded plan within the Company, is determined using the projected unit credit actuarial valuation method. The cost of providing benefits for those employees that choose to transfer their plan to independent external funds are considered as defined contributions and are accrued as the employees render the related service. Actuarial gains and losses are immediately recognized in the consolidated income statement. The defined benefit liability represents the present value of the Company's defined benefit plan obligation.

Share-based payment transactions

Employees of the Company may receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions with employees is measured by reference to the fair value on the date they are granted. The fair value is determined using a binomial model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date in which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognized as of the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

Operating leases

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

Revenue recognition

Revenue is recognized to the extent that it is probable the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received excluding discounts, and is recognized in the comprehensive income statement. Specific recognition criteria must also be met before revenue is recognized as discussed below.

Operating contracts

Certain of our revenue derive from operating contracts. Under operating contracts, we manage all the activities along the lottery value chain including collecting wagers, paying out prizes, managing all accounting and other back-office functions, running advertising and promotions, operating data transmission networks and processing centers, training staff, providing retailers with assistance and supplying materials for the game. Fees earned under operating contracts are recognized as revenue in the period earned and are classified as service revenue in our income statement when all of the following criteria are met:

- Persuasive evidence of an arrangement exists, which is typically when a customer contract has been signed
- Services have been rendered
- Our fee is deemed to be fixed or determinable and free of contingencies or significant uncertainties
- Collectability is reasonably assured

The amount to be received is discounted in cases where customers are given time to pay without incurring interest. The difference between current value and amount received represents financial income recorded in the accounts on an accruals basis.

Revenues and costs are recognized net of VAT, except when this tax applied to the purchase of goods or services is not deductible, then it is recognized as a part of the asset's purchase cost or a part of the cost item recognized in the income statement.

Dividends

Dividends are recognised when the Shareholder's right to receive payment is established.

Income taxes*Current income tax*

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

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Tax assets and liabilities for deferred taxes are compensated when there is a legal right to do so. Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Value Added Taxes

Costs, revenues and assets are recognized net of value added taxes, except for cases in which:

- ▶ The value added tax is applied to non-deductible goods or services, upon which it is recognized as part of the acquisition cost of the asset and expenses in the income statement;
- ▶ Trade receivables and payables including value added tax.

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

5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgments

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

Estimates and Assumption

The key assumptions concerning the future other sources of uncertainty at the balance sheet 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.

Allowance for doubtful accounts

Doubtful accounts recovery is evaluated based on the risk of insolvency, age and losses previously incurred on similar types of accounts.

Impairment of Goodwill

Lottomatica determines whether goodwill is impaired on at least an annual basis. This requires an estimation of the "value in use" of the cash-generating units to which the goodwill is allocated. Estimating a value in use 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 value of goodwill at December 31, 2010 and December 31, 2009 is €622,896,606. For further information please refer to Note 2.

Impairment of Intangible Assets

The Company 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 value of intangible assets at December 31, 2010 and December 31, 2009 is respectively €/000 5,586 and €/000 4,951. For further information please refer to Note 3.

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which

is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them.

Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

FOOTNOTES

STATEMENTS OF FINANCIAL POSITION

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

Systems, equipment and other assets for the year ended December 31, 2010 total € /000 60,707 (€ /000 43,328 at December 31, 2009), of which € /000 42,874 (€ /000 23,926 at December 31, 2009) are attributable to *Freely distributed assets* ("FDA").

- **Fixed assets:** € /000 17,833 (€ /000 19,402 at December 31, 2009). The table below reports the historical costs and accumulated amortizations for the years ended December 31, 2009 and December 31, 2010 (in Euro).

Period ended December 31, 2009:

Systems, equipment and other assets	Opening	Increases	Amortization	Decreases	TOTAL
Property	24,966,197	3,527,296	-	-	28,493,493
Plant and equipments	36,321,690	1,579,869	-	(20,883,536)	17,018,023
Other	3,950,370	553,866	-	(264)	4,503,972
Historical cost	65,238,257	5,661,031	-	(20,883,800)	50,015,488
Property	13,618,788	-	3,778,512	-	17,397,300
Plant and equipments	27,702,958	-	3,743,734	(20,200,868)	11,245,824
Other	1,500,435	-	470,299	(182)	1,970,552
Amortization	42,822,181	-	7,992,545	(20,201,050)	30,613,676
Property	11,347,409	3,527,296	(3,778,512)	-	11,096,193
Plant and equipments	8,618,733	1,579,869	(3,743,734)	(682,668)	5,772,200
Other	2,449,934	553,866	(470,299)	(82)	2,533,419
NET VALUE	22,416,076	5,661,031	(7,992,545)	(682,750)	19,401,812

Period ended December 31, 2010:

Systems, equipment and other assets	Opening	Increases	Mergers	Amortization	Depreciation.	Decreases	TOTAL
Property	28,493,493	4,293,221	-	-	(418,217)	(628,607)	31,739,890
Plant and equipments	17,246,853	3,558,762	71,402	-	(28,700)	(1,768,775)	19,079,542
Other	4,503,972	879,609	15,549	-	(6,510)	(83,633)	5,308,987
Assets under construction	-	144,961	(189)	-	-	(144,772)	-
Historical cost	50,244,318	8,876,553	86,762	-	(453,427)	(2,625,787)	56,128,419
Property	17,397,300	-	-	4,558,234	(239,662)	(59,481)	21,656,391
Plant and equipments	11,474,654	775,536	66,273	2,846,182	(28,223)	(957,655)	14,176,767
Other	1,970,552	-	14,643	535,037	(3,587)	(54,010)	2,462,635
Amortization	30,842,506	775,536	80,916	7,939,453	(271,472)	(1,071,146)	38,295,793
Property	11,096,193	4,293,221	-	(4,558,234)	(178,555)	(569,126)	10,083,499
Plant and equipments	5,772,199	2,783,226	5,129	(2,846,182)	(477)	(811,120)	4,902,775
Other	2,533,420	879,609	906	(535,037)	(2,923)	(29,623)	2,846,352
Assets under construction	-	144,961	(189)	-	-	(144,772)	-
NET VALUE	19,401,812	8,101,017	5,846	(7,939,453)	(181,955)	(1,554,641)	17,832,626

The difference recognized in 2010, for €/000 1,569, is due to the combined effect of the following factors:

- An increase of €/000 8,101 which are principally due to the improvements made on the office buildings located at Via del Campo Boario in Rome for €/000 4,293, and to the acquisition of electronic equipment for €/000 2,783;
- Effect of the merger by incorporation of Lottomatica Sistemi S.p.A. in 2010 for a net value of €/000 6;
- Amortizations for €/000 7,939, reported net of positive revenue components (€/000 288) recognized following the recovery of previous amortizations which arose from asset accounting verifications;
- Depreciations for a net value of €/000 182 which refer to the improvements made to the office building located at via Mosca in Roma and for which its lease contract was terminated in FY2010;
- Decreases for €/000 1,555 which refer to the sale of assets and the asset accounting verifications carried out in FY2010.
- **Freely distributed assets ("FDA"):** €/000 42,874 (€/000 23,926 at December 31, 2009).

The table below reports the historical costs and accumulated amortizations for the years ended December 31, 2009 and December 31, 2010 (in Euro).

Period ended December 31, 2009:

Systems, equipment and other assets - FDA	Opening	Increases	Amortization	Decreases	Reclassification	TOTAL
Plant and equipments	228,897,374	1,869,919	-	(25,596)	1,875	230,743,572
Other assets	1,789,627	3,120,028	-	(8,376)	-	4,901,279
Assets under construction -	17,841	195,354	-	-	(1,875)	211,320
HISTORICAL COST	230,704,842	5,185,301	-	(33,972)	-	235,856,171
Plant and equipments	191,867,793	-	18,265,122	(25,596)	-	210,107,319
Other assets	1,782,999	-	48,171	(8,376)	-	1,822,794
Amortizations	193,650,792	-	18,313,293	(33,972)	-	211,930,113
Plant and equipments	37,029,581	1,869,919	(18,265,122)	-	1,875	20,636,253
Other assets	6,628	3,120,028	(48,171)	-	-	3,078,485
Assets under construction	17,841	195,354	-	-	(1,875)	211,320
NET VALUE	37,054,050	5,185,301	(18,313,293)	-	-	23,926,058

Period ended December 31, 2010:

Systems, equipment and other assets - FDA	Opening	Increases	Amortization	Depreciation	Decreases	Reclassification	TOTAL
Plant and equipments	230,743,573	3,725,213	-	(52,378)	(340,631)	27,038,127	261,113,904
Other assets	4,901,279	5,393,322	-	(8,701)	(34,633)	-	10,251,267
Assets under construction	211,320	28,449,863	-	-	-	(27,038,127)	1,623,056
HISTORICAL COST	235,856,172	37,568,398	-	(61,079)	(375,264)	-	272,988,227
Plant and equipments	210,107,320	-	17,843,789	(52,371)	(306,546)	(107)	227,592,085
Other assets	1,822,793	-	743,097	(8,701)	(34,634)	-	2,522,555
Amortizations	211,930,113	-	18,586,886	(61,072)	(341,180)	(107)	230,114,640
Plant and equipments	20,636,253	3,725,213	(17,843,789)	(7)	(34,085)	27,038,234	33,521,819
Other assets	3,078,486	5,393,322	(743,097)	-	1	-	7,728,712
Assets under construction	211,320	28,449,863	-	-	-	(27,038,127)	1,623,056
NET VALUE	23,926,059	37,568,398	(18,586,886)	(7)	(34,084)	107	42,873,587

The “*Freely distributed assets*” refer predominately to the Company assets leased by third parties. These refer to fixed assets used to carry out activities related to Lotto and which are to be returned to the Ministry of Finance upon the expiration of the license.

The table below reports the historical costs and accumulated amortizations the years ended December 31, 2010 and 2009 (in Euro).

The difference recognized in 2010, for €/000 18,948, is due to the combined effect of the following factors:

- Increases of €/000 37,568 refer principally to the acquisition of Lotto terminals and printers;
- Amortizations for €/000 18,587 reported net of positive revenue components (€/000 21) recognized following the recovery of previous amortizations which arose from asset accounting verifications;
- Decreases for €/000 34 which refer to the sale of assets and the asset accounting verifications carried out in FY2010.

The amortization periods for the individual categories are reported below:

Fixed Assets	Amortization Period
1) Property	Duration of lease
2) Plant and Equipment	15%-20%
3) Industrial and commercial equipment	25%
4) Other assets	12%

2. Goodwill

Goodwill for the period ended December 31, 2010 totals €/000 622,897 (€/000 622,897 at 12/31/2009) composed of the following:

- goodwill of €/000 404,016 (€/000 404,016 at 12/31/2009) from the merger by incorporation of Lottomatica into Tyche in 2002;
- goodwill of €/000 2,116 (€/000 2,116 at 12/31/2009) connected to the acquisition of the Games division of Eis S.p.A. and Twin S.p.A. (pari-mutuel system);
- goodwill of €/000 216,765 (€/000 216,765 at 12/31/2009) from the merger transaction between New Games, FinEuroGames and Lottomatica completed on December 20, 2005.

Goodwill is subject to annual testing for impairment based on an estimated value of use of the segment to which the goodwill is attributed, the estimated cash flows forecasted for the segment and on their actualization based on a discounted rate. The carrying value of goodwill has not changed in the periods ended December 31, 2010 and December 31, 2009.

According to the international accounting principles, specifically IFRS 3 and IAS 36, goodwill is no longer subject to amortization. The Company annually reviews goodwill for impairment in order to verify if the asset has been impaired. In case the asset results to be impaired the Company depreciates the goodwill of the asset. The value of use is used in the determination of the recoverable value of the cash generating unit.

The impairment test carried out in order to verify the initial goodwill value uses the unit generating financial flows as a point of reference.

The 2011-2013 budget for units generating financial flows has been prepared according to the following criteria:

- Compound Annual Revenue Growth Rate of (1.5)%;
- Compound Annual Operating Cost Growth Rate of 1.2%.

An estimate of the terminal value has also been included in addition to the value of the flows deriving from the specific projecting period.

The 2016 forecasted EBIT was used in order to calculate the terminal value.

The Weighted Average Cost of Capital used was 8.31%.

This impairment test showed that the discounted cash flows are higher than the carrying amount, so that it was not necessary to make any reduction in value: no impairment loss was therefore recognized.

3. Intangible Assets

Intangible assets for the period ended December 31, 2010 total €/000 5,586 (€/000 4,951 at December 31, 2009) in the following table reports the composition of intangible assets with separate indications for the historical cost and the accumulated amortization for the periods ended December 31, 2009 and December 31, 2010 (in Euros):

Period ended December 31, 2009:

Intangible Asset	Opening	Increases	Amortization	Decreases	TOTAL
Patents	46,002,064	4,332,245	-	(2,113,667)	48,220,642
Concessions and licenses	10,166,488	1,884,088	-	(789,081)	11,261,495
Other intangible assets	3,122,104	-	-	(71,104)	3,051,000
HISTORICAL COST	59,290,656	6,216,333	-	(2,973,852)	62,533,137
Patents	43,947,081	-	2,269,275	(1,451,435)	44,764,921
Concessions and licenses	9,277,396	-	999,412	(510,200)	9,766,608
Other intangible assets	163,239	-	2,887,761	-	3,051,000
Amortizations	53,387,716	-	6,156,448	(1,961,635)	57,582,529
Patents	2,054,983	4,332,245	(2,269,275)	(662,232)	3,455,721
Concessions and licenses	889,092	1,884,088	(999,412)	(278,881)	1,494,887
Other intangible assets	2,958,865	-	(2,887,761)	(71,104)	-
NET VALUE	5,902,940	6,216,333	(6,156,448)	(1,012,217)	4,950,608

Period ended December 31, 2010:

Intangible Asset	Opening	Increases	Amortization	Decreases	TOTAL
Patents	48,220,642	2,678,404	-	(527,367)	50,371,679
Concessions and licenses	11,261,496	1,291,823	-	(33,784)	12,519,535
Other intangible assets	3,051,000	-	-	-	3,051,000
Assets under construction	-	1,062,500	-	-	1,062,500
HISTORICAL COST	62,533,138	5,032,727	-	(561,151)	67,004,714
Patents	44,764,923	24,236	2,551,664	(9,207)	47,331,616
Concessions and licenses	9,766,608	-	1,301,618	(32,440)	11,035,786
Other intangible assets	3,051,000	-	-	-	3,051,000
Amortizations	57,582,531	24,236	3,853,282	(41,647)	61,418,402

Patents	3,455,719	2,654,168	(2,551,664)	(518,160)	3,040,063
Concessions and licenses	1,494,888	1,291,823	(1,301,618)	(1,344)	1,483,749
Assets under construction	-	1,062,500	-	-	1,062,500
NET VALUE	4,950,607	5,008,491	(3,853,282)	(519,504)	5,586,312

The difference recognized in FY2010, for €/000 636, is due to the combined effect of the following factors:

- Increases in 2010 total €/000 5,008, and refer to *Patents* (€/000 2,678) for software updating and for the acquisition of other licenses (€/000 1,292);
- Amortizations for €/000 3,853 reported net of positive revenue components (€/000 17) recognized following the recovery of previous amortizations which arose from asset accounting verifications;
- Decreases for €/000 520 which refer to the sale of assets to Lottomatica Group S.p.A.

The amortization period for each category of asset is reported in the table below:

Intangible assets	Amortization period
1) Patents	3 years
2) Concessions and licenses	3 years

4. Investments in associates and others

Interest shares for the period ended December 31, 2010 total €/000 3,664,647 (€/000 2,828,425 at December 31, 2009) and consist of:

- *Subsidiaries*, €/000 3,653,224 (€/000 2.823.663 at December 31, 2009).

The increase of €/000 1,940,926 refers to the following operations:

- An increase of €/000 1,145,175 in interest participation in Invest Games S.A. of which €/000 845.130 refer principally to the merger of Lottomatica International Hungary completed on March 23, 2010, and €/000 300,000 for the share capital increase carried out on December 13, 2010;
- Constitution of Lotterie Nazionali Holding Srl on December 7, 2010 for €/000 250,000. The company became a joint stock corporation on December 14, 2010;
- The constitution of Lotterie Nazionale srl for €/000 512,000, with a percentage of ownership of 64% realized by capital subscriptions and subsequent increases. On December 10, 2010 Lottomatica Group sold its 43,75%, corresponding to a value of €/000 350,000 of its share in Lotterie Nazionali S.r.l. to Lotteria Nazionali Holding S.p.A. ;
- Due to the sale of Lottomatica Sistemi S.p.A.'s participation in PCC Giochi e Servizi to Lottomatica Group S.p.A. for €/000 20,823 following the merger by incorporation of Lottomatica Sistemi into the parent company;
- GTECH German Holding for €/000 6,172 following the capital contribution carried out in 2010;
- The sale of Lottomatica Scimmesse Srl's entire participation in Spielo Italia S.r.l. (previously Lottomatica Bingo S.r.l.) for €/000 60,8 to the parent company Lottomatica Group S.p.A. based on the financial situation of Lottomatica Bingo at September 30, 2010. Sale was completed on November 29, 2010.
- The constitution of Lottomatica International Greece, with share capital of €10,000, on behalf of Lottomatica Group S.p.A. and Vledan Services Limited on June 16, 2010 for €/000 33.

The decrease of €/000 1,104,705 consist mainly of the following operations:

- €/000 595,978 for the merger of Lottomatica International into Lottomatica Group as of January 1, 2010;
- €/000 150,000 for the merger of Lottomatica International Hungary into Lottomatica Group as of March 23, 2010;
- €/000 8.719 for the merger of Lottomatica Sistemi into Lottomatica Group as of January 1, 2010 for;
- €/000 350,000 for the sell of the 43.75% participation in Lotterie Nazionali S.r.l.

Other Companies, €/000 11.423 (€/000 4.762 at December 31, 2009), refer to

- The 13.33% share in Banca ITB (previously Ayperos Technology S.p.A.) for €/000 3,348 (€/000 2,482 at December 31, 2009 for 15% share). On July 28, 2009 418,667 shares were sold at a price of €1,274 per share. The total cash in of €/000 533 resulted in a surplus of €/000 115 given the unit value of the shares was €1.00 per share
- The 16.58% interest participation increase in Neurosoft SA (Greek gaming, betting and factoring company) for €/000 8,074 (€/000 2.280 at December 31, 2009) following the acquisition dated May 8, 2009. The interest participation in Neurosoft went from 5% to 16.58%.

The table below reports the changes that occurred during the period as required by Article 2426, section 4 of the Italian civil code (thousands of Euros).

<i>In €</i>	12/31/2009	Increases	Decreases	12/31/2010
Lottomatica Italia Servizi S.p.A.	18,181,399	-	(7,268)	18,174,131
Lottomatica Sistemi S.p.A.	8,719,006	-	(8,719,006)	-
Consorzio Giochi Sportivi	85,000	-	-	85,000
Consorzio Lotterie Nazionali	10,080,000	-	-	10,080,000
Lottomatica Videolot Rete S.p.A.	13,836,966	-	-	13,836,966
Invest Games S.A.	1,848,754,741	1,145,175,499	-	2,993,930,240
Lottomatica International srl	595,978,319	-	(595,978,319)	-
Lottomatica Hungary	150,000,000	-	(150,000,000)	-
SED Multitel srl	10,004,000	-	-	10,004,000
Lottomatica Scemme s.r.l.	20,000,000	-	-	20,000,000
PCC Giochi e Servizi S.p.A.	-	20,823,458	-	20,823,458
Spielo Italia srl (già Lottomatica Bingo srl)	-	60,796	-	60,796
GTECH German Holding	41,715,000	6,172,044	-	47,887,044
Spielo Manufacturing	76,031,907	-	-	76,031,907
Spielo USA	1,904,093	-	-	1,904,093
Lotterie Nazionali srl	-	512,000,000	(350,000,000)	162,000,000
Lotterie Nazionali Holding srl	-	250,000,000	-	250,000,000
Lottomatica International Grecia	-	33,600	-	33,600
Atronic Americas	28,373,000	-	-	28,373,000
Banca ITB (Ayperos Technology S.p.A.)	2,481,543	866,667	-	3,348,210
Consel Consorzio	-	162	-	162
Neurosoft S.A.	2,280,000	5,794,154	-	8,074,154
Total	2,828,424,974	1,940,926,380	(1,104,704,593)	3,664,646,761

5. Other non-current assets

Other non-current assets for the period ended December 31, 2010 total €/000 4,222 (€/000 676 at December 31, 2009) and refer to:

- escrow deposits for €/000 669 (€/000 676 at December 31, 2009), of which €/000 55 (€/000 55 at December 31, 2009) for tender escrow deposits and €/000 615 (€/000 621 at December 31, 2009) for other assets;
- €/000 2,493 (zero at December 31, 2009) for financial verifications relative to future years charges on revolving credit lines (Revolving 400) open during the year 2010;
- €/000 580 (zero at December 31, 2009) for the fair value of the company's interest rate swap contracts at the date of December 31, 2010;
- €/000 480 (zero at December 31, 2009) for the option relatives to the purchase of all shares owned by Unicredit Merchant S.p.A. in Lotterie Nazionali Holding S.p.A.

