

SNAITECH



INTERIM MANAGEMENT
REPORT
AS OF MARCH 31, 2017

SNAITECH S.p.A.

Registered Office in Milan – Piazza della Repubblica no. 32- Share Capital Euro 97,982,245.40 fully paid-in

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**CORPORATE BODIES
AND INDEPENDENT AUDITORS OF SNAITECH S.P.A.**

Board of Directors

(In office from the Shareholders' Meeting held on June 9, 2016 until the Shareholders' Meeting that will approve the financial statements for period ending December 31, 2018, except for specifications made hereunder)

*Chairwoman
Managing Director*

Mara Caverni
Fabio Schiavolin

Directors

Maurizio Leo*
Giorgio Drago
Nicola Iorio**
Roberto Ruozzi***
Barbara Poggiali***
Chiara Palmieri**/******
Salvatore Catapano
Raffaella Viscardi/******
Nadia Buttignol
Angelo Giovannone
Mauro Pisapia/******
Paolo Scarlatti

The Director in charge of financial reporting

Chiaffredo Rinaudo

Board of Statutory Auditors

(In office from the Shareholders' Meeting held on April 29, 2014 until the Shareholders' Meeting that will approve the financial statements for period ending December 31, 2016)

*Chairwoman
Standing Auditors*

MariaTeresa Salerno
Massimo Gallina
Maurizio Maffeis

Independent auditors

(Mandate granted by the Shareholders' Meeting held on June 9, 2016 for a term of 9 years)

PricewaterhouseCoopers S.p.A.

**Appointed by the Shareholders' Meeting of March 13, 2017 and in office until the Shareholders' Meeting that will approve the financial statements for period ending December 31, 2018.*

*** Members of the Control and Risks Committee.*

**** Members of the Compensation Committee.*

***** Members of the Related Party Committee.*

Comments on the main alternative “non-GAAP” and KPI performance indicators for the period

Total SNAITECH revenues rose by 3.3% compared with the first quarter of the previous year, from Euro 220.2 million in 2016 to Euro 227.4 million in 2017. Revenues from sales and services amounted to Euro 226.3 million in the first quarter of 2017 versus Euro 217.9 million in the same period of 2016 with a 3.8% increase to be mostly attributed to the growth in on-line games and bets and the positive effect on the revenue of the average lower payout of the AWP partially offset by a higher payout on sports bets.

The other operating revenues and income declined by Euro 1.2 million, from Euro 2.3 million in the first quarter of 2016 versus Euro 1.1 million in the same period of 2017, to be mainly attributable to a significant reduction in active trading.

As a consequence of the increased payout on sports bets, despite the increase recorded at the revenue level and thanks to a positive operational performance, EBITDA (net of non-recurring revenues and expenses and including commissions on bank sureties and charges) of the Group in the first quarter of 2017, showed a 26.9% decline to Euro 28.3 million from Euro 38.7 million recorded in the same period of 2016.

In the first quarter of 2017, non-recurring net revenues with an impact of Euro 1.3 million on EBITDA were recorded, versus the non-recurring net costs amounting to Euro 0.2 million recorded in the previous year. This difference was due, for the most part, to gains from sale points owned by the Company and to benefits resulting from refunds of the VAT paid in previous years.

The key performance indicators of the Group's performance are shown in the following table (in thousands of Euro, with the exception of amounts per share).

KPIs

Thousands of Euro	1 st Quarter		Change	
	2017	2016	€	%
Total revenues	227,417	220,195	7,222	3.3
EBITDA	28,287	38,718	(10,431)	(26.9)
EBITDA Adj	29,688	40,522	(10,834)	(26.7)
EBIT	14,223	20,001	(5,778)	(28.9)
Profit/(loss) before taxes	4,599	6,001	(1,402)	(23.4)
Net profit (loss)	2,234	1,608	626	38.9
Earnings/(Loss) per share	0.01	0.01	0.00	0.0

EBITDA was affected by the following non-recurring revenues and costs incurred for operating purposes (Note 36 shows the non-recurring revenues and costs as envisaged under Consob Resolution No. 15519 of July 27, 2006):

Non-recurring revenues and costs	
Thousands of Euro	1 st Quarter of 2017
Non-recurring revenues and costs	
Active trading	(316)
Ordinary capital gains	(462)
Costs related to active trading	293
Costs related to non-recurring consultancies	190
Other	(1,051)
Impact on EBITDA	(1,346)

The Group's EBIT for 2017 was a positive Euro 14.2 million compared with Euro 20 million reported in the first three months of the previous year.

In the first quarter of 2017, income before income taxes was positive standing at Euro 4.6 million. However it represented a negative change by Euro 1.4 million compared with the same figure of 2016 due to a lower operating profit offset only partially by a lower value in amortisations and a significant reduction of financial charges due to the issuing, in November 2016, of new bond loans at favourable financial conditions compared with the pre-existing debt.

The net earnings for the SNAITECH Group in the first quarter of 2017 amounted to Euro 2.2 million, a definitive 38.9% improvement compared with the same period of 2016.

The net financial indebtedness of the SNAITECH Group as of March 31, 2017 stood at Euro 494.5 million versus Euro 480.9 million at December 31, 2016. The Euro 13.6 million is mainly due to the decrease in liquid assets for Euro 8.1 thousand, due primarily to the scheduling of concession fee payments and to the increase in current financial indebtedness of Euro 5 million as a result of the allocation to a provision, for the period, of interest expense accrued on bonds.

EBITDA, EBITDA Adjusted and EBIT

In compliance with the Consob Communication DEM/6064293 of July 28, 2006, as amended and supplemented (Communication Consob no. 0092543 of December 3, 2015 which transposes the ESMA/2015/1415 directives concerning alternative performance indicators), SNAITECH recorded, in its interim management report, in addition to the financial performance measures set out by IFRS, some measures that were derived from the latter although not contemplated in the IFRS (Non-GAAP Measures). These measures are being adopted in order to allow for a better assessment of the Group performance and they should not be considered in alternative to those required under the IFRS standards.

In particular, the alternative performance indicators used are the following:

- EBITDA
- EBITDA Adjusted
- EBIT

These performance indicators are not required under the IFRS accounting standards. Therefore, they must not be considered in isolation or as a replacement of other items contained in the financial statements prepared according to the IFRS standards. These indicators must rather be used to supplement the results calculated according to IFRS in order to allow a better understanding for the reader of the operating performance of the Group.

We wish to emphasize that the calculation of these indicators is not defined by the IFRS accounting standards and therefore their definition must be carefully assessed and analysed by the investor. The indicators in question are described in detail below and they are reconciled with the indicators provided in the IFRS accounting standards.

The Non-IFRS measures, such as EBITDA, EBITDA Adj, EBIT and the net financial indebtedness are included in this interim management report in order to:

- improve the level of transparency for the financial community;
- assist the investors in the assessment of the operating performance of the Group and its capacity to refinance its debt within the due date and to obtain further funds to invest in new business opportunities;
- assist the investors in calculating the cost of debt for the Group;
- ensure that these measures are fully understood in light of how the Group assesses operating results and financial leverage;
- define precisely the matrices used and confirm the method used to calculate them; and
- share at the same time these measurements with the financial community.

EBITDA represents the net profit attributable to the Group before income taxes, other financial income and expenses, amortisations and depreciations, other provisions, non-recurrent income and expenses, fees on bank sureties and charges. EBITDA Adj is defined as the EBITDA value before allocations to the bad debt provision.

It is believed that the determination of EBITDA and EBITDA Adj are useful to both the management and the investors in assessing the operating performance of the Group, as well as for comparisons with other companies operating in the same sector, although these indicators may not be comparable with the same indicators used by the other companies.

The Group recognises that the usefulness of EBITDA and EBITDA Adj has some limitations, such as:

- the above indicators do not include financial charges. Since the Group has obtained loans for the development of its business, the financial interest is an element necessary for defining costs and the capacity to generate profits and cash flows. Therefore, each indicator that excludes financial charges may present significant limitations;
- they do not include amortisations, depreciations and write-downs on fixed assets. Since the Group owns fixed assets, depreciation, amortization and write-downs are essential to define its costs and its capacity to generate profits. Therefore, each indicator that excludes depreciations/amortisations may present significant limitations;
- the above indicators do not include income taxes. Since income taxes are a necessary element of the Group costs, each indicator that excludes income taxes may present significant limitations;
- they do not take into account the cash disbursements or the capital requirements for future investments in equity or contractual commitments;

- they do not take into consideration working capital requirements or the related capital requirement.

In order to address the above limitations, the Group uses EBITDA as a comparative tool associated with the indicators calculated according to the IAS/IFRS accounting standards in order to facilitate the operating performance assessment and the financial leverage of the Group.

EBIT refers to “Earnings before interest and taxes” recorded in the Statement of Comprehensive Income.

The composition of EBITDA and EBITDA Adj is obtained by adding the following items to EBIT:

<i>Thousands of Euro</i>	1st Quarter		Change	
	2017	2016	€	%
EBIT	14,223	20,001	(5,778)	(28.9)
+ Depreciation of property, plant and equipment	5,180	5,152	28	0.5
+ Amortisation of intangible fixed assets	8,586	11,964	(3,378)	(28.2)
+ Other allocations	49	0	49	
Earnings before interest, tax, depreciation and amortisation	28,038	37,117	(9,079)	(24.5)
+ Commissions on bank guarantees and bank charges	1,595	1,367	228	16.7
+ Non-recurring Costs / (Revenues)	(1,346)	234	(1,580)	>100
EBITDA	28,287	38,718	(10,431)	(26.9)
+ Allocation to the provision for doubtful debts	1,401	1,804	(403)	(22.3)
EBITDA Adj	29,688	40,522	(10,834)	(26.7)

The composition of the profit (loss) before taxes is obtained by adding the following items to EBIT:

<i>Thousands of Euro</i>	1st Quarter		Change	
	2017	2016	€	%
EBIT	14,223	20,001	(5,778)	(28.9)
+ Financial income	155	225	(70)	(31.1)
+ Financial expenses	(9,777)	(14,231)	4,454	31.3
+ Net gains (losses) on exchange rates	(2)	6	(8)	>100
Profit/(loss) before taxes	4,599	6,001	(1,402)	(23.4)

Remarks of the Board of Directors on the performance of operations, business outlook and progress of the business plan

Remarks on the games and bets performance for the period up to March 31, 2017

National gaming market

Based on the data we have (ADM's official data, media news items, segment surveys), we estimate that, in the first three months of the year, total wagers for the gaming market would stand around Euro 25.6 billion, up by around 6% compared to the same period of 2016.

During the period, the Gaming Machine wager collection decreased (Euro 12.4 billion, -1.5% compared with 2016) while the Betting Retail wagers (Euro 1.7 billion, +36.5% compared with 2016) and Online Betting (Euro 6.2 billion, +22.4% compared with 2016) increased. As regards products not carried by SNAITECH, in its capacity as concession holder, the GNTN and Betting Exchange grew while Lotto, Lotteries and Bingo declined.

As regards the Gaming Machines segment, it is apparent that, given a contained growth of the VLT (Euro 6.0 billion, +2.9% compared with 2016), the decline is to be attributed completely to the AWP's (Euro 6.4 billion, -5.2% compared with 2016) following both a downward change in the payout in 2016 and a progressive tightening of the local regulations as regards distances of premises and business hours.

The growth in the Betting Retail segment is instead to be attributed primarily to the entry of new operators into the regulated market (regularisation of CTD) which occurred progressively in the past year and at the highest level of repayment to the players in the first quarter of 2017 compared with the same period of 2016 (payout 89.5% versus 78.3%).

Following are the performances recorded by the Group during the first three months of 2017.

Gaming machines

The SNAITECH Group is the second most important market operator with a 14.7% market share.

At the closing of the period, the Group held no. 59,313 authorisations to operate AWP's at about 14,781 premises within the territory and 10,378 licenses to operate through VLTs with 9,989 active machines at 1,258 premises.

The Group's volume of wagers collected in the Gaming Machines segment showed a 6.6% decline compared with the previous year, from Euro 1.96 billion to Euro 1.83 billion. This result is to be attributed also to the tightening of territorial regulations about distances and business hours and, for the AWP's, to the lowered minimum payout from 74% to 70%, which occurred progressively during 2016. In detail, the VLTs, in the first quarter, collected Euro 0.9 billion (-2.1% compared with 2016) and the AWP's collected Euro 0.9 billion (-11.3% compared with 2016).

Betting Retail

The SNAITECH Group is the top market operator with a 19.1% market share.

The sports betting acceptance network of the SNAITECH Group is characterised by its widespread presence throughout Italy and is comprised of over 1,599 gaming points, 685 shops and 914 corners.

In the first quarter of 2017, the total wagers in sports bets collected by the Group, through the physical channels, recorded a 2.9% growth, from Euro 0.191 billion in 2016 to Euro 0.196 billion in 2017. This increase was due to the higher level of payout and to the optimisation of the network and the products.

In the first three months of 2017, the payout (percentage of winnings paid to betters as compared to the total wagers collected) on sports bets was 86.8% compared to 79.9% in the same period of 2016.

The wagers of horse racing declined compared with 2016 (Euro 0.05 billion, -15.7% compared with 2016). In decline also were the wagers on virtual events (Euro 0.07 billions, -12.1% compared with 2016).

As regards the points of sale of the Finscom and ex SIS networks, the process of management outsourcing to third parties continued: in the first quarter of 2017, given the contracts executed in the last quarter of 2016, the sale of fifteen points of sales was completed and formalised.

Online

Thanks to the activities carried out on products, to new strategies focused on acquisition and to the strengthening of the cross-selling activity on the physical network, in the first three months of 2017 wagers related to the On-line segment increased by 25.6% compared to the same period of 2016, from Euro 0.312 billion to Euro 0.392 billion, thus strengthening the positioning of the SNAITECH Group in the segment of on-line games. This growth involved all products: the collection of sports bets stood at Euro 0.095 billion (+39.5% compared with 2016) while remote games (casino, card games with cash or in tournaments and on-line slots) collected Euro 0.285 billion (+22.3% compared with 2016).

Services

Within the Betting Retail segment, the Group provides also specialised services to concession holders who are customers of the Company (hereinafter "Providing customers"). This network, represented by 572 sales points, many of which under the SNAI trademark, collected in the first quarter of 2017, Euro 0.118 billion, an 11.8% decline compared with 2016.

Finally, under the Paymat trademark, the Group has become a major player within the area of recharge and payment services: to date, wager collection in 2017 stood at Euro 0.026 billion (-8.4% from 2016).

Business outlook and updates on Business Plans

In April 2017, the Board of Directors of SNAITECH has approved the Industrial Plan for the three year period 2017-2019, based on the development directives and on the objectives already outlined in the update of the Guidelines, dated September 2016, and has transposed internally the refinancing of the bond loans as well as the conclusion of the mergers of the Cogemat Group into SNAITECH and of Finscom into SNAI Rete Italia S.r.l. ("SRI").

The Group's strategic objective is to consolidate its leadership position on the betting market with regard to the retail channel and increase the market share on the on-line channel. Thanks to the merger with Cogemat, the Group can also count on an aggregate portfolio of products and on the expertise necessary for playing a prominent role also in the gaming machine sector. The know-how, available resources and the technological platforms of the new Group, together with an enhanced management team, will make it possible to achieve this objective.

The main objectives are represented by the improvement in the market performance and the operating and financial efficiency thanks to the combination of the expertise and experience that the Cogemat Group and the SNAI Group have brought into SNAITECH.

In summary, the Guidelines of the Industrial Plan 2017 - 2019 set out the following:

- a focus on the development of the Online segment, thanks to the introduction of new products, the evolving of the services offered and the cross-selling activity through the physical network;
- the renewal of the Bets licenses and the technological update of the agency network through a progressive introduction of new advanced game terminals;

- the evolving and extension of the VLT platforms offered to the distribution network within the Gaming Machines segment, and a targeted selection of game contents and AWP partners within the territory;
- the continuation of the outsourcing strategy implemented in the SRI shop network;
- the completion, within the first half of 2018, of the synergy plan on operating costs endorsed after the merger with Cogemat.

The Group believes to be able to reach, in the three year period 2017-2019, an average growth in wager collection above 4% and a cash generation such as to bring the debt ratio (net financial position/EBITDA) to a 2x value. The Group believes also to be able to reach, already in 2017, a break-even point in the net profit.

At any rate, in light of the new measures described above and in the absence of subsequent changes during the conversion phase, SNAITECH confirms its objectives of a break-even for the 2017 net profit and an average growth above 4%, as set out for the wager collection in the three year plan. At the debt ratio level, the greater taxation set out on gaming machines determines a fractional increase of the objective set out for 2019, from 2.0x to 2.3x.

The closure of the first quarter of 2017 shows an EBITDA performance in line with the forecast although lower than the one of the first three months of the previous year, mainly because of the higher level of payout on sports bets.

Material events in the first quarter 2017

Negotiations with Trade Unions

In 2016, negotiations were started with the trade unions, at the national and local level, aimed at defining the post-merger by incorporation organization of the former Cogemat Group into SNAITECH S.p.A., both in terms of overall headcount and the location of functions in the three operating headquarters of Porcari, Rome and Milan. The last meeting at the national level was held on March 21 in Rome, where details on the number of labour units in excess, to be included in the personnel reduction procedure, were submitted. The procedure started on March 21, 2017 and involved a total of 70 people nationally. Therefore, given the fact that, before the merger, Cogetech and SNAI were substantially performing the same activities, albeit included in the “service” and “industrial” segments, respectively, and that the same business activities are carried out by the post-merger Company, we have evaluated with the central Management of INPS (National Social Security Institution) and the Ministry of Labour, the post-merger correct inclusion of the Company in the social security schemes. This assessment was deemed necessary in order to define, together with the Trade Unions, the correct type of temporary lay-off schemes to be used. In February 2017, at the conclusion of the inspection carried out by Inps about the correct social security classification of the Company based on the main activities that are being actually performed, the inspectors decided to change the classification of the Company from “Industry” to “Services” starting from the year 2002. The procedure will last 75 days and the next union meeting is scheduled for April 21, 2017. For updates subsequent to March 31, 2017, see note 40.3.

Transfers of Business Units

In the first three months of the year, some conditions precedent were satisfied for the transfer of the following premises: Milano via Brunelleschi, Corsico, Cesano Maderno, Bresso, Novate Milanese, Paderno Dugnano, Bologna via Saffi, Bologna via Panigale, Bologna via Amaseo, Gorgonzola, Palermo via Petrarca, Palermo via Bersagliere, Palermo via Strega, Bagheria and Sesto San Giovanni.

Given the rejected issuing of TULPS by the competent authorities, the sale of the Bastia Umbria shop was not carried out.

Rejection of a motion challenging the resolution issued by the shareholders' meeting of SNAITECH S.p.A. of June 9, 2016

On January 13, 2017 – SNAITECH S.p.A. stated that, the petition challenging the resolution issued by the shareholders' meeting of SNAITECH of June 9, 2016, concerning the third agenda item (appointment of the members of the Board of Directors of the Company), promoted by some shareholders of SNAITECH and already the subject matter of a communication to the market dated September 12, 2016, on January 11, 2017 the Court of Florence rejected the interim motion aimed at obtaining the suspension of the implementation of the above resolution, thus accepting the arguments of the Company and ruling as unsubstantiated both the so called “fumus boni iuris”, i.e. the alleged validity of the claims of the petitioners, and the periculum in mora, i.e. the reasons for urgency brought up by the petitioners.

More specifically, the Judge confirmed the correctness of the actions taken by the Chairman of the Shareholders' Meeting in ensuring a fair ratio of the list submitted by the petitioner to the list submitted by the majority shareholder of SNAITECH, Global Games S.p.A.

The Judge confirmed the legitimacy of the actions undertaken by the Company and by the Chairman in managing the Shareholders' Meeting of June 9, 2016.

On January 25, 2017, the petitioners filed a complaint against the Court of Florence order; the related appeal and the decree scheduling the hearing were notified on February 27, 2017. The hearing was held on April 03, 2017. The Court reserved the right to rule on the complaint.

Resolved merger by incorporation of the wholly owned subsidiary, Società Trenno S.r.l., into SNAITECH

The Board of Directors of SNAITECH S.p.A., on February 7, 2017, resolved, by means of a public deed, pursuant to article 15 of the Articles of Association and ex-article 2505, paragraph 2, of the Italian Civil Code, on the merger by incorporation into SNAITECH of the wholly owned subsidiary Società Trenno S.r.l. (the “merged company”), as described in the joint merger project approved by the respective administrative boards and made available on December 16, 2016.

The transaction has also obtained, as at the same date, the approval of the shareholders' meeting of the company being merged.

The transaction is part of a broader process for the restructuring of the Group, aimed at simplifying its structure and better exploiting current operating, administrative and corporate synergies.

It must be noted that since the requirements for the so-called “simplified” merger were met, pursuant to Art. 2505 of the Italian Civil Code, no share exchange ratio or method for share assignment needed to be decided upon. SNAITECH will not amend its own share capital due to the merger, nor will it issue new shares and therefore there will be no impact on the Company's shareholders base. With the execution of the merger agreement, the share representing 100% of the capital of the company to be merged, will be written off, with no substitution. Finally, this merger transaction does not recognise any right to withdraw for the shareholders.

SNAITECH shall promptly communicate any further significant event concerning the transaction in question, under the terms and the conditions set forth in the current legal and regulatory provisions.

It is expected that the merger transaction may be presumably completed with the execution of the related merger deed, in the third quarter of 2017.

For a more detailed description of the terms and conditions of the transaction, see the communications and the other documents filed and made public at the Company's headquarters, on its web site and at Borsa Italiana respectively on December 16 and 19, 2016.

Shareholders' Meeting held on March 13, 2017

The Shareholders' Meeting of SNAITECH S.p.A. met on March 13, 2017 in Milan, in an ordinary and extraordinary session, under the chairmanship of Ms Mara Caverni.

In the extraordinary session, the Shareholders' Meeting approved, along with some formal statutory changes, i.e. aimed at guaranteeing a better functioning of the corporate bodies and of the Company's operations, the change of the name of the Company from “SNAI S.p.A.” into “SNAITECH S.p.A.”, as proposed by the Board of Directors, in order to ensure continuity (also from a merely lexical perspective) of the wealth of knowledge, expertise and skills of the SNAI Group (now SNAITECH) and the Cogemat/Cogetech Group now definitively integrated following the merger of November 2016.