In greater detail (in Euros):

Other non current assets (€)	12/31/2010	12/31/2009
Deposits for tenders	54,542	54,542
Other deposits	614,546	621,020
Financial balances	2,492,722	-
Interest rate swap	580,047	-
Call option credits	480,000	-
Total	4,221,857	675,562

6. Financial Instruments

Fair Value

A comparison by class of the carrying amounts and fair values of our financial instruments is reported in the chart below (thousands of Euros):

<i>(thousands of Euro)</i>	December 31, 2010		December 31, 2009	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets				
Cash and cash equivalents				
Cash and cash equivalents	33.615	33.615	375.164	375.164
	<u>33.615</u>	<u>33.615</u>	<u>375.164</u>	<u>375.164</u>
Current financial assets				
Intercompany financing	171.019	171.019	46.253	46.253
Cash-Pooling	415.980	415.980	369.088	369.088
Interests	4.145	4.145	1.602	1.602
Other intercompany	-	-	-	-
Other	2.601	2.601	133	133
	<u>593.744</u>	<u>593.744</u>	<u>417.076</u>	<u>417.076</u>
Financial liabilities				
Intetest bearing loans and borrowings				
Capital securities	735.836	735.836	733.181	733.181
Euro Bond 750	743.041	743.041	741.719	741.719
Euro Bond 500	493.795	493.795	-	-
Mandatory	29.953	29.953	56.390	56.390
Intercompany financing	79.602	79.602	-	-
Interest rate swap	2.975	2.975	843	843
Other	-	-	816	816
	<u>2.085.202</u>	<u>2.085.202</u>	<u>1.532.949</u>	<u>1.532.949</u>
Current financial liabilities				
Intercompany financing	9.178	9.178	6.650	6.650
Gaming Solution	3.999	3.999	81.002	81.002
Cash-Pooling	643.421	643.421	429.291	429.291
Interests	1.676	1.676	190	190
Other intercompany	6.314	6.314	18.324	18.324
Bank loans	151	151	-	-
	<u>664.739</u>	<u>664.739</u>	<u>535.457</u>	<u>535.457</u>
Short term liabilities				
Obligations	51.804	51.804	48.889	48.889
Other	32.409	32.409	29.923	29.923
	<u>84.213</u>	<u>84.213</u>	<u>78.812</u>	<u>78.812</u>

Current financial assets for the period ended December 31, 2010 total €/000 593,744 (€/000 417,076 at December 31, 2009) and consist of receivables for cash pooling towards subsidiaries for €/000 591,143 (€/000 416,943 at December 31, 2009).

Details of the receivables from principal subsidiaries is as follows (thousands of Euros):

Carrying Value	Lottomatica Lotterie Nazionali	Lottomatica Italia Servizi	Lottomatica Videolot Rete	Lottomatica Scommesse	Consorzio Lotterie Nazionali	GTECH Holdings	LIS Finanziaria	Labet	SED Multitel	Spielo Italia	LS Alpha	Consorzio Giochi Sportivi	Total
Financing	-	-	-	-	879	169,840	-	-	-	-	-	300	171,019
Cash-Pooling	-	-	262,776	131,779	-	-	-	1,167	7,656	10,483	2,119	-	415,980
Interests	45	2	2,823	690	477	-	89	2	5	-	7	5	4,145
Total	45	2	265,599	132,469	1,356	169,840	89	1,169	7,661	10,483	2,126	305	591,144

The fair values of our financial instruments were determined using the following methods and assumptions:

- Swap receivable was determined by comparing the present value of expected cash flows using current variable interest rates and the present value of expected cash flows using fixed interest rates
- Available-for-sale financial investments were stated at cost, which approximates fair value;
- Foreign currency forward contracts and net investment hedge were calculated by reference to current forward exchange rates for contracts with similar maturity profiles;
- Escrow and other deposits were stated at cost, which approximates fair value, and earn interest at market rates;
- Facilities approximate carrying amounts, excluding the effect of debt issuance costs;
- Notes due 2016, Capital Securities, Notes due 2018 and interest rate swaps were calculated by independent investment bankers using market interest rates;
- Swap Liability was determined by calculating the present value of expected cash flows using current interest rates;
- Acquisition related liabilities were determined using discounted cash flows;
- LTO Revolving Credit Facility approximates carrying amounts, excluding the effect of debt issuance costs; and
- Other financial liabilities were based on current market interest rates.

Fair value hierarchy

For the purpose of determining and disclosing the fair value of financial instruments by valuation technique, derivatives and available-for-sale financial investments are considered Level 2, through which an assessment is made using quoted prices in active markets for assets and liabilities. If the criteria is not applicable, the company applies a lower level evaluation, based on other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

7. Inventories

Inventories for the period ended December 31, 2010 total €/000 2,780 (€/000 1,844 at December 31, 2009) and consist almost entirely of Lotto playslips and receipts

8. Trade and other receivables

Trade and other receivables for the period ended December 31, 2010 total €/000 191,626 (€/000 93,561 at December 31, 2009) and refer to:

- *Receivables from customers* for €/000 5,781 (€/000 11,831 at December 31, 2009), net of allowance for doubtful accounts for €/000 792 (€/000 1,213 at December 31, 2009), which includes €/000 5,667 (€/000 11,813 at December 31, 2009) for Lotto concession fees for the last 2 drawings of the year (5 drawings at December 31, 2009).
- *Receivables towards sales network* for €/000 264 (€/000 278 at December 31, 2009), net of allowance for doubtful accounts for €/000 1,295 (€/000 1,298 at December 31, 2009). The sums

are mostly due from Giochi Sportivi and Tris that are no longer managed by Lottomatica, but rather Lottomatica Scommese, following the reorganization of regulated gaming. The allowance for doubtful accounts is enough to cover any losses incurred. For further information on the allowance for doubtful accounts please refer to Note 36.

- *Trade receivables towards Parent* for €/000 47 (zero at December 31, 2009) and refer to receivables towards De Agostini for costs incurred in the certification of the financial statements.
- *Tax receivables towards Parent* for €/000 16,763 (€/000 1,851 at December 31, 2009) towards B&D Holding di Marco Drago & Co S.a.p.A., €/000 463 (€/000 1,005 at December 31, 2009). as credit regarding the IRAP reimbursement for the years 2004 and 2005 submitted by Lottomatica to tax office, €/000 16,300, attributable to the tax benefit recognized by the B & D Holding di Marco Drago & Co. S.a.p.A. as consolidated company adheres to the National Tax Consolidation regulations of the De Agostini Group Companies, following the deliberation of the Board of Directors Meeting of September 9, 2004. The National Tax Consolidation Regulation for the Companies of the De Agostini Group was approved by the De Agostini Board of Directors Meeting of October 20, 2004. It regulates the relations between the B&D Holding and the companies which adhere to said regulation including Lottomatica, and aims to attain and ascribe the advantages derived from the application of the national tax consolidation pursuant to articles 117 to 129 of Presidential Decree no. 917 of December 22, 1986 and as modified by the cited Legislative Decree no. 344/2003 and Ministerial Decree of June 9, 2004.
- *Trade receivables towards subsidiaries* for €/000 168,769 (€/000 79,600 at December 31, 2009) consisting mainly of the charge-back of marketing costs, network services (related to the activation, connection and assistance to the points of sales), back-office services, administrative services for activities of management in the ordinary course of business, and contracts with the subsidiaries in normal market conditions.

In greater detail (in Euros):

Trade Receivables (€)	12/31/2010	12/31/2009
Receivables towards customers	5,781,138	11,831,410
-) Trade	6,573,214	13,044,448
-) Allowance for doubtful accounts	(792,076)	(1,213,038)
Receivables towards sales network	264,491	278,115
-) Trade	1,559,476	1,576,067
-) Allowance for doubtful accounts	(1,294,985)	(1,297,952)
Receivables towards subsidiaries	16,810,596	1,850,991
-) Trade	47,438	-
-) Tax	16,763,158	1,850,991
Receivables towards Parent	168,769,377	79,600,466
Total	191,625,602	93,560,982

For further information on the allowance for doubtful accounts please refer to Note 36.

9. Other current assets

Other current assets for the period ended December 31, 2010 total €/000 11,386 (€/000 9,836 at December 31, 2009) and include:

- Receivables for €/000 526 (€/000 356 at December 31, 2009) from social security institutions Asfalisis with reference to advanced payments to the pension funds;
- Other Receivables for €/000 9,187 (€/000 7,208 at December 31, 2009) of which €/000 6,693 (€/000 6,388 at December 31, 2009) include credits deriving from the withholdings of the

intercompany loan with GTECH Holding regarding liquidated interests due to Lottomatica. According to bilateral agreements between the US and Italy, such amounts will be transferred to the Parent Company under the national tax consolidation contract;

- A positive balance of €/000 1,148 (€/000 2,024 at December 31, 2009) of which €/000 636 (€/000 675 at December 31, 2009) are financial assets

In greater detail (in Euros):

Other current assets (€)	12/31/2010	12/31/2009
Receivables to Social Security Institutions	525,626	356,441
Other Assets	10,860,738	9,479,631
-) Tax withholdings on asset interests	130,181	75,170
-) Other receivable	9,186,649	7,207,997
-) Receivables towards Employee	395,761	172,850
-) Accrued interest income	1,148,147	2,023,614
Total	11,386,364	9,836,072

10. Tax receivables

Tax receivables for the year ended December 31, 2010 total €/000 2,061 (€/000 1,637 at December 31, 2009) and refer to IRAP tax assets for €/000 740 (€/000 1,558 at December 31, 2009) and IRES tax assets for €/000 1,321 (€/000 79 at December 31, 2009). In greater detail (in Euros):

Tax assets (€)	12/31/2010	12/31/2009
-) IRES	1,320,809	78,930
-) IRAP	739,778	1,558,294
Total	2,060,587	1,637,224

11. Cash and cash equivalents

Cash and cash equivalents for the year ended December 31, 2010 total €/000 33,615 (€/000 375,164 at December 31, 2009). In greater detail (in Euros):

Cash and cash equivalents (€)	12/31/2010	12/31/2009
Cash at bank	33,587,704	375,143,551
Cash on hand	27,486	20,268
Total	33,615,190	375,163,819

12. Equity

Equity for the year ended December 31, 2009 totals €/000 2,145,846 (€/000 2,088,213 at December 31, 2009) and is composed of:

- *Share Capital*: €/000 172,015 (€/000 172,015 at December 31, 2009) composed of 172,015,373 shares of €1.00 value.
- *Legal Reserve*: €/000 34,403 (€/000 30,457 at December 31, 2009) and as a result of the April 30, 2010 Shareholders' Meeting resolution it has increased by €/000 3.946.

The Lottomatica Board of Directors Meeting of March 3, 2010 approved the financial statements for the year ended December 31, 2009 and issued a resolution to supply a dividend of €0.74 per share.

Pursuant to the resolution approved by the Lottomatica Shareholders' Meeting of April 30, 2010, the distribution of net income of €/000 110,605 for the year ended December 31, 2009 is presented below (in Euros):

Net income distribution 2009	
- Shareholders' Meeting of April 30, 2010 -	
-) Dividends (€0.74 per share)	124,815,185
-) Legal Reserve	3,945,708
-) Earnings carried forward	(14,518,492)
-) Use of Share premium reserve	(3,637,055)
Total	110,605,346

Share premium reserve totals €/000 1,705,628 (€/000 1,404,252 at December 31, 2009), showing an increase of €/000 301,376 due to the reserve increase operation dated June 30, 2010, following the expiration time for the purchase of own shares on the market. The chart below details the reserve transactions in 2011 (in thousands of Euros):

Share Premium Reserve (€/000)	
Balance at 12.31.2009	1,404,252
-) Dividend distribution 2009	(3,637)
-) Adjustments to capital increases 2009	200
-) Mandatory expenses	(2,453)
-) Reconstitution reserve (June 30, 2010)	307,266
Balance at 12.31.2010	1,705,628

- *Treasury Share Reserve*: totals €/000 60,113 (€/000 63,502 at December 31, 2009) represents a similar amount used for the buy-back operation adjusted by the fair value of the restricted stock of the portfolio according to the stock option plans issued by the company and carried out in June and September 2010. At December 31, 2010, the number of Treasury shares held by Lottomatica Group is 3,167,552, equal to approximately 1.841 % of share capital.
- *Other Reserves*, totals €/000 108,372 (€/000 419,865 at December 31, 2009) and is detailed below (in thousands of Euros):

Other reserves €/000	Share based payment reserve	Other	Financial reserve	Treasury Share portfolio reserve	Share premium reserve	Article 2349 Reserve	Swap option Reserve	Total
Balance at 12/31/2008	26,539	34,067			382,096	1,833	4,180	448,715
Free share attribution	(7,075)	(2,607)						(9,682)
Stock option costs	915							915
Financial reserves			(19,513)					(19,513)
Swap option amortization							(570)	(570)
Balance at 12/31/2009	20,379	31,460	(19,513)		382,096	1,833	3,610	419,865
Share based payments	(154)	(113)						(267)
Buy back	(18,033)	29,360		60,113	(382,096)			(310,656)
Swap option amortization							(570)	(570)
Balance at 12/31/2010	2,192	60,707	(19,513)	60,113		1,833	3,040	108,372

- *Share-based Payment Reserve* totals €/000 2,192 (€/000 20,380 at December 31, 2009) which includes an amount related to the authorization of the existing stock option plan of January 1, 2010 (€/000 20,379), net of freely attributed treasury shares for €/000 154. It also includes €/000 (18,033) relative to the end of buy back program, reclassified as "Other".
- *Other reserve* totals €/000 60,707 (€/000 31,460 at December 31, 2009). The change in the year is mainly due to the reclassification of Share premium reserve of €/000 11,328 for the shares of treasury stock purchased on the market in tranches and for the reclassification of the share-based payment reserve for €/000 18,033.
- *Ex Art. 2349 Reserve* totals €/000 1,834 (€/000 1,834 at December 31, 2009). The ex Art. 2349 Reserve was established by shareholders' resolution issued at the Shareholders' Meeting of April 23, 2007 in accordance with Company by-laws, for the destination of Company for share-based payment plans.
- *Financial Reserve* totals €/000 (19,513) (€/000 (19,513) at December 31, 2009) and refer to the Atronic, Spielo and GTECH German acquisitions.
- *Swap Option Reserve:* totals €/000 3,040 (€/000 3,610 at December 31, 2009) and has decreased by €/000 570 as a result of the amortization. Prior to the issuance of the Capital Securities in May 2006, Lottomatica Group entered into swap option contracts for €375 million with financial institutions that effectively limited the Company's exposure to movements in interest rates from the date it entered into the swap option contracts to the date that pricing was fixed on the Capital Securities issuance. The swap option contracts were terminated during May 2006 for earnings of approximately €5.7 million, which was recorded to in Other Reserves in the Statement of Changes in Equity and is being amortized over 10 years.
- *Earnings (loss) carried forward:* €/000 112,662 (€/000 14,518 at December 31, 2009) and reports earnings carried forward from previous years for €/000 185,540 (€/000 125,123 at December 31, 2009). The increase reported in 2010 refers to the merger by incorporation subsidiaries Lottomatica Hungary (€/000 89,703), Lottomatica International S.r.l. (€/000 23,912) and Lottomatica Sistemi S.p.A. (€/000 952) into Lottomatica Group.
- *Earnings (loss) for the year:* total €/000 72,878 (€/000 110,605 at December 31, 2009).

The buy-back reserve (€/000 382,096 at December 31, 2009) was terminated due to expiry of the buyback plan.

The captions of the Equity holders of the parent indicating the usage in term of dividends distribution are reported below:

Nature/Description (€ in thousand)	Amount	Use	Distribution quota
Capital	172,015		
Capital reserves			
Share premium reserve	1,705,628	A-B-C	1,686,024
Other reserves	48,260	A-B	-
Earning Reserves			
Legal reserve	34,403		

Profit carried forward	112,662	A-B-C	112,662
Net income	72,878	A-B-C	72,878
Total reserves	1,973,831		1,871,565

- A: Capital increase
 B: Loss Reorganization
 C: Distribution

The reserves and retained earnings are non-distributable to the members totals € 000 102,266 (€/000 431,999 at December 31, 2009) and primarily referred to

- Legal Reserve;
- Share Premium Reserve of €/000 19,603 (€/000 26,713 at December 31, 2009) regarding the unrealized deferred taxes for capital increase accessory expenses;
- Reserve generated by stock compensation expenses still to be vested €/000 62,899 (€/000 51,840 at December 31, 2009);
- Swap option reserve (for the part still to be amortized) for €/000 570 (€/000 570 at December 31, 2009);
- €/000 1,833 (€/000 1,833 at December 31, 2009) allotted to the freely distributed stock option plan for Company employees approved at the Shareholders' Meeting of April 23, 2007;
- Financial reserves for €/000 (19,513) (€/000 (19,513) at December 31, 2009) as a result of the acquisitions of Atronic, Spielo and GTECH German.

13. Debts

<i>(Thousand of Euro)</i>	December 31, 2010	December 31, 2009
Long term debt, less current portion		
Capital securities	735.836	733.181
750 Euro bond	743.041	741.719
750 Euro bond	493.795	
Mandatory	29.953	56.390
Intercompany financing	79.602	-
Interest rate swap	-	843
Other	2.975	816
	<u>2.085.202</u>	<u>1.532.949</u>
Short term borrowing		
Intercompany debts	664.588	535.457
Other	151	-
	<u>664.739</u>	<u>535.457</u>
Current portion of long-term debt		
Capital securities and other	51.804	48.889
Mandatory	32.409	29.923
	<u>84.213</u>	<u>78.812</u>

Capital Securities

On May 17, 2006, Lottomatica issued €750 million of subordinated interest-deferrable Capital Securities due March 2066 (“Capital Securities”) in order to complete the GTECH acquisition. The Capital Securities have a fixed coupon rate of 8.25% (*midswap* at 10 years plus 405 basis points) payable annually through March 31, 2016 and thereafter, have a variable interest rate of six-month Euribor plus 505 basis points payable semi-annually. The Capital Securities have received a rating equal to a BB and Ba3 by *Standard & Poor’s Rating Service* and *Moody’s Investors Service Limited*, respectively. The Capital Securities as defined by Rule 144 of the U.S. Securities Act of 1933 may be offered or sold only outside the United States to certain institutional investors, or within the United States to or for the account or benefit of U.S. persons in favor of qualified institutional buyers. The Capital Securities are listed on the Luxembourg Stock Exchange.

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

The Capital Securities allow Lottomatica to optionally defer coupon payments and mandates deferral of coupon payments if Lottomatica is in breach of the interest coverage ratio as defined in the Capital Securities agreement. Under circumstances described in the Capital Securities agreement, Lottomatica is required to settle deferred coupon payments in cash or equity. Lottomatica is restricted from paying any dividend prior to settling deferred coupon payments.

The terms of the Capital Securities require Lottomatica to authorize the issuance of ordinary shares in order to adhere to the obligation of maintaining a minimum amount of capital available defined as “*Sufficient Authorised Equity*”. The authorization to issue ordinary shares is 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 equivalent to the coupon payments due during the

following two-year period. As of December 2009, the issuance of shares was authorized for €/000 170,000. Accumulated interest for the two-year period total approximately €/000 124,000.

Capital Securities is composed of the following in line with accumulated amortizations (in thousands of Euros):

Capital Securities	
Nominal Value	750,000
Debt Issuance	(26,557)
Accumulated amortization	12,393
Net value at 12/31/2010	735,836

Euro Bond 750

In December 2009, Lottomatica successfully concluded the placement among qualified investors of a €750 million 7-year *senior unsecured non-convertible bond* ("Bond 750"). The Bond 750 are unconditionally and irrevocably guaranteed by GTECH and the Other Guarantors. The Bond 750, which have received a rating equal to a Baa3 and a BBB- by Moody's Investors Service Limited and Standard & Poor's Rating Service, respectively, are listed on the Luxembourg Stock Exchange. The notes have an issue price of 99.504%. Interest is payable annually in arrears, with the first payment due on December 5, 2010, at 5.375% per annum, and is subject to adjustment from time to time in the event of a step up rating change or step down rating change. In the event of a step up or step down rating change, the interest rate shall be increased or decreased by 1.25% per annum, provided that at no time during the term of the Notes will the interest rate be higher than 6.625% or lower than the initial rate of interest of 5.375%. Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at 100% of their principal amount on December 5, 2016. The Notes may be redeemed at any time after January 4, 2010 by the Issuer, in whole but not in part, at the greater of (i) 100% of their principal amount together with any accrued interest or (ii) an amount specified in the terms and conditions to the Notes. The Notes may also be redeemed in whole, but not in part, at 100% of their principal amount at the option of the Issuer in the event of certain changes affecting taxation. Holders of the Bond 750 may require Lottomatica to redeem the Notes in whole or in part at 100% of their principal amount plus accrued interest following the occurrence of certain events specified in the terms and conditions of the Bond 750. The proceeds of the Notes, net of associated fees and costs, were used to repay long term debt of €/000 360.000, a portion of the GTECH Senior Credit Facilities and other debt. Debt issuance costs associated with the Bond 750 are being amortized over approximately seven years beginning December 2009.

The Bond 750 are composed of the following (thousands of Euros):

Euro Bond 750	
Nominal Value	750,000
Debt Issuance	-
Accumulated amortization	(6,959)
Net value at 12/31/2010	743,041

Euro Bond 500 (exp. 2018)

In December 2010, Lottomatica issued €500 million of guaranteed notes due February 2, 2018 (the "Bond 500"). 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.

The proceeds of the 2010 Notes, net of associated fees and costs, were used to repay a portion of the Lottomatica Revolving Credit Facility (as discussed below) and to prepay a portion of the GTECH Senior Credit Facilities (as discussed below).

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

The Bond 500 totals €/000 493,795 (zero at December 31, 2009) and is composed of the following (in line with amortization costs) (in thousands of Euros):

Euro Bond 500	
Nominal Value	500,000
Debt Issuance	(6,264)
Accumulated amortization	59
Net value at 12/31/2010	493,795

LTO Revolving Credit Facility 300 – New Revolving Credit Facility 400

Under the debt refinancing program, in December 2010 Lottomatica Group S.p.A. extinguished its €300 million revolving line of credit signed in May 2008, and replaced it with a new five year unsecured and unsubordinated revolving line of credit to €400 million, which will expire December 20, 2015. This line is unconditionally guaranteed by GTECH Corporation and other guarantors (GTECH Holdings Corporation, GTECH Rhode Island Corporation and Invest Games) and can be used in both euro and US dollar. The loan bears a variable interest rate determined by reference to LIBOR or EURIBOR plus a margin based on the Group's ratio of total net debt to earnings before interest, taxes, depreciation and amortization and the Group's senior unsecured long-term debt rating. A utilization fee is payable quarterly at a rate of a maximum of 0.4% (based on the real use of the line of credit), in addition to a facility fee payable quarterly at a rate of 37.5% of the margin.

These facilities have covenants and restrictions including, 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 December 31, 2010, we were in compliance with all applicable covenants.

Company Swap (Mandatory)

On November 20, 2009, the Shareholders’ Meeting approved an increase in Lottomatica share capital of €304,348,179.165 through the issue of 19,728,536 ordinary shares reserved for Mediobanca International (Luxembourg) S.A., at an issue price of €15.4268. The share capital increase will support a three-year mandatory exchangeable bond issued by UBI Banca International SA and placed with qualified investors, and its proceeds will support development plans in Italy, including a new investment in video lottery terminal rights. Upon maturity in 2012, the bonds will be exchanged with the Lottomatica Group newly issued shares held by Mediobanca International (Luxembourg) S.A. as depositary bank.

On November 24, 2009 Mediobanca subscribed the 19,728,536 according to the commitments signed with Lottomatica on October 20, 2009. The share capital increase supports a three-year mandatory exchangeable bond issued by UBI Banca International SA for a total amount of €350 million.

The Mandatory Exchangeable Bond issued by UBI Banca International S.A. was placed with qualified investors in Italy and abroad on October 20, 2009. The convertible shares are priced at €17.7408, the average Lottomatica share price - €15.4268 (four-day average) – plus a bonus of 15% of share price. Lottomatica entered into a swap agreement with Mediobanca whereby Mediobanca paid an upfront fixed amount to Lottomatica corresponding to the 15% premium. Mediobanca will also pay semi-annually to Lottomatica an amount corresponding to the fees due under a stock lending agreement regarding certain shares owned by Lottomatica. Lottomatica will pay semi-annually to Mediobanca fixed interest payments on the Bonds that are not converted at any interest payment date. The long term portion totals €/000 29,953 (€/000 56,390 at December 31, 2009). The discount effect is recognized as a financial liability in the financial position under “Other financial costs”.

Short term borrowings

Short term borrowings for the year ended December 31, 2010 total €/000 664,739 (€/000 535,457 at December 31, 2009) and refer almost entirely to debts towards subsidiaries for a total of €/000 664,588 (€/000 535,457 at December 31, 2009). In greater detail (in Euros):

Short term borrowings (€)	12/31/2010	12/31/2009
-) Bank	151,260	-
-) Subsidiaries	664,587,637	535,456,948
Total	664,738,897	535,456,948

Short term borrowing primarily refers to:

- o Payables towards Lotterie Nazionali, consisting of cash pooling for €/000 285,645 (zero at December 31, 2009), including €/000 2 (€/000 125 at 12/31/2009) in interests and €/000 116 (zero at December 31, 2009) in proceeds by Lottomatica Group on behalf of the Lotterie Nazionali points of sale for €/000 2.567 (zero at December 31, 2009);
- o Payables towards Consorzio Lotterie Nazionali, consisting of cash pooling for €/000 109.478 (€/000 247,591 at December 31, 2009), including €/000 402 (€/000 2 at December 31, 2009) in interests and €/000 1,248 (€/000 13,463 at December 31, 2009) in proceeds by Lottomatica Group on behalf of the Consorzio Lotterie Nazionali points of sale for €/000 1,248 (€/000 13,463 at December 31, 2009);

- cash pooling for Lottomatica Italia Servizi S.p.A. for €/000 82,653 (€/000 125,846 at December 31, 2009) including €/000 455 (€/000 3 at December 31, 2009) in interests and €/000 281 (€/000 2.840 at December 31, 2009) for services rendered by Lottomatica Group on behalf of Lottomatica Italia Servizi S.p.A.;
- cash pooling for Totobit Informatica S.p.A. for €/000 63,731 (€/000 47.474 at December 31, 2009), including €/000 336 (€/000 2 at December 31, 2009) in interests;
- Payables towards Invest Games S.A., for €/000 2,190 (€/000 256 at December 31, 2009), and refer to the fees arising from new financing.

In greater detail (in thousands of Euros):

	Lottomatica Italia Servizi	Consorzio Lotterie Nazionali	Lottomatica Videolot Rete	GTECH Holdings	Labet	LIS Finanziaria	Toto Carovigno	Lotterie Nazionali	Invest Games	PCC GS	SED Multitel	Totobit Informatica	Total
-) Financing										9,178			9,178
-) Cash Pooling	81,916	107,829				91,405	13,231	285,645				63,394	643,420
-) Gaming Solution	-	-	-	3,999	-	-	-	-	-	-	-	-	3,999
-) Interests	455	400	28		2	196	41	116		54	74	336	1,702
-) Other	283	1,249	-					2,567	2,190				6,289
Total	82,654	109,478	28	3,999	2	91,601	13,272	288,328	2,190	9,232	74	63,731	664,588

Short term payments on long term loans

Short term payments on long term loans total €/000 84,213 (€/000 78,812 at December 31, 2009) and consist of:

- interest matured on the Capital Securities for €/000 46,618 (€/000 46,618 at December 31, 2009);
- short term payment due to Mediobanca as part of semi-annual interest payments on Bond for €/000 32.409 (€/000 29,924 at December 31, 2009);
- Interests accrued on 750 Bond for €/000 2,926 (€/000 3,147 at December 31, 2009);
- Interests accrued on new 500 Bond for €/000 2,239 (zero at December 31, 2010);
- Short term payment LTO Revolving credit facility for €/000 20 (€/000 22 at December 31, 2009).

14. Staff Severance Fund (TFR)

The total cost, at net value, for the annual Staff Severance Fund for the years ended December 31, 2010 and 2009 is summarized in the following chart (in thousands of Euros):

<i>(thousands of euros)</i>	December 31, 2010	December 31, 2009
Balance at January 1	4,906,888	4,809,816
Costo annuale del piano	3,288,654	2,566,207
Actuarial gain (loss)	(245,616)	310,307
Other	(2,127,270)	(2,779,442)
Balance at December 31	5,822,656	4,906,888

The Staff Severance Fund is a defined benefit plan. The cost of providing benefits under the plan is determined using the projected unit credit actuarial valuation method.

This method involves the following procedures:

- projections were made based on a series of financial assumptions (increase in the cost of living, increase in wages, etc), any future benefits that could be paid to each employee subscribing to

the program as a result of retirement, death, invalidity, resignation etc. The estimate of future benefits also included any further increases related to seniority that may have accrued, as well as a presumed increase in the remuneration level earned at the time of valuation;

- at the time of valuation, the present average value of future benefits was calculated, on the basis of the annual interest rate applied and the likelihood of single benefits being actually paid;
- the liability for the Company was established by identifying the share of the present average value of future benefits in relation to service already accrued by the employee with the Company at the time of valuation;
- the reserve recognized as valid for IAS purposes was identified on the basis of the liability established using the method outlined in the paragraph above and the reserve set-aside for the purposes of the Italian statutory financial statements.

The chart below reports the assumptions made in the calculation of the TFR actuarial debt:

Financial Hypothesis	12/31/2010		12/31/2009	
	Manager	Staff	Manager	Staff
Increase in Cost of Living	2,00%	2,00%	2,00%	2,00%
Discount Rate	4,30%	4,30%	4,10%	4,10%
Compensation Increase				
- 40 years old and under	2,75%	2,50%	2,75%	2,50%
- over 40 years old up to 55	2,50%	2,25%	2,50%	2,25%
- over 55 years old	2,25%	2,00%	2,25%	2,00%

Demographic Hypothesis	Manager	Staff	Manager	Staff
<u>Probability of Death</u>	Mortality Table RG48 published by Ragioneria Generale dello Stato	Mortality Table RG48 published by Ragioneria Generale dello Stato	Mortality Table RG48 published by Ragioneria Generale dello Stato	Mortality Table RG48 published by Ragioneria Generale dello Stato
<u>Probability of invalidity</u>	Unisex Table edited by C.N., and reduced by 70%	Unisex Table edited by C.N., and reduced by 70%	Unisex Table edited by C.N., and reduced by 70%	Unisex Table edited by C.N., and reduced by 70%
<u>Probability of Resignation</u>				
- up to 50 years old	4% each year	3% each year	4% each year	3% each year
- over 50 years old	none	None	none	None
<u>Probability of Retirement</u>				
- upon reaching 60 years old	35%	60%	35%	60%
- up to 65 years old	(100% for women)	(100% for women)	(100% for women)	(100% for women)
- upon reaching 65 years old	100%	100%	100%	100%
<u>Probability of receiving an anticipated Severance Fund of up to 70% at the beginning of the year</u>	3% each year	3% each year	3% each year	3% each year

The financial hypothesis for the year ended December 31, 2010 were adjusted compared to the same period of the previous year. These adjustments were introduced in order to reflect the increase in interest rates in the financial market for low risk bonds. There has been no adjustment taken into consideration regarding a demographic hypothesis. The characteristics of the TFR plans are in line with the forecasts made in 2009.

The impact of the new legislation issued in the course of the year for companies exceeding 50 employees is valued with the "Traditional Unit Credit Method" in adherence to IAS 19. The characteristics of the TFR plans are in line with the forecasts made in 2009.

15. Deferred tax liabilities

Deferred tax liabilities for the year ended December 31, 2010 total €/000 36,561 (€/000 21,290 at December 31, 2009). In application of IAS 12, deferred tax assets have been compensated by deferred tax liabilities where legally possible.

Deferred Taxes	
Balance at 12/31/2008	31,791,872
-) Increases	6,632,166
-) Decreases	(17,134,253)
Balance at 12/31/2009	21,289,785
-) 2010 taxes	9,872,479
-) 2010 "netting" taxes	5,399,005
Balance at 12/31/2010	36,561,269

16. Long term provisions

Long term provisions for the year ended December 31, 2010 total €/000 9,250 (€/000 11,407 at December 31, 2009). In greater detail (in Euros):

Provisions (€)	Balance at 12/31/2009	Increases	Utilized	Balance at 12/31/2010
-) Legal	7,168,329	-	(2,287,809)	4,880,520
-) Tax	3,669,243	84,033	-	3,753,276
-) Other	569,274	46,606	-	615,880
Total	11,406,846	130,639	(2,287,809)	9,249,676

Increases in the year ended December 31, 2010 for €/000 131 refer to hedge reserves made for legal suits in course.

The use of the legal provisions for €/000 2,288 refer to the Sisal suit for €/000 1,200 and for the Ticket One suit for €/000 1,088. For further details, referred to § 35 of this Report.

The risk allowance in the present financial statement are not affected the actualization insofar as the actualization itself is not significant.

17. Trade and other payables

Trade and other payables for the year ended at December 31, 2010 total €/000 134,844 (€/000 101,661 at December 31, 2009) and consist of:

- *Trade payables towards suppliers* total €/000 63,634 (€/000 56,143 at December 31, 2009) consisting of unpaid invoices recorded at December 31, 2010, and interests matured on costs incurred in 2010, for which the necessary documentation has been sent after the closing of the year ended December 31, 2010. The payables are connected to the purchase of goods and services for the activities of the period and investment programs under way;
- *Payables to subsidiaries* total €/000 54,986 (€/000 36,796 at December 31, 2009) for normal activities carried out regarding management and for contracts signed with the subsidiaries in accordance with market conditions. Significantly, payables relative to SED Multitel for €/000 28,130 (€/000 8,555 at December 31, 2009); Lotterie Nazionali for €/000 5,096 (zero at December 31, 2009) for general services; PCC Giochi e Servizi for €/000 1,876 (€/000 727 at December 31, 2009) for the production of paper materials; Totobit, for €/000 3,423 (€/000 6,013

at December 31, 2009) in network management services and €/000 15,907 (€/000 9,683 at December 31, 2009) for general services rendered by the subsidiary GTECH Corporation under normal market conditions;

- *Payables to the Parent* total €/000 7,448 (€/000 3,817 at December 31, 2009), for services rendered to De Agostini S,p,A under normal market conditions, of which €/000 7,137 (€/000 3,415 at December 31, 2009) towards Dea Factor for credit recovery services;
- *Tax payables to Parent* total €/000 8,776 (€/000 4,905 at December 31, 2009) and includes €/000 2,681 (€/000 3,272 at December 31, 2009) in VAT debt as participant in the VAT liquidation procedure pursuant to Article 73, last point, of Presidential Decree no. 633/1972. It also includes tax payables for the year ended December 31, 2010 for €/000 6,095 (€/000 1,633 at December 31, 2009) since the company has repaid the receivables due to D&D Holding in accordance with the National Tax Consolidation of the De Agostini Group Companies, following the deliberation of the Board of Directors Meeting of September 9, 2004. The National Tax Consolidation Regulation for the Companies of the De Agostini Group was approved by the De Agostini Board of Directors Meeting of October 20, 2004. It regulates the relations between the B&D Holding and the companies which adhere to said regulation including Lottomatica, and aims to attain and ascribe the advantages derived from the application of the national tax consolidation pursuant to articles 117 to 129 of Presidential Decree no, 917 of December 22, 1986 and as modified by the cited Legislative Decree no, 344/2003 and Ministerial Decree of June 9, 2004. The new Regulation for the De Agostini Group issued in order to safeguard the economic/financial interests of the individual sub holdings is in effect as of January 1, 2008 and was approved in the Lottomatica Board of Directors meeting on April 28, 2009.

Trade payables are normally settled in 30-60-90 days. In greater detail (in Euros):

Trade Payables (€)	12/31/2010	12/31/2009
Payables towards suppliers	63,633,946	56,143,480
Payables towards the Parent	54,985,835	36,796,018
Payables towards subsidiaries	16,223,949	8,721,414
-) Trade	7,448,007	3,816,818
-) Tax	8,775,942	4,904,596
Total	134,843,730	101,660,912

18. Other current liabilities

Other current liabilities for the year ended December 31, 2010 total €/000 25,382 (€/000 23,550 at December 31, 2009) and refer to:

- *Payables to Social Security Institutions:* total €/000 1,534 (€/000 2,217 at December 31, 2009) and refer almost exclusively to the payables due to social security institutions regarding the employee pension funds.
- *Defined Contribution Plans:* total €/000 668 (€/000 5770 at December 31, 2009) and specifically includes the Staff Severance Fund (TFR) quota matured as of January 1, 2007 to-date and deposited in the "Treasury Fund" managed by INPS, as well as to the complementary pension funds which are considered as "Defined Contribution Plans" according to IAS 19 - Employee benefits.
- *Other liabilities:* total €/000 23,181 (€/000 20,756 at December 31, 2009). The most significant amounts of other liabilities include:
 - *Payables to Personnel:* total €/000 16,703 (€/000 14,031 at December 31, 2009) which consist of payables to personnel matured as of December 31, 2010 in terms of productivity awards and accumulated unused vacation days.

- *Other payables*: total €/000 3,755 (€/000 2,514 at December 31, 2009) and consists of derived payables resulting from network service contracts for €/000 1,382 (€/000 1,382 at December 31, 2009) and €/000 20 (€/000 20 at December 31, 2009) in escrow deposits.

In greater detail (in Euros):

Other Current Liabilities (€)	12/31/2010	12/31/2009
Payables to Social Security Institutions	1,533,597	2,217,181
Defined Contribution Plans	667,627	577,404
Other payables within 12 months	23,180,608	20,755,583
-) Personnel	16,702,716	14,030,829
-) Other	3,755,346	2,514,235
-) Substituted tax	-	1,865,031
-) Irpef	2,571,232	2,189,148
-) Other tax payables	151,314	156,340
Total	25,381,832	23,550,168

The Company extinguished its secondary tax debt (€/000 1,865 at December 31, 2009) regarding amounts due to the State Treasury for the payment of the taxes regarding OBS tax deductions in 2009.

19. Income Tax Payables

Income tax payables for the year ended December 31, 2010 total €/000 1,411 (€/000 1,147 at December 31, 2009) and refer to payables towards the State Treasury.