The change in name did not affect the trademarks, therefore the Company will continue to operate in the market under the following trademarks: SNAI, iZiplay, Vincenzo and Paymat.

The new corporate name, maintaining both the historical legacy of the SNAI Group and the more recent addition of the Cogemat/Cogetech Group, aims at highlighting and leveraging, with all the Issuer's stakeholders, on the important growth of the Group and of its business, following the corporate merger and the consolidation carried out in recent months which has included, inter alia, the finalisation of additional extraordinary transactions aimed at the creation of only one Concession holder so as to concentrate in only one legal person all the competencies and activities previously carried out by different entities; the objective is the creation of a market leading operator capable of competing with the main players of the sector.

In the ordinary session, the Shareholders' Meeting confirmed Mr Maurizio Leo as a member of the Company's Board of Directors. Mr Leo was co-opted by the administrative board for the replacement of the Board Director Mr Del Torchio. The newly appointed Director shall remain in office, as with the other members of the Board, until approval of the financial statements of SNAITECH S.p.A., at December 31, 2018.

At the same session, the Shareholders Meeting approved two incentive plans applicable to the Managing Director and other executives of the SNAITECH Group, thus conferring to the Board of Directors the broadest powers for the management and implementation of the above mentioned plans. Further details thereof are provided in Note 8.1. The information documents of the incentive plans are available on the web site of the Company at the address www.snaitech.it.

The change of the corporate name and the additional amendments to the Articles of Association approved by the Shareholders' Meeting have become effective on March 15, 2017 with the recording of the resolution issued by the Shareholders' Meeting in the Companies Registry of Milan. Given the above, the new corporate name “SNAITECH S.p.A.” has also become effective.

Ordinary inspection by UIF (Financial Intelligence Unit)

On March 21, 2016, the Bank of Italy - UIF (Financial Intelligence Unit) started an inspection assessment of the Company pursuant to articles 47 and 53, par. 4, of the Legislative Decree 231/07.

The inspection mostly focussed on activities referring to the flow of reports of suspicious transactions. More precisely, the flow of reports of suspicious transactions refers to the years 2014 - 2015 - 2016 (the latter with reference to the first three months of the year).

With reference to the transactions inspected, in compliance with relevant legislation, those higher than Euro 1,000 are recorded in the Single Computer Archive of the Company and are backed by the relevant documentation (identifying data of the Customer, transaction date, transaction value and payment means used).

The transactions that were inspected pursuant to article 24 of Legislative Decree 231/07 and recorded in the Single Computer Archive pursuant to article 37 of Legislative Decree 231/07 were analysed.

On February 14, 2017, the Company received official notification from UIF of the completion of the assessment. An alleged omission of 1 transaction referring to a VLT win of Euro 122,800 was found. The potential penalty ranges between 1 and 40% of the contested amount.

On March 16, 2017, a defensive brief was filed with MOF with the request for a hearing before the above authority, within the scope of the administrative proceedings L 689/81.

Expiry of bet licenses

On March 14, 2017, ADM (Customs and Monopolies Agency) has informed the Company of the expiry and revocation, due to the interruption of wager collection for a number of days exceeding the number set forth in the concession agreement, of 27 licenses for the wager collection of horse racing and sports bets.

It should be noted that the interruption of the wager collection is due to an illegal withdrawal carried out by the shop operator in breach of the contractual conditions. Following the appeal filed by the Company with a request for a stay of execution, the Chairman of the Regional Administrative Court rejected the request, without reasons, postponing the hearing to April 26, 2017 for the granting or rejection of said stay of execution. For updates as at March 31, 2017, see note 40.5.

Purchase of VLT licenses

On February 22, 2017, SNAITECH S.p.A., given the assignment of an additional, not yet acquired 312 VLT licenses, paid Euro 1,500 thousand for the purchase of 100 authorisations for the installation of VLT machines.

Extension of the guarantees provided to ADM

Given the fact that the tender for the attribution of new licenses for the wager collection of bets was not called, ADM in June 2016 requested to the licence holders a formal commitment to participate in the tender, including through the extension of the guarantees to June 30, 2017, in addition to another year of validity necessary for any recovery activities (June 30, 2018).

Given the non-agreement between the Government and the Local Authorities and given the impending expiry of the current guarantees, ADM, with a note dated March 28, 2017, requested to the Company an additional 12 month extension of the sureties issued. SNAITECH S.p.A. is therefore required to file, with a mandatory deadline of June 30, 2017, a formal request for an extension that would cover all the facts that occurred, by June 30, 2018, in addition to another year of validity necessary for any recovery activities (June 30, 2019).

Restitution of the security deposit by ADM on game machines

In March, ADM informed SNAITECH S.p.A. about the percentage needed to reach the levels of service that would determine the amount of security deposit to be returned for the year 2016. The total amount of the Security Deposit which will be returned by ADM to the Company is approximately Euro 37.1 million.

SNAITECH/Omniludo S.r.l. Lawsuit

As regards the claim filed by the company Omniludo S.r.l. for damage compensation following breach of the exclusivity right set forth in the agreement executed by the parties, SNAITECH S.r.l. opted for an amicable settlement of the litigation: with a court order issued on February 17, 2017 by the Court of Appeal of Florence, the appeal proceedings recorded under RG 1029/2015 were declared terminated.

Subsequent events

As regards the other events occurred after the period, reference is made to Note 40.

SNAITECH Group

Condensed Consolidated Interim Financial Statements as of March 31, 2017

**Approved by the Board of Directors
of SNAITECH S.p.A.**

Milan, May 15, 2017

SNAITECH S.p.A.

Registered Office in Milan – Piazza della Repubblica 32- Share Capital Euro 97,982,245.40 fully paid-in
Tax Code n. 00754850154 – VAT 01729640464 - R.E.A. MI 1584464

SNAITECH Group - Consolidated Statement of Comprehensive Income

<i>Thousands of Euro</i>	Note	1 st Quarter	
		2017	2016
Revenues from sales and services	4	226,271	217,931
Other revenue and income	5	1,146	2,264
Change in inventory of finished and semi-finished products		0	0
Raw materials and consumables	6	(143)	(247)
Costs for services and use of third party assets	7	(173,834)	(154,633)
Costs of personnel	8	(13,862)	(14,866)
Other operating costs	9	(11,875)	(13,557)
Capitalised internal construction costs	10	335	225
Earnings before interest, tax, depreciation and amortisation		28,038	37,117
Amortisation and depreciation	11	(13,766)	(17,116)
Other provisions	28	(49)	0
Earnings before interest and taxes		14,223	20,001
Gains and expenses from shareholdings		0	0
Financial income		156	232
Financial expenses		(9,780)	(14,232)
Total financial income and expenses	12	(9,624)	(14,000)
PROFIT/(LOSS) BEFORE TAXES		4,599	6,001
Income tax	13	(2,365)	(4,393)
Profit/(loss) for the period		2,234	1,608
Total other comprehensive income components which will not be restated under profit/(loss) for the period after taxes		0	0
Profit/(Loss) from available-for-sale financial assets		0	17
Total other comprehensive income components which will be restated under profit/(loss) for the period after taxes		0	17
Total profit/(loss) in Statement of Comprehensive Income, after taxes	24	0	17
Comprehensive profit (loss) for the period		2,234	1,625
<i>Attributable to:</i>			
Profit (loss) for the period pertaining to the Group		2,234	1,608
Profit (loss) for the period pertaining to Third parties		0	0
Total profit (loss) for the period pertaining to the Group		2,234	1,625
Total profit (loss) for the period pertaining to Third Parties		0	0
Basic earnings (loss) per share in Euro	25	0.01	0.01
Diluted earnings (loss) per share in Euro	25	0.01	0.01

With regard to transactions with related parties, reference is made to Note 33 "Related parties".

SNAITECH GROUP: Interim Management Report as of March 31, 2017 – Condensed Consolidated Interim Financial Statements

SNAITECH Group - Consolidated statement of financial position

<i>Thousands of Euro</i>	Note	31.03.2017	31.12.2016
ASSETS			
Non-current assets			
Property, plant and equipment owned		131,962	135,273
Property, plant and equipment finance lease		384	420
Total property, plant and equipment	14	132,346	135,693
Goodwill		306,472	306,472
Other intangible assets		134,693	140,920
Total intangible assets	15	441,165	447,392
Investments accounted under the equity method		2,515	2,515
Other investments		46	46
Total investments	16	2,561	2,561
Deferred tax assets	17	49,263	51,288
Other non-financial assets	20	9,520	3,530
Non-current financial assets	21	2,086	2,009
Total non-current assets		636,941	642,473
Current assets			
Inventory	18	286	199
Trade receivables	19	102,466	114,548
Other assets	20	70,327	53,326
Current financial assets	21	16,866	16,858
Cash and cash equivalents	22	74,219	82,337
Total current assets		264,164	267,268
TOTAL ASSETS		901,105	909,741
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity attributable to equity holders of the Parent Company			
Share capital		97,982	97,982
Reserves		20,528	37,482
Profit/(loss) for the period		2,234	(16,954)
Total shareholders' equity attributable to equity holders of the Parent Company		120,744	118,510
Shareholders' equity attributable to non-controlling interests			
Total shareholders' equity	23	120,744	118,510
Non-current liabilities			
Employee termination indemnities	26	7,650	8,089
Non-current financial liabilities	27	557,871	557,414
Provisions for risks and charges	28	22,130	30,171
Sundry payables and other non-current liabilities	29	3,990	4,291
Total non-current liabilities		591,641	599,965
Current liabilities			
Trade payables	30	33,283	34,330
Other liabilities	29	144,621	151,102
Current financial liabilities		10,816	5,834
Current portion of long-term loans		0	0
Total financial liabilities	27	10,816	5,834
Total current liabilities		188,720	191,266
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		901,105	909,741

With regard to transactions with related parties, reference is made to Note 33 "Related parties".

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(thousands of Euro)

	Note	Share capital	Legal Reserve	Share premium reserve	Cash Flow Hedge Reserve	Reserve for the remeasurement of employee termination indemnities (IAS 19)	Treasury share reserve	Profit/(loss) carried forward	Profit (loss) for the year	Total Shareholders' Equity Group	Total Shareholders' Equity Third Party	Total Shareholders' Equity
Balance at 1 January 2016		97.982	0	102.627	0	(849)	(111)	(9.793)	(54.231)	135.625	0	135.625
Capital increase										0		0
Profit/(loss) for fiscal year 2015			0					(54.231)	54.231	0		0
Profit/(loss) for the period									1.608	1.608		1.608
Other comprehensive profit/(loss)					0	0		17		17		17
Net amounts as of March 31, 2016	24	0	0	0	0	0	0	17	1.608	1.625		1.625
Balance as of March 31, 2016		97.982	0	102.627	0	(849)	(111)	(64.007)	1.608	137.250	0	137.250
	Note	Share capital	Legal Reserve	Share premium reserve	Cash Flow Hedge Reserve	Reserve for the remeasurement of employee termination indemnities (IAS 19)	Treasury share reserve	Profit/(loss) carried forward	Profit (loss) for the year	Total Shareholders' Equity Group	Total Shareholders' Equity Third Party	Total Shareholders' Equity
Balance as of January 1, 2017		97.982	0	56.950	0	(1.027)	(111)	(18.330)	(16.954)	118.510	0	118.510
Profit/(loss) for fiscal year 2016	23			0				(16.954)	16.954	0		0
Profit/(loss) for the period									2.234	2.234		2.234
Other comprehensive profit/(loss)	24				0	0		0		0		0
Net amounts as of March 31, 2017		0	0	0	0	0	0	0	2.234	2.234		2.234
Balance as of March 31, 2017		97.982	0	56.950	0	(1.027)	(111)	(35.284)	2.234	120.744	0	120.744

SNAITECH GROUP - Consolidated Cash Flow

thousands of euro	Notes	03.31.2017	03.31.2016
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) for the period attributable to equity holders of the Parent Company		2.234	1.608
Profit (loss) for the period attributable to equity non-controlling interests		0	0
Financial expenses	12	9.780	14.232
Amortisation and depreciation	11	13.766	17.116
Net change in assets (liabilities) for deferred tax assets (deferred tax liabilities)	16	2.025	3.099
Change in provision for risks	28	(8.041)	(1.922)
(Capital gains) capital losses from non-current assets (including shareholdings)		(448)	52
Portion of earnings pertaining to shareholdings measured using the equity method (-)	12	0	0
Net change in post-employment benefits	26	(439)	(8)
Net change in sundry non-current trade assets and liabilities and other changes	20-29	(6.291)	(156)
Net change in current trade assets and liabilities and other changes	18-19-20 30-29	(12.548)	(25.574)
Revenue generated by operating activities		38	8.447
Paid taxes		0	0
Paid interest		(3.846)	(11)
CASH FLOW FROM (USED IN) OPERATING ACTIVITIES (A)		(3.808)	8.436
B. CASH FLOW FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment (-)	14	(2.004)	(2.265)
Investments in intangible assets (-)	15	(2.359)	(2.829)
Proceeds from the sale of property, plant and equipment, intangible and other non-current assets		633	12
CASH FLOW FROM (USED IN) INVESTING ACTIVITIES (B)		(3.730)	(5.082)
C. CASH FLOW FROM FINANCING ACTIVITIES			
Change in financial receivables and other financial assets	21	(85)	1.477
Change in financial liabilities	27	(495)	(440)
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES (C)		(580)	1.037
D. CASH FLOWS FROM DISCONTINUED ASSETS/ASSETS HELD FOR SALE (D)			
E. TOTAL CASH FLOW (A+B+C+D)		(8.118)	4.391
F. INITIAL NET FINANCIAL LIQUIDITY (INITIAL NET FINANCIAL INDEBTEDNESS)		82.337	107.588
G. NET EFFECT OF THE CONVERSION OF FOREIGN CURRENCIES ON LIQUIDITY			
H. FINAL NET FINANCIAL LIQUIDITY (FINAL NET FINANCIAL INDEBTEDNESS) (E+F+G)	22	74.219	111.979

RECONCILIATION OF FINAL NET FINANCIAL LIQUIDITY (FINAL NET FINANCIAL INDEBTEDNESS):

CASH AND CASH EQUIVALENTS AFTER DEDUCTING SHORT-TERM FINANCIAL PAYABLES AT THE END OF THE PERIOD, ANALYSED AS FOLLOWS:

Cash and cash equivalents	82.337	107.588
Bank overdrafts		
Discontinued operations		
	82.337	107.588

CASH AND CASH EQUIVALENTS LESS SHORT-TERM FINANCIAL PAYABLES AT THE END OF THE PERIOD, ANALYSED AS FOLLOWS:

Cash and cash equivalents	74.219	111.979
Bank overdrafts		
Discontinued operations		
	74.219	111.979

INTERIM MANAGEMENT REPORT AS OF March 31, 2017

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Relevant accounting standards

Scope of consolidation

SNAITECH S.p.A. (hereinafter also referred to as the “Company” or “SNAI”) has its registered office at Piazza della Repubblica, 32 - Milan, Italy Schedule 1 sets forth the composition of the SNAITECH Group.

The consolidated financial statements of the SNAITECH Group as at March 31, 2017 comprise the financial statements of SNAITECH S.p.A. and the following subsidiaries, consolidated on a line-by-line basis:

- Società Trenno S.r.l. Sole Shareholder
- Teleippica S.r.l. Sole Shareholder
- SNAI Rete Italia S.r.l. Sole Shareholder
- IziLove Foundation

The consolidation scope remained unchanged with respect to December 31, 2016.

The consolidation scope changed, with respect to March 31, 2016, in so far as:

- On October 18, 2016, the agreement for the merger by incorporation into SNAITECH S.p.A. of the subsidiaries, directly or indirectly controlled, Cogemat S.p.A., Cogetech S.p.A., Cogetech Gaming S.r.l. and Azzurro Gaming S.p.A., was executed, implementing the merger resolutions issued by the competent bodies of each of the above companies on June 9, 2016. The merger became effective on November 1, 2016, with retroactive accounting and tax effects being set on January 1, 2016. The merger has not entailed any share capital increases by SNAITECH nor changes in the Articles of Association. The merger did not have any effect on the consolidated financial statements of SNAITECH S.p.A. as the merged companies are already fully consolidated;
- On October 24, 2016, the agreement for the merger by incorporation into the subsidiary SNAI Rete Italia S.r.l. of the subsidiary Finscom S.r.l. was finalised. The merger deed became effective on November 1, 2016, with retroactive accounting and tax effects set on January 1, 2016. The merger did not have any effect on the consolidated financial statements of SNAITECH S.p.A. as the merged company is already fully consolidated.

The interim financial statements of the companies included in the scope of consolidation are duly reclassified and adjusted in order to be consistent with the IFRS accounting standards and valuation criteria applied by the Parent Company (reporting package). They have been approved by the related management bodies.

The consolidated financial statements as at March 31, 2017 were approved by the directors of the Parent Company at the Board of Directors' meeting held on May 15, 2017 and then authorized for publication as provided for by law.

Seasonality

As regards seasonality, this business is not subject to significant fluctuations, although it should be considered that the number of sporting events, above all soccer matches, for which bets are accepted, is higher in the first and fourth quarters than in other quarters of the year. The gaming machines also report higher wager collection in the first and fourth quarters of the year.

1.1 Directors' estimates related to the going concern requirements

The capital, financial position and operating results of the SNAITECH Group have been historically characterised by: (i) negative results, partly due to the effects of unforeseeable phenomena, as well as a significant amount of amortisation/depreciation and financial expenses, (ii) intangible assets of a significant amount as compared to the shareholders' equity which is reduced due to accumulated losses, (iii) a significant level of indebtedness, with flows assigned to its reduction that are limited by the absorption of liquidity required by the investments that are typical of the business, and by financial expenses.

With reference to the quarter ended March 31, 2017, the Directors have highlighted how the Group recorded a net profit of Euro 2.2 million; the net profit break-even point reached is in line with the forecast of the new Business Plan and was achieved thanks to the combination of several factors, described hereinafter, which have structurally contributed to improving the margins of the Company.

As regards the merger by incorporation with the Cogemat Group, the Directors point out several benefits deriving from such transaction: (i) the increase in share capital of approximately Euro 37.2 million and, more in general, the shareholders' equity for Euro 140 million; (ii) the strengthening of the equity and financial indexes; (iii) the consolidation of the leadership position in the sector of betting on the physical channel and the increase in market share in the segment of game machines; (iv) the rationalisation of the organisational structure and improvements in operating efficacy; (v) a synergy plan for the reduction of operating costs, both corporate and license-based.

In reference to the uncertainties reported in previous periods, concerning the capacity of the Group to repay the loans at the expiration date, or to refinance the loans, the Directors have noted that the refinancing transaction finalised on

November 7, 2016, through the issuing of Euro 570 million bonds, with a fixed rate tranche of Euro 320 million (coupon at 6.375%, maturity 2021) and a variable rate tranche of Euro 250 million (coupon at the 3 month Euribor rate, 0% floor +6%, maturity 2021) will allow for the following: (i) significantly reduce the cost of the financial charges to be paid by SNAITECH, with an annual savings (at the current rate) of approximately Euro 17 million and (ii) postpone the debt maturity date from 2018 to November 2021.

As regards risks associated with the renewal of licenses for the betting points of sales network, expired on June 30, 2016, the uncertainties to which the Group may be exposed are: (i) the risk of non-renewal of the concessions with consequent loss of incoming cash flows, reduction of margins and impossibility of supporting the financial debt, (ii) the financial risk linked to the need for a high outlay during the tender stage for the renewal of the concessions not being able to support the financial debt.

However, the above described risks are mitigated by the tender mechanism which will allow for the offer, for each license, of a different price, therefore mitigating the "on-off" risk as it happens for other types of tenders regarding licenses.

As regards the betting call for tender, it must be noted that, based also on the market data available, the number of licenses being assigned is exceeding the number of betting shops and points currently active in Italy: the sales network, as assessed by ADM, in fact, includes as at March 2017 4,092 sports corners and 5,638 sports shops (including 2,518 certified CTDs) compared with the 5,000 and 10,000 licenses of the tender. In addition to the points of sale authorised by ADM, to be considered also are the betting agencies associated with foreign bookmakers with no concession license (the so called CTD) and estimated to be 4,800 units, of which more than 2,500 were shown to be authorised, as at December 31, 2016, in the Technical Report in support of the Stability Law of 2016, submitted to the Senate on October 25, 2015. Even assuming a massive issuing of authorisations, and subsequent participation in the tenders of these subjects, an hypothesis currently not supported by any evidence of applications to regularisation, the number of licenses offered by the tender would be most likely exceeding the potential demand therefore the expected financial commitment should be such as not to have any negative repercussions on the sustainability of the financial indebtedness of the Group.

Therefore, the Directors believe that the risk associated with the non-renewal of the licenses is to be considered as marginal and in any events such as not to compromise the capacity of the Company to generate cash flows sufficient enough to guarantee the undertaken commitments.

In light of the completed refinancing of the debt, the results obtained, the activities and considerations explained above and the forecast included in the new Business Plan 2017 - 2019, the Directors, although keeping in mind the uncertain outcome related to future events and specific characteristics of the reference market, did not identify any uncertainties regarding corporate continuity.

1.2. Accounting standards

(a) General principles

These Condensed Consolidated Interim Financial Statements as of March 31, 2017 were prepared in accordance with IAS 34 "Interim Financial Reporting". The Condensed Consolidated Interim Financial Statements do not disclose all information required for the drafting of the annual consolidated financial statements. For this reason the Condensed Consolidated Interim Financial Statements should be read together with the consolidated financial statements as of December 31, 2016.

The drafting, measurement and consolidation criteria, as well as the accounting standards used in the preparation of these condensed and interim consolidated financial statements are consistent with those used for the drafting of the consolidated financial statements for the year ended December 31, 2016, except for the adoption of new or revised standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee, as described below. The adoption of these amendments and interpretations had no significant impact upon the Group's financial position and economic performance.

The term IFRS also refers to the revised international financial reporting standards and International Accounting standards (IFRS and IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC and SIC), adopted by the European Union.

The Condensed Consolidated Interim Financial Statements of the SNAITECH Group as of March 31, 2017, are expressed in thousands of Euro, unless stated otherwise.

The international accounting standards were applied uniformly by all the companies of the Group.

Amendments to the new standards and interpretations applied as from January 1, 2017

There are no standards and interpretations transposed by the EU and effective as of January 1, 2017.