COMPREHENSIVE INCOME STATEMENT

20. Sales and services revenues, other revenues

Revenues for the period ended December 31, 2010 total €/000 426,693 (€/000 456,738 at December 31, 2009) and relate almost entirely to the Lotto business for €/000 336,951 (€/000 362,127 at December 31, 2009). In greater detail (in Euros):

Revenues (€)	12/31/2010	12/31/2009	Difference
Sales and services Revenues	337,082,223	362,382,858	(25,300,635)
Gioco del Lotto wager revenues	336,950,944	362,126,736	(25,175,792)
Point of Sale revenues	131,279	256,122	(124,843)
Other revenues	89,611,104	94,355,365	(4,744,261)
Intercompany revenues	87,342,859	93,567,307	(6,224,448)
Other revenues	2,265,935	788,058	1,477,877
Surplus revenues	2,310	-	2,310
Total Revenues	426,693,327	456,738,223	(30,044,896)

For an in-depth analysis of revenues for the periods ended December 31, 2010 and 2009, please refer to the Lottomatica Group business Operating and Financial Review.

Other revenues for the period ended December 31, 2010 total €/000 89,611 (€/000 94,355 at December 31, 2009) due principally to revenues from intercompany operations for €/000 87,343 (€/000 93,567 at December 31, 2009) consisting of proceeds resulting from services provided at market conditions to various subsidiaries for the accounting services, employee secondment, IP network activation, etc.

Services from patent company are sold at normal market conditions.

22. Raw Materials, Services and Other Costs

Raw materials, services and other costs for the period ended December 31, 2010 total €/000 192,595 (€/000 216,009 at December 31, 2009).

Raw Material, Services and other costs (€)	12/31/2010	31/12/2009	Difference
-) Differences in Inventory	-	207,534	(207,534)
-) Raw material costs	20,842,648	20,873,495	(30,847)
-) Service costs	169,785,605	191,786,863	(22,001,258)
-) Other operating costs	1,966,555	3,141,067	(1,174,512)
Total	192,594,808	216,008,959	(23,414,151)

The individual items are detailed below.

Raw materials and consumables used

Raw materials and other consumables used for the period ended December 31, 2010 total €/000 20,843 (€/000 20,873 at December 31, 2009).

Raw material costs (€)	12/31/2010	31/12/2009	Difference
-) Paper products	17,605,354	17,603,515	1,839
-) EDP materials and consumables	2,947,945	3,035,012	(87,067)
-) Other	289,349	234,968	54,381
Total	20,842,648	20,873,495	(30,847)

The stock of paper products total €/000 17,605 (€/000 17,604 at December 31, 2009) and refer to playslips and receipts purchased.

Other costs for €/000 289 (€/000 235 at December 31, 2009) refer principally to gas and oil expenses for €/000 288 (€/000 209 at December 31, 2009).

Service costs

Service costs for the period ended December 31, 2010 total €/000 169,786 (€/000 191,787 at December 31, 2009).

Service Costs (€)	12/31/2010	12/31/2009	Difference
Network management	(870,637)	22,465,297	(23,335,934)
Maintenance	13,163,960	12,245,495	918,465
Office location costs	6,111,457	7,701,002	(1,589,545)
Point of sale assistance	7,602,649	7,721,837	(119,188)
Advertisement and promotional costs	36,334,923	50,648,831	(14,313,908)
Consulting costs	41,369,112	26,694,341	14,674,771
BoD costs	2,046,266	1,858,539	187,727
Group costs	40,999,769	41,919,441	(919,672)
Banking service expenses	3,107,077	2,435,795	671,282
Financial Statement certification	18,275	383,449	(365,174)
Other service costs	9,846,627	9,601,061	245,566
Rents paid	8,489,350	6,628,346	1,861,004
Miscellaneous rents	1,566,777	1,483,429	83,348
TOTAL	169,785,605	191,786,863	(22,001,258)

Network costs for the period ended December 31, 2010 total €/000 (871) compared to the €/000 22,465 for the same period of the previous year. The decrease is attributable the management of the network transferred to the subsidiary SED Multitel regarding previous years.

Advertisement and promotional costs for the period ended December 31, 2010 total €/000 36,335 compared to the €/000 50,649 for the same period of the previous year. The decrease is attributable to the reduction of advertising and sponsorship undertaken by the company during the year 2010.

Consulting costs for the period ended December 31, 2010 total €/000 41,369 compared to the €/000 26,694 for the same period of the previous year. The increase is attributable is attributable to increased activities of technical advice which the company benefited during the year 2010.

Other service costs for the period ended December 31, 2010 total €/000 9,847 (€/000 9,601 at December 31, 2009) refer principally to business travel expenses for €/000 3,248 (€/000 3,561 at December 31, 2009), pre-paid restaurant certificates for €/000 2,112 (€/000 1,616 at December 31, 2009), and insurance for €/000 1,547 (€/000 1,375 at December 31, 2009).

Leasing costs for the period ended December 31, 2010 €/000 8,489 (€/000 6,628 at December 31, 2009) for refer principally to the rents paid for the Group company offices.

Other operating costs

Other operating costs for the period ended December 31, 2010 total €/000 1,967 (€/000 3,141 at December 31, 2009).

Other operating costs (€)	12/31/2010	31/12/2009	Difference
-) Charity	538,245	664,481	(126,236)
-) Annual fees	193,119	90,529	102,590
-) Various taxes	900	72,615	(71,715)
-) Non deductible VAT	-	(1,131,552)	1,131,552
-) Other costs	3,233,991	3,241,500	(7,509)
-) Other allocations	(1,999,700)	203,494	(2,203,194)
Total	1,966,555	3,141,067	(1,174,512)

Other costs, €/000 3.234 (€/000 3.241 at December 31, 2009), include €/000 1.942 due to lower costs incurred in network management.

Other allocations for €/000 (2,000) (€/000 203 at December 31, 2009) include for the most part to asset regarding depreciation provisions in the financial position of the Company, referred to previous years.

23. Personnel costs

Labor costs for the period ended December 31, 2010 total €/000 82.022 (€/000 68,830 at December 31, 2009).

Personnel costs	12/31/2010	12/31/2009	Difference
Wages and Salaries	62,457,361	50,058,366	12,398,995
Social Security	18,163,349	14,733,296	3,430,053
Staff Severance Fund (TFR)	3,043,038	2,876,514	166,524
Stock Option costs	(306,557)	(82,427)	(224,130)
Other costs	(1,334,966)	1,244,402	(2,579,368)
TOTAL	82,022,225	68,830,151	13,192,074

- In addition to normal personnel costs, Wages and Salaries and Social Security costs include early severance packages.
- Staff severance fund costs include the effects of actualization
- Stock options costs for €/000 (307) (€/000 (82) at December 31, 2009) were accounted for according to the procedures set forth under IFRS 2 and break down as follows:
 - €/000 500 (€/000 954 at December 31, 2009) for Retention plans;
 - €/000 (491) (€/000 788 at December 31, 2009) for Restricted stock plans;
 - €/000 (316) (€/000 (1,824) at December 31, 2009) for stock compensation costs.

The information for the period ended December 31, 2010 refer to the 2005-2010 Stock Option Plan as well as to new plans issued as of August 29, 2006. For further information please refer to the other sections in the present document.

At December 31, 2010 the Company was composed of 1,165 employees (878 at December 31, 2009).

	12/31/2010	31/12/2009	Diff.
Executives	69	59	10
Jr Management	140	122	18
Office Staff	954	697	257
Workers	2	-	2
Total	1,165	878	287

24. Assets Depreciation, amortization and credit depreciation

Depreciations and amortizations for the period ended December 31, 2010 total €/000 30,630 (€/000 32,530 at December 31, 2009) and refer to:

- *Intangible asset depreciation*: €/000 182 (zero at December 31, 2009);
- *Credit depreciation*: €/000 69 (€/000 68 at December 31, 2009) which refer to the allowance for doubtful accounts for reserved for customers;
- *Intangible asset amortizations*: €/000 3,853 (€/000 6,156 at December 31, 2009).
- *Fixed asset amortizations*: €/000 26,526 (€/000 26,306 at December 31, 2009), including €/000 18,587 (€/000 18,313 at December 31, 2009) for FDA assets.

Assets depreciation, amortization and credit depreciation (€)	12/31/2010	12/31/2009	Difference
Intangible asset depreciation	181,921	-	181,921
Credit depreciation	68,901	68,000	901
Fixed asset amortization	7,939,453	7,992,545	(53,092)
-) Property depreciation	4,558,234	3,778,512	779,722
-) Plant and Machinery depreciation	2,846,182	3,743,734	(897,552)
-) Other asset depreciation	535,037	470,299	64,738
Fixed asset amortization FDA	18,586,886	18,313,293	273,593
-) Plant and Machinery depreciation	17,843,789	18,265,122	(421,333)
-) Other asset depreciation	743,097	48,171	694,926
Intangible asset amortization	3,853,282	6,156,448	(2,303,166)
-) Patent amortization	2,551,664	2,269,275	282,389
-) Concession and license amortization	1,301,618	999,412	302,206
-) Other asset amortization	-	2,887,761	(2,887,761)
TOTAL	30,630,443	32,530,286	(1,899,843)

25. Share dividends

Share dividends for the year ended December 31, 2010 total €/000 77,709 (€/000 84,751 at December 31, 2009) and refer to the dividend provisions for the period.

Dividends (€)	12/31/2010	31/12/2009	Difference
Consorzio Lotterie Nazionali	77,708,602	74,170,277	3,538,325
Lottomatica International S.r.l.	-	4,580,340	(4,580,340)
Lottomatica International Hungary	-	6,000,000	(6,000,000)
Total	77,708,602	84,750,617	(7,042,015)

26. Foreign exchange gain (loss), net

Foreign exchange gain (loss), net for the year ended December 31, 2010 total €/000 77 (net costs of €/000 669 at December 31, 2009) and include

- *Foreign exchange gains* for €/000 240 (€/000 356 at December 31, 2009), and refer almost refer to earnings realized on payments made by the subsidiary GTECH and fees relative to intercompany guarantees for current borrowings
- *Foreign exchange losses* for €/000 317 (€/000 1,020 at December 31, 2009), of which €/000 242 (€/000 240 at December 31, 2009) are non-realized (non-monetary) and refer to valorization of foreign exchange towards GTECH.

Foreign exchange gain (loss), net (€)	12/31/2010	12/31/2009	Difference
-) Monetary foreign exchange gain	239,860	255,197	(15,337)
-) Non-monetary foreign exchange gain	-	100,499	(100,499)

-) Cost of Monetary foreign exchange	(242,331)	(21,470)	(220,861)
-) Cost of Non-monetary foreign exchange	(74,689)	(240,080)	165,391
-) Gain/loss from monetary foreign exchange realized -		(763,646)	763,646
TOTAL	(77,160)	(669,500)	592,340

27. Net intercompany interest

Net intercompany interest for the year ended December 31, 2010 total €/000 948 (€/000 5,117 at December 31, 2009), and break down as reported in the chart below (in Euros):

Intercompany interest	12/31/2010	12/31/2009	Difference
Interest income on intercompany borrowings	10,412,395	11,984,885	(1,572,490)
GTECH Holdings Corporation	6,730,558	5,365,372	1,365,186
Lottomatica Videolot Rete S.p.A.	2,063,143	2,966,258	(903,115)
Lottomatica Scommesse S.r.l.	1,147,022	2,117,004	(969,982)
Consorzio Lotterie Nazionali	344,740	908,147	(563,407)
LIS Finanziaria S.r.l.	61,222	138,622	(77,400)
Lotterie Nazionali S.r.l.	45,668	-	45,668
LS Alpha S.r.l.	6,752	-	6,752
SED Multitel S.r.l.	5,403	2,826	2,577
Consorzio Lottomatica Giochi Sportivi	3,927	5,342	(1,415)
Labet S.r.l.	2,320	-	2,320
Lottomatica Italia Servizi S.p.A.	1,640	-	1,640
Lottomatica Sistemi S.p.A.	-	481,314	(481,314)
Interest expense on intercompany borrowings	(9,464,412)	(6,868,154)	(2,596,258)
GTECH Holdings Corporation	(5,352,902)	(2,440,280)	(2,912,622)
Invest Games S.A.	(2,189,658)	(256,162)	(1,933,496)
Consorzio Lotterie Nazionali	(697,502)	(1,255,114)	557,612
Lottomatica Italia Servizi S.p.A.	(452,423)	(848,432)	396,009
Totobit Informatica S.p.A.	(334,092)	(560,709)	226,617
LIS Finanziaria S.r.l.	(195,710)	(266,008)	70,298
Lotterie Nazionali S.r.l.	(115,789)	-	(115,789)
PCC Giochi e Servizi S.p.A.	(53,632)	(106,276)	52,644
Toto Carovigno	(40,868)	-	(40,868)
SED Multitel S.r.l.	(29,964)	(44,081)	14,117
Labet S.r.l.	(1,766)	-	(1,766)
LS Alpha S.r.l.	(106)	-	(106)
Lottomatica International Hungary	-	(1,020,815)	1,020,815
Lottomatica International S.r.l.	-	(42,071)	42,071
Lottomatica Videolot Rete S.p.A.	-	(28,206)	28,206
Total	947,983	5,116,731	(4,168,748)

28. Interest expenses on financial instruments

Interest expense on financial instruments for the year ended December 31, 2010 total €/000 110,570 (€/000 92,784 at December 31, 2009) are showed below:

Interests on financial instruments	12/31/2010	12/31/2009	Changes
-) Hybrid	(64,530,670)	(64,658,471)	127,801
Hybrid interests	(61,875,000)	(62,002,801)	127,801
Debt issuance cost amortization	(2,655,670)	(2,655,670)	-
Swap Option	570,000	570,000	-
Swap Option amortization	570,000	570,000	-
-) EuroBond 750	(41,274,112)	(3,217,870)	(38,056,242)
EuroBond 750 interests	(40,312,500)	(3,146,857)	(37,165,643)
Debt issuance cost amortization	(961,612)	(71,013)	(890,599)
-) EuroBond 500	(2,298,970)	-	(2,298,970)
EuroBond 500 interests	(2,239,583)	-	(2,239,583)
Debt issuance cost amortization	(59,387)	-	-
-) Long Term Facility 360	-	(18,694,406)	18,694,406
Long Term Facility 360 interests	-	(1,261,755)	1,261,755
Debt issuance cost amortization	-	(17,432,651)	17,432,651
-) Revolving 300 Facility	(2,370,213)	(1,579,055)	(791,158)
Revolving 300 interests	(1,870,222)	(1,326,546)	(543,676)
Debt issuance cost amortization	(499,991)	(252,509)	(247,482)
-) Revolving 400 Facility	(609,981)	-	(609,981)
Revolving 400 commissions	(609,981)	-	(609,981)
-) IRS	-	(5,104,381)	5,104,381
IRS interests	-	(1,832,661)	1,832,661
Other costs	-	(3,271,720)	3,271,720
-) Mandatory	(3,075,186)	-	(3,075,186)
Mandatory amortization	(3,040,784)	-	(3,040,784)
Swap - Effectiveness Impact	(34,402)	-	(34,402)
-) Interest rate Swap	3,021,095	-	3,021,095
-) Others	(1,715)	(99,515)	97,800
TOTAL	(110,569,752)	(92,783,698)	(17,786,054)

29. Income taxes

Income taxes for the period ended December 31, 2010 total €/000 15,460 (€/000 22,386 at December 31, 2009) and consist of the following:

- Current taxes, for a total tax benefit of €/000 (3,529) (€/000 8,756 in taxes at December 31, 2009), of which €/000 (10,043) tax benefits (€/000 1,633 in taxes at December 31, 2009) refer to IRES and €/000 6,515 (€/000 7,123 at December 31, 2009) refer to IRAP. Both IRES and IRAP are calculated based on tax legislations in vigor.
- Deferred tax assets total €/000 10,289 (€/000 8,774 at December 31, 2009) due principally to the combined effect produced by the deferred tax assets in 2010 for €/000 392 (€/000 237 at December 31, 2009), the use of deferred tax assets from previous years for €/000 10,681 (€/000 2,794 at December 31, 2009) and €/000 8,820 (€/000 6,217 at December 31, 2009) in deferred tax assets from accessory costs for the capital increase.
- Deferred tax liabilities total €/000 9,872 (€/000 9,584 at December 31, 2009) due principally to the combined effect produced by the deferred tax liabilities in FY2010 for €/000 10,356 (€/000 10,125 at December 31, 2009) and recovery from previous years for €/000 484 (€/000 541 at December 31, 2009);
- Taxes carried forward for €/000 (1,173) (€/000 (4,728) at December 31, 2009).

In greater detail (in Euros):

Taxes	12/31/2010	12/31/2009	Difference
IRAP	6,514,874	7,123,194	(608,320)
IRES	(10,043,375)	1,632,577	(11,675,952)

Deferred tax asstes	10,289,076	8,774,212	1,514,864
Deferred tax liabilities	9,872,479	9,584,281	288,198
Current tax assets	(1,480,965)	(10,690,658)	9,209,693
Current tax liabilities	307,963	5,962,510	(5,654,547)
TOTAL	15,460,052	22,386,116	(6,926,064)

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

	Balance sheet 2010	Assets differences 2009-2010	Economic differences 2009-2010	Balance sheet 2009
Deferred tax assets <i>(thousand of Euros)</i>				
So.Ge.I. goodwill amortization	-	-	(266)	266
COS goodwill amortization	158	-	(131)	289
Goodwill amortization	158	-	(397)	555
L.S. goodwill write-down	2,870	3,911	(1,041)	-
Goodwill write-down	2,870	3,911	(1,041)	-
Amortizations	191	-	28	163
Asset write-down	3	-	-	3
Write-downs	3	-	-	3
Accrual provisions	1,393	-	(700)	2,093
Allowance for doubtful accounts accrual	1,481	-	-	1,481
Other provisions	5	-	-	5
Provisions	2,879	-	(700)	3,579
CAPITAL INCREASE	19,603	1,084	(8,194)	26,713
Startup and expansion costs	-	-	-	-
Other intangible assets	-	-	-	-
Tax losses	-	-	-	-
Entertainment expenses	59	-	-	59
Unrealizd Exchange losses	84	-	-	84
BoD compensation	89	-	-	89
Other	156	-	(13)	169
Other temporary differences	388	-	(13)	401
TOTAL	26,092	4,995	(10,317)	31,414

	Balance sheet 2010	Assets differences 2009-2010	Economic differences 2009-2010	Balance sheet 2009
Deferred tax liabilities <i>(thousand of Euros)</i>				
Goodwill amortization	62,110	-	9,899	52,211
Write-downs	155	-	52	103
Total write-downs	62,265	-	9,951	52,314
Interest incomes	-	-	-	-
Unrealized Exchange revenues	133	-	-	133
Receivables write-downs	111	-	-	111
Actuarial gain/loss on Staff Severance Fund (TFR)	144	-	-	144
Other temporary differences	388	-	-	388
TOTAL	62,653	-	9,951	52,702
Net deferred tax liabilities	(36,561)	4,995	(20,268)	(21,288)

Total net deferred tax liabilities on Statement of comprehensive income (20,268)

Reconciliation of effective income tax rate	12/31/2010		12/31/2009					
Determination of effective tax rate		%		%				
Profit before income tax	88,339	100.00%	132,991	100.00%				
IRES	(6,095)	(6.90)%	(1,633)	(1.23)%				
Hungary taxes	(162)	(0.18)%	-	-				
Income from tax consolidation	16,300	18.45%	-	-				
IRAP	(6,515)	(7.37)%	(7,123)	(5.36)%				
Current income taxes	3,529	3.99%	(8,756)	(6.58)%				
Adjustment to deferred tax liabilities (Act "Unico 2010")	(105)	(0.12)%	-	-				
Contingents from "Unico 2010"	1,278	1.45%	4,728	3.56%				
Deferred tax assets/liabilities (FY 2010)	(20,162)	(22.82)%	(18,358)	(13.80)%				
Total	(15,460)	(17.50)%	(22,386)	(16.83)%				
Net income	72,878	82.50%	110,605	83.17%				
Effective tax rate	(17.50)%		(16.83)%					
Reconciliation of effective tax rate	Base	%	Tax	%	Base	%	Tax	%
Nominal IRES tax rate	88,339	27.50%	(24,293)	(27.50)%	132,991	27.50%	(36,573)	(27.50)%
IRES differences on permanent increases	71,862	27.50%	(19,762)	(22.37)%	13,010	27.50%	(3,578)	(2.69)%
IRES differences on permanent decreases	(74,966)	27.50%	20,616	23.34%	(81,878)	27.50%	22,516	16.93%
IRES differences on temporary increases	1,022	27.50%	(281)	(0.32)%	1,136	27.50%	(312)	(0.23)%
IRES differences on temporary decreases	(64,093)	27.50%	17,626	19.95%	(59,322)	27.50%	16,314	12.27%
	22,163		(6,095)	(6.90)%	5,937		(1,633)	(1.23)%
Income from consolidated	(59,272)	27.50%	16,300	18.45%	-	27.50%	-	-
Foreign taxes			(162)	(0.18)%	-		-	-
Ordinary IRAP rate on gross income	88,339	4.97%	(4,390)	(4.97)%	132,991	4.82%	(6,410)	(4.82)%
Taxable base adjustments	113,464	4.97%	(5,639)	(6.38)%	75,479	4.82%	(3,638)	(2.74)%
IRAP differences on permanent increases	10,994	4.97%	(546)	(0.62)%	15,706	4.82%	(757)	(0.57)%
IRAP differences on permanent decreases	(30,070)	4.97%	1495	1.69%	(27,011)	4.82%	1,302	0.98%
IRAP differences on temporary increases	9,992	4.97%	(497)	(0.56)%	9,591	4.82%	(462)	(0.35)%
IRAP differences on temporary decreases	(61,634)	4.97%	3,063	3.47%	(58,973)	4.82%	2,842	2.14%
	131,084		(6,515)	(7.37)%	147,783		(7,123)	(5.36)%
Total current taxes			3,529	3.99%			(8,756)	(6.58)%
IRAP deferred tax liabilities			(1,557)	(1.76)%			(1,506)	(1.13)%
Reversal deferred tax liabilities IRAP			482	0.55%			462	0.35%
Adjustment IRAP rate			(207)	(0.23)%			-	-
IRES deferred tax liabilities			(8,592)	(9.73)%			(8,620)	(6.48)%
Reversal deferred tax liabilities IRES			2	-			79	0.06%
Total deferred tax liabilities			(9,872)	(11.18)%			(9,585)	(7.21)%
IRAP deferred tax assets			-	-			3	-
Reversal deferred tax assets IRAP			(1,514)	(1.71)%			(1,334)	(1.00)%
Adjustment IRAP rate			111	0.13%			-	-

IRES deferred tax assets	281	0.32%	233	0.18%
Reversal deferred tax assets IRES	<u>(9,167)</u>	<u>(10.38)%</u>	<u>(7,677)</u>	<u>(5.77)%</u>
Total deferred tax assets	<u>(10,289)</u>	<u>(11.65)%</u>	<u>(8,775)</u>	<u>(6.60)%</u>
Contingents	1,173	1.33%	4,728	3.56%
TOTAL	<u>(15,460)</u>	<u>(17.50)%</u>	<u>(22,388)</u>	<u>(16.83)%</u>

30. Net operating income

The net operating income of Lottomatica Group S.p.A. for the period ended December 31, 2010 totals €/000 72,878 (€/000 110,605 at December 31, 2009).

31. NET FINANCIAL POSITION

For the year ended December 31, 2010 Lottomatica has a net financial position of €/000 2,206,795 (€/000 1,355,111 at December 31, 2009) consisting of the following sub-categories:

- Short term debt, net for €/000 121,593 (short term debt for €/000 177,971 at December 31, 2009);
- Long term debt for €/000 2,085,202 (€/000 1,532,949 at December 31, 2009).

In greater detail (in thousands of Euros):

<i>(thousand of Euro)</i>	December 31, 2010	December 31, 2009	Difference
Cash on hand	27	20	7
Cash on bank	33.588	375.144	(341.556)
Cash and cash equivalents	33.615	375.164	(341.549)
Current financial receivables from subsidiaries	591.143	416.943	174.200
Other current financial receivables	2.601	133	2.468
Current financial receivables	593.744	417.076	176.668
Current financial payable to subsidiaries	664.588	535.457	129.131
Bank loans	151	-	151
Other	84.213	78.812	5.401
Short term financial payables	748.952	614.269	134.683
Short term debt, net	121.593	(177.971)	299.564
Capital securities	735.836	733.181	2.655
750 Euro Bond	743.041	741.719	1.322
500 Euro Bond	493.795	-	493.795
Mandatory	29.953	56.390	(26.437)
Intercompany financing	79.602	-	79.602
Interest rate swap	2.975	843	2.132
Other financial liabilities	-	816	(816)
Long term loans	2.085.202	1.532.949	552.253
Long term debt, net	2.085.202	1.532.949	552.253
Net Financial Position	2.206.795	1.354.978	851.817

Short term debt at December 31, 2010 totals €/000 121,593 (net credit of €/000 177,971 at December 31, 2009) consist of:

- Cash and cash equivalents for €/000 33,615 (€/000 375,164 at December 31, 2009);
- Current financial assets for €/000 593,744 (€/000 417,076 at December 31, 2009);
- Short term financial liabilities for €/000 748,952 (€/000 614,269 at December 31, 2009).

The principal elements of current financial assets totaling €/000 593,744 (€/000 417,076 at December 31, 2009) refer principally to intercompany receivables for €/000 591,143 (€/000 416,943 at December 31, 2009) of which:

- Financial receivables from Lottomatica Videolot Rete for *cash pooling* for €/000 265,599 (€/000 220,225 at December 31, 2009) including interest for €/000 2,823 (€/000 760 at December 31, 2009);
- Financial receivables from Lottomatica Scosse for *cash pooling* for €/000 132,468 (€/000 104,369 at December 31, 2009) including interests for €/000 690 (€/000 386 at December 31, 2009);
- Financing towards GTECH Holding Corporation for €/000 169,840 (€/000 45,074 at December 31, 2009).

The principal elements of the current financial liabilities of €/000 748,952 (€/000 614,269 at December 31, 2009) refer to intercompany financial payables total €/000 664,588 (€/000 535,457 at December 31, 2009) and consist of:

- Payables towards Lotterie Nazionali, consisting of cash pooling for €/000 285,645 (zero at December 31, 2009), including €/000 2 (€/000 125 at December 31, 2009) in interests and €/000 116 (zero at December 31, 2009) in proceeds by Lottomatica Group on behalf of the Lotterie Nazionali points of sale for €/000 2,567 (zero at December 31, 2009);
- Payables towards Consorzio Lotterie Nazionali, consisting of cash pooling for €/000 109,478 (€/000 247,591 at December 31, 2009), including €/000 402 (€/000 2 at December 31, 2009) in interests and €/000 1,248 (€/000 13,463 at December 31, 2009) in proceeds by Lottomatica Group on behalf of the Consorzio Lotterie Nazionali points of sale for €/000 1,248 (€/000 13,463 at December 31, 2009);
- Cash pooling for Lottomatica Italia Servizi S.p.A. for €/000 82,653 (€/000 125.846 at December 31, 2009) including €/000 455 (€/000 3 at December 31, 2009) in interests and €/000 281 (€/000 2,840 at December 31, 2009) for services rendered by Lottomatica Group on behalf of Lottomatica Italia Servizi S.p.A.;
- Cash pooling for Totobit Informatica S.p.A. for €/000 63,731 (€/000 47,474 at December 31, 2009), including €/000 336 (€/000 2 at December 31, 2009) in interests;
- Payables towards Invest Games S.A., for €/000 1,190 (€/000 256 at December 31, 2009), and refer to the fees arising from new financing.

Short term payments on long term loans total €/000 84,213 (€/000 78,812 at December 31, 2009) and consist of:

- interest matured on the Capital Securities for €/000 46,618 (€/000 46,618 at December 31, 2009);
- short term payment due to Mediobanca as part of semi-annual interest payments on Bond for €/000 32,409 (€/000 29,924 at December 31, 2009);
- Interests accrued on 750 Bond for €/000 2,926 (€/000 3,147 at December 31, 2009);
- Interests accrued on new 500 Bond for €/000 2,239 (zero at December 31, 2010);
- Short term payment LTO Revolving Credit Facility for €/000 20 (€/000 22 at December 31, 2009).

The mid - long term debt for the period ended December 31, 2010 totals €/000 2.085202 (€/000 1,532,949 at December 31, 2009) and consists of:

- Capital Securities for €/000 735,836 (€/000 733,180 at December 31, 2009) totaling effective debt of €/000 750,000 plus debt issuance costs for €/000 (26,557) (€/000 (26,557) at December 31, 2009) and accumulated amortizations for €/000 12,393 (€/000 9,737 at December 31, 2009), as described below (in thousands of Euros):

Capital Securities	
Nominal Value	750,000
Issuance Costs	(26,557)
Accumulated Amortization	12,393
Net value at 12/31/2010	735,836

- Bond 750, for €/000 743.041 (€/000 741,719 at December 31, 2009) which has a denomination per unit of €750,000, a due date of December 6, 2016, an annual coupon rate of 5.375%. The Bond 750 is represented net of issuance costs (€/000 6.959) as described below (in thousands of Euros):

Euro Bond 750	
Nominal Value	750,000
Issuance Costs	(6,959)
Accumulated Amortization	-
Net value at 12/31/2010	743,041

- Bond 500, for €/000 493,795 (zero at December 31, 2009) which has a denomination per unit of €500,000, a due date 2018. The Bond 750 is represented net of issuance costs (€/000 6,264) and accumulated amortizations for €/000 59, as described below (in thousands of Euros):

Euro Bond 500	
Nominal Value	500.000
Issuance Costs	(6.264)
Accumulated Amortization	59
Net value at 12/31/2010	493.795

- Long term portion of the Mandatory Exchangeable Bond for €/000 29,953 (€/000 56,390 at December 31, 2009). Lottomatica signed a Company Swap contract with Mediobanca whereby Lottomatica will pay semi annually to Mediobanca fixed interest payments on the Bonds that are not converted at any interest payment date.

33. RELATED PARTY DISCLOSURES

Lottomatica plays the operative role in the industry's service sector, with majority shares in the following companies:

- *Atronic Americas LLS, GTECH German Holdings Co. GmbH, Spielo USA Inc., Spielo Manufacturing ULC* – As of July 1, 2009 Lottomatica Group S.p.A. owns 100% of Atronic Americas LLC, Gtech German Holdings Corporation GmbH, Spielo USA Incorporated and Spielo Manufacturing ULC.
- *CartaLIS Imel S.p.A.* - Established by LIS - Lottomatica Italia Servizi S.p.A (holding 85% of share capital) and by Banca Sella S.p.A. (holding 15% of share capital) on September 12, 2005. Its main activity is to issue electronic money through immediate conversion of funds received, as well as the related and instrumental activities within the limits laid down by law, pursuant to art. 114-bis and ss. of the Legislative Decree n. 385/1993, and related implementing provisions issued by the Bank of Italy, in accordance with the LIS business plan.

- *Coin Net S.r.l.* – On September 21, 2010 Lottomatica Videolot Rete S.p.A. purchased 100% of Coin Net S.r.l. owner of 2,149 gaming machines connected to the Lottomatica Videolot Rete S.p.A online network.
- *Consorzio Lotterie Nazionali* – 63% owned by Lottomatica. On December 10, 2003 Lottomatica, Scientific Games International Inc., Arianna 2001 S.p.A., Olivetti Tecnost S.p.A (Tecnost Sistemi S.p.A after the merger) and Servizi in Rete S.p.A. established the Consorzio Lotterie Nazionali which took over the national lottery contract signed October 14, 2003. On September 30, 2010 the Consorzio Lotterie Nazionali transferred almost all of its assets and liabilities to Lotterie Nazionali, effective as of October 1, 2010.
- *Consorzio Lottomatica Giochi Sportivi (in liquidation)* – 85% owned by Lottomatica. On June 3, 2003, the Consorzio Lottomatica Giochi Sportivi was created between Lottomatica and Totobit Informatica Software e Sistemi S.p.A., Consorzio Totocom – Agenzie online, and Telcos S.p.A.. Its headquarters are located in Rome and its objective is to manage the business specified as “a license to assign activities and public functions regarding sports pools as well as any other games related to sporting events”. Operations began with the first competition of Totocalcio (Soccer pools) on August 17, 2003. The liquidation process of the Consorzio Lottomatica Giochi Sportivi will begin upon the approval of the 2007 Annual Report. The sports pools wagers will be transferred to the subsidiary Lottomatica Scommesse S.r.l. in connection to the sports betting concession granted by AAMS.
- *Europa Gestione S.r.l.*- On June 4, 2009, Lottomatica Videolot Rete purchased from Eurobet 100% of Europa Gestione S.r.l., owner of approximately 2,350 gaming machines.
- *GTECH Holdings Corporation* - An American company located in Delaware, established in January 2006 and wholly owned (100%) by Lottomatica. It is controlled 100% by Invest Games S.A: and its established is relative to the acquisition of the GTECH Group.
- *Invest Games S.A.* - A company incorporated under Luxembourg law, established on December 27, 2005, and is entirely owned (100%) by Lottomatica Group. Its organization is connected with the acquisition of the GTECH Group.
- *Labet S.r.l.* – On June 25, 2009, Lottomatica Scommesse purchased 100% of Labet.
- *LIS Finanziaria S.p.A.* - 100% owned by the subsidiary Totobit Informatica Software e Sistemi S.p.A., specifically established and registered with the Financial Brokers Register (pursuant to Article 106 of TULB (*Testo Unico delle Leggi in materia bancaria e creditizia* - Consolidation Act of Banking and Credit Laws).The company is responsible for managing the Lottomatica Group financial services. The utilities bill payment service was the first service to be fully operational.
- *Logo S.r.l.* – On September 24, 2010 Lottomatica Videolot Rete S.p.A. purchased 100 % of Logo S.r.l.
- *Lotterie Nazionali S.r.l.* On May 13, 2010 Lottomatica Group S.p.A. (63%), Scientific Games Luxembourg Inv. S.a.r.l. (19%), Arianna 2001 S.p.A. (15%), Scientific Games International Inc. (1%), Servizi in Rete 2001 S.r.l. (1%) and Olivetti S.p.A. (1%) constituted Lotterie Nazionali S.r.l. On December 10, 2010 transformed into a joint stock company as Lotterie Nazionali Holding S.p.A.

- *Lotterie Nazionali Holding S.p.A.* - On December 7, 2010 Lottomatica Group S.p.A. and Unicredit S.p.A. constituted Lotterie Nazionali Holding S.r.l., later transformed into a joint stock company following the Board of Directors resolution of December 14, 2010.
- *Lottomatica International Greece S.r.l.* - Lottomatica Group S.p.A. constituted Lottomatica International Greece S.r.l. on June 16, 2010.
- *Lottomatica Italia Servizi S.p.A.* - Wholly owned (100%) by Lottomatica, providing services for citizens, businesses and sporting ticket services, Lottomatica Italia Servizi consolidated its position in the service industry with the acquisition of the Totobit Group in December 2003.
- *Lottomatica Scommesse S.r.l.* – Established in 2006 and wholly (100%) owned by Lottomatica. The Company became operative in July 2007 in the fixed odds betting sector after the awarding of the Concession in 2006.
- *Lottomatica Videolot Rete S.p.A.* - 100% owned by Lottomatica. The company was established on February 1, 2005 to take over the concession from the temporary joint venture which it headed. On February 1, 2007 the Shareholders' Meeting deliberated the change of name from "RTI Videolot S.p.A." to "Lottomatica Videolot Rete S.p.A."
- *L.S. Alpha S.r.l.* - On December 5, 2008 Lottomatica Scommesse S.r.l. acquired 95% of the share capital of the company. L.S Alpha holds horse racing and sports betting concessions.
- *PCC Giochi e Servizi S.p.A.* - The Company is entirely (100%) owned by the subsidiary Lottomatica Sistemi S.p.A. The objective of the Company is to produce and supply specialized paper supports (betting forms, print-outs, travel tickets, betting and gaming slips). Its operating headquarters are located in Tito, a town in the district of Potenza.
- *SED Multitel S.r.l.* - established on November 28, 2002. 100% owned by Lottomatica as of June 9, 2008 after acquiring the 80% owned by Totobit Informatica S.p.A. The Company operates in Italy through its Services Center and ensures the necessary technological support, by coordinating and managing its own processing centers and through outsourcing, for the typical transaction activities of the online services offered offers transaction and execution services for the Group.
- *Siderbet S.r.l.* - In data 19 Maggio 2010, Lottomatica Scommesse S.r.l. ha acquisito la partecipazione totalitaria in Siderbet S.r.l. La Società ha per oggetto l'esercizio e l'accettazione professionale delle scommesse a quota fissa e variabile via internet o via ricevitoria a terra o con qualsiasi altro mezzo.
- *Spielo Italia S.r.l. (già Lottomatica Bingo S.r.l.)* – On November 15, 2010 Lottomatica Bingo S.r.l. changed its name to "Spielo Italia S.r.l." and on November 29, 2010 Lottomatica Group purchased 100% of Spielo Italia from Lottomatica Scommesse S.r.l.
- *Toto Carovigno S.p.A.* – Acquired on August 29, 2008 and wholly owned 100% by Lottomatica Scommesse S.r.l., Toto Carovigno is the owner of the TotoSì brand and AAMS-authorized concessionaire with 1,100 horse race betting points of sale and 3,673 sports betting points of sale in Italy, Toto Carovigno is also a leader in the Italian online gaming market and was the first in Italy to offer sports betting via telephone and online.

- *Totobit Informatica Software e Sistemi S.p.A.* – 100% owned by the subsidiary Lottomatica Italia Servizi S.p.A. The Company operates a network of multi-functional mini-terminals installed at outlets such as bars, betting collection points, gas stations, newsstands, etc.
- *TTS S.r.l.* – The contract dated July 30, 2010 establishes the sale of the interest participation of Totobit Informatica S.p.A. in TTS S.r.l in its entirety.