Amendments, new standards and interpretations effective for the periods after January 1, 2017

New standards and interpretations transposed by the EU

IFRS 15 “Revenue from Contracts with Customers”:

In May 2014, IASB published IFRS 15 “Revenues from agreements with the customers” (hereinafter IFRS 15). This standard intends to improve disclosures on revenues and their comparability among the different financial statements. In particular, IFRS 15 provides that the recognition of revenues should be based on the following five steps:

- 1) identification of the agreement with the customer;
- 2) identification of the contractual obligations of transferring goods and/or services to a customer (“*performance obligation*”);
- 3) determination of the transaction price;
- 4) allocation of the transaction price to the performance obligations identified on the basis of the stand alone sales price of each good or service; and
- 5) identification of the revenue when the related performance obligation is met.

Furthermore, IFRS 15 supplements the information provided in the financial statements with reference to the nature, amount, timing and uncertainties of the revenue and related cash flows.

On September 22, 2016, the EU regulation no. 2016/1905 was issued to endorse, at the EU level, the IFRS 15, as amended. The new standard is effective starting from the periods beginning on or after January 1, 2018 and is retroactively applicable. Early application is permitted.

Any impact on the financial statements from the new standard is currently being evaluated.

IFRS 9 “Financial Instruments”

On July 24, 2014, IASB finalised the revision of this accounting standard regarding financial instruments and issued the complete version of IFRS 9 “Financial instruments” (hereinafter, “IFRS 9”). More specifically, the new provisions of IFRS 9 are:

- they modify the model for the classification and valuation of the financial assets;
- they introduce a new method for the write-down of financial assets which takes into account the expected credit losses; and
- they modify the provisions regarding *hedge accounting*.

The provisions of IFRS 9, adopted by the European Union with Regulation no. 2016/2067 of November 22, 2016, shall be effective starting from the periods beginning on or after January 1, 2018.

Any impact on the financial statements deriving from the new standard is currently being evaluated.

New standards and interpretations transposed by the EU

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Affiliate/Joint Venture

Amendments to IAS 12 (Income taxes) – Recognition of deferred tax assets on unrealised losses

Amendments to IAS 7 (Statement of cash flows) – Disclosure Initiative

Amendments to IFRS 10 (Consolidated Financial Statements) and IAS 28 (Investments in Associates and Joint Ventures): Sale or Contribution of Assets between an Investor and its Affiliate/Joint Venture

Clarifications to IFRS 15 (Revenue from Contracts with Customers)

Amendments to IFRS 2 (Classification and measurement of share-based payments)

Improvement to IFRS (cycle 2014- 2016) – Amendments to IFRS 12 and IAS 28

IFRIC 22 (Foreign Currency Transactions and Advance Consideration)

Amendments to IAS 40 (Investment properties).

IFRS 16 “Leases”: In January 2016, IASB published IFRS 16 “Leases” (hereinafter “IFRS 16”). This new standard replaced IAS 17 “Leasing” and related interpretations. IFRS 16 removes the distinction between operating and financial leasing in the preparation of the financial statements of the lessees; for all leasing agreements the identification of an asset is required as representative of the right of use, and the recognition of a liability as representative of the obligation to make the payments as set forth in the agreement. The leasing agreements of a duration equal to or less than 12 months and the leasing of goods with a low value, may be excluded from IFRS 16. The new standard is effective as of January 1, 2019. Early adoption is permitted, but only if IFRS 15 is also adopted.

Any impact on the consolidated financial statements arising from the new standards is currently being evaluated.

The reporting formats adopted by the SNAITECH Group for the period ended March 31, 2017 did not change with respect to those adopted as at December 31, 2016.

The Group has not opted for an early adoption of any standard, interpretation or improvement issued, but not yet in effect.

Reporting format of the Financial Statements

The format adopted by the Group is the following:

Condensed Consolidated Statement of Financial Position

The presentation of the statement of financial position is based on the distinction between current and non-current assets and current and non-current liabilities.

Comprehensive consolidated income statement

The condensed consolidated statement of comprehensive income reports the items by type, as this is considered more consistent with the Group's activities.

Condensed Consolidated Statement of Changes in Shareholders' Equity

The Statement of changes in shareholders' equity shows the net results for the period, and the effects, on each item of the shareholders' equity, of changes that were introduced in the accounting standards, as well as corrections of errors as required by IAS 8. In addition, it shows the balance of retained earnings and losses at the beginning of the period, the movements during the period and at the end of the period.

Condensed Consolidated Cash Flow Statement

The Cash Flow Statement shows the cash flows of the period resulting from operating, investing and financing activities. The cash flows from operating activities of the period are presented using the indirect method, whereby the net result for the year, or the period, is adjusted for the effects of operations of a non-monetary nature, for any deferral of accrual of previous or future operating cash collections or payments, and for elements of revenues, or costs, related to cash flows deriving from investing or financing activities.

Compared with the data published as at March 31, 2016, a reclassification was implemented in order to improve the recognition of the income statement items from under "financial charges" to under "Costs for services and use of third party assets", Euro 1,367 thousand of which Euro 432 thousand for banking expenses and Euro 935 thousand for fees on sureties.

2. Agreements for services licensed

The SNAITECH Group operates in the market for the collection of gaming and betting wagers, including mainly sports and horse racing bets, lawful gaming through AWP (formerly known as new slots) and through VLTs (videolotteries) as well as on-line remote games (skill games), bingo and casino games. That market is regulated by the State authorities by issuing concessions.

Definitively, the SNAITECH Group is the holder of the following concessions:

Owner	Quantity	Subject matter	Maturity
SNAITECH S.p.A.	1 Concession	Building and running networks for ICT (Information & Communication Technology) management of legal gaming via entertainment and amusement machines, in accordance with Art. 110 (6) of the T.U.L.P.S. [Consolidated Text of Public Safety Laws], as per Royal Decree no. 773 of June 18, 1931 and following amendments and supplements, as well as related activities and functions	March 2022
SNAITECH S.p.A.	1 Concession Code 4501* 4311	Operation of public gaming based on horses, through the activation of distribution networks (horse racing gaming shops and/or networks of horse racing gaming corners) and the management thereof	June 2016
SNAITECH S.p.A.	1 Concession Code 4501* 4028	Operation of public gaming based on events other than horse races, through the activation of distribution networks (horse race gaming shops and/or networks of horse race gaming corners) and the management thereof	June 2016
SNAITECH S.p.A.	1 Concession Code 4501* 4801	Operation of public gaming through the activation of the on-line horse race gaming networks and the management thereof	June 2016
SNAITECH S.p.A.	1 Concession Code 4501* 15215	Operations through remote wagers collection for the following games: a) sports betting; b) horse racing betting; c) horse racing and sports betting pools; d) national horse race gaming; e) skill games, including tournament-type card games; f) bingo.	September 2020
SNAITECH S.p.A.	1 Concession Code 4501* 4501	Operation of horse racing and sports public games as per Art. 10, par. 9-10, of the Law Decree no. 16 of March 2, 2012, converted as amended into Law no. 44 of April 26, 2012.	June 2016

As regards the aforesaid concessions on bets, expired in June 2016, the 2016 Stability Law set out the renewal within the year through the above-mentioned modalities, described in par. 932.

Paragraph 932 sets out that on May 1, the selection proceeding would be started to award, for the next nine years, concessions for the wagers of sports bets and horse racing bets (the relevant concessions are expiring on June 30,

2016 and the law sets out that they will continue to operate - through technical extension - until signature of the new conventions), for a total amount of 15,000 rights, divided as follows:

- 10,000 special gaming shops (tender base of Euro 32,000);
- 5,000 gaming corners, of which 1,000 max in shops selling food and drinks (tender base of Euro 18,000).

Given the non-publication of the selection procedure, with notice no. 54917 dated June 9, 2016, the Italian gaming regulatory authority (Agenzia delle Dogane e dei Monopoli or ADM) - in order to ensure the continuation of the wager collection from public gaming in the greater interests of public order, taxation and employment protection - approved the continuation of this activity, until the publication of the tender, to all participants that formally took part in this tender by June 30, 2016, while supporting this commitment with special guarantees (or the extension of those already in force) for all the obligations created on a continuous basis for the entire duration of the concession (June 30, 2017) and for the period of compulsory management, as well as for an additional one year term (i.e. June 30, 2018).

SNAITECH S.p.A. (as also the merged Cogetech S.p.A. and Cogetech Gaming S.r.l. whose licences have been in the meantime added to the SNAITECH S.p.A. licences) has formally and promptly expressed its willingness to continue to carry out wager collection through the completion and filing of the appropriate scheme, together with the required guarantees.

With note no. 34580 of March 28, 2017, concerning the continuation of public game activities and the extension of the efficacy of the guarantees issued to cover the obligations undertaken in favour of the Agency, ADM requested a one year extension of the guarantee covering all the facts that will occur before August 30, 2018, in addition to a one year validity for any necessary recovery activities (June 30, 2019).

3. Operating segments

The segment reporting is presented by “operating segment”. The definition of the sectors is based on the management structure and the internal reporting system adopted by the Group. Intra-segment sales take place at market conditions.

Before describing the reporting by operating sector, it should be noted that, following the merger with the Cogemat Group, on December 31, 2016, a redetermination of the segment information reporting was carried out to align it with the organisational structure of the Group and to the representation of the results, by business, normally adopted with all the main stakeholders.

In light of the new organizational structure, following is a representation of the operating sectors subject to special disclosure, in which the Group operates:

- Gaming Machines;
- Betting Retail;
- Online;
- Management of Racetracks;
- Other.

More specifically, the operating sectors of the Group are defined as follows:

- **Gaming Machines:** activities related to concession licenses for the activation and operation of a network for the on-line management of legal games using gaming machines (AWP and VLT) in addition to a share of the revenue pertaining to the shops that are directly managed;
- **Betting Retail:** activities related to the concession licenses for the management, on the physical channel (shops and corners), of sports, horse racing and virtual event betting, in addition to a share of the revenue pertaining to the shops that are directly managed;
- **Online:** activities related to the concession licences for the offerings of skill games, bingo and casino games, and sports, horse racing and virtual events bets accepted through the on-line channel;
- **Management of the racetracks:** this segment includes operations related to the management of the racetracks, including real estate management and organization of races. These activities are managed by Società Trenno S.r.l. and SNAITECH S.p.A. for the real estate sector;
- **Other:**
 1. activities related to television and radio services managed by the company Teleippica S.r.l. (Broadcasting);
 2. activities related to electronic services provided to bet acceptance points and to added value commercial services.

The total value of assets and liabilities for each sector is not subject to disclosure since these figures are not periodically reviewed by the CODM (Chief Operating Decision Maker).

The following table provides information on the contribution to the consolidated figures related to the above-mentioned activities.

The contribution margins by sector include both directly attributable items and items that are reasonably attributable through an allocation process. More specifically, sector results include pertinent revenue, related distribution costs (including any considerations recognised to the providers of game platforms) and the licence fees.

The “Betting Retail“ and “Online” segments include all bets, both fixed-odds (in which the desk/counter is owned by the concession holder) and totalisator bets (where the desk/counter is owned by the Ministry of Finance), accepted in the PAS (punti accettazione scommesse - betting acceptance points) and on the web site www.SNAITECH.it where SNAITECH S.p.A. is the direct license holder.

Risk related to fixed-odds bets is borne by the concession holder since the latter is committed to pay the winnings and taxes, while in the case of totalisator bets, there is no payout risk to be borne by the concession holder since the remuneration is defined as a percentage of cash movements.

Thousands of Euro	Gaming Machines		Betting Retail		Online		Management of Horse Racecourse		Other		IC Netting and adjustments		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Total revenue (A)	169.919	150.280	38.995	52.568	14.599	13.780	1.988	2.054	5.631	6.268	(3.715)	(4.755)	227.417	220.195
Costs (B)	(138.703)	(116.039)	(24.818)	(27.490)	(4.226)	(3.395)	(13)	(15)	(508)	(693)	2.672	3.195	(165.596)	(144.437)
Contribution margin (C) = (A+ B)	31.216	34.241	14.177	25.078	10.373	10.385	1.975	2.039	5.123	5.575	(1.043)	(1.560)	61.821	75.758
Other costs (D)											1.052	1.568	(33.783)	(38.641)
Profit/(loss) before amortisation, depreciation, write-downs, financial income and expenses, taxes (E) = (C + D)											9	8	28.038	37.117
Amortisation and depreciation													(13.766)	(17.116)
Other provisions													(49)	0
Financial income and expenses													(9.624)	(14.000)
Taxes													(2.365)	(4.393)
Profit/(loss) for the period													2.234	1.608

During the three months of 2017, the following should be noted:

- the contribution margin of the sector “Gaming Machines”, despite the increase in revenues driven by the lower payout of the AWP compared with last year, is impacted by the increase in the sector's distribution costs;
- the “Betting Retail” sector recorded a substantial decrease in margins especially for a generalised growth on the market of the payout in sports bets in addition to the decreased wager collection from virtual events;
- the contribution margin of the “Online” sector benefited from the increase in volumes from all games, however offset by the growth in the payout for on-line sports bets;
- significant benefits are to be referred to the synergies obtained from the merger of SNAITECH with the subsidiaries of the Cogemat Group, with a substantial reduction in other costs;
- the declined operating profit is mitigated by a significant reduction in amortisations/depreciations and financial charges, the latter following new bonds issued in November 2016 with rates significantly lower than those in place in the first quarter of 2016.

Notes on the main items of the condensed consolidated statement of comprehensive income

The comparison of figures, which are always expressed in thousands of Euro, except when otherwise indicated, is made with the corresponding balances as of March 31, 2016.

4. Revenues from sales and services

The amount of revenues from sales of goods and services in the first quarter 2017 is equal to Euro 226,271 thousand (Euro 217,931 thousand in the first quarter of 2016), and is detailed below:

<i>Thousands of Euro</i>	2017	1st Quarter 2016	Change
Revenues from Gaming Machines	168,781	147,668	21,113
Net revenues from the collection of fixed quota and reference sports and horse race bets	28,623	38,721	(10,098)
Revenues from virtual events	9,710	10,973	(1,263)
Net revenues from on-line games (Skill/Casino/Bingo)	6,956	6,077	879
Revenues from totalisator, national horse racing/sports forecast bets	4,168	5,208	(1,040)
Revenues from betting collection services	998	1,286	(288)
Revenues from virtual event services	805	771	34
Revenues from commissions	484	778	(294)
Revenues from service and assistance contracts	909	1,071	(162)
Revenues from the operation of betting services at racecourses	1,097	1,059	38
Management of racecourse and real estate properties	308	288	20
Revenues from television services and related services	2,416	2,407	9
Other services and sales to third parties	1,016	1,624	(608)
Total	226,271	217,931	8,340

The following table breaks down the item "Net revenue from fixed-odds and reference bets", showing the winnings, refunds and taxes.

<i>Thousands of Euro</i>	2017	1st Quarter 2016
Sports betting	291,870	259,216
Sports reimbursements	(253)	(148)
Sports winnings	(256,788)	(211,953)
Flat-rate tax on sports bets	(6,949)	(9,011)
Net revenue from sports betting	27,880	38,104
Horse race betting	10,560	9,687
Horserace reimbursements	(73)	(73)
Horserace winnings	(8,434)	(7,780)
Flat-rate tax on horseracing bets	(431)	(400)
Taxation on Horse Racing	(879)	(817)
Net revenue from horseracing bets	743	617
Total net Revenues from Fixed-odds Sports and Horse Racing Betting	28,623	38,721

Net revenue from sports betting decreased compared with the first quarter of the previous period due to higher payout. In the first quarter of 2017, the payout on sports betting, including the amounts recognised as bonuses, amounted to approximately 88.1% compared to 81.8% in the same quarter of the previous year.

Revenue from gaming machines in the first quarter of 2017 amounted to Euro 168,781 thousand: the increase, compared with the first quarter of 2016, is mainly due to a reduced payout of the AWP's, following a progressive replacement of the cards with payout at 74% with those at 70%.

The revenue deriving from the license for managing the network of gaming machines are carried gross of the remuneration recognised to third parties in charge of the waging, including costs for the VLT platforms. Such costs are explained under the item Costs for services and the use of third party assets in Note 7. The concession holders are required to pay to ADM (pursuant to the Law Decree no. 95 of July 6, 2012, as of December 1, 2012, the Customs Agency merged with AAMS [Administration of the State Monopoly], thus becoming ADM, Agenzia delle Dogane e dei Monopoli [Customs and Monopoly Agency]), an amount equal to 0.50% of the wagers played on each of the gaming devices connected to the electronic network as a guarantee deposit, to secure the achievement of the pre-established service levels. The balance sheet shows the receivables in the amount of Euro 46,529 thousand referring to the "Gaming Machines security deposit" in 2016 and in the first quarter of 2017 (see Note 20). The security deposit is refunded to the concessionaires each year once it has been verified that the agreed service levels have been achieved. The company SANITECH received formal notice by ADM that, based on the checks performed, the service levels achieved in 2016 are sufficient to allow the guarantee deposit to be refunded.

Revenues from on-line gaming, equal to Euro 6,956 thousand in the first quarter of 2017 are broken down as follows:

<i>Thousands of Euro</i>	1st Quarter	
	2017	2016
On-line Skill and Casino Games	284,906	232,921
Remote gaming winnings	(275,961)	(225,070)
Flat-rate tax on remote gaming	(1,989)	(1,774)
Total net revenue from remote gaming (Skill/Casino/Bingo)	6,956	6,077

Revenues from virtual events, equal to Euro 9,710 thousand in the first quarter of 2017 are broken down as follows:

<i>Thousands of Euro</i>	1st Quarter	
	2017	2016
Virtual events	75,119	84,142
Winnings and reimbursements of virtual events	(62,917)	(70,375)
Flat-rate tax on virtual events	(2,492)	(2,794)
Total net revenues from virtual events	9,710	10,973

The item "Revenues from television services and related services" includes mainly revenues deriving from the agreement entered into by the subsidiary Teleippica S.r.l. with MIPAAF for the television broadcasting of horse races at the points of acceptance of horse racing betting.

In addition, the item "Other services and sales to third parties" included primarily: Euro 377 thousand related to the net revenue for telephone recharges and Euro 72 thousand related to income for slip payment service.

5. Other revenue and income

The other revenue and income item, equal to Euro 1,146 thousand in the first quarter of 2017 (Euro 2,264 thousand in the first quarter of 2016) breaks down as follows:

<i>Thousands of Euro</i>	2017	1st Quarter	Change
		2016	
Lease of assets and chargeback of ancillary expense	34	36	(2)
Active trading	327	1,740	(1,413)
Revenue from compensation and reimbursement for damages	19	75	(56)
Grants to UNIRE investments fund	13	13	0
Capital gain from the sale of assets	486	8	478
Revenues from organisation and technology sales	1	51	(50)
Other revenue and income	266	341	(75)
Total	1,146	2,264	(1,118)

6. Raw materials and consumables

The cost of raw materials and consumables amounted to a total of Euro 143 thousand in the first quarter of 2017 (Euro 247 thousand in the first quarter of 2016), mainly related to materials used in bet collection, technology and the furnishings installed in the new sales points.

7. Costs for services and use of third party assets

Costs of third-party services and leasing/rental expenses amounted to a total of Euro 173,834 thousand in the first quarter of 2017 (Euro 154,633 thousand in the first quarter of 2016), as broken down below:

<i>Thousands of Euro</i>	2017	1st Quarter 2016	Change
Gaming Machine services	132,668	109,631	23,037
Betting acceptance management	17,307	19,084	(1,777)
Virtual events management costs	4,217	4,522	(305)
On-line games management (Skill/Casino/Bingo)	671	1,538	(867)
On-line gaming services	2,148	1,592	556
Paymat services	325	368	(43)
Bookmakers	0	523	(523)
Management of Horse Racecourse	221	210	11
Television and radio services	2,044	1,814	230
Rent of stations	87	94	(7)
Consultancy cost and expense reimbursements	1,115	1,318	(203)
Utilities and telephone	1,730	2,507	(777)
Equipment repair and maintenance	2,190	2,294	(104)
Advertising and promotion	2,466	2,066	400
Installations, logistics and design	489	474	15
Other personnel costs for collaborations and other services	43	47	(4)
IT services	513	202	311
Insurance and guarantees	1,399	1,520	(121)
Banking charges	551	432	119
Market research	30	21	9
Information to prepare odds and posters	574	364	210
Rental fees and ancillary charges	1,115	1,388	(273)
Operating leases and other leasing	605	678	(73)
Directors' fees	272	636	(364)
Statutory Auditors' fees	49	106	(57)
Regulation authority and other committee's fees	46	61	(15)
Expense reimbursement to directors and auditors	16	8	8
Other	943	1,135	(192)
Total	173,834	154,633	19,201

In particular, the table shows:

- costs for ADI services (totalling Euro 132,668 thousand compared to Euro 109,631 thousand in the first quarter of 2016) comprise fees paid to third party operators charged of gaming collection and running costs for VLT platforms. The increase of Euro 23,037 thousand is mainly referring to the reduction in AWP payout and the consequent allocation, among the players of the sector, of a higher net cash box;
- the sports and horse race betting collection service fees granted to the managers of horse race and sports betting shops and corners amounted to Euro 17,307 thousand in the first quarter of 2017 (Euro 19,084 thousand in the first quarter of 2016);
- virtual events management costs (Euro 4,217 thousand compared to Euro 4,522 thousand in the first quarter of 2016), including costs related to both the operator and the platform.

The "Other" item mainly comprises surveillance and security services for the transportation of money and valuables, cleaning services, postal and shipping expenses, costs for waste disposal and costs for the management of company vehicles.

8. Costs of personnel

Costs of personnel, in the first quarter of 2017, amounted approximately to Euro 13,862 thousand compared with Euro 14,866 thousand in the first quarter of 2016, with a decrease of Euro 1,004 thousand due primarily to the sale of business units within the outsourcing process of the agencies with direct management of the company SNAI Rete Italia S.r.l., in addition to the benefits deriving from the containment of operating costs following the merger with the Cogemat Group.

<i>Thousands of Euro</i>	1 st Quarter		
	2017	2016	Change
Salaries and wages	9,718	10,553	(835)
Social security expenses	2,941	3,043	(102)
Accrual to employee termination indemnities	571	727	(156)
Costs for personnel training	36	45	(9)
Expense reimbursement to employees	196	222	(26)
Meal tickets	230	242	(12)
Cost for inventive plans (IFRS 2)	134	0	134
Other costs of personnel	36	34	2
Total	13,862	14,866	(1,004)

The "Accrual to employee termination indemnities" item also includes the impact on the income statement resulting from the valuation of the employee termination indemnities in accordance with IAS 19.