The related party disclosures of Lottomatica as of December 31, 2010 are detailed below (in thousands of Euros):

RELATED PARTIES - STATEMENT OF FINANCIAL POSITION					
€/000	Companies	Nature of transaction	Amount		% on 2010
			2010	2009	
	Lottomatica Italia Servizi S.p.A.	Administrative and professional services	5.467	2.255	2,95%
	Lottomatica Sistemi S.p.A.	Administrative and professional services	-	2.103	0,00%
	Consorzio Lotterie Nazionali	Administrative, professional and back office services	71	49.832	0,04%
	Consorzio Giochi Sportivi	Aggio Raccolta giochi sportivi	-	-	0,00%
	Lottomatica Videolot Rete S.p.A.	Administrative and professional services	35.203	2.600	18,97%
	Lottomatica Videolot Gestione S.p.A.	Administrative and professional services	-	-	0,00%
	Lotterie Nazionali	Administrative and professional services	111.707	-	60,19%
	TTS S.r.l.	Cost charge-back	-	4	0,00%
	PCC Giochi e Servizi S.p.A.	Administrative services	2	5	0,00%
	Totobit Informatica S.p.A.	Administrative, professional and back office services	946	798	0,51%
	LIS Finanziaria S.p.A.	Guarantees and cash pooling operations	5.409	12.041	2,91%
	De Agostini S.p.A.	Tax receivables and Certification costs	16.810	-	9,06%
	GTECH Holdings	Administrative and professional services	1.812	1.316	0,98%
	GTECH Global Lottery SL (Barcellona)	Spots, radio, tv and personnel costs	416	-	0,22%
	GTECH Global Services Corporation	Fees	8	-	0,00%
	CartaLIS IMEL S.p.A.	Administrative and professional services	254	244	0,14%
	Toto Carovigno S.p.A.	Administrative and professional services	2.127	930	1,15%
	SED Multitel S.r.l.	Administrative and professional services	90	2.888	0,05%
	Spielo Italia S.r.l.	Administrative and professional services	3	-	0,00%
	Soiolo Manufacturing (Roma)	Administrative and professional services	295	-	0,16%
	LS Alpha S.r.l.	Administrative and professional services	53	6	0,03%
	Labet S.r.l.	Administrative and professional services	89	20	0,05%
	Lottomatica International Greece	Administrative and professional services	3	-	0,00%
	Lottomatica Scommesse S.r.l.	Administrative and professional services	4.813	4.432	2,59%
Trade receivables and other trades	Lottomatica International S.r.l.	Other credits	-	130	0,00%
		Total Trade receivables and other trade	185.578	79.604	
	Lottomatica Italia Servizi S.p.A.	Other services	2	-	0,00%
	Lottomatica Sistemi S.p.A.	Cash pooling and interest incomes on financing	-	21.518	0,00%
	Consorzio Lotterie Nazionali	Cash pooling	1.356	1.011	0,23%
	Consorzio Giochi Sportivi	Financing and interest incomes	305	301	0,05%
	Labet S.r.l.	Cash pooling and interest incomes	1.167	-	0,20%
	Lottomatica Videolot Rete S.p.A.	Cash pooling and interest incomes	265.599	220.225	44,93%
	Lotterie Nazionali	Cash pooling and interest incomes	45	-	0,01%
	LS Alpha S.r.l.	Cash pooling and interest incomes	2.126	-	0,36%
	LIS Finanziaria S.p.A.	Cash pooling and interest incomes	89	24.446	0,02%
	Lottomatica Scommesse S.r.l.	Cash pooling and interest incomes	132.469	104.369	22,41%
	SED Multitel S.r.l.	Cash pooling and interest incomes	7.661	-	1,30%
	Atronic Austria GmbH	Interest incomes on financing	242	-	0,04%
	Spielo Manufacturing (Moneton)	Interest incomes on financing	14.945	-	2,53%
	Spielo Manufacturing (Roma)	Cash pooling	10.525	-	1,78%
Current financial assets	GTECH Holdings	Guarantees	154.612	45.074	26,15%
		Total current financial assets	591.143	416.944	
	Lottomatica Italia Servizi S.p.A.	Administrative and professional services	184	61	0,26%
	Lottomatica Sistemi S.p.A.	Servizi amministrativi, professionali e di back office	-	11.131	0,00%
	Consorzio Giochi Sportivi	Copertura perdite	16	5	0,02%
	Lottomatica Videolot Rete S.p.A.	Incasso PREU	9	-	0,01%
	Lotterie Nazionali	Administrative, professional and back office services	5.096	-	7,15%
	TTS srl	Administrative, professional and back office services	-	72	0,00%
	SED Multitel S.r.l.	Administrative, professional and back office services	28.130	8.555	39,48%
	PCC Giochi e Servizi S.p.A.	Fornitura materie prime e servizi amministrativi	1.876	727	2,63%
	Totobit Informatica S.p.A.	Administrative, professional and back office services	3.423	6.013	4,80%
	LIS Finanziaria S.p.A.	Servizi amministrativi	361	548	0,51%
	Lottomatica Scommesse S.r.l.	Anticipi su pagamenti	2	-	0,00%
	Zodiak	Administrative and professional services	41	-	0,06%
	De Agostini Editore	Administrative and professional services	4	-	0,01%
	GTECH Holdings	Administrative and professional services	15.906	9.683	22,32%
	DEA Factor	Cessione del credito	7.137	3.415	10,02%
Trade payables and other payables	De Agostini S.p.A.	Servizi amministrativi, professionali e di back office e Debiti tributari	9.067	5.307	12,73%
		Total Trade payables and other payables	71.252	45.517	
	Lottomatica Italia Servizi S.p.A.	Cash pooling and interest expenses	82.653	125.845	12,44%
	Consorzio Lotterie Nazionali	Cash pooling and interest expenses	109.478	261.798	16,47%
	GTECH Holdings	Cash pooling and interest expenses	4.001	81.009	0,60%
	LIS Finanziaria S.p.A.	Cash pooling and interest expenses	91.601	1	13,78%
	Lottomatica Videolot Rete S.p.A.	Cash pooling and interest expenses	28	28	0,00%
	Lottomatica International Hungary	Cash pooling and interest expenses	-	1.021	0,00%
	PCC Giochi e Servizi S.p.A.	Cash pooling and interest expenses	9.231	6.756	1,39%
	SED Multitel S.r.l.	Cash pooling and interest expenses	74	11.269	0,01%
	INVEST GAME S.A.	Cash pooling and interest expenses	2.190	256	0,33%
	Toto Carovigno S.p.A.	Cash pooling and interest expenses	13.272	-	2,00%
	Totobit Informatica S.p.A.	Cash pooling and interest expenses	63.731	47.474	9,59%
Short term borrowing	Lottomatica Nazionali S.r.l.	Cash pooling and interest expenses	288.328	-	43,38%
		Total short term borrowing	664.587	535.457	
Long term borrowing	GTECH Holdings	Long term borrowings	79.601	-	100,00%
			79.601	-	

RELATED PARTIES - COMPREHENSIVE INCOME STATEMENT					
€000	Companies	Nature of transaction	Amount		% on 2010
			2010	2009	
	Lottomatica Italia Servizi S.p.A.	Administrative and professional services	4.964	4.029	5,68%
	Lottomatica Sistemi S.p.A.	Administrative and professional services	-	3.835	0,00%
	Consorzio Lotterie Nazionali	Administrative, professional and back office services	46.596	66.385	53,35%
	Lottomatica Videolot Rete S.p.A.	Administrative and professional services	5.951	5.182	6,81%
	PCC Giochi e Servizi S.p.A.	Administrative services	4	10	0,00%
	Totobit Informatica S.p.A.	Administrative, professional and back office services	1.510	1.338	1,73%
	LIS Finanziaria S.p.A.	Guarantees and cash pooling operations	308	291	0,35%
	Lottomatica Scommesse S.r.l.	Administrative and professional services	8.739	6.625	10,01%
	Labet S.r.l.	Guarantees	60	16	0,07%
	LS Alpha S.r.l.	Administrative and professional services	43	74	0,05%
	De Agostini Editore S.p.A.	Certification	40	25	0,05%
	SED Multitel S.r.l.	Administrative and professional services	87	2.963	0,10%
	Toto Carovigno S.p.A.	Administrative and professional services	1.418	1.844	1,62%
	CartaLIS IMEL S.p.A.	Administrative and professional services	521	516	0,60%
	Lotterie Nazionali	Administrative and professional services	15.822	-	18,11%
	Spielo Manufacturing (Roma)	Administrative and professional services	295	-	0,34%
	G-TECH Global Lottery SL	Administrative and professional services	480	-	0,55%
	G-TECH Cyprus	Administrative and professional services	8	-	0,01%
Other revenues	GTECH Corporation	Administrative and professional services	497	457	0,57%
		Total other revenues	87.343	93.590	
	Lottomatica Sistemi S.p.A.	Interest incomes on cash pooling	-	481	0,00%
	Lottomatica Italia Servizi S.p.A.	Interest incomes on cash pooling	2	-	0,02%
	Consorzio Lotterie Nazionali	Interest incomes on cash pooling	345	908	3,31%
	Consorzio Giochi Sportivi	Interest incomes on financing	4	5	0,04%
	Lottomatica Videolot Rete S.p.A.	Interest incomes on cash pooling	2.063	2.966	19,81%
	LIS Finanziaria S.p.A.	Interest incomes on cash pooling	61	140	0,59%
	Labet S.r.l.	Interest incomes on cash pooling	2	-	0,02%
	LS Alpha S.r.l.	Interest incomes on cash pooling	7	-	0,07%
	Lotterie Nazionali	Interest incomes on cash pooling	46	-	0,44%
	Lottomatica Scommesse S.r.l.	Interest incomes on cash pooling	1.147	2.117	11,02%
	SED Multitel S.r.l.	Interest incomes on financing	5	3	0,05%
	GTECH Corporation	Undealized foreign exchange gains	-	355	0,00%
	Atronic Austria GmbH	Interest incomes on financing	59	-	0,57%
	Spielo Manufacturing (Moncton)	Interest incomes on financing	885	-	8,50%
	Spielo Manufacturing (Roma)	Interest incomes on financing	47	-	0,45%
Financial incomes	GTECH Corporation	Interest incomes on financing	5.740	5.365	55,12%
		Total financial incomes	10.413	12.340	
	Lottomatica Italia Servizi S.p.A.	Administrative and professional services	241	338	0,50%
	Lottomatica Sistemi S.p.A.	Administrative, professional and back office services	-	22.177	0,00%
	SED Multitel S.r.l.	Administrative and professional services	28.102	28.578	58,79%
	Totobit Informatica S.p.A.	Administrative, professional and back office services	6.410	6.192	13,41%
	LIS Finanziaria S.p.A.	Administrative services	937	1.060	1,96%
	De Agostini S.p.A.	Administrative and professional services	436	498	0,91%
	Zodiak	Administrative and professional services	49	-	0,10%
	De Agostini Editore S.p.A.	Administrative and professional services	3	14	0,01%
	GTECH Corporation	Administrative and professional services	5.292	5.048	11,07%
	Consorzio Giochi Sportivi	Contribution	11	5	0,02%
	De Agostini Periodici	Marketing and professional services	-	12	0,00%
	TTS S.r.l.	Administrative, professional and back office services	-	72	0,00%
Raw materials, services and other costs	PCC Giochi e Servizi S.p.A.	Raw materials and services	6.318	5.524	13,22%
		Total raw materials, services and other costs	47.799	69.518	
	Lottomatica Italia Servizi S.p.A.	Interest expenses on cash pooling	452	848	4,74%
	Consorzio Lotterie Nazionali	Interest expenses on cash pooling and financing	697	1.255	7,31%
	Lottomatica Videolot Rete S.p.A.	Interest expenses on cash pooling	-	28	0,00%
	Lotterie Nazionali	Interest expenses on cash pooling	116	-	1,22%
	Lottomatica Videolot Gestione S.p.A.	Interest expenses on cash pooling	-	-	0,00%
	Toto Carovigno S.p.A.	Interest expenses on cash pooling	41	-	
	Labet S.r.l.	Interest expenses on cash pooling	2	-	0,02%
	PCC Giochi e Servizi S.p.A.	Interest expenses on financing	54	106	0,57%
	SED Multitel S.r.l.	Interest expenses on cash pooling	30	44	0,31%
	Totobit Informatica S.p.A.	Interest expenses on cash pooling	334	561	3,50%
	LIS Finanziaria S.p.A.	Interest expenses on cash pooling	196	266	2,05%
	Invest Game s.a.	Interest expenses on financing	2.190	256	22,96%
	Lottomatica International	Interest expenses on cash pooling	-	42	0,00%
	GTECH Corporation	Financial expenses	5.353	2.440	56,11%
	GTECH Corporation	Unrealized foreign exchange losses	75	224	0,79%
Financial expenses	Lottomatica International Hungary	Interest expenses on financing	-	1.021	0,00%
		Total financial expenses	9.540	7.091	

All operations engaged in with the related parties, including the intra-group operations, are executed at terms and conditions that are consistent with the market and refer to mutual administrative, financial and organizational rendered services.

There are not any financial guarantees, granted or received, for payables or receivables with related parties.

For the period ended December 31, 2010 the Company did not register any allowance for doubtful accounts accrual on amounts due from related parties.

34. GUARANTEES

The nature of the Lottomatica business requires the issuance of various bank guarantees. The beneficiaries of the bank guarantees are for the most part the AAMS as well as the services and utilities companies that use the Group's network to collect revenues. Lottomatica negotiates the terms and conditions of the guarantee on behalf of the all Lottomatica Group companies when it is necessary to serve a guarantee to a third party. The costs related to the issuance are however transferred to the subsidiary benefiting of the guarantee.

The bank guarantees requested by Lottomatica in December 2010 total approximately €/000 429,097 (€/000 463,564 at 12/31/2009). A significant amount of the guarantees, €/000 285,847 (€/000 286,060 at 12/31/2009), are stipulated to service companies, among which telephone operators and AAMS, for €/000 136,947 (€/000 171,602 at 12/31/2009).

Regarding the new Scratch & Win concession in Italy, Lottomatica guaranteed €/000 48,000 (€/000 73,600 at 12/31/2009) to AAMS.

35. LITIGATIONS AS OF DECEMBER 31, 2010

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

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

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

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

On January 15, 2009 Lottomatica appeared before the Court of Appeal. Lottomatica specified in its response to the charges brought forth by AAMS that it is of the opinion that they are groundless. At the July 2, 2009 hearing, the Court of Appeal deferred the hearing to September 26, 2011.

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

TAR of Lazio rejected the two appeals for procedural reasons.

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

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

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.

Notice of the judgment of the TAR of Lazio concerning the Sisal case was provided to Lottomatica on June 24, 2010. The term, therefore, to appeal against that ruling expired on October 8, 2010 (60 days from notification).

2. Ticket One S.P.A. Litigation

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

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

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

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

At the hearing on June 24, 2004, the TAR of Lazio accepted the request filed by Lottomatica and Lottomatica Italia Servizi S.p.A. and suspended the proceeding, arranging for the documents to be sent to the Supreme Court of Cassation. The Supreme Court declared Lottomatica and LIS's appeal to be inadmissible on February 9, 2006. As a result of the Supreme Court's declaration, Ticket One motioned for a hearing set for October 28, 2009 during which the TAR of Lazio closed the

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

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

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

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

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

3. Summons to Formula Giochi Shareholders

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

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

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

Lottomatica contested a number of prejudicial issues concerning, *inter alia*, plaintiff legitimacy and stated that, the documents of the proceedings initiated by the Italian did 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, showed 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 liquidator 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 following to the appearance of Formula Giochi S.p.A. admitted the entrance into a settlement agreement between Formula Giochi and Sisal S.p.A. to settle the lawsuit pending between them. This agreement envisaged payment of €0.5 million to Formula Giochi.

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

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

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

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

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

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

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

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

4. 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.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments, other than derivatives, are comprised of debt and cash and cash equivalents. The main purpose of these financial instruments is to fund the capital needs of the Group's operations. We have various other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from operations. The primary risk inherent in our financial instruments is the market risk arising from adverse changes in interest rates and foreign currency exchange rates. The Company is not exposed significantly in foreign currency and is therefore not subject to foreign exchange risk.

Credit risk

The Company's primary credit risk is derived from cash and trade accounts receivable balances. We maintain cash deposits and trade with only recognized, creditworthy third parties. We evaluate the collectibility of trade accounts and sales-type lease receivables on a customer-by-customer basis and we believe our reserves are adequate. A majority of our trade accounts receivable are from government lottery entities from which we have historically experienced insignificant write-offs. Trade accounts receivable are reported net of allowances for doubtful accounts and liquidated damages. Allowances for doubtful accounts are generally recorded when there is objective evidence we will not be able to collect the receivable. Bad debts are written off when identified.

With respect to credit risk arising from the other financial assets which comprise cash, available-for-sale financial assets, and certain derivative instruments, our exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. We manage our exposure to counterparty credit risk by entering into financial instruments with major, financially sound counterparties with high-grade credit ratings, and by limiting exposure to any one counterparty.

Past due financial assets

The following is an analysis of the Company's past due financial assets which are comprised entirely of trade and other receivables and net of related allowance for doubtful accounts.

Past due current assets that refer entirely to Receivables towards customers are reported below (thousands of Euros):

<i>(thousands of euros)</i>	December 31, 2010		December 31, 2009	
	€	%	€	%
Current	5.778	99,9%	11.811	99,8%
Past due:				
1-30 days	3	0,1%	-	0,0%
31-60 days	-	0,0%	-	0,0%
61-90 days	-	0,0%	-	0,0%
Over 90 days	-	0,0%	20	0,2%
	<u>3</u>	<u>0,1%</u>	<u>20</u>	<u>0,2%</u>
Total trade and other receivables	<u>5.781</u>	<u>100,0%</u>	<u>11.831</u>	<u>100,0%</u>

Variations in the allowance for doubtful accounts are reported below (thousands of Euros):

	December 31, 2010	December 31, 2009
Balance at beginning of the year	1.213	1.754
Provisions	23	68
Reclassifications	-	(609)
Utilization	(444)	-
Balance at the end of the year	<u>792</u>	<u>1.213</u>

Past due financial assets that refer entirely to Receivables towards sales network are reported below (thousands of Euros):

<i>(thousands of euros)</i>	December 31, 2010		December 31, 2009	
	€	%	€	%
Current	259	98,1%	228	82,0%
Past due:				
1-30 days	-	0,0%	-	0,0%
31-60 days	-	0,0%	-	0,0%
61-90 days	-	0,0%	-	0,0%
Over 90 days	5	1,9%	50	18,0%
	<u>5</u>	<u>1,9%</u>	<u>50</u>	<u>18,0%</u>
Total receivables towards sales network	<u>264</u>	<u>100,0%</u>	<u>278</u>	<u>100,0%</u>

Movements in the allowance for doubtful accounts for the year (thousands of Euros):

	12/31/2010	2/31/2009
Balance at the beginning of the year	1.298	872
Reclassifications	-	609
Provisions	45	-
Utilization	(48)	(183)
Balance at the end of the year	<u>1.295</u>	<u>1.298</u>

Liquidity risk

The Company's primary liquidity risk is derived from required debt service on our debt and on-going working capital needs. The Company's objective in managing this risk is to maintain adequate liquidity and flexibility through the use of cash generated by operating activities, bank overdrafts, and bank loans. We believe our ability to generate excess cash from operations to reinvest in our business is one of our fundamental financial strengths and combined with our committed borrowing capacity, we expect to meet our financial obligations and operating needs in the foreseeable future. We expect to use cash generated primarily from operating activities to meet contractual obligations and to pay dividends. Our growth is expected to be financed through a combination of cash generated from operating activities, existing sources of committed liquidity, access to capital markets, and other sources of capital. Our corporate debt ratings of Baa3 from Moody's and BBB- from Standard and Poor's contribute to our ability to access capital markets at attractive prices, therefore, we do not believe the Company is exposed to a significant concentration of liquidity risk.

Lottomatica's *Liquidity Policy* considers the maturity of both its financial investments and assets and projected cash flows from operations. The objective is to maintain a balance between continuity of funding and flexibility. This policy measures the "risk dimensions" according to the following metrics: expiration (never more than 18 months), minimum credit ratings (P-2/A-2/F-2, A3/A-/A-), and country (Euro area, Switzerland, UK, USA). Authorized instruments are specifically outlined in the policy.

In 2006, Lottomatica had interest rate exposure relating to planned financing activities in connection with the GTECH acquisition. Various techniques were used to mitigate the risks associated with changes in interest rates including interest rate *swap option* agreements. The Company's financial management strategy includes a mix of fixed and variable rate debt instruments.

The following tables set out the contractual maturities of the Company's financial liabilities:

Year ended December 31, 2010

<i>(thousands of Euro)</i>	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	More than 4 years	Total
Fixed rate						
Capital Securities	46.618	-	-	-	750.000	796.618
750 Euro Bond	2.926	-	-	-	750.000	752.926
500 Euro Bond	2.240	-	-	-	500.000	502.240
Swap Liability	30.625	30.625	-	-	-	61.250
	<u>82.409</u>	<u>30.625</u>	<u>-</u>	<u>-</u>	<u>2.000.000</u>	<u>2.113.034</u>
Floating rate						
Lottomatica Revolving Credit Facility	20	-	-	-	-	20
	<u>20</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20</u>
	<u>82.429</u>	<u>30.625</u>	<u>-</u>	<u>-</u>	<u>2.000.000</u>	<u>2.113.054</u>

Year ended December 31, 2009

<i>(thousands of Euro)</i>	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	More than 4 years	Total
Fixed rate						
Capital Securities	46.618	-	-	-	750.000	796.618
750 Euro Bond	3.147	-	-	-	750.000	753.147
Swap Liability	30.625	30.625	30.625	-	-	91.875
	<u>80.390</u>	<u>30.625</u>	<u>30.625</u>	<u>-</u>	<u>1.500.000</u>	<u>1.641.640</u>
Floating rate						
Lottomatica Revolving Credit Facility	22	-	-	-	-	22
	<u>22</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22</u>
	<u>80.412</u>	<u>30.625</u>	<u>30.625</u>	<u>-</u>	<u>1.500.000</u>	<u>1.641.662</u>

Market risk

Interest rate market risk

The relevant differences between long and short term interest rates result in an interesting opportunity which the Company has decided to take advantage of by shifting part of short term debt portions through interest rate swap operations. The €/000 100,000 contracts “swap” part of the Company’s debt from the issuance of the €750 million Bond (Notes) from a fixed interest rate to a variable interest rate plus spread(Company credit risk measure). As a result of this operation, the Company has changed €100 million of its debt from a fixed to a variable interest rate (Euribor), taking advantage of the exceptionally low interest rates without excessively increasing its risk. Market interest rates are not expected to increase in the short term. The management of the interest rate market risk is nevertheless dynamic and can be adjusted at any time rates begin to increase significantly.