The composition of the employees as at March 31, 2017 is shown in the following table, which highlights a decrease of 88 individuals compared to December 31, 2016, mainly due to the sale of the business units, within the outsourcing process of the directly managed agencies of the company SNAI Rete Italia S.r.l. The decrease compared with March 31, 2016 is of 254 units due to both the above and to the effect of the restructuring following the merger with the Cogemat Group.

31.03.2016		31.12.2016	Increases for the period	Decreases for the period	31.03.2017	Average n. in period
33	Executives	28	1	0	29	29
1,202	White collar employees and mid-level managers	1,049	14	100	963	991
62	Blue-collar workers	54	0	3	51	52
1,297	* Total Employees	1,131	15	103	1,043	1,072

* of whom 341 part-time and 22 on maternity leave

** of whom 258 part-time and 19 on maternity leave

*** of whom 225 part-time and 16 on maternity leave

8.1. Incentive schemes

On March 13, 2017, the Shareholders Meeting approved two incentive plans applicable to the Managing Director and other executives of the SNAITECH Group, thus conferring to the Board of Directors all the broadest powers for the management and implementation of the above mentioned plans.

The two incentive schemes (structured as a phantom stock option) provide for the granting to the Managing Director and General Manager and to some executives of the Company and its subsidiaries (in their capacity as subjects holding a key role for the achievement of the Group's objectives) of a premium equal to a certain percentage of the Company's value (to a maximum and overall extent of 4% for both plans).

In addition the incentive scheme for some executives of the SNAITECH Group (called "Phantom Stock Option 2017-2019") requires that the application of the virtual options stated in the plan be subordinate to the achievement of certain performance objectives.

The incentive for the Managing Director and the General Manager as well as for the executives of the SNAITECH Group is subordinate to the occurrence of a sale/transfer transaction from which a "change in the control" of the Company is

derived, with an increase in value of each share of the Company substantially exceeding the current value of the SNAITECH shares.

Therefore, the payment of the incentive to the Managing Director, the General Manager and each executive is substantially related to the results achieved in terms of the value of the Company in reference with the significant transactions involving a change in control, with the objective of aligning the interests of the beneficiaries with those of the shareholders.

The incentive scheme for the Managing Director and General Manager became effective on March 13, 2017.

With reference to the incentive scheme for executives, for retention purposes, the payment of the incentive will occur only after 12 months from the date of the change in control and provided that the relationship between the beneficiary and the Company is active at that date. As of March 31, 2017, the incentives have not yet been assigned to any executive.

Incentive scheme for the Managing Director and General Manager

The scheme provides for the attribution to the Managing Director and General Manager of a monetary bonus equal to a certain percentage of the increase in value of the Company, measured on the basis of the share price at the time of the change in control of the Company, according to a progressive scale of reference values that are different and increasing according to the date of the change in control.

The incentive is dependent on the date when the change in control takes place and on the value of the share according to the following table:

Incentive Scheme	Date of the change in control			Incentive amount (in % based on the value increase of SNAITECH)
	by March 31, 2018	by March 31, 2019	beyond March 31, 2019	
Price per share	≤ euro 2.10	≤ euro 2.31	≤ euro 2.43	0.0%
	≤ euro 2.25	≤ euro 2.48	≤ euro 2.60	0.5%
	≤ euro 2.40	≤ euro 2.64	≤ euro 2.77	1.0%
	≤ euro 2.55	≤ euro 2.81	≤ euro 2.95	1.5%
	≤ euro 2.70	≤ euro 2.97	≤ euro 3.12	2.0%

Measurement model

The measurement of the total fair value of the scheme was carried out based on the financial market conditions in effect at the measurement time. The estimate was carried out using the stochastic simulation with the Monte Carlo Method which, based on the appropriate hypotheses, allowed for the definition of a significant number of alternative scenarios within the time interval taken into consideration. The simulation was carried out by applying hypotheses related to the average annual growth rate of the share (+1%), the volatility of the share (45%), the actualisation rate (1%), the dividend rate (0%) and the probability of renewal of the mandate granted to the beneficiary (50% after the 2018 financial statements approval).

As regards the achievement of the objective of change in control, the hypothesis was to consider different levels of probability according to the value of the share: 0% if the price of the share is below Euro 2.10, 50% if it is between Euro 2.10 and 2.70 and 100% if above Euro 2.70.

The Fair Value of the attributions subject to valuation, based on the hypothesis of achieving the change in control, amounted to Euro 816 thousand of which Euro 134 thousand recognised in the income statement of the first quarter of 2017.

9. Other operating costs

Other operating costs amounted to a total of Euro 11,875 thousand in the first quarter of 2017 (Euro 13,557 thousand in the first quarter of 2016).

<i>Thousands of Euro</i>	2017	1 st Quarter 2016	Change
Concessions and licence fees	7,394	7,787	(393)
Additional charged to AAMS agreements	81	0	81
Administration fines	32	6	26
% non-deductible VAT	1,404	938	466
Provision for doubtful debts	1,401	1,804	(403)
Credit losses	91	458	(367)
Use/Release of the provision for doubtful debts	0	0	0
Release of provision for technological upgrading	0	0	0
Provision for risks	252	202	50
Representation expenses	49	31	18
Membership fees	44	81	(37)
Other taxes	291	180	111
IMU (real estate tax)	265	265	0
Stationery, consumables and promotional materials	174	61	113
Cost of Environmental and health controls	34	28	6
Losses on settlement of disputes	192	1,341	(1,149)
Capital losses from sale of assets	38	60	(22)
Other administration and operating costs	133	315	(182)
Total	11,875	13,557	(1,682)

The "Concessions and licence fees" item includes, among other things:

- the concession fee for legal gaming on the gaming machines for a total amount of Euro 5,485 thousand, calculated at 0.30% of the volume wagered and paid to ADM on a bimonthly basis;
- the concession fee for the marketing of public gaming on the licenses awarded through the call for tender 2006 (Bersani Rights) and the licenses awarded through the call for tender in 2008 (Giorgetti Rights), and the licenses awarded through the call for tender in 2012 (Monti Rights), equal to an overall Euro 1,495 thousand;
- the concession fee for remote public gaming, in the amount of Euro 227 thousand;
- the television licence fees in the amount of Euro 60 thousand.

In the first quarter of 2017, an allocation was set aside to the Provision for doubtful debts, in the amount of Euro 1,401 thousand in order to align, with their recoverable value, receivables that arose in prior fiscal years in connection with the Group's core business operations and which showed, over the course of the year, growing difficulties with regard to their collection.

In the first quarter of 2017, an allocation was set aside to the provision for risks of Euro 252 thousand for technological upgrades as provided for in the concession agreement for the building and running of networks for the on-line management of legal gaming via gaming machines, in accordance with Art. 110, par. 6, of the T.U.L.P.S. [Consolidated Text of Public Safety Laws], as per the Royal Decree no. 773 of June 18, 1931, as amended and supplemented.

The "% non-deductible VAT", equal to Euro 1,404 thousand, relates primarily to particular operations performed by SNAITECH S.p.A., by Festa S.r.l. and by Società Trenno S.r.l., which generate, in part, the revenues subject to VAT taxation and in part revenues exempt from VAT, with consequent impact on the non-deductibility of VAT on purchases. The companies SNAITECH S.p.A., and Società Trenno S.r.l. opted to separate activities for VAT purposes, which means that, for purchases related to activities that generate taxable transactions, the VAT is deductible, while the VAT on purchases that generate exempt transactions is entirely non-deductible.

As regards the VAT on goods and services used promiscuously by all of the business operations, the VAT is deducted subject to the limits of the portion attributable to the operations which produce taxable revenues to which it refers; therefore, the cost of non-deductible VAT has been calculated using specific allocation criteria.

10. Capitalised internal construction costs

Capitalised internal construction costs, of Euro 335 thousand for the first quarter of 2017 (Euro 225 thousand for the first quarter of 2016) are mainly related to software generated internally for:

- IT systems and networking solutions supporting the business lines;
- centralised systems and peripheral terminals for the acceptance of bets, the sale of services, the distribution of information to operators, the display of information, and the management of both the sales points and gaming machines (AWPs and VLTs);
- centralised systems for the management of contacts with ADM for all product lines under concession;
- management systems and consoles for betting and risks on sales;
- centralised systems, gaming interfaces and integration protocols for on-line wagers;
- management systems and consoles for the provision of Commercial Services;
- management systems and consoles for back-office activities.

11. Amortisation and depreciation

Amortisation, depreciation and write-down of Euro 13,766 thousand for the first quarter of 2017 (Euro 17,116 thousand for the first quarter of 2016) are detailed below:

<i>Thousands of Euro</i>	2017	1 st Quarter 2016	Change
Amortisation of intangible assets	8,586	11,964	(3,378)
Depreciation of property, plant and equipment	5,180	5,152	28
Total	13,766	17,116	(3,350)

In the second quarter of 2016, with regards to intangible fixed assets, the useful life of concessions expiring on June 30, 2016 was reviewed based on the notice 54917 of June 9, 2016, issued by ADM. This allowed for the continuation of the activities until publication of the tender (i.e. June 30, 2017). For further details, see Note 2.

Further information regarding the above is provided in the Notes 14 and 15, "Property, plant and equipment" and "Intangible assets".

12. Financial income and expenses

In the first quarter of 2017, net financial expenses amounted to Euro 9,624 thousand, down by Euro 4,376 thousand over the first quarter of 2016, as detailed below:

<i>Thousands of Euro</i>	2017	1 st Quarter 2016	Change
Financial income			
Foreign exchange rate gains	1	7	(6)
Bank interest income	15	160	(145)
Other interest income	140	65	75
	156	232	(76)
Financial expenses			
Interest expense on bond loan	9,359	13,839	(4,480)
Other interest expense	21	28	(7)
Bank interest expense	0	2	(2)
Foreign exchange rate losses	3	1	2
Interest expense and ancillary charges on leasing	23	25	(2)
Interest expense on employee termination indemnities	23	41	(18)
Other financial expenses	351	296	55
	9,780	14,232	(4,452)
Total	(9,624)	(14,000)	4,376

Financial expenses include the following:

- the item Interest expense on bond loans, the expenses of which are calculated in accordance with the depreciated cost method under IAS 39 by applying the effective interest rate method on loans amounting to Euro 9,359 thousand, of which Euro 509 thousand can be attributed to ancillary costs (for further details about bond loans, see Note 27).
- The item Other financial expenses for a total of Euro 351 thousand, which includes the share pertaining to availability fees (for Euro 262 thousand) and the arrangement fees (for Euro 89 thousand) related to the new revolving line of Euro 85 million concluded on October 26, 2016 (for further details on the new revolving line see Note 27).

13. Income tax

Current income taxes, inclusive of IRES tax and IRAP tax of the subsidiaries consolidated on a line by line basis, as well as the deferred tax assets and liabilities recorded in the first quarter of 2017, showed a negative balance of Euro 2,365 thousand (a negative item of Euro 4,393 thousand in the first quarter of the previous year).

<i>Thousands of Euro</i>	1Q 2017	1Q 2016
IRES	0	229
IRAP	341	1,065
Accrual to provision for deferred tax liabilities	1,187	1,188
Use of provision for deferred tax liabilities	(260)	(292)
Deferred tax assets	(1,427)	(404)
Reversal of deferred tax assets	2,524	2,607
Total	2,365	4,393

The table below shows the reconciliation between the IRES and IRAP tax charges resulting from the preparation of these Condensed Consolidated Financial Statements as of March 31, 2017 and the theoretical tax charges (in thousands of Euro):

	31.03.2017		31.03.2016
Profit before tax	4,599		6,001
Theoretical IRES tax charge	24.00% (1,104)	27.50%	(1,650)
Theoretical IRAP tax charge	5.12% (235)	5.12%	(307)
Total theoretical tax expense	(1,339)		(1,958)
Fines, penalties and other taxes	(58)		(117)
Other permanent non-deductible costs	(384)		(2,429)
Other permanent tax deductions	83		3,221
	(1,698)		(1,283)
Permanent differences for IRAP tax purposes (including employees)	(667)		(3,110)
	(2,365)		(4,393)
Tax and duties for prior year	0		0
Actual tax expense	-51.43% (2,365)	-73.20%	(4,393)

For further details on the effects deriving from the tax burden and the tax consolidation regime, reference is made to Note 17 "Deferred tax assets and deferred tax liabilities" of these explanatory notes.

The last year finalised for tax purposes was the year 2011.

Reference is made to Note 28 for further details on tax disputes.

Notes to the main items of the condensed consolidated statement of financial position

The comparison between figures, which are always expressed in thousands of Euro, except when otherwise indicated, is made with the corresponding balances as of December 31, 2016.

14. Property, plant and equipment

Property, plant and equipment as of March 31, 2017 amounted to Euro 132,346 thousand (Euro 135,693 thousand at December 31, 2016). The change for the period is due to the combined effect of the depreciation charge for the period (Euro 5,180 thousand), investments (Euro 2,004 thousand), disposals/sales net of the amortisation/depreciation provision (Euro 185 thousand) and reclassifications of the amortisation/depreciation provision (Euro 14 thousand).

<i>Thousands of Euro</i>	Land and buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under construction and advances	Total
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Cost

Balance as at December 31, 2016	147,485	215,796	7,027	31,093	0	401,401
Reclassification	0	0	0	0		0
Other increases	201	1,656	25	122	0	2,004
Decreases	0	(1,629)	(23)	(291)		(1,943)
Balance as at March 31, 2017	147,686	215,823	7,029	30,924	0	401,462

Amortisation and impairment losses

Balance as at December 31, 2016	43,314	189,696	6,820	25,878	0	265,708
Amortisation for the period	796	3,815	14	555		5,180
Write-downs	0	0	0	0		0
Disposals	0	(1,462)	(21)	(275)		(1,758)
Reclassification	0	(13)	0	(1)	0	(14)
Balance as at March 31, 2017	44,110	192,036	6,813	26,157	0	269,116

Carrying amounts

as at December 31, 2016	104,171	26,100	207	5,215	0	135,693
as at March 31, 2017	103,576	23,787	216	4,767	0	132,346

The "Plant and equipment" item includes electricity, water, fire prevention and air conditioning systems, as well as work carried out for the compliance thereof to safety regulations, electronic machinery, and technology for connection to the network of the central systems.

Increases as of March 31, 2017, in the amount of Euro 2,004 thousand mainly relate to the following:

- the Land and Building item, in the amount of Euro 201 thousand, can be broken down as follows: Euro 158 thousand to consolidation activities and structural improvement of the racetrack and Euro 43 thousand mainly due to remediation works;
- the "Plant and equipment" item, in the amount of Euro 1,656 thousand, can be broken down as follows: Euro 1,468 thousand for the technology delivered as free loan to the sales points, including AWP machines; Euro 23 thousand for electrothermal and electrical plants; Euro 39 thousand for radio links; Euro 13 thousand for plant projection machines and Euro 113 thousand for the cost of acquisition of instrumental goods (server, printers, PCs and monitors);
- the "other assets" item, amounting to Euro 122 thousand is as follows: Euro 90 thousand to furnishings and fittings provided free of charge to the betting shops and to shops managed directly by the Group, Euro 28 thousand to head office furnishings and fittings and Euro 4 thousand to other assets.

No financial expenses have been capitalized in property, plant and equipment, since the SNAITECH Group does not have qualifying assets, as defined under IAS 23.

Leasing

The Company has entered into leasing contracts for the use of certain plant, machinery and equipment which will expire at various points until December 31, 2021. These agreements include redemption and/or extension clauses.

The following table shows the minimum future instalments of the financial leasing contracts:

Thousands of Euro

Total commitments as at March 31, 2017	412
of which	
Instalments due within 12 months	145
Instalments due between 1 to 5 years	267
Instalments due after 5 years	-
Purchase option	22

The remaining instalments due for operating leases do not present significant amounts.

15. Intangible assets

Intangible assets as of March 31, 2017, amounted to Euro 441,165 thousand (Euro 447,392 thousand as of December 31, 2016). The change is mainly due to the combined effect of amortisation for the period amounting to Euro 8,586 thousand and of investments amounting to Euro 2,359 thousand.

<i>Thousands of Euro</i>	Goodwill	Concessions, licenses, trademarks and similar rights	Industrial patent rights and use of intellectual property	Other	Assets in progress and advances	Total
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Cost

Balance as at December 31, 2016	306,546	367,101	20,199	77,631	818	772,295
Reclassification		0	0	0	0	0
Other increases		1,883	5	130	341	2,359
Decreases	0	0	0	0	0	0
Balance as at March 31, 2017	306,546	368,984	20,204	77,761	1,159	774,654

Amortisation and impairment losses

Balance as at December 31, 2016	74	281,093	17,208	26,528	0	324,903
Amortisation for the period	0	6,884	267	1,435		8,586
Write-downs		0	0	0		0
Disposals		0	0	0		0
Reclassification		0	0	0		0
Balance as at March 31, 2017	74	287,977	17,475	27,963	0	333,489

Carrying amounts

as at December 31, 2016	306,472	86,008	2,991	51,103	818	447,392
as at March 31, 2017	306,472	81,007	2,729	49,798	1,159	441,165

No financial expenses have been capitalized in intangible assets, since the SNAITECH Group does not have qualifying assets, as defined under IAS 23.

Investments of Euro 2,359 thousand relate primarily to the following items:

- “Concessions, licenses, trademarks and similar rights”, amounting to Euro 1,883 thousand, of which Euro 1,500 thousand for the purchase of 100 VLT licenses and Euro 383 thousand for the issuing of the AWP authorisations;
- “Other”, totalling Euro 130 thousand, including Euro 24 thousand for operation and logistic software development and CRM licenses, Euro 4 thousand for the development of portals, Euro 82 thousand related to operating software for administration, finance and control, Euro 20 thousand for the development of betting.
- “Assets under construction and advances”, amounting to Euro 341 thousand, of which: Euro 338 for software internally developed and Euro 3 thousand for development costs in the former Trotto area.

In the second quarter of 2016, with regards to intangible fixed assets, the useful life of concessions expiring on June 30, 2016 was reviewed based on the notice 54917 of June 9, 2016, issued by ADM. This allowed for the continuation of the activities until publication of the tender (i.e. June 30, 2017). For further details, see Note 2.

Goodwill amounted to Euro 306,472 thousand, and was allocated to the following cash generating units (CGU):

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- Euro 11,137 thousand provided by SNAI Servizi Spazio Gioco S.r.l. was allocated to CGU “Servizi”.
- Euro 443 thousand provided by Teleippica S.r.l. referred to the CGU “Broadcasting”.
- Euro 146,224 thousand to the CGU “Gaming machines”. CGU is represented by activities related to the licences for the activation and running of the network for on-line management of legal gaming through game machines as well as all the related activities and functions (AWP and VLT) and the portion of management of the network of shops and directly managed points;
- Euro 78,918 thousand to the “Betting Retail” CGU. This CGU includes the activities related to the licensing for the management of horse racing, sports and virtual events betting that are accepted through the retail channel (shops and game points) and the portion of management of the network of shops and directly managed points;
- Euro 69,750 thousand to the “Online” CGU. This CGU includes the activities related to the licensing for the offer of skill games, bingo and casino games, in addition to sports, horse racing and virtual events betting accepted through the on-line channel.

The maximum combination level of CCUs are the operating sectors, as envisaged by IFRS 8.

In accordance with international accounting standards, and in particular by IAS 36, goodwill is subjected to impairment testing on an annual basis, or more frequently in the presence of indication of possible permanent losses in value. If the test shows a loss of value, the SNAITECH Group recognises a write-down in the statement of financial position.

The corrective measure of public accounts, approved on 24 April 2017, involved the increase of the PREU (One-off tax amount) from the AWP from 17.5% to 19% and of the PREU from the VLTs from 5.5% to 6%. The increase in taxation, similarly to other conditions, is not such as to impact the validity of the impairment test performed on the annual financial statements, thus resulting in the percentages of the write-off of the surplus of the useful life determined through a sensitivity analysis. Since this change does not involve a write-down of the goodwill, no further measurements were carried out for the identification of durable losses in the value of the goodwill, in particular the value related to the “Gaming machines” CGU .

16. Investments

The SNAITECH Group shareholdings are set forth in the following table:

	Carrying amount at	Carrying amount at	Percentage held	
<i>Thousands of Euro</i>	31.03.2017	31.12.2016	31.03.2017	31.12.2016
Affiliates and subsidiaries accounted for under the equity method				
- Hippogroup Roma Capannelle S.p.A.	1,038	1,038	27.78	27.78
- Alfea S.p.A.	1,477	1,477	30.70	30.70
- Connex S.r.l. in liquidation	0	0	25	25
- Solar S.A.	0	0	30	30
- Teseo S.r.l. in liquidation	0	0	100	100
Total Investments accounted for under the equity method	2,515	2,515		
Other				
- Lexorfin S.r.l.	46	46	2.44	2.44
Total Other investments in other companies	46	46		

The composition of the whole Group, and the consolidation methods used, are set forth in Schedule 1.

17. Deferred tax assets and deferred tax liabilities

Pursuant to IAS 12, deferred tax assets were offset against deferred tax liabilities, whenever the legal right for offsetting was deemed applicable.

The SNAITECH Group reported overall deferred tax assets and deferred tax liabilities equal to a net amount of deferred tax assets of Euro 49,263 thousand (the net amount of deferred tax assets, as at December 31, 2016, amounted to Euro 51,288 thousand).

For greater clarity in terms of disclosure, the total amount of temporary differences and tax losses carried forward is described with a distinction between deferred tax assets and liabilities below.

The theoretical amount of deferred tax assets and liabilities, as well as the amounts recorded in the consolidated financial statements, are shown in the separate tables.

17.1. Deferred tax assets

Temporary differences	Amount	Rate	Tax effect	Assets recorded	Reversal period
Allowance for doubtful accounts	64,836	24.00%	15,560	14,699	2017 and following
Provision for risks and charges	21,599	24.00%-29,12%- 27.90%-28.82%	6,175	6,175	2017 and following
Provision for the obsolescence of the inventory	200	24.00%-29,12%- 27.90%-28.82%	57	57	2017 and following
Difference between book value and tax value of property, plant and equipment and intangible assets	5,484	24.00%-29.12%	1,441	1,441	2017 and following
Interest expense not deducted as per art. 96 of Tuir	201,972	24.00%	48,473	24,225	2017 and following
Other temporary differences	2,404	24.00%-29,12%- 27.90%-28.82%	614	614	2017 and following
Total	296,495		72,320	47,211	

Total Losses carried forward from prior year	Amount	Rate	Tax effect	Assets recorded	Usable by
SNAITECH S.p.A. tax consolidation:					
Year 2008	19,767	24.00%	4,744	4,744	no expiration
Year 2009	10,200	24.00%	2,448	2,448	no expiration
Year 2010	29,060	24.00%	6,974	6,974	no expiration
Year 2011	19,370	24.00%	4,649	4,649	no expiration
Year 2012	28,915	24.00%	6,940	6,940	no expiration
Year 2013	57,931	24.00%	13,903	13,903	no expiration
Year 2014	12,587	24.00%	3,021	3,021	no expiration
Year 2015	3,869	24.00%	929	929	no expiration
Year 2016	8,530	24.00%	2,047	2,047	no expiration
Year 2017	3,384	24.00%	812	812	no expiration
Total Losses carried forward for SNAITECH S.p.A. tax consolidation	193,613		46,467	46,467	
SNAITECH S.p.A.					
Limited use	97,311	24.00%	23,355	23,355	no expiration
To be fully used	27,612	24.00%	6,627	6,627	no expiration
Total Losses carried forward for SNAITECH S.p.A.	124,923		29,982	29,982	
SNAI Rete Italia S.r.l.					
Limited use	4,682	24.00%	1,124	-	no expiration
Total Losses carried forward for SNAI Rete Italia S.r.l.	4,682		1,124	-	
Total Losses carried forward	323,218		77,573	76,449	
Total Deferred tax assets				123,660	

Changes in deferred tax assets:

	31.12.2016	Accrual	Utilisation	31.03.2017
Deferred tax assets	124,758	1,426	(2,524)	123,660

In the valuations carried out in order to define the deferred tax assets, the Group has mainly kept into consideration the following:

1. the tax laws and their impact in terms of identification of temporary differences and any tax benefits deriving from the use of previous tax losses;
2. the taxable income estimated in the medium-long term for each single company and the economic and tax impacts. In this scenario, the plans deriving from the re-elaboration of the Group plan have been adopted.

As of March 31, 2017, the Directors of the Parent Company confirmed the assessment of recoverability of the deferred tax assets generated by the temporary differences between the carrying amount and fiscal values of the relevant assets/liabilities, as well as the tax loss, except for what has been specified.

The above-mentioned recoverability is based on the predictions of future positive results in the business plans.

It should be noted that the total loan on tax losses resulting from the tax consolidation of SNAITECH S.p.A. amounted to Euro 46,467 thousand while the tax benefits on tax losses of SNAITECH S.p.A., resulting from the merger by incorporation of the companies that are part of the Cogemat/Cogetech Group and therefore non-transferable to the tax consolidation of SNAITECH S.p.A., amounted to Euro 29,982 thousand.

It should be noted that, concerning the retained interest expense as per Art. 96 of the Presidential Decree 917/1986, accrued in 2013 and 2014 with regards to SNAITECH S.p.A., deferred tax assets were recognised for Euro 9,658 thousand in 2013 and Euro 2,363 thousand in 2014, against benefits amounting respectively to Euro 10,875 thousand and Euro 5,941 thousand, while no deferred tax assets were recognised on retained interest expense accrued by the Company during the years 2015 and 2016, and in the first quarter of 2017, against recordable benefits of Euro 19,334 thousand.

It should also be noted that, with reference to the subsidiary SNAI Rete Italia S.r.l., no prepaid taxes on the temporary differences between the financial statement values and the tax values of the assets and liabilities, derived to the company following the merger by incorporation of the company Finscom S.r.l., against recordable benefits of Euro 2,104 thousand, were recorded. More specifically, no deferred tax assets on tax losses carried forward were recognised against recordable gains amounting to Euro 1,124 thousand, on interest payable carried forward pursuant to Art. 96 of the Presidential Decree 917/1986, against recordable gains amounting to Euro 119 thousand, as well as on the provision for doubtful debts subject to taxation, against recordable gains amounting to Euro 861 thousand.

17.2 Deferred tax liabilities

Temporary differences	Amount	Rate	Tax effect	Deferred tax liabilities recorded
Amortisation of goodwill	(11,971)	24.00%-29,12%-28.82%	(3,296)	(3,296)
Amortisation of goodwill of business segments	(167,582)	24.00%-29.12%	(47,721)	(47,721)
Amortisation, commercial network	(42,651)	24.00%-29.12%	(11,900)	(11,900)
Difference between the book value and the tax value of property, plant and equipment	(39,376)	24.00%-29.12%	(11,446)	(11,446)
Other temporary differences	(139)	24.00%	(34)	(34)
Total deferred tax liabilities	(261,719)		(74,397)	(74,397)

The changes in the provision for deferred taxes are shown below:

	31.12.2016	Accrual	Utilisation	31.03.2017
Deferred tax liabilities	73,470	1,187	(260)	74,397

Directors of SNAITECH S.p.A. have decided, in accordance with IAS 12, to record the deferred tax liabilities generated by all of the temporary differences between the carrying values and the fiscal values of the related assets/liabilities. In particular, the acquired business segments are considered business combinations and therefore are recorded using the acquisition method specified by IFRS 3. Therefore, SNAITECH S.p.A. has recognised the identifiable assets and liabilities at fair value at the acquisition date and it recorded goodwill only after having allocated the acquisition cost as described above. Goodwill is not subject to amortisation but to impairment testing on an annual basis; amortisation for tax purposes is regulated by Art. 103, paragraph 3, of the Presidential Decree 917/1986, which gives rise to deferred tax liabilities.

The “Amortisation, commercial network” item, equal to Euro 42,651 thousand, with tax effect equal to Euro 11,900 thousand, results from the merger into SNAITECH S.p.A. of the companies of the Cogemat/Cogetech Group. In particular, after recognising assets and liabilities identifiable, in the merged company, at the related fair value and at the acquisition date, a portion of the difference between purchase cost (made up by the share capital increase carried out by SNAITECH S.p.A.) and transferred Shareholders’ Equity was allocated to the Commercial Network of the Cogemat/Cogetech Group, based on the related fair value.

The “difference between the book value and the tax value of property, plant and equipment” of Euro 39,376 thousand, with tax impact of Euro 11,446 thousand, mainly relates to real estate properties (formerly owned by Trenno) in Milan - San Siro and Montecatini (Euro 36,979 thousand with tax effect of Euro 10,768 thousand), as well as properties and land (owned by former Immobiliare Valcarenga S.r.l.) in Milan (Euro 1,320 thousand, with tax effect of Euro 384 thousand).

17.3 Tax Consolidations, pursuant to articles 117 and seq. of the Presidential Decree no. 917 of December 22, 1986

It should be noted that, on September 29, 2016 and for the 2016-2018 period, the adhesion option to the tax consolidation, to be exercised in the 2016 Revenue form, was renewed as per articles 117 and following of the Presidential Decree 917/1986 between the consolidating company SNAITECH S.p.A. and the consolidated company Società Trenno S.r.l.. It should be also recalled that, for the 2015-2017 period, the option to the tax consolidation is currently in force, as per articles 117 and following of the Presidential Decree 917/1986, between the consolidated companies Teleippica S.r.l. and SNAI Rete Italia S.r.l.

It should be noted that the adoption of consolidated taxation may entail some beneficial effects on the Group’s tax burden, including the possibility of immediate full or partial application of tax losses for the period, incurred by the companies participating in the consolidation scheme thus reducing the income reported by the other consolidated companies and recovering the excess interest expense not deducted by the consolidated companies in the case of a surplus in Gross operating income (GOI) by the other companies participating in the consolidation scope.

SNAITECH S.p.A., as the consolidating entity, is required to make an advance payment on account for the balance of the corporate income tax [IRES] based on the consolidated income statement.

Under the existing agreements, the income tax on the taxable income transferred to the consolidating entity is then paid by set-off against the credit balance created by the early payments, amounts deducted at source, deductions of tax or transfers for any other reason, any amounts that cannot be offset are payable within 90 days after the Company’s receipt of the request from the consolidated companies.

In the event that the consolidated companies transfer tax credits to SNAITECH S.p.A., that transfer implies an indemnity to those companies in the amount of the tax credits thus transferred.

Benefits deriving from the transfer of tax losses from SNAITECH S.p.A. will be paid within 90 days from reception by the Parent Company of the request sent by the consolidated company, irrespective of the fact that these losses have been actually used.

The consolidated companies’ tax liability, with respect to the Inland Revenue Office, remains in effect if a higher taxable income for the Parent Company is assessed as a result of miscalculations in the taxable income reported by the consolidated companies.

18. Inventory

Compared to December 31, 2016, inventories decreased by Euro 87 thousand. The breakdown of the “Inventory” item is shown below:

<i>Thousands of Euro</i>	31.03.2017	31.03.2016	Change
Raw materials	1	1	0
Semi-finished products	0	0	0
Finished products/goods	285	198	87
Total	286	199	87

The value of inventories is shown net of the provision for inventory depreciation, which, as at March 31, 2017, amounted to Euro 200 thousand (compared with Euro 200 thousand as at December 31, 2016).

19. Trade receivables

The trade receivables are broken down as follows:

<i>Thousands of Euro</i>	31.03.2017	31.12.2016	Change
Trade receivables			
- from third parties	153,819	168,469	(14,650)
- from foreign third parties	981	497	484
- from MIPAAF	4,796	2,799	1,997
- from stables, jockeys and bookmakers	211	433	(222)
- from the Parent Company Global Games S.p.A.	5	4	1
- bills collection	2,163	1,222	941
- allowance for doubtful accounts	(59,509)	(58,876)	(633)
Total	102,466	114,548	(12,082)

Trade receivables from customers included the balances as at March 31, 2017 due from operators for accepting bets (Betting and Gaming Machines), net of the compensation due to those operators. The decrease in the item Receivables from customers is to be referred primarily to the redefinition of payment deadlines for some customers, beyond 12 months, and to the optimisation of the credit policies adopted. As regards receivables from the segment, related to the reduction of premiums set forth in the stability law, it should be noted that the non-payment of the amounts due to the ADI managers has involved the non-repayment of the same amounts by the group to ADM at the deadline set forth in the Stability law, i.e. October 31, 2015. In light of the expressed opinions, the SNAITECH Group believes that it is not jointly co-responsible as regards the tax rate pertaining to the business segment, and deems that there is no credit risk as per the amounts that are possibly not repaid by operators within the segment (for further information see Note 27, Other liabilities). Based on these considerations, SNAITECH S.p.A. has excluded the receivables from the related segment and the corresponding payables toward ADM previously recorded under Other liabilities, thus writing off the position. The amount of the debt, offset as at December 31, 2016 with the trading receivables in order to exclude the receivables pursuant to the Stability Law, amounted to Euro 28,909 thousand.

Trade receivables from third parties also include the receivables subject to legal action amounting to Euro 50,654 thousand (Euro 51,941 thousand as of December 31, 2016).

Receivables from MIPAAF (former ASSI, used by MIPAAF - Ministry of Agriculture, Foodstuff and Forestry Policies), amounted to Euro 4,796 thousand (Euro 2,799 thousand as of December 31, 2016) and include:

- Euro 2,515 thousand (1,278 thousand as at December 31, 2016) concerning the receivables for services provided by the Company Trenno S.r.l. in the first quarter of 2017 and those of 2016 including: grants for television broadcasts in November and December, the advance amount for the third quarter and the balance of the grant for races, the advance amount for the months of November and December and the balance of the grant for plants. The above amounts are, at March 31, 2017, still to be invoiced, pending assessment by MIPAAF about the accounting and cost reporting as set forth in Decree No. 24307 of March 25, 2016, Art. 6;
- Euro 2,281 thousand (Euro 1,521 thousand as of December 31, 2016) related to the agreement made by Teleippica S.r.l. for transport services, the processing and transmission of video and audio signals from domestic and foreign racetracks, and the production and transmission of the UNIRE BLU channel dedicated to betting shops for "national" horse betting; daily presentation and broadcast of programmes and other connected services. The increase in receivables is tied to the normal payment policies of MIPAAF aimed at including the payment of maturing invoices.

The allowance for doubtful accounts was calculated taking into consideration the amount of receivables that were doubtful, analysing debtors' specific conditions and any security that had been provided towards the companies of the Group, and also carrying out an assessment on the possible recovering of overdue receivables, and disputed receivables, based on the opinions of the Group's lawyers. Taking into account the company-backed guarantees obtained from debtors, Directors believe that this provision is adequate to cover all foreseeable future losses on receivables.

20. Other (current and non-current) assets

Other non-current assets, classified under “other non-financial assets”, are broken down as follows:

<i>Thousands of Euro</i>	31.03.2017	31.12.2016	Change
Other non-financial assets			
<i>Tax receivables:</i>			
- for tax refund	46	46	0
	46	46	0
<i>Receivables from others:</i>			
- guarantee deposits	1,176	1,170	6
- other receivables	301	0	301
	1,477	1,170	307
<i>Receivables from clients:</i>			
- bills for collection	504	914	(410)
- customers	7,493	1,400	6,093
	7,997	2,314	5,683
Total Other non-financial assets	9,520	3,530	5,990

Other current assets are composed as follows:

<i>Thousands of Euro</i>	31.03.2017	31.12.2016	Change
Other current assets			
<i>Tax receivables:</i>			
- from Italian Revenue Agency for IRES credit	2,518	2,518	0
- from Italian Revenue Agency for IRAP credit	3,388	175	3,213
- from Italian Revenue Agency for VAT credit	0	1,578	(1,578)
- Other	2,682	1,237	1,445
	8,588	5,508	3,080
<i>Receivables from others:</i>			
- Gaming Machines security deposit	46,529	37,392	9,137
- Receivable for the advance payment of the second instalment - Stability Law ADM	182	182	0
- Advance payment of concession fee and other receivables from ADM	4,358	2,137	2,221
- Escrow deposit	0	0	0
- Receivables from ADM for winnings on pool betting and National Horse Racing	13	34	(21)
- On-line gaming security deposit (Skill/Bingo)	124	131	(7)
- Receivables for Skill Games	14	14	0
- Other receivables from Betting Acceptance Points	1	0	1
- Receivables from prior positions with concession authorities	327	327	0
- Receivables for payment of PREU interest and sanctions what were not due	2,114	2,114	0
- Receivables from Bluline electronic purse	226	226	0
- Soc. Security Entities	593	209	384
- Banks	0	0	0
- Other receivables	4,085	4,030	55
- Allowance for doubtful accounts	(3,010)	(2,929)	(81)
	55,556	43,867	11,689
<i>Accrued income and prepaid expenses</i>			
- Accrued income	4	4	0
- Prepaid expenses	6,179	3,947	2,232
	6,183	3,951	2,232
Total Other current assets	70,327	53,326	17,001

The increase in the item Beyond 12 month customers for Euro 6,093 thousand is to be referred to the redefinition of the payment due date for some customers.

The gaming machines security deposit of Euro 46,529 thousand (Euro 37,392 thousand at December 31, 2016) relates to 0.5% on the gaming transactions generated by the gaming machines (AWP and VLT), as described in greater detail in Note 4, "revenues from sales and services".

The advance payment of concession fees and other receivables from ADM, equal to Euro 4,358 thousand, mainly includes the fixed amounts paid in advance to ADM in the first half of 2017, and relates to the concession fee for horse racing and sports betting and for on-line gaming, excluding the amounts pertaining to the period. For further details, see Note 9.

The "Other receivables" item includes the escrow deposit of Euro 758 thousand, related to the payment made by SNAI Rete Italia S.r.l. in favour of SIS S.r.l., in liquidation, as a guarantee of possible liabilities that might occur, as envisaged by the contract signed on July 18, 2016.

Prepaid expenses include:

- Euro 2,832 thousand (compared to Euro 1,183 thousand as of December 31, 2016), related to advance payments for commissions on guarantees and insurance premiums, essentially related to guarantees provided to secure contractual obligations assumed for the concessions for rights and for gaming machines;
- Euro 1,558 thousand (Euro 1,649 thousand as at December 31, 2016) related to the arrangement fee on the super senior revolving facility (see Note 27);
- Euro 1,789 thousand (Euro 1,115 thousand as of December 31, 2016), primarily related to costs of maintenance, AWP assistance and lease contracts and utilities, that have not yet accrued.

21. Current and non-current financial assets

Non-current financial assets, amounting to Euro 2,086 thousand (Euro 2,009 thousand as of December 31, 2016), are related to AWP deposits for contracts with segment operators.

The current financial assets consist of the following:

<i>Thousands of Euro</i>	31.03.2017	31.12.2016	Change
Escrow accounts and restricted deposits	16,778	16,785	(7)
Eonia Plus Pioneer Fund	0	0	0
Dedicated bank current account	87	72	15
Shares in former Società Fiorentina Corse Cavalli for exchange	1	1	0
Total Current financial assets	16,866	16,858	8

The escrow accounts and restricted deposits, totalling Euro 16,778 thousand, were opened by the Parent Company in order to manage the set off between the receivables from ADM under the Di Majo award, and the liabilities for wagers, due every 15 days (the so-called "former ASSI fifteen-days payments"). Such restricted bank accounts are unavailable pending the ADM's decisions after the judgement of the Milan Court of Appeal of November 21, 2013, which stated that the arbitration award issued on May 26, 2003 (known as "Di Majo Award") was void and ineffective.

Non-current financial assets, the dedicated bank current account, the escrow accounts and restricted deposits were not included in the Net Financial Position (see Note 38).

22. Cash and cash equivalents

The cash and cash equivalents are broken down as follows:

<i>Thousands of Euro</i>	31.03.2017	31.12.2016	Change
Current bank accounts	72,094	79,095	(7,001)
Postal deposits	1,094	2,016	(922)
Cash on hand	1,031	1,226	(195)
Cash and cash equivalents	74,219	82,337	(8,118)

The decrease in cash and cash equivalents for Euro 8,118 thousand is due, in particular, to the scheduling of the license fees (for further details see Note 38).

23. Shareholders' equity

Shareholders' equity of the Group at March 31, 2017 stood at Euro 120,744 thousand and includes a profit for the period of Euro 2,234 thousand.

In particular, shareholders' equity consists of the following items:

Share capital

The share capital of the Parent Company, SNAITECH S.p.A., as of March 31, 2017, entirely subscribed and fully paid up, amounted to Euro 97,982,245.40 (97,982,245.40 as of December 31, 2016), and is comprised of 188,427,395 ordinary shares (188,427,395 as of December 31, 2016).

The holders of ordinary shares are entitled to receive such dividends as are resolved upon from time to time and are entitled to cast one vote at the Company's meeting for each share they hold.

Number of shares authorised	188,427,395
Number of shares issued and fully paid up	188,427,395
Nominal value per share (in Euro)	0.52

All the shares issued are ordinary shares.

The subsidiary SNAI Rete Italia S.r.l. owns 70,624 shares of SNAITECH S.p.A. for a nominal value of Euro 36,724.48.

Reserves

Share premium reserve

The share premium reserve amounts to Euro 56,950 thousand. The share premium reserve, amounting to Euro 102.6 million (net of ancillary charges borne for the share capital increase and net of the tax effect), was created on November 19, 2015, after the acquisition of the Cogemat Group, which was for a total amount of Euro 140 million. In 2016, it was used for Euro 45,677 thousand in order to reduce to zero part of the losses of 2015.

Reserve for the re-measurement of employee termination indemnities (IAS 19)

The reserve for the re-measurement of employee termination indemnities (IAS 19), equal to Euro -1,027 thousand, relates the recognition of actuarial gains and losses.

Treasury share reserve

Treasury share reserve consists of the value of the shares SNAITECH S.p.A. owned by the former Finscom S.r.l. (now merged into SNAI Rete Italia S.r.l.) at the date when SNAITECH S.p.A. and SNAI Rete Italia S.r.l. acquired it.

Profit/(loss) carried forward

Profit (Loss) carried forward amounted to Euro 35,284 thousand with a change for the period totalling Euro 16,954 thousand due to the loss in 2016, which is still to be covered since, on March 31, 2017, coverage had not yet been resolved on by the Shareholders' Meeting.

Non-controlling interest

As of March 31, 2017, non-controlling interests show a zero balance, given that none of the subsidiaries consolidated on a line-by-line basis have non-controlling interest shareholders.

24. Other comprehensive income/(loss)

In the first quarter of 2017, there are no other items of the Comprehensive Income Statement whereas in the first quarter of 2016 they amounted to Euro 17 thousand, deriving from the designation at fair value of the Eonia Funds, sold on March 10, 2016.

25. Earnings per share

Basic earnings per share

The calculation of the basic earnings/loss per share as of March 31, 2017 was made taking into consideration the earnings attributable to the holders of ordinary shares, for Euro 2,234 thousand (December 31, 2016: loss of Euro 16,954 thousand) and the weighted average number of outstanding ordinary shares during the period ended March 31, 2017, equal to 188,356,771 shares (December 31, 2016: 188,356,771).

The amount was calculated as follows:

<i>Thousands of Euro</i>	31.03.2017	31.12.2016	31.03.2016
Profit (Loss) to be attributed to ordinary share holders = profit of the Group for the period (a)	2,234	(16,954)	1,608
Average weighted number of ordinary shares /1000 (b)	188,356.77	188,356.77	188,356.77
Basic earnings/(loss) per share (a/b) in unit of Euro	0.01	(0.09)	0.01

Diluted earnings/(loss) per share

The diluted earnings/(loss) per share is equal to the basic earnings/(loss) per share, given that no financial instruments with potentially dilutive effects have been issued.

26. Employee termination indemnities

The Employee termination indemnities as of March 31, 2017 amounted to Euro 7,650 thousand against Euro 8,089 thousand as of December 31, 2016.

The following table shows the movements therein:

<i>Thousands of Euro</i>	
Balance as of January 1, 2017	8,089
Accruals	23
Utilisation	(485)
Financial expenses	23
Balance as of March 31, 2017	7,650

Employee termination indemnities are considered to be defined-benefit plans and are accounted for in accordance with IAS 19 – Employees benefits, applying the projected unit credit method, which consists of estimating the amount to be paid to each employee at the time they leave the company, and discounting that liability to current value on the basis of an assumption as to the timing of their resignation calculated using actuarial methods.