Foreign currency exchange rate risk

The Company is not exposed to foreign currency exchange rate risk.

Capital management

The primary goal of the Company’s capital management strategy is to ensure strong credit ratings and healthy financial ratios in order to support its business while maximizing corporate value and reducing the Company’s financial risks. We consider all equity and debt to be managed capital of the Group. The Company manages its capital structure and makes adjustments based on long term strategy decisions in light of changes in economic conditions. Additionally, the Company seeks to preserve an optimal weighted average cost of capital and maintain sufficient financial flexibility to pursue growth opportunities. No changes have been made in the objectives, policies, or processes.

FAIR VALUE HEDGES

At December 31, 2010, the Company held €150 million notional amount of interest rate swaps (“swaps”) with an aggregate fair value of €3.1 million, which were designated as hedges of fixed interest rates on the €750 million of senior notes due 2016 (the “2009 Notes”). These swaps effectively convert €150 million of the 2009 Notes fixed interest rate debt to variable rate debt. Under the terms of these swaps, the Company is required to make variable rate interest payments based on a 6 month floating Euribor plus a flat spread rate, collectively ranging between 3.498% and 3.538% as of December 31, 2010, and receives fixed interest payments from its counterparties based on a fixed rate of 5.375%. The Euribor rate resets on a semi-annual basis, but settlement occurs annually. Because these swaps convert fixed rate debt to variable rate debt they are considered fair value hedges. With fair value hedges, both the swaps and the hedged item (the 2009 Notes) are recorded at fair value, with the offset being recorded in interest expense. During 2010, we recorded

a swap unrealized gain of €3.1 million with an offsetting debt unrealized loss of €2.9 million, with the difference of €0.2 million recorded as a reduction to interest expense.

At December 31, 2009, the Company held €100 million notional amount of interest rate swaps (“swaps”) with an aggregate fair value of (€0.7) million, which were designated as hedges of fixed interest rates on the €750 million of senior notes due 2016 (the “2009 Notes”). These swaps effectively converted €100 million of the 2009 Notes fixed interest rate debt to variable rate debt. Under the terms of these swaps, the Group was required to make variable rate interest payments based on a 6 month floating Euribor plus a flat spread rate, collectively ranging between 3.263% and 3.276% as of December 31, 2009, and received fixed interest payments from its counterparties based on a fixed rate of 5.375%. The Euribor rate resets on a semi-annual basis, but settlement occurs annually. Because these swaps convert fixed rate debt to variable rate debt they are considered fair value hedges. With fair value hedges, both the swaps and the hedged item (the 2009 Notes) are recorded at fair value, with the offset being recorded in interest expense. During 2009, we recorded a swap unrealized loss of €0.7 million with an offsetting debt unrealized gain of €0.9 million, with the difference of €0.2 million recorded as a reduction to interest expense. During 2009, we recorded a swap unrealized loss of €0.7 million with an offsetting debt unrealized gain of €0.9 million, with the difference of €0.2 million recorded as a reduction to interest expense.

LEASES

Operating Leases

The Company has leased from rental costs to provide various maturities until 2015. Here are the fees for future minimum operating lease. There are no restrictions placed upon us by entering into these leases.

Future minimum lease payments for operating leases are as follows:

<i>(thousands of euro)</i>	December 31,	
	2010	2009
Not later than one year	7.738	8.388
Later than one year and not later than five years	13.847	22.707
Later than five years	-	-
	21.585	31.096

Management Stock Option Plans (Article 78 of Issuing Regulations - chart 2 exhibit 3C)

LTM														
Stock option plans 31 12 2010	Outstandings Stock options at the beginning of the period (01/01/2010) (granted without rights cancelled and without executions in the previous years)			N° stock options granted during the period (ytd november 2010)		Forfeited Options (ytd november 2010) - due to resignation	Rights cancelled (ytd november 2010) - due to no vesting	Expired options (ytd november 2010) - due to expired exercise period	Executions during the period (ytd november 2010)		Outstandings Stock options at the end of the period (november) without rights cancelled and without executions during the period		Number stock options exercisable	
	Number stock options	Strike price as the regulations	New strike price (applied from june 2006) (°)	Number stock options	Strike price	Number stock options	Number stock options	Number stock options	Number stock options	Strike price	Number stock options	Strike price	Number stock options	Strike price
Piano di Stock Option 2005-2010 Direttore Generale	95.336	26,470	23,1681			0		95.336	-					
Piano di Stock Option 2005-2010 Dirigenti	172.300	26,470	23,1681			0		172.300	-					
Piano di Stock Option 2007-2015 AD e Direttore Generale	160.000	30,400	-			-	160.000		-					
Piano di Stock Option 2007-2015 Dirigenti	372.000	30,400	-			4.400	367.600		-					
Piano di Stock Option 2008-2016 Dirigenti	707.005	20,29	-			24.175			-		682.830	20,29		
Piano di Stock Option 2008-2016 Amministratori	237.958	20,29	-			-			-		237.958	20,29		
Piano di Stock Option 2009-2015 Dirigenti	302.500	14,03	-			11.875			-		290.625	14,03		
Piano di Stock Option 2009-2015 Top Managers*	702.778	14	-	-	-	-	-	-	-	-	702.778	14,03	-	-
Piano di Stock Option 2010-2016 Dirigenti	-	-	-	507.290	10,89	-	-	-	-	-	507.290	10,89	-	-
Piano di Stock Option 2010-2016 Amministratori	-	-	-	441.570	10,89	-	-	-	-	-	441.570	10,89	-	-
Total	2.749.877		20,24	948.860		40.450	527.600	267.636	-		2.863.051	15,00	-	
			Weighted average exercise price									Weighted average exercise price		Weighted average exercise price

(*) Resolution of Board of Directors (date 27/04/2006) and after capital stock increased established by Board of Directors (date 18/05/2006)

* M. Sala, S. Bortoli, R. Ascoli

RETENTION PLANS E PERFORMANCE SHARE PLANS 31 12 2010	Outstandings Shares at the beginning of the period (1 January 2010) (*)	N° shares granted during the period (ytd december 2010)	N° shares released during the period (ytd december 2010)	N° dividends shares released during the period (ytd december 2010)	Shares no released during the period (ytd december 2010) due to no vesting	Dividends Shares no released during the period (ytd december 2010) due to no vesting	Cancelled during the period (ytd december 2010) - resignation	Cancelled due to rounding	Outstanding Shares at the end of the period (december 2010) (*)
Performance Share (2007 - 2010) managers	18.567	0	18.325	3.235	0	0	221	21	-
Performance Share (2007 - 2010) executives	7.956	0	7.956	1.404	0	0	0		-
Performance Share (2008 - 2011) managers	65.544	0	6.935	696	4.267	2.205	2.246		56.363
Performance Share (2008 - 2011) executives	22.032	0	2.414	247	7.645	782	0		19.618
Performance Share (2009 - 2013) managers	110.308	0	0	0	0	0	4.331		105.977
Performance Share (2009 - 2013) Top Managers**	255.555	0	0	0	0	0	0		255.555
Performance Shares (2010-2014) managers	0	209.930	0	0	0	0	0		209.930
Performance Shares (2010-2014) executives	0	182.720	0	0	0	0	0		182.720
Totale	479.962	392.650	35.630	5.582	11.912	2.987	6.798	21	830.163
Retention Plan (2006 - 2011) managers	34.000	0	17.000	2.646	0	0	-		17.000
Retention Plan (2006 - 2011) executives	45.750	0	10.000	1.765	0	0	0		35.750
Totale	79.750	-	27.000	4.411	-	-	-		52.750
(*) the number not included additional shares									
(**) M. Sala, S. Bortoli, R. Ascoli									

Compensation paid to Lottomatica Group S.p.A. board of director members, statutory auditors, general manager and the managers with strategic responsibilities (Chart 1 – Exhibit 3C - Issuing Regulations)

Name and Surname	Position	Period in the position(s)	End of Term	Emoluments	Non-monetary benefits	Bonus	Other
Lorenzo Pellicoli	Board Chairman Executive Committee - Chairman	January 1, 2010 to December 31, 2010	April 28, 2011	435,000			
Robert Dewey Jr,	Board Vice Chairman Remuneration Committee - Member	January 1, 2010 to December 31, 2010	April 28, 2011	96,250			10,000
Marco Sala	Managing Director and CEO Executive Committee - Member	January 1, 2010 to December 31, 2010	April 28, 2011	95,000	34,919	1,158,750	750,000
Pietro Boroli	Board Member Executive Committee - Member	January 1, 2010 to December 31, 2010	April 28, 2011	91,250			
Paolo Ceretti	Board Member Executive Committee - Member	January 1, 2010 to December 31, 2010	April 28, 2011	95,000			
Marco Drago	Board Member Executive Committee - Member	January 1, 2010 to December 31, 2010	April 28, 2011	95,000			
Jeremy Hanley, KCMG	Board Member Internal Audit and Compliance Committee - Member	January 1, 2010 to December 31, 2010	April 28, 2011	103,750			10,000
James McCann	Board Member Remuneration Committee - Member	January 1, 2010 to December 31, 2010	April 28, 2011	98,750			10,000
Jaymin Patel	Board Member Executive Committee - Member	January 1, 2010 to December 31, 2010	April 28, 2011	92,500	8,216	873,067	579,424
Anthony Ruys	Board Member Internal Audit and Compliance Committee - Member	January 1, 2010 to December 31, 2010	April 28, 2011	100,000			10,000
Severino Salvemini	Board Member Internal Audit and Compliance Committee - Chairman Surveillance Body	January 1, 2010 to December 31, 2010	April 28, 2011	151,250			10,000
Gianmario Tondato Da Ruos	Board Member Remuneration Committee - Chairman	January 1, 2010 to December 31, 2010	April 28, 2011	102,500			10,000
William Bruce Turner	Board Member	January 1, 2010 to December 31, 2010	April 28, 2011	67,500			
Sergio Duca	Board of Statutory Auditors - Chairman	January 1, 2010 to December 31, 2010	April 28, 2011	112,500			
Angelo Gaviani	Board of Statutory Auditors - Regular Member Surveillance Body	January 1, 2010 to December 31, 2010	April 28, 2011	85,000			
Francesco Martinelli	Board of Statutory Auditors - Regular Member	January 1, 2010 to December 31, 2010	April 28, 2011	75,000			
Renato Ascoli	General Manager	January 1, 2010 to December 31, 2010	April 28, 2011		33,484	392,040	580,000
				1,896,250	76,619	2,423,857	1,969,424

EXECUTIVE MANAGEMENT BENEFITS

Euros	2010	2009
Short-term employee benefits	1,053,556	1,088,395
Post-employment benefits	53,169	46,183
Share-based payments	-	-

The table does not include the compensation of the General Manager Renato Ascoli, manager with strategic responsibilities, since his compensation is indicated on a disaggregate basis in the table " Compensation paid to the boards of director members, statutory auditors, general manager and the managers with strategic responsibilities"

SHAREHOLDINGS OF BOARD OF DIRECTORS MEMBERS, STATUTORY AUDITORS, GENERAL MANAGER AND MANAGERS WITH STRATEGIC RESPONSABILITIES.

Surname and Name	Shares at 12/31/09	Shares Purchased	Shares Sold	Shares Assigned Free of Charge	Shares at 12/31/10
Sala Marco	420,791	-	12,023	23,786	432,554
Bortoli Stefano	10,430	-	1,771	5,435	14,094
Ascoli Renato	15,896	-	3,239	6,383	19,040
Patel Jaymin	226,667	-	10,281	23,078	239,464
Salvemini Severino	10,000	5,000	-	-	15,000
Pelliccioli Lorenzo	70,000	-	-	-	70,000
Ceretti Paolo	3,000	-	-	-	3,000
TOTAL	756,784	5,000	27,314	58,682	793,152

AUDIT FIRM FEES

Description	Fee	
	12/31/2010	12/31/2009
Audit services	336	331
Compensation for international consulting	-	-
Other services:		
- Certification procedure	379	745
- Accounting consultancy	258	-
Totale	973	1,076

PERSONNEL

Pursuant to article 2427, comma 1 n. 15 of the Italian civil code, the average number of employees totals 1,136.8 (875.7 at 12/31/2009):

Average labor force for 2010	
	Nr
Executives	66,4
Jr Management	133,1
Office Staff	935,3
Manual Workers	2,0
Total	1.136,8

EVENTS FOLLOWING THE CLOSING OF THE PERIOD ENDED DECEMBER 31, 2010

There were no significant events occurring after the period ended December 31, 2010.

RECEIPTS AND PAYMENTS (Presidential Decree n. 560 of September 16, 1996)

The management of receipts and payments for the period ended December 31, 2010 total €/000 115,979 and consist of the following:

RECEIVABLES

Total receivables for the period ended December 31, 2010 from points of sale for the sums to be paid, net fees and expenses, were €/000 2,089.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2010 total €/000 113,890 and reflect the administered receipts held in bank and postal accounts:

- €/000 103,569 in a specific current account held with Banca Intesa S.p.A.; and
- €/000 10,321 in a specific postal account.

PAYABLES

Payables for the period ended December 31, 2010 total €/000 115,979 and consist of:

- €/000 75,004 tax earnings as of December 31, 2009 to pay to AAMS;
- €/000 15,172 due to the Ministry of Finance's pension fund;
- €/000 5,667 for the premium on the last two drawings made over the period ended December 31, 2010 to be paid to the licensee;
- €/0000 20,136 for winnings not paid as of December 31, 2010.

DE AGOSTINI S.P.A. FINANCIAL STATEMENTS

A summary report of De Agostini S.p.A.'s most recent financial statement, certified according to Italian accounting principles, is presented below. The Parent Company De Agostini S.p.A., pursuant to Article 2497-bis of the Italian civil code, carries out the activity of direction and control. The financial statements are prepared according to IAS/IFRS international accounting principles and approved by the Shareholders' Meeting

Balance sheet De Agostini S.p.A.	
<i>Euro in thousand</i>	12.31.2009
ASSETS	
Intangible assets	194
System, equipment and other assets	13.480
Securities and Equity investments	3.667.141
Securities and Equity hold for sale	9.683
Trade and other receivables	1.091
Other assets	38.251
Other financial assets	4.752
Related parties' financial assets	334.232
Cash and cash equivalents	198.581
Accrual assets	2.844
TOTAL ASSETS	4.270.249
EQUITY AND LIABILITIES	
Equity	2.921.122
Long term provisions	71.536
Staff severance fund (TFR)	1.583
Patent companies' convertible bond	300.000
Trade and other payables	2.941
Other liabilities	7.260
Other financial liabilities	5.821
Bank's financial liabilities	955.048
Accrual liabilities	4.938
TOTAL EQUITY AND LIABILITIES	4.270.249
Net financial position	(722.235)
Income statement De Agostini S.p.A.	
<i>Euro in thousand</i>	12.31.2009
Net revenues	1.199
Other revenues	1.687
General costs	(25.112)
Other costs	(2.782)
EBITDA	(25.008)
Depreciation and Amortization	(678)
EBIT	(25.686)
Dividends	63.273
Financial gain/(loss), net	(75.010)
Extraordinary net income/(expense)	(277.761)
EBT	(315.184)
Income taxes	11.368
Net income	(303.816)

List Lottomatica Group S.p.A. subsidiaries and affiliates				
Name	Jurisdiction	Share Capital *	Ownership	Shareholder
Atronic Americas LLC	Nevada, USA	1.971	100	Lottomatica Group
Atronic Asia Limited (1)	China	10	100	Atronic Austria Holding AG
Atronic Argentina S.r.l.	Argentina	30	100	Atronic International GmbH
Atronic Australia Pty. Ltd.	Australia	2.000	100	Atronic Australien GmbH
Atronic Australien GmbH	Germany	1.120	100	Lottomatica Group
Atronic Austria GmbH	Austria	300	100	Atronic Austria Holding AG
Atronic Austria Holding GmbH (2)	Austria	300	100	Atronic International GmbH
Atronic International GmbH	Germany	302	100	GTECH German Holdings Corporation GmbH
Atronic Nevada LLC (3)	Nevada, USA	10	100	Atronic Americas LLC
Atronic Peru S.A.	Peru	**	98	Atronic International GmbH
Atronic Russia o.o.o.	Russia	3018,2	50	Atronic Austria Holding AG
Atronic System B.V.	Netherland	18	100	Atronic International GmbH
Atronic System GmbH	Austria	36,4	100	Atronic System B.V.
Atronic System Inc. (4)	Nevada, USA	**	100	Atronic System B.V.
Atronic System S.A.M.	Monaco	147	98	Atronic System B.V.
Banca ITB S.p.A. (già IT Bank S.p.A.) ****	Italy	25.120	13,33	Lottomatica Group
CartaLIS IMEL S.p.A.	Italy	10.000	85	Lottomatica Italia Servizi
Coin Net S.r.l. (5) (18)	Italy	10	100	Lottomatica Videolot Rete
Consel Consorzio Elis (6) ****	Italy	51	0,1	Lottomatica Group
Consorzio Lotterie Nazionali (7)	Italy	16.000	63	Lottomatica Group
Consorzio Lottomatica Giochi Sportivi (8)	Italy	100	90	Lottomatica Group (85%); Totobit Informatica (5%)
D&D Electronic & Software GmbH	Germany	26	50	Atronic International GmbH
Easy Nolo S.p.A.****	Italy	1.900	10	Totobit Informatica
Empoli Giochi S.r.l. (18)	Italy	100	100	Lottomatica Videolot Rete
Grips RSA	South Africa	**	100	Atronic System GmbH
GTECH German Holdings Corporation GmbH	Germany	25	100	Lottomatica Group
GTECH Holdings Corporation	Delaware, USA	3.147.515,38	100	Invest Games S.A.
Invest Games S.A.	Lux	92.100	100	Lottomatica Group
Labet S.r.l.	Italy	100	100	Lottomatica Scommesse
LIS Istituto di Pagamento S.p.A. (già LIS Finanziaria S.p.A.) (9)	Italy	1.000	100	Totobit Informatica
Logo S.r.l. (10) (18)	Italy	10	100	Lottomatica Videolot Rete
Lotterie Nazionali Holding S.p.A. (11)	Italy	350	71,43	Lottomatica Group
Lotterie Nazionali S.r.l. (12)	Italy	31.000	64	Lottomatica Group (20.25%); Lotterie Nazionali Holding S.p.A. (43.75%)
Lottomatica International Greece S.r.l. (13)	Italy	10	84	Lottomatica Group
Lottomatica Italia Servizi S.p.A.	Italy	2.582	100	Lottomatica Group
Lottomatica Scommesse S.r.l.	Italy	20.000	100	Lottomatica Group
Lottomatica Videolot Rete S.p.A.	Italy	3.226	100	Lottomatica Group
L.S. Alpha S.r.l.	Italy	118	95	Lottomatica Scommesse
L-Gaming S.A. (14)	United Kingdom	60	50	Lottomatica International Greece S.r.l.
MIS International France SAS	France	40	100	Atronic System B.V.
Neurosoft S.A.****	Greece	8.750	16,58	Lottomatica Group
PCC Giochi e Servizi S.p.A.	Italy	21.000	100	Lottomatica Group
SED Multitel S.r.l.	Italy	800	100	Lottomatica Group

Siderbet S.r.l. (15)	Italy	10	100	Lottomatica Scommesse
Spielo Italia S.r.l. (ex Lottomatica Bingo S.r.l.) (16)	Italy	50	100	Lottomatica Group
Spielo Manufacturing ULC	Nuova Scotia, Canada	278.498	100	Lottomatica Group
Spielo USA Incorporated (17)	Delaware, USA	**	100	Lottomatica Group
Totobit Informatica Software e Sistemi S.p.A.	Italy	3.043	100	Lottomatica Italia Servizi
Toto Carovigno S.p.A.	Italy	500	100	Lottomatica Scommesse

NOTES

Unless otherwise noted, the consolidation method for all subsidiaries listed above is on a line-by-line basis.