27. Financial liabilities

The financial liabilities are comprised of the following:

<i>Thousands of Euro</i>	31.03.2017	31.12.2016	Change
Non-current financial liabilities			
Bond loan	557,624	557,115	509
Due to financial leasing	247	299	(52)
Total Other non-current liabilities	557,871	557,414	457
Current financial liabilities			
Due to financial leasing	279	309	(30)
Due for interest on bond loans	10,370	5,352	5,018
Due to banks	135	141	(6)
Due to “Betting Acceptance Points” for the purchase of horse race and sports concessions business units	32	32	0
Total Current financial liabilities	10,816	5,834	4,982

The financial liabilities include:

- The bond loans stipulated on November 7, 2016 (described in the following paragraphs) are recorded at amortised cost for a total of Euro 557,624 thousand (nominal value of Euro 570,000 thousand), and stated net of direct ancillary charges. These ancillary charges, standing originally at Euro 13,148 thousand, included the

professional fees related to the issuing and the listing of the bond issues in addition to the amount of the issue discount. The amount reversed to income statement as at March 31, 2017 amounted to Euro 509 thousand.

- Financial liabilities for financial lease contracts, totalling Euro 526 thousand, mainly relate to technology for use in betting acceptance points and for the disaster recovery of the Company, described in greater detail in Note 14, "Property, plant and equipment".

There are no non-current financial payables being due after 5 years.

On November 7, 2016, SNAITECH S.p.A. – within the scope of the refinancing of its debt - issued two bond loans for a total of Euro 570,000 thousand with the following characteristics:

- Euro 320,000 thousand at an issue price equal to 100% with six month coupon equal to 6.375% per year and denominated as Senior Secured Notes with maturity on November 7, 2021;
- Euro 250,000 thousand at an issue price equal to 99% with three month coupon equal to 6.00% per year + 3 month Euribor (with floor at 0%) and denominated as Senior Secured Floating Rate Notes with maturity on November 7, 2021.

Bonds were initially subscribed by Deutsche Bank AG London Branch, Unicredit Bank AG, Goldman Sachs International and BNP Paribas pursuant to a purchase contract signed on the same date with SNAITECH S.p.A., and were then placed exclusively with institutional and professional investors. Procedures were later started and are now completed for the listing of the bonds on the Euro MTF market organised and managed by the Luxembourg Stock Exchange.

Still within the scope of a larger refinancing operation, and replacing the previous revolving facility agreement amounting to Euro 55,000 thousand, on October 26, 2016 SNAITECH S.p.A. subscribed, as a receiving party, a new Super Senior Revolving Facility agreement for a total of Euro 85,000 thousand with Deutsche Bank AG London Branch, Unicredit SPA, Goldman Sachs International and BNP Paribas and with UniCredit Bank AG, Milan Branch, in the capacity as agent and security agent. As of March 31, 2017, the Super Senior Revolving Facility loan has not been used.

The bond loans and the Super Senior Revolving Facility loan are also backed, inter alia, by a pledge on SNAITECH S.p.A. shares, issued by the majority shareholder of the Company. The related security agreement between the Company and the majority shareholder received a favourable opinion from the SNAITECH S.p.A. Related Party Committee.

In addition, the bond loans contain early settlement provisions. One option of early settlement can be configured as an embedded derivative and as such, it must be separated in the financial statements from the debt to which it refers unless it can be defined as "closely related" to the debt itself. The Company has proceeded to designate the fair value of the options that are deemed separable and have a null value at March 31, 2017.

A summary of bonds and credit facilities is shown in the following table:

thousands of Euro

Financial liabilities	Loan amount	Term	Interest period	Maturity	Repayment method	Date	Amount
Senior Secured Notes	320,000	5 years	6 months	07.11.2021	Bullet	07.11.2016	320,000
Senior Secured Floating Rate Notes	250,000	5 years	3 months	07.11.2021	Bullet	07.11.2016	250,000
Super Senior Revolving Facility	85,000		1, 3 or 6 months	07.08.2021	Each loan must be repaid on the last day of the Interest Period. During the availability period, the amounts repaid may be reused.		-
Total	655,000				Total Amount disbursed as of March 31, 2017		570,000

As regards information on covenants in place on Loan Agreements, reference is made to Note 38.1.

28. Provisions for risks and charges, pending litigations and potential liabilities

The SNAITECH Group is involved in proceedings before civil and administrative courts, and other legal actions, connected with its ordinary course of business. On the basis of the information currently available, and taking into consideration the existing provisions for risks, the SNAITECH Group considers that those proceedings and actions will not result in any material adverse effects upon the consolidated financial statements.

All the provisions were subject to a review and estimate by the Board of Directors based on the information available at the date of preparation of these financial statements and supported by updated legal opinions from independent professionals. These provisions are believed, as a whole, to be adequate to the risks and charges that the Group is reasonably expected to effectively address.

As of March 31, 2017, the provisions for risks and charges amounted to Euro 22,130 thousand. Details of the amounts, and changes thereto, are set forth in the following table:

<i>Thousands of Euro</i>	Provisions for technological renewal	Provisions for tax disputes, litigations, contractual risks and other	Total
Balance as at December 31, 2016	2,297	27,874	30,171
Accrual for the period	252	49	301
Utilisation for the period	0	(8,342)	(8,342)
Balance as at March 31, 2017	2,549	19,581	22,130

Provisions for technological renewal

The provision for technological renewals consists of periodical allocations for technological upgrading, as provided for by the concession agreement for the construction and running of networks for the on-line management of legal gaming via gaming machines, in accordance with Art. 110, par. 6, of the T.U.L.P.S. [Consolidated Text of Public Safety Laws], as per the Royal Decree no. 773 of June 18, 1931 as amended and supplemented.

Provisions for tax disputes, litigations and contractual risks

The provision for tax disputes, litigations and contractual risks includes the overall estimated amount required to address risks in the settlement of disputes and relationships with third parties, also regarding taxes, duties and social security issues, in the amount of Euro 22,130 thousand.

The provisions for the period, amounting to Euro 49 thousand, refer to errors in reporting the wagers.

The utilisations for the period for Euro 8,342 thousand refer, for Euro 7,646 thousand to the transactions with independent personnel (including related legal expenses) and the amicable settlement of a civil lawsuit; for Euro 585 thousand, to the charges related to the sale of business units and the closure of shops of the company SNAI Rete Italia S.r.l.; and for Euro 111 thousand to other utilisations.

The following section will provide a summary of the most significant proceedings; unless indicated otherwise, no provisions have been made in relation to the disputes described below for which SNAITECH Group considers an unfavourable outcome in the proceedings to be simply possible (namely, not probable) or where the amount of such a provision cannot be reliably estimated.

ADMINISTRATIVE DISPUTE

Ruling on reporting procedures initiated by the Substitute Prosecutor before the Court of Auditors and consequent accounting-related judgement

1) Ruling on reporting procedures and accounting-related judgement

a. The object of the proceeding is the assessment of the mandatory disclosure of the accounts related to concession holders of the legal gaming through AWP's and VLT's.

In April 2010, the Regional Public Prosecutor of the Court of Auditors, presuming the qualification of the "accounting agents" of the Concession holders, notified SNAITECH and Cogetech (merged by incorporation into SNAITECH on November 1, 2016) and other gaming concession holders about a claim under article 46 of Royal Decree no. 1214/1934, and a concurrent motion under article 41 of Royal Decree 1038/1933, for the formation of the official account, on the basis of an alleged failure to present a "court account" in respect to the cash flows arising from the management of gaming activities, as network concession holder.

Following the hearings held and the documentation filed, the Company was acquitted with judgements no. 2186/2010 and 11891/2012.

The District Prosecutor notified the Company about appealing against these judgement.

Similarly to the case of other concession holders, with judgement no. 5/2914 and 948/2014, the Court of Accounts, Central Appeal section, confirmed the existence of an accounting breach reported by the Prosecutor, although substantially reducing the respective penalties by hundreds of millions of Euro, respectively to Euro 5,000 for

SNAITECH and Euro 4,000 for Cogetech. Both Companies, agreeing with the correct calculation of the claim, have duly paid the above amounts.

The updating is however supplied for sake of clarity, also in view of the strict connection between the above-mentioned judgement and the accounting-related judgement described hereunder.

b. The object of the judgement is the audit on the correct contents of the accounts submitted by concession holders of legal gaming through AWP and VLTs.

In addition to the Ruling on reporting procedures, in 2012, the Accounting-related Judgement proceeding was initiated to verify the regularity of the accounts submitted by the concession holders, including SNAITECH and Cogetech (merged by incorporation on November 1, 2016). The judgement, still pending before the Court of Auditors, concerns the alleged non-endorsement of judicial accounts for the years 2004/2009 (the endorsement is made by the Court of Auditors through the reporting subject, and consists in an audit, both formal and on accounts, of items reported in the statements transmitted to the Administration).

In first instance, the Lazio Court of Auditors' Jurisdictional Section, with the respective decisions stated that the accounts-related judgements was ineffective and its decision was transmitted to the Regional Prosecutor for assessing any possible administrative liabilities.

SNAITECH and Cogetech have both appealed the judgements rendered by the Court of Auditors.

The Appeal section of the Court of Auditors, with the respective judgements no. 304/2015 and 373/2015, cancelled the previous objected decisions deeming that the case could not be concluded with an accounting-related judgement indicating the impossibility of bringing further proceedings without performing first a detailed audit of the reporting filed for the case. Therefore, the Section of Appeal of the Court of Auditors, with appropriate judgement, ordered the Lazio Regional Section to review the audit in order to reach a final decision whether to discharge or not from the accounts the items that were not equivalent (the related amount is unavailable). Upon order of the Section of Appeal of the Court, all documents related to judicial reporting, already returned to ADM, were retransmitted to the Lazio Regional Section.

The appeals being exhausted, the case continued before the Lazio Regional Section of the Court. The case is awaiting the judicial proceeding acts from the Public Prosecutor.

For this reason, the risk of a negative outcome, already deemed as remote by the respective concession holders' legal advisers, can be described as clearly remote, at the moment. In keeping with that conclusion, the Directors have recognised a provision only for the estimated legal costs of the technical defence.

2) Proceedings for revocation/expiry of certain rights awarded upon the conclusion of the Bersani Tender Procedure

Appeals lodged against no. 108 proceedings, notified by ADM, revoking authorisations and consequently forfeiting the related licenses due to the non-activation or unauthorised suspension of the gaming activities. The proceedings have not yet been settled, except for the objections, related to 4 licences that were rejected with no possible appeal. However, with regards to 6 proceedings, a notice was received informing that they will be discontinued if SNAI does not confirm its willingness to reach a settlement.

SNAI considered that it is no longer interested in settling these cases, as well as the remaining proceedings as the Company has already entirely discounted the related financial effects, also given the expiration of the securities involved.

In light of the above, we are awaiting until all the above-mentioned proceedings are formally concluded

3) Proceedings for revocation/forfeiture of no. 27 betting licenses

SNAITECH has appealed, with a request for stay of execution, before the Regional Administrative Court, the provisions notified by ADM, about no. 27 licenses for wager collection, due to the interruption of the collection by the concession holders, for a number of days exceeding the number allowed pursuant to the concession agreements (April 26, 2017).

With a Court Order of April 27, 2017, the Regional Administrative Court has rejected the request for cautionary measure, reserving its decision for the final judgement. An appeal with the Council of State, against this rejection order, is being filed.

4) Disputes related to the betting business: Guaranteed minimum amount/services.

It should be noted that SNAITECH, Cogetech S.p.A. and Cogetech Gaming s.r.l. (merged by incorporation into SNAITECH) have received from ADM several notices for reduced activities by some horse racing and sports concession holders in the period 2007-2013. In particular, the amounts required, in order to supplement the annual minimum guaranteed, amounted to Euro 25,529 thousand for SNAITECH, Euro 59 thousand for Cogetech S.p.A. and Euro 2,988 thousand for Cogetech Gaming s.r.l.

The Companies, through their consultants, have promptly challenged the acts received annually and have obtained their suspension.

Through judgement no. 1054, filed on January 30, 2013, the Lazio Court's second section accepted the Companies' arguments concerning alleged breach of the Italian Constitution by the provisions of Law Decree no. 16/2012; ordered to uphold the judgement, and passed the matter onto the Constitutional Court. At the same time, the Court rejected the original proceedings, related to the initial notices of January 2012, for lack of standing in the lawsuit.

For the entire duration of the proceedings before the Constitutional Court, the suspension of the proceedings continued to stand, to the benefit of SNAITECH, preventing ADM from enforcing the objected requests. The hearing before the Court was held on October 8, 2013 and the decision was upheld.

With judgement no. 275 of November 20, 2013, the Constitutional Court claimed the inconsistency with the Italian Constitution of Art. 10, par. 5, lett. b) of the Law Decree no. 16/2012 as regards the wording "not higher than 5 per cent".

The above wording is therefore cancelled which limited the settlement of pending cases on guaranteed minimum amounts, with a discount that should have remained "not higher than 5 per cent".

On June 6, 2013, SNAI was served with 98 payment claims regarding guaranteed minimum amounts related to 2012, for a total amount of Euro 3,328,018.72. As for previous notices, SNAI objected such notices before the Lazio Regional Administrative Court, asking for their cancellation.

At its hearing on June 6, 2014, the Second Section of the Lazio Regional Administrative Court upheld the decision for both cases.

With judgement no. 7323/14 of July 10, 2014 and no. 8144/14 of July 24, 2014 - featuring the same content - the competent Court, while acknowledging the unconstitutionality of Art. 10, paragraph 5, letter b) of the Law Decree no. 16/2012, cancelled the payment orders of the guaranteed minimum amounts related to years 2006-2012, which calculated an unreasonable "fair discount" of only 5%.

ADM filed no appeal and no payment claims were made by ADM for the years after 2012, also by reason of the fact that concessions, to which the guaranteed minimum amounts are related, have expired and have been replaced by new concession holders who are not related to ADM.

The Group, supported by the advice of its legal advisers, considers that the risk of an unfavourable outcome for the Company is currently remote.

At the hearing of December 5, 2012, the judgement on the case was upheld. With court order no. 1058/2013 of January 30, 2013, the Lazio Regional Administrative Court, second section, upheld the Company's arguments concerning alleged breach of the Italian Constitution. The proceeding was therefore suspended and the deeds were submitted to the Constitutional Court. With judgement no. 275 of November 18, 2013, the Constitutional Court assessed the constitutional breach of Art. 10, par. 5, letter b), of the Law Decree dated March 2, 2012, no. 16. At the hearing of June 4, 2014, the judgement on the case was reserved. With judgement no. 7324/2014, lodged on last July 10, the Lazio Regional Administrative Court cancelled all payment requests of the horse racing minimum guaranteed amounts for the 2006/2011 period. Meanwhile, the requests of the guaranteed minimum amounts for the year 2012, notified on June 14, 2013 (Euro 300,000.00), were objected. To date, the hearing on discussion has not yet been fixed.

However, after this notice, the Art. 10, par. 5 of the Leg. Decree no. 16/2012 was declared partly not compliant with the Constitution and therefore no collection order was executed or new payment request was made to date by the administration body.

5) Stability Law, Art. 1, par. 649 Law 190/2015 and ADM Decree of January 15, 2015

The 2015 Stability Law included the obligation of the Group to pay, on a proportional basis, the Stability Tax, the proportional share of which was quantified by the directorial execution order implementing article 1, paragraph 643, letter l) of the Stability law 2015 issued by ADM (the "ADM decree"). Pursuant to the 2015 Stability Law and the ADM Decree, the concession holders of VLTs and AWP are responsible for the payment of the entire amount of the Stability Tax related to VLTs and AWP under concession license, regardless of the fact that these machines are managed directly by the concession holder.

Pursuant to the ADM Decree, the amount of the Stability Tax due by the former SNAI Group for 2015 was determined, on a pro-rata basis, for an amount of Euro 37.8 million to be paid in two instalments: 40% of the total by April 30, 2015 and the remaining 60% by October 31, 2015, whereas for the former COGETECH Euro 47.04 million is also to be paid according to the above described methods applicable to Snai. Pursuant to the requirements set out by the 2015 Stability Law and the ADM Decree, (i) both companies have required their partners to pay their share of the Stability Tax proportionally to the number of VLTs and AWP managed upon concession licenses and (ii) have tried to renegotiate the terms and conditions of the agreements that govern its trade relations in order to include some of the technical changes set forth by the 2015 Stability Law.

In February 2015 (jointly with the other concession holders of VLTs and AWP) both companies appealed against the ADM Decree before the Lazio Regional Administrative Court with a concurrent request for suspension and referral to the judgement of the Constitutional Court.

With separate Court Orders, dated October 22, 2015, the precautionary motions were rejected and the judgement on the case was upheld.

Both rejection orders were appealed with the State Council which, on its part, rejected the proposed precautionary motions.

With separate court order dated December 16, 2015, the Lazio Regional Administrative Court submitted to the Council the issue of breach of the Italian Constitution by Art. 1, par. 649 of Law no. 190/2014., with respect to Art. 3 and 41, par. 1 of the Constitution, while accepting the defence objections that highlighted the lack of proportion and reasonableness of the reduction in remunerations, thought to guarantee the Inland Tax Office a fixed amount from profits made by the segment of legal gaming through gaming machines, regardless of the actual performance of wagers. Both companies appeared and filed their defence deeds.

Pending scheduling of the public hearings, in the meantime any judgement rendered by the Lazio Regional Administrative Court are suspended.

The related risk of a possible negative outcome can be deemed as possible, with a possible confirmation of the structure set out by the regulation in force. Further details thereof is provided in Note 19 (Trade receivables).

6) SNAITECH – other party - vs. A.G.C.A.I, and others

With 6 separate claims, the A.G.C.A.I. association, – representative of the AWP concession holders – has summoned before the Lazio Regional Administrative Court and the President of the Republic, both companies (former SNAI and former Cogetech).

The plaintiffs claim that notes should be declared null and void, while suspending their enforceability pending the final decision. With the aforesaid notes, Concession holders of the on-line network of gaming machines with winnings in money ordered the Operators of AWP gaming machines to pay the related contribution to the additional charge, introduced by Art. 1, par. 649, Law no. 190/2014 for the reduction of the fees of the gaming machine industry.

Following a hearing held in chambers for the first appeals, the competent authority rendered a judgement declaring the appeals to be late for the part referring to the ADM Directorate Decree dated January 15, 2015 and non-admissible for contested jurisdiction, in the part challenging the order of payment for the recovery of the taxes on fees under the Stability Law 2015.

The judgements are now res judicata as regards the jurisdiction, whereas according to the rules about the impossibility for further proceedings of the appeal, the deadline for filing the appeal is May 14, 2017.

For the motions notified subsequently, the scheduling of the hearings is pending for both companies.

Finally, for the motions filed with the President of the Republic, which always have the same petitem, both companies have notified their opposition to an extraordinary motion; from the time the notification was received, the 60 (sixty) days started to lapse. This time is granted to the petitioners in order to transpose the judgement before the Lazio Regional Administrative Court. To date, no notice about the transposition deed within the above terms has been received.

7) RO.MA. S.r.l and other operators

With appeal deposited before the Lazio Regional Administrative Court (TAR), RO.MA. S.r.l. (together with other 33 operators of the legal gaming segment) objected - without submitting a suspension request - some administrative deeds issued by the ADM in execution of Art. 1, par. 918, 922 and 943 of Law no. 208 of December 28, 2015, as well as the above-mentioned primary rules with respect to their contents, while asking the Judge to cancel them and/or declare their incompatibility with the Italian Constitution and European Regulations.

The objected measures concern the rules on legal gaming through AWP's included in the 2016 Stability law (with main focus on the creation of the so-called "substitute approval", i.e. rights to legally use AWP's in legal gaming. These approvals can be asked for and obtained only in replacement of an already owned approval, without increasing the overall number of machines). With regards to these rules, the claimants express various issues of illegality, also against principles set out by the Constitution and the European Community. The objected measures also concern the higher PREU rate increased to 17.5% of wagers through AWP's, with possibility to reduce the payout to players to 70% of the total.

With the legal help of their attorneys, SNAITECH and COGETECH will appear in Court to support the contested regulation, albeit it is well aware that (i) the claimants did not ask for defence on an interim basis (ii) the hearing on the merits has not been fixed yet and (iii) the contested measures have been executed and/or are being executed by the concession holders and other operators of the segment.

Subsequently, both companies received notice, submitted by the petitioners, to supplement the original objection, after receiving the ADM's circular letter dated April 12, 2016. Therefore, the Company has now submitted the request for suspension on an interim basis. On July 06, 2016 the Council met to discuss on the issues and, after this meeting, the Second Section of the Lazio TAR deemed it appropriate not to render a decision on the request of suspension, and fixed only the public hearing for the discussion on the merits on February 22, 2017. At this hearing, the Second Section of the Lazio Regional Administrative Court has upheld the decision.

With judgement no. 3729/2017 of March 21, 2017, the Lazio Regional Administrative Court rejected the motion filed by the concession holders regarding the legal fees.

8) 2011 quotes - shared premises

With notice dated June 21, 2012, ADM required the concession holders to pay, on a prorata basis according to the number of gaming machines that they were formally managing, the amount of Euro 300 for the machines that, at completion of the survey (related to the period from January to August 2011), were exceeding in number with respect to the law on applicable quotas. ADM has quantified and informed Cogetech about the total amount to pay, i.e. approximately Euro 2 million, whereas SNAI must pay approximately Euro 1.835 million.

SNAI, following a request for correcting the identified anomalies and concurrent invalidation thereof, has allocated to the appropriate provision Euro 1,470 million.

After the access to records and out of Court correspondence with the Administration, the latter expressed its requests once again with notice dated August 5, 2013. The above-mentioned deed was challenged by both companies before the Lazio Regional Administrative Court and we are awaiting the dates to be set for the hearing.

It is worth noting that further investigation was carried out by the ADM concerning any breach of the law on quotas after August 2011 and that with the ADM notice of July 11, 2014, the Lombardy Local Directory required the payment, by Cogetech, of Euro 273,000 for the non-payment of the amount as provided for by Art. 1, par. 81, lett. d) of Law 220/2010, always in relation to the period from January to August 2011. Against the above ADM judgement, an appeal was filed, pending scheduling of the hearing.

The risk of an unfavourable outcome can be deemed as merely possible, taking account of the investigation performed by ADM and the novelty of the issue.

9) Consistency assessments of the gaming systems and VLT gaming machines – amount related to the 2013-2015 three-year period and to the year 2016

a. With notice no. 60241 and 60192 of June 23, 2016, ("ADM Note of June 23, 2016"), ADM - Gaming Machines Office - asked SNAI and Cogetech (now SNAITECH) to pay respectively Euro 271,446.97 and 438,716.93 to cover costs for the consistency assessments on gaming systems and VLT gaming machines performed by the technological partner

SOGEI S.p.A. in the three-year period from March 20, 2013 to December 31, 2015, in relation to which ADM made annual prepayments in favour of SOGEI S.p.A..

After accessing the records, the companies requested a review of the determination of the concession fees. The Administration communicated the non-acceptance of the formulated findings thus confirming the due amounts of Euro 271,446.97 for SNAI and partially rectifying the amount requested from Cogetech to Euro 370,609.10 and inviting the companies to make the payment within 15 days from receiving the note. The objection against this measure was submitted to the Head of the State and, in the meantime, the payment was made with reserve. The petition is pending definition.

b. With notice no. 36293 of April 3, 2017, ADM - Gaming Machines Office - requested SNAITECH to pay Euro 283,945.07 to cover costs for the consistency assessments on gaming systems and VLT gaming machines performed by the technological partner SOGEI S.p.A. in 2016, in relation to which ADM has made annual prepayments in favour of SOGEI S.p.A..

The Company will file a petition within the legal terms, with the Lazio Regional Administrative Court requesting the invalidation of the provision.

10) Lodo di Majo (Di Majo Award)

At the end of the 1990's, a dispute arose between various betting acceptance points and the Finance and Agriculture Ministries, regarding supposed delays and breaches by those Ministries.

The matter was first concluded in 2003, with the "Di Majo Award", in 2003, under which an Arbitration Panel, chaired by Prof Di Majo, and called to resolve the dispute, found that the Ministries were liable and ordered them to compensate the concession holders.

The compensation awarded to SNAI by June 30, 2006, would be on the order of Euro 2,498 thousand.

The compensation for the following years has not yet been determined in its entirety.

The defeated Ministries filed an appeal against that decision before the Rome Court of Appeal.

In addition to those legal events, on June 22, 2010 AssoSNAI (Association of the category of concessionaires) sent ADM a memorandum in which it proposed a hypothetical settlement of the dispute consisting in: 1) offsetting the horseracing concessionaires accounts receivable from those Ministries against the horseracing concessionaires' accounts payable to ADM (with an express waiver of the interest accrued on those accounts receivable, of monetary revaluation and of the enforcement actions initiated) and 2) the abandonment by said Ministries of the trial before the Rome Court of Appeal.

ADM addressed a formal legal query to the State Attorney General regarding the memoranda sent by AssoSNAI and informed AssoSNAI that the State Attorney General confirmed the admissibility of the proposed settlement of the dispute.

To date, the settlement agreement has not yet been signed.

Offsetting of the accounts receivable from the Di Majo Award has already been authorised by a decree issued by ADM in any case, and SNAI has arranged for such offsetting in the amount of Euro 2,498 thousand regarding the receivables directly attributable to SNAI as concession holder.

Based on the above authorisation for offset, some subjects who are no longer concession holders, assigned their receivables resulting from the Di Majo Award to SNAI which provided for the offsetting of the entire amount of receivables acquired, in the amount of Euro 19,065 thousand. The consideration paid for these receivables has been temporarily put into escrow accounts awaiting the pronouncement of the Court of Appeal of Rome, or, in any case of the final decision.

With judgement no. 2626 of November 21, 2013, the Court of Appeal in Rome declared that the Di Majo Award was void for contested jurisdiction, i.e. the Arbitration Panel decided upon matters not consistent with its competence.

SNAI appealed (service on May 21, 2014 and submission to the Supreme Court (Cassation) thereafter on June 10).

To date, we are awaiting the dates to be set for the hearing about the appeal.

11) Allegations by the ADM regional offices related to the 2006 PREU

This dispute regards 41 allegations issued by the Regional Offices of ADM, which report the meter readings for gaming machines (AWP), pursuant to article 110, paragraph 6 a, of the Italian law "TULPS" (AWP) from which the differences versus the payments made by the concession holder for each machine are calculated.

The aggregate amount of Penalties and PREU claimed is Euro 786,876.85 (Euro 193,427.76 in penalties and Euro 593,449.09 in PREU) plus interest.

SNAITECH has filed an appeal with the appropriate Provincial Tax Commission (CTP) against the assessment notices resulting from the complaints, with an initial petition to suspend the enforceability of the challenged assessment notice.

Only 15 proceedings out of the above are still pending before the Supreme Court of Cassation by effect of the objections submitted by ADM against the judgements of the Regional Tax Commission, which confirmed the judgement in first instance thus rejecting ADM's requests. SNAITECH has appeared before the Court of Cassation and is awaiting for the hearing to be scheduled.

The remaining cases were concluded as follows i) with a cancellation order as a form of self-remedy or cessation of the existence of dispute, ii) with orders rejecting the motions filed by the Company *res judicata*, iii) in one case, with a ruling of acceptance of the motion filed by the Company *res judicata*.

In the opinion of the legal consultants, the risk of an unfavourable outcome can be deemed as possible whenever judgements in the first and second instance and Cassation are pending.

12) Allegations by the ADM regional offices related to the 2007 PREU

This dispute regards 12 allegations issued by the Regional Offices of ADM, which report the meter readings for gaming machines (AWP), pursuant to article 110, paragraph 6a, of the Italian law "TULPS". (AWP) from which the differences versus the payments made by the concession holder for each machine are calculated.

The aggregate amount of penalties and PREU claimed is Euro 82,101.58 (Euro 49,683.24 in penalties and Euro 32,418.34 in PREU) plus interest.

SNAITECH has filed an appeal with the appropriate Provincial Tax Commission against the assessment notices resulting from the complaints, with an initial petition to suspend the enforceability of the challenged assessment notice.

Of all the proceedings active to date, there are only 7 pending before the Regional Tax Commission following an appeal filed by ADM against the rulings of acceptance of the motions filed by the Company.

Of the remaining cases, some were dismissed or closed, others were closed with rulings of acceptance of the motions filed by the Company *res judicata*.

In the opinion of the legal consultants, the risk of an unfavourable outcome can be deemed as possible whenever judgements in the first and second instance and Cassation are pending.

13) Allegations by the ADM regional offices related to the 2008 PREU

This dispute regards eight notices and/or assessment notices issued by the regional offices of ADM, which report the meter readings for gaming machines (AWP), pursuant to article 110, paragraph 6 a, of the Italian law "TULPS" (AWP) from which the differences versus the payments made by the concession holder for each machine are calculated.

Out of the disputes still active to date, 6 are pending before the CTP following an appeal filed by the Company against the assessment notice and before the CTR following an appeal filed by the Company against the rulings rejecting the motions.

The remaining cases were closed due to statute of limitations, since the ADM has not served assessment notices following the claims.

In the opinion of the legal consultants, the risk of an unfavourable outcome can be deemed as possible whenever judgements in the first and second instance and Cassation are pending.

14) Notices served by Regional Offices - installations in excess number

This relates to 171 notices served by various regional offices of ADM, in which ADM contested the installation of a number of AWP's exceeding the limits imposed by the Departmental Decree 2011/30011/giochi/UD. The amount involved is based on the possibility of making a reduced payment and it is not yet determinable. SNAITECH, following evaluation of the single position, has paid in some cases the penalty in a reduced amount, while in other cases has filed defence briefs following which some claims were closed while for others a response from ADM is pending.

The risk of an unfavourable outcome can be deemed as possible when we are awaiting a reply by ADM to the documents deposited by SNAI, or remote when ADM issued a decision for cancellation as a form of self-remedy (and setting aside).

15) ADM notices dated February 11, 2014 regarding the Bersani Concession Conventions no. 4304 and 4011 (Lazio Regional Administrative Court)

With 8 notices dated February 11, 2014, ADM required Cogetech (now SNAITECH) to pay the total amount, including interest and penalties, of Euro 90,272.17 for the late weekly settlements related to Bersani concessions under discussion. The appeal was filed.

On May 9, 2014, 5 notices were sent in which ADM required Cogetech to pay penalties for the late weekly settlements in the months of April, July and September 2010, for a total amount of Euro 13,413.17. The appeal was prepared.

On June 26, 2014, 4 notices were sent to Cogetech in which ADM required Cogetech to pay penalties for the late weekly settlements in the months of March 2009, May, August and October 2010 and January 2011, for an amount of approximately 25,000.00, plus interest. The appeal was prepared, and a new hearing has to be set.

On September 25, 2014, further eight notices were sent, for an amount of around Euro 23,000.00, for the late weekly settlements of the Bersani concessions for the year 2011 (October, April, May and September). The Company prepared and filed an appeal against these orders. A new hearing has to be set.

While scheduling the hearing on the merits, the ADM of Brescia sent a notice for collection of the guarantee for the amounts due. These notices were immediately suspended by the same territorial ADM that had sent them, according to the opinion expressed by ADM general management by reason of the objection in place.

16) Deviation in the payout of winnings of VLTs "Book of Ra"

With notice 0000578/2016, dated May 12, 2016, ADM - Central Direction of Tax Management and Monopoly of Games, reported that a specific game, named "Book of Ra", included in the VLT gaming machines offered to the public by Cogetech (now SNAITECH) is alleged to have paid out winnings lower than the values (expressed in percentage on the volumes of games) pre-determined during final tests by SO.GE.I. S.p.A. This case, if finally assessed, in the opinion of ADM would have entailed the obligation for SNAITECH to pay out the (theoretically) exceeding amount retained from the gaming machines VLT, quantified in Euro 2,643,032.72, pursuant to the relevant contractual provision through a temporary provision in the form of a security deposit at the Treasury of State.

Together with other Concession holders involved in claims similar to those included in the ADM Notice of May 12, 2016, SNAITECH requested and obtained a technical assessment in the presence of ADM, aimed at defining the modalities to determine and measure wagers both theoretical and actually reported with respect to the VLT gaming machine in question.

Following meetings, round tables and most of all in-depth analyses, ADM, which had already suspended the term for the security deposit, with note 26778 of 8/3/2017, communicated to SNAITECH that, following empirical analyses of the way the game works, deemed its functioning correct and therefore eliminated the obligation of the concession holder to pay a security deposit.

17) AAMS Notice of October 17, 2013 on the interruption of the expiration of notices no. 95279-95280- 95281-95282 of October 14, 2013.

AAMS asked the Company Cogetech Gaming (now SNAITECH) S.r.l. for the payment of Euro 293,469.45, with added interest, as penalty envisaged by the Concession convention no. 4052, by reason of the late payment of the amounts due. The penalty is equal to 5% of the amounts due for each day of delay. Briefs with request of cancellation were filed. The appeal was deposited, and a new hearing has to be set.

On September 25, 2014, 3 notices were served by ADM requesting a payment of about Euro 9,000 as penalty for the late payment of the amounts due in relation to the concession agreement, pertaining to the July 2011 period. The related appeals were prepared and submitted. A new hearing has to be set. On July 13, ADM Milan asked the Company SNAITECH to pay the amounts related to the notices already served (including amounts notified to the Company) within 30 days from the date of the notice. If not, the guarantee will be collected. Against this notice, the Company filed a self-defensive claim for the cancellation/revocation of the proceeding and prepared, and deposited before the TAR, an appeal against the above within the deadlines defined by law. While fixing the hearing on the merits, the ADM of Brescia sent a notice for collection of the guarantee for the amounts due. These notices were immediately suspended by the same territorial ADM that had sent them, according to the opinion expressed by ADM general management by reason of the objection in place.

In the opinion of the legal advisers, the risk of an unfavourable outcome is merely possible (albeit limited in the amount).

18) ADM and SNAITECH S.p.A./A.GISCO.

A judgement from the Lazio Regional Administrative Court of March 29, 2017, was notified to SNAITECH on April 27, 2017, in its capacity as the other party. By this judgement the ruling body, upon request from the AGISCO association, deemed that ADM is holding the power to authorise the agreement negotiated with AGISCO, pursuant to article 15 of the agreement ("Monti tender") and that ADM must communicate to AGISCO whether and when it has exercised its control powers on the agreements executed by some of SNAI's associates.

The Company has already authorised the appeal thereof.

CIVIL LAWSUITS

1) Claim filed by SNAITECH against: Lottomatica Scemme S.r.l.; Boss Media AB; GTECH S.p.A.; contract expert (Court of Rome)

The judgement is pending before the Court of Rome on the contract concerning the circuit platform, called "Pokerclub", from which the players of Cogetech had been suddenly excluded. The action, undertaken by SNAITECH in May 2013, is aimed at obtaining the recognition (i) of the termination by right of the contract; (ii) of the liability of Boss Media AB (supplier of the software) and related termination of the contract; (iii) of the breach by Lottomatica Scemme e/o Boss Media AB e/o Gtech S.p.A., and therefore (iv) it is aimed at ordering the summoned companies to pay damages in favour of SNAITECH (preliminarily determined at around Euro 10 million).

The companies that were summoned appeared before the Court in due time and objected to the claims of SNAITECH.

Moreover, Lottomatica Scemme had submitted a cross-claim while asking for an assessment of the termination of the contract (occurring on March 28, 2013) through and by the fault of SNAITECH, as well as the order for the latter to pay damages for around Euro 3 million, which would be incurred by Lottomatica Scemme due to alleged breaches to the contract by SNAITECH, mainly due to illegal recruitment of players on the circuit platform named "Pokerclub" and payments to players of bonuses higher than the network rules, always for the purpose of the aforesaid illegal actions.

Gtech had also submitted a cross-claim and asked the Court to order SNAITECH to pay damages amounting to Euro 50,000.00.

Lastly, Boss media AB had submitted a cross-claim while asking for an assessment of the termination of the software license contract which occurred at the same time as the termination of the SNAITECH/Lottomatica Scemme contract.

With judgement no. 4244/2017 of February 28, 2017, the Court of Rome: (i) rejected all petitions filed by SNAITECH and by LOTTOMATICA SCOMMESSE S.R.L. (ii) sentenced SNAITECH to pay to the contract expert, GTECH Sweden Interactive AB and GTECH SPA, the legal costs in the amount of € 16,500.00 in addition to general costs, VAT and CPA, pursuant to the law, for each of these parties; (iii) divided the legal fees between SNAITECH and LOTTOMATICA SCOMMESSE S.R.L. and sentenced SNAITECH S.P.A. to pay to LOTTOMATICA SCOMMESSE S.R.L. the remaining part of € 11,850.00 in addition to general expenses, VAT and CPA, pursuant to the law; (iv) declared completely compensated all legal fees pertaining to the contract expert and the insurance company.

The Company is evaluating whether to file an appeal against the judgement in order to request the annulment of the part of the ruling containing the rejection of the requests submitted by SNAITECH.

2) Claim filed by Prestige Potenza S.r.l.s. and Prestige Barbera S.r.l.s.

Following the sale, by SNAITECH (formerly Cogetech Gaming) of the business units related to the agencies located in Turin, respectively in Corso Potenza and Via Barbera, the Company holding concession licenses did not fulfil the obligations set forth in the respective contracts, since they did not carry out all the activities that are necessary for the management of the sold units. Contrary to what was ex adverso claimed, SNAITECH promptly made available to the

transferees all administrative documents that would permit the running of the business. It therefore asked to terminate the sales contract in order to avoid the incurring of further costs.

Similar judgements were started by the transferring companies in order to have ensured, declared and sentenced:

(a) the breach by SNAITECH regarding the individual transfers of business units;

(b) the cancellation of such transfers due to the actions and default of SNAITECH;

(c) payment of damage compensation above Euro 18,000,000.00 for the premise of Corso Potenza and approximately Euro 12,600,000.00 for the premise of Via Barbera.

SNAITECH duly appeared before the Court, submitted a cross-claim and asked for the intervention of a third party.

Following several hearings and the submission of the required documentation, the first judgement ended with judgement no. 895/2017 of January 25, 2017 with which the Court of Milan accepted the defence of SNAITECH, rejecting the request of order to pay Euro 18,000,000.00 proposed by the plaintiff and rejecting also the counter-claim by SNAITECH, since erroneously considering the Company in breach, and consequently, ordering it to pay all legal fees (according to the expert, the breach is imputable to PRESTIGE Potenza for not fulfilling its contractual obligations). (The term for appealing the judgement is six months in favour of both parties).

As for the judgement concerning the premise of Via Barbera, the decision on the lawsuit is currently being upheld.

In the opinion of the legal advisers, the risk of an unfavourable outcome can be considered as merely possible.

3) Claim against the injunction of MANILAMATIC COMPUTER GAMES S.r.l.

The lawsuit was originated with an action promoted by SNAI against Manilamatic for the recovery of a payable amounting to Euro 749,655.00. The injunction was contested by a counterparty submitting a writ of summons with which it requested, inter alia, the cancellation or revocation of the injunction since it was unfounded, in facts and in law, going beyond the order to SNAI to pay the balance to Manilamatic in the amount of Euro 1,382,062.39 (in addition to interest) to be used to offset the receivable to be paid by Manilamatic, in addition to the compensation for reputation damage for Euro 800,000.00, both through the non-recognition of the contract emoluments and given the unjustified withdrawal by SNAI.

SNAI appeared before the Court according to the law pleading the lack of grounds, in fact and in law, of the contested claims.

The lawsuit proceeded, the texts were excused and a technical and accounting expert, appointed by the Court, is under way. The parties are in contact for reaching an out of court settlement.

4) Ainvest Private Equity S.r.l./SNAI

By a writ of summons served on March 14, 2012, Ainvest Private Equity S.r.l. summoned SNAI to appear before the Court of Lucca, which was petitioned to order SNAI to pay alleged brokerage fees related to the Company obtaining certain bank loans, in an amount of approximately Euro 4 million. SNAI appeared in Court in due form, stating its own defence and objecting that the plaintiff's claims were groundless. Following the hearing on February 15, 2013, the Investigating Judge ordered the translation of foreign-language documents filed by Ainvest. The case was assigned to another Judge on June 07, 2013 who postponed the hearing until October 11, 2013.

The lawsuit proceeded and after the appointment of an expert by the Court (for the translation of the documents produced by the counterparty) and the excussion of the texts, the Judge adjourned the civil proceedings to July 19, 2017.

Based on the opinions of the legal advisers, the Directors estimated as more than likely that the Company will lose the case even if they have confirmed their interest in representing effectively the arguments of the Company at any Court level, deeming them as prevailing.

5) Malfunctioning of the Barcrest VLT platform (April 16, 2012)

On April 16, 2012, an anomalous peak of "jackpot" payment requests occurred on the Barcrest System (one of the VLT platforms that the Company used at such time), in connection with tickets which were only apparently winners, for various sums both within and even well beyond the legal limit of Euro 500,000.00.

As a result of that episode – and also following the ADM order to block the system – SNAITECH immediately blocked access to the Barcrest System in order to perform the necessary verifications and inspections. Since the aforementioned date, the Barcrest System has not been put back into operation. From the controls carried out, including controls by independent computer experts, it emerged that no Jackpot win was generated by the Barcrest System during the course of the entire day of April 16, 2012.

This event entailed that some holders of "apparently winning" tickets initiated ordinary proceedings/injunction proceedings/summary proceedings seeking payment of the amounts indicated on the tickets issued by the Barcrest VLTs during the malfunction and/or compensation for the damage sustained.

To this purpose, it should be noted that, following the event, no. 98 proceedings were initiated (including mediation procedures) of which, at March 31, 2017, more than 50% were concluded with favourable judgements (some of them *res judicata*), that have recognised the non-existence of the Jackpot win of the day April 16, 2012, with a settlement, because of inactivity of the players who have not appealed the judgement or have not resubmitted the judgement before the jurisdictionally competent judge.

On March 31, 2017, 41 proceedings were pending.

In addition to the above, it should be noted that, subsequent to March 31, 2017 and until the date of these Notes to the Financial Statements, some proceedings were concluded with settlement agreements or with a judgement favourable to SNAITECH.

In all of the above proceedings, SNAI has appeared before the Court to challenge the claims for payment based on

arguments of fact and law, since, as has already been communicated to the market and to the relevant Regulatory Authority, no “jackpot” was validly obtained at any time during the day of April 16, 2012. In light of the legal advice received and the favourable judgements - also on the merits - issued by the Court, in general the risk of the Group losing the cases entered by players can be deemed as no longer possible.

6) Claims on anomalies, October 2012

Due to a malfunctioning on October 2, 2012, certain sporting events were offered and quoted - for a few minutes only - with evidently incorrect quotes, in particular this related to Under/Over 5.5 and Under/Over, second half 0.5 bets.

Some players noticed the anomaly, took advantage of it and placed a series of straight and system bets, both on-line through the website www.SNAITECH.it and on the physical network.

SNAI promptly informed ADM on the situation prior to events relating to those bets.

Certain gamblers have filed legal actions to obtain payment of their winnings. SNAI settled various disputes out of Court and is planning to settle the remaining proceedings in the same way. These costs were covered by using a provision for risks previously set aside.

Out of the previous proceedings, to date only 1 case is still pending with the Appeal Court of Bologna following the filing of an appeal of the order to accept the defences of SNAITECH, pursuant to art. 702 of the Civil Code by the Court of Rimini. SNAITECH appeared, within the legal terms, and stated the unfounded claims against it and the lawsuit was postponed to May 19, 2020.

At present, the risk of an unfavourable outcome is remote given the complexity of the grounds of the judgement.

7) FILEFLOW s.a.s. of Testa Tatiana

Civil lawsuit started by Fileflow s.a.s. against SNAITECH before the Court of Lucca in order to obtain compensation for damage, quantified in Euro 620,481.82, due to the default of SNAI as regards the requested transfer of the sports game premise managed by the plaintiff company. The lawsuit was reviewed and adjourned to be presented at the hearing of January 26, 2018.

The assessment of a risk with unfavourable outcome is deemed, to date, possible.