* All Share Capital amounts are stated in local currency amounts and in thousand

** Companies not consolidated and carried at cost

*** Companies not consolidated

**** Share Capital is less than €1,000

(1) On September 30, 2010 Atronic Asia Limited was dissolved

(2) On March 24, 2009 Atronic Austria Holding AG modified its company name to GmbH

(3) On December 29, 2010 Atronic Nevada, LLC was liquidated

(4) On December 29, 2010 Atronic System Inc. was dissolved

(5) On September 21, 2010 Lottomatica Videolot Rete S.p.A. purchased 100% of Coin Net S.r.l.

(6) On October 8, 2010 Lottomatica purchased 0.1% share capital of Consel – Consorzio Elis for superior professional training

(7) On September 30, 2010 and effective as of October 1, 2010 Consorzio yielded to Lotterie Nazionali almost all of its interest participation

(8) On liquidation

(9) Based on the resolution issued on December 16, 2010 LIS Finanziaria S.p. A. modified its company name to LIS IP S.p.A. effective only following the authorization of the Bank of Italy (Banca d'Italia)

(10) On September 24, 2010 Lottomatica Videolot Rete S.p.A. purchased 100% of Logo S.r.l.

(11) On December 7, 2010 constituted Lotterie Nazionali Holding S.r.l., transformed to S.p.A with resolution dated December 14, 2010

(12) On May 13, 2010 Lottomatica Group S.p.A. (63%), Scientific Games Luxembourg Inv. S.a.r.l. (19%), Arianna 2001 S.p.A. (15%), Scientific Games International Inc. (1%), Servizi in Rete 2001 S.r.l. (1%) and Olivetti S.p.A. (1%) constituted Lotterie Nazionali S.r.l. On December 10, 2010 Lottomatica Group S.p.A. transferred its entire interest participation of Lotterie Nazionali S.r.l. to Lotterie Nazionali Holding S.p.A.

(13) Lottomatica Group S.p.A. constituted Lottomatica International Greece S.r.l. on June 16, 2010

(14) On September 1, 2010 Lottomatica International Greece S.r.l. purchased 50% of L-Gaming S.A.

(15) On June 4, 2010 Lottomatica Scommesse S.r.l. purchased 100% of Siderbet S.r.l.

(16) Lottomatica Bingo S.r.l. modified its company name to Spielo Italia S.r.l. on November 15, 2010. Lottomatica Group S.p.A. purchased 100% of Spielo Italia from Lottomatica Scommesse S.r.l. on November 29, 2010.

(17) On January 1, 2011, after 2010 closing, Spielo USA Incorporated merged into Atronic Americas, LLC.

(18) On January 1, 2011, after 2010 closing, Coin Net S.r.l., Empoli Giochi S.r.l. and Logo S.r.l. merged into Lottomatica Videolot Rete S.p.A..

LOTTOMATICA GROUP S.p.A.
Registered Office in Rome, Viale del Campo Boario, 56/d
Share Capital: €182,682,847.00

REPORT OF THE BOARD OF AUDITORS
to the Shareholders' Meeting of Lottomatica Group S.p.A.

To the Shareholders,

Pursuant to Articles 2403 section 1 and 2429 of the Italian Civil Code, and Article 153 section 1 of Legislative Decree no. 58 of February 24, 1998, as well as to Legislative Decree no. 39 of January 27, 2010, we inform you that during the year ended December 31, 2010 we performed our oversight activities in accordance with the provisions of the Italian Civil Code, with Articles 148 and following articles of the aforementioned Legislative Decree, and with the instructions issued by the Stock Exchange Commission (CONSOB), taking into account, moreover, the rules of conduct recommended by the National Council of Accountants and Bookkeepers.

Considering the above, we present our report on oversight activities required by law and performed by this Board during the year ended December 31, 2010.

Specifically,

- We attended to all meetings of the Board of Directors, totalling 5 in number, and of the Executive Committee, totalling 4 in number, during which we were informed of the Company's activities and notified of all major economic, financial, assets and liabilities transactions carried out by the Company and its subsidiaries;
- We held 9 periodical meetings during which information was mutually exchanged with the audit firm and with the Chief Executive Officers or their representatives, and we ascertained that no transactions were undertaken, which might create conflicts of interest or run counter to the resolutions of the shareholders' meeting or hidden to shareholders or to the public, or anyway risky to jeopardise the Company's capital soundness;

- We continued to monitor the Company's organisational structure and the administrative-accounting system, as well as its internal audit and risk management systems, finding all to be adequate for their respective purposes;
- We took part to the meetings of the Internal Audit Committee and received the information on its current activity, on its controlling schedule and on its plans for implementing the internal control system;
- We reviewed the Internal Control Committee and Risk Management annual reports;
- We acquired information from the Remuneration Committee and from the *Lead Independent Director* regarding their activities;
- We obtained from the Board of Directors, within the time prescribed by the law, the draft of the 2010 stand alone financial statement, the 2010 consolidated financial statement and the management report, along with the corporate governance report. We regularly received the half-year and quarterly financial reports approved in the 2010 period and released by the Company in accordance with the modalities set forth in the applicable provisions in force;
- Also through meetings with the auditors, we ascertained that the stand alone financial statements and the consolidated financial statements were prepared pursuant to the laws in force regarding the adoption of IAS-IFRS principles. The consolidation criteria and the consolidation are described in detail in the notes to the financial statements. The Administrators did not infringe in any way upon Articles 2423 of the Italian civil code in the preparation of the financial statements. No changes have been noted with regards to the adoption of the IAS-IFRS principles and the evaluation of fair value, if not those deriving from the introduction of new IFRS principles/interpretations as reported in the Notes to the financial report. The Chief Executive Officer and the Manager in charge of preparing corporate reports and financial documents issued the statements provided for by Article 154-bis of the Consolidated Financial Law (Testo Unico della Finanza). The Board of Statutory Auditors certifies that the Administrators describe adequately the principal risks and uncertainties which the Company is exposed to;
- We determined that the Board of Directors was fully informed of all adjustments resulting from new CONSOB regulations regarding third party transactions (CONSOB resolution no. 17221 of March 12, 2010, subsequently amended with resolution no. 17389 of June 23, 2010), new implementing provisions of the so-called "Shareholders' rights directive" (Legislative Decree no. 27 of January 27, 2010), and new internal control regulations (Legislative Decree no. 39 of January 27, 2010). We further ascertained that pertinent

internal procedures were adopted and mandatory adjustments to company by-laws were carried out in reference to the aforementioned regulations;

- We examined the procedures on relevant transactions as well as on related party transactions which are reasonably considered to be in compliance with the principals of good management, compatible with the Company by-laws and consistent with the applicable legislation;
- We verified that the Directors, in compliance with the instructions issued by CONSOB, highlighted in the management report the transactions occurring with companies belonging to the Group and related parties. On our part, we verified, with the assistance of the Company's administrative officers, the observance of all procedures designed to ensure that such transactions were conducted under the appropriate conditions and in the Company's interests;
- We ascertained that no atypical or unusual transactions, as defined in the CONSOB note no. 1025564 dated April 6, 2001 and No. DEM/6064293 dated July 28, 2006, took place within among the group, with related parties or with third parties, finding proof thereof in the information provided by the Board of Directors, by audit firm and by persons responsible for the internal control;
- We ascertained that the Company complied with the Corporate Governance Code of Listed Companies, in the market organized and operated by the Italian Stock Exchange S.p.A., having since long implemented the recommendations made in the latest edition of the code of March 2006. On this point, we monitored the manner in which the corporate governance rules, set out in the self-discipline code, were implemented and, in this respect, we have no observations to make. We also inform you that the assessment criteria and procedures adopted by the Board of Directors to evaluate the independence of its members were correctly applied. The Board of Statutory Auditors has then determined the independence of its members as provided for by applicable legislation;
- We ascertained that the Company continued to update the organisational management and control model as per Legislative Decree 231/01, taking into account the guidelines issued by trade associations as well as relevant legislative developments, also applying this model to subsidiary companies and consortia belonging to the Group, by prejudice to their respective peculiarities.
- Through our continuous contact with the independent auditors as well as due to our own periodic controls, we ascertained that the relevant non-European subsidiaries, deemed

relevant and identified by the provisions of Title VI, section II of the CONSOB regulation adopted with the resolution no. 11971 in 1999:

- Have an administrative-accounting system that is able to regularly send the necessary economic and financial information for the preparation of the consolidated financial statements to the Company and to the independent auditors;
- Regularly provide the necessary information to carry out the controlling activities regarding the annual semi annual and quarterly reviews to the independent auditors.

We further affirm that:

- We have not received report of any offences as per Article 2408 of the Italian Civil Code;
- We have not received report of any complaints;
- We did not issue any legal opinions as defined by the law during the year;
- Pursuant to Article 17, section 9, letter a) of Legislative Decree no. 39 of January 27, 2010, the company Reconta Ernst & Young S.p.A. has notified us of having rendered, also through its network, services other than auditing to Lottomatica Group S.p.A. for the 2010 year for a sum of €638,000.00, of which €544,000.00 pertaining to certification services (primarily for comfort and bring down letters) and €84,000.00 pertaining to non-auditing services (primarily for a vendor due diligence);

Within the scope of our authority we verified the following:

- The Company complied with the provisions of the law and by-laws and with the principles of good management;
- The Company's organisational structure, internal control system and administrative-accounting systems are satisfactory insofar as their effective operation is concerned;
- The preparation and structure of the financial statements and the management report were carried out appropriately also with reference to the provisions of the Legislative Decree No. 87 of January 27, 1992 and the subsequent CONSOB recommendations, also through direct checks and information obtained from the audit firm;
- The instructions given by the Company to its subsidiaries were appropriate in compliance with Article 114, section 2 of Legislative Decree 58/1998;
- The independence of the audit firm, having received written confirmation, pursuant to Article 17, section 9, letter a) of Legislative Decree no. 39 of January 27, 2010, and having discussed the content therein with the partner responsible for the audit. To that end we

supervised the adherence to the relevant applicable regulations, in relation to the nature and entity of the services other than audits rendered to the issuer and its subsidiaries by the audit firm and by the entities belonging to its network, as provided for by Article 10.C.5 of the Corporate Governance Code as it is further explained in the notes to the financial statement.

The Board of Auditors further reports that:

- The audit firm's report to the stand-alone and consolidated financial statements for the year ended December 31, 2010, expresses no doubts and thus certifies that they adhere to the provisions that govern its preparation, the accounting entries, the Italian civil code and the national, international and Group accounting principles;
- The audit firm has issued a favourable opinion in terms of the coherence of the management report with the Lottomatica Group S.p.A. financial statements for the year ended December 31, 2010 as required by Article 156, section 4-bis, letter d) of Legislative Decree no. 58/1998;
- The audit firm has submitted and illustrated the final draft of the report pursuant to Article 19, section 3 of Legislative Decree no. 39 of January 27, 2010, from which there are no evidences of questions, blameworthy events or other significant deficiencies within the internal control system;

As previously mentioned also according to the new responsibilities attributed to the Board of the Statutory Auditors that, pursuant to article 19 of the Legislative Decree n. 39 of January 27, 2010, is identified with the Internal Audit Committee and the Audit Firm, we confirm to have supervised the following:

- a) the process of financial information;
- b) the efficiency of the internal control, internal auditing and risk management systems;
- c) the audit control on the stand alone and consolidated accounts;
- d) the independence of the audit firm, specifically regarding non-auditing services rendered to the company.

In the opinion of this Board there are no proposals to submit to the Shareholders' Meeting pursuant to Article 153, section 2 of Legislative Decree no. 58/1998.

In view of the above, we therefore recommend the approval of the financial statements for the year ended December 31, 2010 presented by the Board of Directors together with the management report.

Rome, March 30, 2011

THE BOARD OF AUDITORS

Mr. Sergio Duca

Mr. Angelo Gaviani

Mr. Francesco Martinelli

This report has been translated into English solely for the convenience of international readers.

List of the various roles held by Lottomatica Group S.p.A. Board of Statutory Auditors members as per book V, Title V, sections V, VI and VII of the Italian Civil Code, drawn up under Article 144-quinquiesdecies the Issuers Regulation, adopted by Consob with resolution no 11971/99 and later modifications and additions

* * * * *

Dr. Sergio Duca

N.	Company name	Position	End of term
1	Enel S.p.A.*	Chairman of Board of Directors	04/29/2013
2	Lottomatica Group S.p.A. *	Chairman of Board of Statutory Auditors	04/15/2011
3	Orizzonte S.g.r. S.p.A.	Chairman of Board of Directors	04/15/2013
4	Silvio Tronchetti Provera Foundation	Chairman of Board of Independent Auditors	04/20/2013
5	ISPI	Independent Auditor	05/05/2013
6	Intesa San Paolo Onlus Foundation	Independent Auditor	09/23/2011
7	Compagnia di San Paolo	Independent Auditor	06/09/2012
8	Telecom Italia Audit & Compliance Services S.c.a.a.r.l	Chairman of Board of Directors	12/31/2011
9	Autostrada Torino-Milano S.p.A.*	Chairman of Board of Directors	04/27/2013

*Issuing Company

Number of positions in issuing Companies: 3

Total number of positions: 9

Dr. Angelo Gaviani

N.	Company name	Position	End of term
1	Lottomatica Group S.p.A.*	Regular member of Board of Statutory Auditors	12/31/2010
2	B&D Holding di Marco Drago e C. S.a.p.A.	Regular member of Board of Statutory Auditors	12/31/2010
3	De Agostini S.p.A.	Regular member of Board of Statutory Auditors	12/31/2011
4	De Agostini Editore S.p.A.	Regular member of Board of Statutory Auditors	12/31/2010
5	DeA Libri S.p.A.	Regular member of Board of Statutory Auditors	12/31/2010
6	DeA Capital S.p.A.*	Chairman of Board of Statutory Auditors	12/31/2012
7	DeA Factor S.p.A.	Chairman of Board of Statutory Auditors	12/31/2012
8	DeA Partecipazioni S.p.A.	Chairman of Board of Statutory Auditors	12/31/2011
9	First Atlantic RE SGR S.p.A.	Chairman of Board of Statutory Auditors	12/31/2010
10	First Atlantic Real Estate S.p.A.	Chairman of Board of Statutory Auditors	12/31/2010
11	De Agostini Foundation	Auditor	12/31/2012
12	Istituto Geografico De Agostini S.p.A.	Chairman of Board of Statutory Auditors	12/31/2012
13	Lottomatica Italia Servizi S.p.A.	Regular member of Board of Statutory Auditors	12/31/2011
14	Lottomatica Scommesse S.r.l.	Chairman of Board of Statutory Auditors	12/31/2012
15	Lotterie Nazionali Holding S.p.A.	Regular member of Board of Statutory Auditors	12/31/2012
16	PCC Giochi e Servizi S.p.A.	Regular member of Board of Statutory Auditors	12/31/2012
17	Utet S.p.A.	Regular member of Board of Statutory Auditors	12/31/2010
18	Banca Popolare di Novara S.p.A.	Regular member of Board of Statutory Auditors	12/31/2010
19	M.Dis Distribuzione Media S.p.A.	Regular member of Board of Statutory Auditors	12/31/2011
20	Mineral Resources S.r.l.	Chairman of Board of Statutory Auditors	12/31/2010
21	Spig S.p.A.	Chairman of Board of Statutory Auditors	12/31/2012
22	Stoppa Antonio e Figli S.p.A.	Chairman of Board of Statutory Auditors	12/31/2012

* Issuing Company

Number of positions in issuing Companies: 1, other than Lottomatica Group S.p.A.

Total number of positions: 22.

Dr. Francesco Martinelli

N.	Company name	Position	End of term
1	Lottomatica Group S.p.A.*	Regular member of Board of Statutory Auditors	Annual Report 12/31/2010
2	Alicos S.p.A.	Regular member of Board of Statutory Auditors	Third quarter 2011 Report
3	G. Matica S.r.l.	Regular member of Board of Statutory Auditors	Third quarter 2011 Report
4	Almaviva Contact S.p.A.	Regular member of Board of Statutory Auditors	Third quarter 2011 Report
5	Almaviva S.p.A.	Regular member of Board of Statutory Auditors	Third quarter 2011 Report
6	Aviofin S.p.A (on liquidation)	Regular member of Board of Statutory Auditors	Annual Report 12/31/2010
7	Reteitalia Internazionale S.r.l.	Regular member of Board of Statutory Auditors	Annual Report 12/31/2010
8	Servizio Italia S.r.l.	Regular member of Board of Statutory Auditors	Annual Report 12/31/2010
9	Lottomatica Scommesse S.r.l.	Regular member of Board of Statutory Auditors	Annual Report 12/31/2010
10	Almawave S.r.l.	Chairman of Board of Statutory Auditors	Third quarter 2011 Report
11	Almaviva Technologies S.r.l.	Chairman of Board of Statutory Auditors	Third quarter 2011 Report
12	Almaviva TSF S.p.A.	Chairman of Board of Statutory Auditors	Third quarter 2011 Report
13	Servizi In Rete 2001 S.p.A.	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010
14	Arianna 2001 S.p.A.	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010
15	Press & Image S.p.A.	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010
16	TNET 2001 S.p.A.	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010
17	Melior Trust S.p.A.	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010
18	Camfin S.p.A.*	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010
19	Eurispes Italia S.p.A.	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010
20	CFN – Compagnia Fondiaria Nazionale S.p.A.	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010
21	Immo Finanziaria S.p.A.	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010
22	Cartalis Imel S.p.A.	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010
23	Consorzio Lotterie Nazionali	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010
24	Lotterie Nazionali S.r.l.	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010
25	Lotterie Nazionali Holding S.r.l.	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010

26	Consorzio Lottomatica Giochi Sportivi (on liquidation).	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010
27	LIS - Lottomatica Italia Servizi S.p.A.	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010
28	Lottomatica Videolot Rete S.p.A.	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010
29	PCC Giochi e Servizi S.p.A.	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010
30	Toto Carovigno S.p.A.	Chairman of Board of Statutory Auditors	Annual Report 12/31/2010

* Issuing Company

Number of positions in issuing Companies: 1, other than Lottomatica Group S.p.A.

Total number of positions: 30.



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Independent auditor's report
pursuant to articles 14 and 16 of Legislative Decree of January 27, 2010, n. 39
(Translation from the original Italian text)

To the Shareholders of Lottomatica Group S.p.A.

1. We have audited the financial statements of Lottomatica Group S.p.A. as of and for the year ended December 31, 2010, comprising the statements of financial position, income, comprehensive income, changes in equity, cash flow and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Italian Legislative Decree n°. 38/2005 is the responsibility of the Lottomatica Group S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

For our opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March 19, 2010.

3. In our opinion, the financial statements of Lottomatica Group S.p.A. at December 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Italian Legislative Decree n° 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of Lottomatica Group S.p.A. for the year then ended.
4. The management of Lottomatica Group S.p.A. is responsible for the preparation of the Management Discussion & Analysis ("MD&A") and the Report on corporate governance and ownership structure ("Report"), filed in the section Governance - Documents and reports - Corporate Governance report of the

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Lottomatica Group S.p.A.'s website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the MD&A and of the information reported in compliance with art. 123-bis, paragraph 1, letters c), d), f), l) and m) and paragraph 2, letter b) of the Legislative Decree 58/98, included in the Report, with the consolidated financial statements as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the MD&A and the information reported in compliance with art. 123-bis, paragraph 1, letters c), d), f), l) and m) and paragraph 2, letter b) of the Legislative Decree 58/98, included in the Report, are consistent with the financial statements of Lottomatica Group S.p.A. as of December 31, 2010.

Rome, Italy
March 25, 2011

Reconta Ernst & Young S.p.A.
Signed by: Salvatore Florena, Partner

This report has been translated into the English language solely for the convenience of international readers