8) Acilia Games S.r.l. and other operators

With writ of summons notified pursuant to Law no. 53 of 1994, on December 17, 2015, Acilia Games S.r.l. (together with other 435 operators of the legal gaming segment) sued SNAI and COGETECH (together with other concession holders of legal gaming) with the following conclusions:

(a) assessing that managers are not bound to pay the share of remuneration as per the 2015 Stability Law to the extent indicated by the concession holders;

(b) assessing that the concession holders carried out illegal actions resulting from anti-competitive agreements and/or abuse of a dominant market position and/or abuse of economic dependence and/or abuse of right. To this purpose, stopping the concession holders to perform such actions under penalty of payment of Euro 10,000 for each alleged breach and for each single operator, pursuant to Art. 614 of the Italian Code of Civil Procedure;

(c) assessing that the renegotiation proposals from concession holders are unilateral and are against the general duty of good faith;

(d) to complete item (c), assessing that agreements between the parties are valid and effective as they were in force on the effective date of the Stability Law;

(e) assessing that concession holders are bound to renegotiate in good faith the agreements, and order them to do so without imposing unilateral terms and conditions. To this effect, the concession holders should be ordered to pay the amount of Euro 10,000.00 for each breach of this sentence and for each operator, pursuant to Art. 614 of the Italian Code of Civil Proceedings.

Both companies appeared in Court for the first hearing scheduled on May 9, 2016. The plaintiffs submitted notes aimed at partially modifying the requirements submitted in the introductory claim, re-tuning them based on the interpretation contained in the 2016 Stability Law, but in a way which is contrary to the *ratio legis* aimed at defining the proposal submitted by concession holders.

Together with the defendants of all the other concession holders summoned, both companies objected to the above-mentioned notices, underlying all exceptions and requests included in the defensive deeds concerning preliminary issues (in particular, the issue of jurisdiction). The Company also asked for the granting of a longer period of time to examine and draw up counter-claims, regardless of the first hearing rights.

Given the objective and subjective complexity of the proceeding, the Judge reserved on the decision of all preliminary issues and granted the concession holders with twenty days to draw up counter-claims related to the notices filed by plaintiffs. Upon lifting his reservation, the Judge granted only the legal terms to the parties, as per Art. 183, par. 6 of the Italian Code of Civil Procedure, as from September 1, 2016, and scheduled the hearing for the continuation of the case on December 5, 2016. Upon lifting the reservation stated at the hearing of December 5, 2016, the Judge rejected the requests for preliminary investigations submitted by the plaintiff counterparties deeming them - as inferred by both companies - totally non pertinent to the disputed matter. After evaluating as not necessary any preliminary investigation, the Judge adjourned setting the hearing for March 27, 2018 for the clarifications of the conclusions.

In the opinion of the legal advisers, given the fact that the plaintiff's claims are groundless, and have already been rejected during the appeal filed by the same as per Art. 700 of the Italian Code of Civil Procedure, the risk of an unfavourable outcome is remote.

9) R.A. Elettronica (Manager)

These are proceedings that started in July 2016 against SNAI and Cogetech and therefore still pending before the Courts of Lucca and Milan, by the company R.A. Elettronica in order to obtain:

- i) the assessment and the declaration that all the amounts requested by the above companies are not due;
 - ii) the assessment and the declaration of the absence of any breach by R.A. Elettronica of its contract obligations and regulations in force and, in particular, to provisions set forth in Art. 1, par. 649 of Law no. 190/2014 and Art. 1, par. 920 and 921 of Law no. 208/2015;
 - iii) sentencing the appearing companies to repay any amount unduly received or to be received as reduction of premiums and remunerations, pursuant to articles 649, Law 190/2014 and 1, par. 920 and 921 of Law no. 208/2015, in addition to interest and revaluation. At the first hearing, where the companies insisted on the acceptance of the exception for lack of jurisdiction, and, secondarily, the issuing of an order, ex article 186 of the Civil Code, to R.A. Elettronica:
- a) The Judge of the Court of Lucca who has requested information also concerning the current situation of the Regional Administrative Court judgements and about the judgement by the Constitutional Court, also keeping into account that the hearing before the latter has not been scheduled yet, has adjourned the case for the clarification of the conclusions to a hearing scheduled for March 16, 2018.
 - b) The Judge of Milan has instead deemed as:
 - i) not necessary to adopt any measure about which it would have no jurisdiction, given that the question of constitutional legitimacy of the legislative and regulatory provisions of which the claimant asks for the non-application has already been submitted to the Constitutional Court;
 - ii) that the amount requested, based on the above, is due by SNAI S.p.A. also in consideration of the fact that the same is not subject to the objections other than those filed by the claimant, versus the one already stated as regards the unconstitutionality of the reference regulations;
 - iii) judged the requested injunction although believing appropriate not to make it provisionally enforceable pending the judgement of the Constitutional Court;
 - iv) adjourned the case to the hearing of October 10, 2017 for the admission of the preliminary claims, assigning to the parties the terms ex article 183, sixth paragraph, of the Code of Civil Proceedings.

10) ZENIT 2012 S.r.l.

With a writ of summons, the company ZENIT requested SNAITECH and Intralot Gaming Machine to appear before the Court of Florence, stating an alleged breach, by the defendant companies, of the obligations arising from the current concession agreement and requesting the issuing of a court order for a joint payment of approximately Euro 650,000.00. The hearing is scheduled for July 24, 2017. SNAITECH shall appear in compliance with the law, pleading the lack of grounds in fact and in law of the opposing claims. In the opinion of the legal advisers, the risk of an unfavourable outcome can be considered as merely possible.

11) Cecca Celestina

This civil lawsuit was started pursuant to article 702-bis of the Code of Civil Proceedings by Cecca Celestina, before the Court of Lucca, requesting the assessment of a breach, committed by SNAITECH, of the restrictions set forth in a competition agreement (in terms of the distance among gaming points) executed jointly with an agreement on the provision of connectivity, and the consequent sentencing to the payment of Euro 360,000.00 as the penalty set forth in the case of a breach of the agreement. SNAI appeared in court stating to have complied with the distances requirements set out in the agreement. The Court ordered the appointment of an expert and the hearing was adjourned to June 9, 2017. The assessment of risk of an unfavourable outcome, currently, i.e. not having available reliable data on the distances among the game premises, is possible.

12) AGENZIA IPPICA DI BENITO MONTI & C. S.N.C. under bankruptcy proceedings

With an appeal pursuant to ex article 702 bis of the Code of Civil Proceedings, this Company requested Benito Montu & C Snc, under bankruptcy proceedings, to ascertain its right about the restitution of Euro 399,133.36 + interests; this amount was assigned to SNAI following garnishment of assets by third parties to SNAI Servizi. SNAI appeared before the Court within the required term challenging the adverse claims. At the first instance of the hearing on March 23, 2017, based on the ever-changing case law, the Judge invited the parties to settle out of court with a payment by SNAITECH of Euro 80,000.00 adjourning to the hearing of May 29, 2017 for the attempt of reconciliation pursuant to ex article 185 of the Code of Civil Proceedings. The Company accepted the proposal of the Judge and has requested the adviser to proceed with the settlement.

29. Sundry payables and other liabilities (current and non-current)

Sundry payables and other non-current liabilities are broken down as follows:

<i>Thousands of Euro</i>	31.03.2017	31.12.2016	Change
Sundry payables and other non-current liabilities			
<i>Tax payables</i>			
- instalments on flat-rate tax	92	139	(47)
- Tax Authorities - 770 notice	322	367	(45)
	414	506	(92)
<i>Due to social security institutions</i>			
- to INPS instalments	319	339	(20)
<i>Other liabilities</i>			
- for instalments related to PREU for previous years	182	371	(189)
- for security deposit liabilities	3,075	3,075	0
	3,257	3,446	(189)
Total Sundry payables and other non-current liabilities	3,990	4,291	(301)

Other current liabilities are composed as follows:

<i>Thousands of Euro</i>	31.03.2017	31.12.2016	Change
Other current liabilities			
<i>Tax payables</i>			
- income taxes	3,554	0	3,554
- VAT	1,438	1,250	188
- Flat-rate tax	10,369	3,621	6,748
- instalments on flat-rate tax	145	144	1
- Tax Authorities - 770 notice	182	177	5
- other tax liabilities	1,009	1,625	(616)
	16,697	6,817	9,880
<i>Due to social security institutions</i>			
- social security institutions	3,398	4,214	(816)
- social security institutions - instalments	78	77	1
	3,476	4,291	(815)
<i>Other liabilities</i>			
- due to ADM for PREU balances due	35,295	49,161	(13,866)
- due to ADM for security deposits ADI	1,532	6,495	(4,963)
- for instalments related to PREU for previous years	789	791	(2)
- due to winners and VLT jackpot reserve	14,856	14,649	207
- VLT required tickets	212	201	11
- due to ADM as concession fees	3,505	3,915	(410)
- due to gamblers for antepost betting	4,262	2,474	1,788
- due to gamblers for wins and refunds on national horse racing/sports forecast betting	1,955	3,630	(1,675)
- due to ADM for outstanding horse races	850	902	(52)
- due to ADM for required tickets	374	350	24
- due to ADM for Sports Forecast and National Horse Racing Betting Concession	1,070	1,076	(6)
- for SNAI Card gaming bars	7,983	7,631	352
- due to Online Gaming players (Skill/Casino/Bingo)	126	91	35
- due to players for wins in virtual events	220	210	10
- due to ADM	21,668	21,767	(99)
- due to employees and collaborators	7,370	6,725	645
- due to directors	321	200	121
- due to auditors	234	204	30
- for security deposits	10,600	10,330	270
- due to S.I.S. S.r.l.	0	0	0
- due to Teseo S.r.l. in liquidation	298	383	(85)

- due to Parent Company	74	4	70
- due to others	7,452	7,143	309
	121,046	138,332	(17,286)
<i>Accrued liabilities and deferred income</i>			
- accrued liabilities	2,266	915	1,351
- deferred income	1,136	747	389
	3,402	1,662	1,740
Total Other current liabilities	144,621	151,102	(6,481)

Payables related to the flat-rate tax payable in instalments, amounting to Euro 237 thousand, of which Euro 92 thousand being due after one year and Euro 145 thousand being due within one year, comprise the residual amount to be paid for fines and interest payable for the delayed payment of the 2009-2010 flat-rate tax.

Payables related to the 770 notice totalling Euro 504 thousand, including Euro 322 thousand due after one year and Euro 182 thousand due within one year, were related to tax assessments performed by Tax Authorities on tax returns filed by using the 770 form for the tax periods 2011, 2012 and 2013. The above assessment highlighted the non-payment of withholdings and additional taxes. The amount due was divided in instalments, each related to one year of non-payment. These instalments are regularly being paid.

The payables to social security institutions, related to instalments amounting to Euro 397 thousand, of which Euro 319 thousand being due after one year and Euro 78 thousand being due within one year, comprise payment orders issued by Equitalia and payable in instalments.

The PREU payables related to instalments for previous years, amounting to Euro 971 thousand, of which Euro 182 thousand being due after one year and Euro 789 thousand being due within one year, comprise fines and interest payable for the delayed payment of the 2009 and 2010 PREU tax.

The tax increase is due to the flat-rate tax on betting, introduced with the "Mille proroghe" law decree. The payment term of the flat-rate tax on horse racing bets and on betting on events other than horse races, is fixed on December 20 of the same year and January 31 of the following year, with reference to the flat-rate tax due for the September-November and for December, respectively, as well as on August 31 and November 30, with reference to the flat-rate tax due for the January-April and May-August periods, respectively.

The Other payables to ADM item, totalling Euro 21,668 thousand, relates to draw downs which were offset by receivables (acquired or original) from the Di Majo Award. On November 21, 2013, the Court of Appeal in Rome declared the Di Majo Award as void and ineffective. Given the fact that the sentence is enforceable, compensations were cancelled. When ADM requires the payment, SNAITECH will be entitled to dispose of the amounts on the escrow current accounts jointly managed with Agisco. For further details, see Note 21.

Payables to ADM for PREU balances due, in the amount of Euro 35,295 thousand, are calculated from the gaming machine (ADI) transactions.

Deferred income, of Euro 1,136 thousand, includes Euro 695 thousand, related to the portion of the grants to the MIPAAF (formerly ASSI) investment fund recognised as grants related to investments.

30. Trade payables

The trade payables are composed as follows:

<i>Thousands of Euro</i>	31.03.2017	31.12.2016	Change
Trade payables			
- to suppliers	31,497	32,798	(1,301)
- to stables, jockeys and bookmakers	51	55	(4)
- to foreign suppliers	2,089	1,952	137
- credit notes to be received	(354)	(475)	121
Total Trade payables	33,283	34,330	(1,047)

31. Overdue payables

As required by CONSOB's notice ref. 10084105 of October 13, 2010, the following table sets forth the Group's payables, grouped by type, with a specific indication of the amounts overdue.

Thousands of Euro

Current liabilities	Balance as of March 31, 2017	of which due on 03.31.2017
Financial liabilities	10,816	-
Trade payables	33,283	6,884
Tax payables	16,697	-
Due to social security institutions	3,476	-
Other liabilities	121,046	-
	185,318	6,884

The amounts past due as of March 31, 2017, i.e. Euro 6,884 thousand refer to trade payables and fall within the scope of normal transactions with suppliers of services and materials; these amounts have been mostly paid after March 31, 2017. In certain cases, a new due date has been set. To the present date, no supplier has taken any initiatives in response to overdue amounts.

32. Guarantees

In addition to what is stated under financial liabilities note 27), the Group has undertaken financial commitments related to the granting of sureties for a total amount of Euro 188,979 thousand as at March 31, 2017 (Euro 196,115 thousand as at December 31, 2016).

With regards to the values disclosed in the financial statements as of December 31, 2016, the changes that occurred in the financial statements are shown here below:

Bank	Beneficiary	Subject matter of the guarantee	Increases/(Decreases) as of March 31, 2017 (thousands of Euro)
UNICREDIT	AAMS (Customs and Monopoly Agency)	As a guarantee of a proper performance of the concession, of the payment of the amounts for the issuance of authorizations for the instalment of VLT and AWP devices.	(6,000)
BANCA POPOLARE DI MILANO	TAX AUTHORITIES - MILAN	VAT reimbursement 2016	67
BANCA POPOLARE DELL'EMILIA ROMAGNA	TIM/IFITALIA	To guarantee the agreement for TIM's phone top-ups.	(500)
BANCA POPOLARE DI MILANO	TIM/IFITALIA	To guarantee the agreement for TIM's phone top-ups.	(400)
BANCO POPOLARE	TIM/IFITALIA	To guarantee the agreement for TIM's phone top-ups	(150)
UNICREDIT	MIPAFF (Ministry of agriculture, Food and Forestry policies)	To guarantee the Montecatini race management.	(27)
UNICREDIT	MIPAFF (Ministry of agriculture, Food and Forestry policies)	To guarantee the San Siro race management.	(96)
UBI - COMMERCIO E INDUSTRIA	BENEFID FUIDUCIARIA	To guarantee the Network agreement for on-line poker.	(30)
TOTAL			(7,136)

33. Related Parties

The CONSOB Notice No. 6064293 issued on July 28, 2006 requires that, in addition to the disclosures regarding related party transactions required by International Accounting Standard (IAS 24), information must be provided showing the impact of the transactions or balances with related parties, as identified by IAS 24, on the statement of financial position and the statement of income.

The following table shows these impacts. The impact that transactions have on the statement of income and cash flows statement of the Company and/or the Group must be analysed bearing in mind that the principal dealings with related parties are identical to equivalent contracts in place with third parties.

Some companies of the SNAITECH Group maintain relationships with Banca Monte dei Paschi di Siena S.p.A., Intesa San Paolo S.p.A., Poste Italiane S.p.A., Unicredit S.p.A. e Banco BPM S.p.A. who are qualifiable as subjects related to the SNAITECH Group. Such transactions are considered to be in the interest of the Group, are part of the ordinary course of business and are subject to the terms and conditions of the market.

It must be noted that the bond issues and the Super Senior Revolving Facility loan are also backed by a pledge on SNAITECH S.p.A. shares, issued by the majority shareholder of the Company. The related security agreement between the Company and the majority shareholder was submitted to the favourable opinion by the SNAITECH S.p.A. Related Party Committee.

The following table shows a summary of the relationships between the SNAITECH Group and the related parties:

<i>Thousands of Euro</i>	31.3.2017	% Incidence	31.12.2016	% Incidence
Trade receivables:				
- from companies related to directors of SNAITECH S.p.A.	-	0.00%	1	0.00%
- from Global Games S.p.A.	5	0.00%	4	0.00%
	5	0.00%	5	0.00%
Other current assets:				
- from companies related to directors of SNAITECH S.p.A.	3	0.01%	-	0.00%
- from Teseo S.r.l. in liquidation	-	0.00%	170	0.32%
	3	0.01%	170	0.32%
Total Assets	8	0.01%	175	0.32%
Trade payables:				
- to companies related to directors of SNAITECH S.p.A.	340	1.02%	323	0.94%
- to companies related to shareholders of SNAITECH S.p.A.	1	0.00%	(1)	0.00%
	341	1.02%	322	0.94%
Other current liabilities:				
- to companies related to directors of SNAITECH S.p.A.	45	0.03%	-	0.00%
- to companies related to shareholders of SNAITECH S.p.A.	29	0.02%	4	0.00%
- to Teseo S.r.l. in liquidation	297	0.21%	383	0.25%
	371	0.26%	387	0.25%
Total Liabilities	712	0.09%	709	0.09%

The following table shows the impact of related party transactions on the statement of comprehensive income:

<i>Thousands of Euro</i>	1Q 2017	% Incidence	1Q 2016	% Incidence
Revenues from services and chargebacks:				
- from companies related to directors of SNAITECH S.p.A.	15	0.01%	2	0.00%
	15	0.01%	2	0.00%
Other revenues				
- from Global Games S.p.A.	1	0.09%	1	0.04%
	1	0.09%	1	0.04%
Total revenues	16	0.01%	3	0.00%
Costs for services and chargebacks:				
- to companies related to directors of SNAITECH S.p.A.	1	0.00%	2	0.00%
- to companies related to shareholders of SNAITECH S.p.A.	1	0.00%	21	0.01%
- to directors of Finscom S.r.l. (now merged into SNAI Rete Italia S.r.l.)	-	0.00%	8	0.01%
- to directors and companies related to Finscom S.r.l. (now merged into SNAI Rete Italia S.r.l.)	-	0.00%	31	0.02%
- to auditors of Cogetech Gaming S.r.l. (now merged into SNAITECH S.p.A.)	-	0.00%	8	0.01%
	2	0.00%	70	0.05%
Other operating costs:				
- to companies related to directors of SNAITECH S.p.A.	3	0.03%	3	0.02%
	3	0.03%	3	0.02%
Total Costs	5	0.00%	73	0.04%

Revenues from services and chargebacks and other income impact the EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) in the amount of 0.06% in the first quarter of 2017 (0.01% in the first quarter of 2016), whereas the total income impacts the profit/(loss) for the first quarter of 2017 in the amount of 0.72% (0.19% in the first quarter of 2016).

Costs for raw materials and consumables, services and chargebacks and other operating costs affect the EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) in the amount of 0.02% in the first quarter of 2017 (0.20% in the first quarter of 2016), whereas total costs affect the profit/(loss) for the period in the amount of 0.22% (4.54% in the first quarter of 2016).

Remunerations received by key managers during the first quarter of 2017 amounted to Euro 196 thousand and they were based on their salary.

As required by Consob's Notice ref. 10084105 of October 13, 2010, the following table shows relationships with related parties of the Parent Company SNAITECH S.p.A. as of March 31, 2017.

<i>Thousands of Euro</i>	03.31.2017	12.31.2016
Trade receivables:		
- from Global Games S.p.A.	5	4
- from Società Trenno S.r.l.	257	207
- from SNAI Rete Italia S.r.l.	(410)	(44)
- from Teleippica S.r.l.	42	65
Total Trade receivables	(106)	232
Other current assets:		
- from companies related to directors	3	-
- from Teleippica S.r.l.	2,443	2,380
- from SNAI Rete Italia S.r.l.	9	18
- from Teseo S.r.l. in liquidation	-	170
Total Other current assets	2,455	2,568
Current financial receivables:		
- from Società Trenno S.r.l.	6,632	5,859
- from SNAI Rete Italia S.r.l.	3,702	3,733
Total Financial receivables	10,334	9,592
Total Assets	12,683	12,392
Trade payables:		
- to companies related to directors	340	323
- to Società Trenno S.r.l.	46	134
- to SNAI Rete Italia S.r.l.	84	97
- to Teleippica S.r.l.	321	212
- to companies related to shareholders	1	(1)
Total Trade payables	792	765
Other current liabilities		
- to companies related to directors	45	-
- to Società Trenno S.r.l.	7,394	7,256
- to SNAI Rete Italia S.r.l.	3,477	3,306
- to Teleippica S.r.l.	71	23
- to Teseo S.r.l. in liquidation	297	383
- to companies related to shareholders	29	4
Total Other current liabilities	11,313	10,972
Current financial liabilities:		
- to Teleippica S.r.l.	11,436	12,533
Total Current financial liabilities	11,436	12,533
Total Liabilities	23,541	24,270

<i>Thousands of Euro</i>	Ist Quarter	
	2017	2016
Revenues from services and chargebacks:		
- from companies related to directors	15	2
- from Società Trenno S.r.l.	59	62
- from SNAI Rete Italia S.r.l.	23	38
- from Finscom S.r.l. in liquidation (now merged into SNAI Rete Italia S.r.l.)	-	2
- from Cogetech S.p.A. (now merged into SNAITECH S.p.A.)	-	4
Total Revenues from services and chargebacks	97	108
Other revenues		
- from Global Games S.p.A.	1	1
- from Società Trenno S.r.l.	157	105
- from SNAI Rete Italia S.r.l.	28	-
- from Cogetech S.p.A. (now merged into SNAITECH S.p.A.)	-	1
- from Cogetech Gaming S.r.l. (now merged into SNAITECH S.p.A.)	-	1
- from Teleippica S.r.l.	89	137
Total Other revenues	275	245
Interest income:		
- from Società Trenno S.r.l.	95	140
- from SNAI Rete Italia S.r.l.	73	73
- from Cogetech S.p.A. (now merged into SNAITECH S.p.A.)	-	2,111
Total interest income	168	2,324
Total revenues	540	2,677
Costs for services and chargebacks:		
- to companies related to directors	1	2
- to Società Trenno S.r.l.	67	99
- to Finscom S.r.l. in liquidation (now merged into SNAI Rete Italia S.r.l.)	-	392
- to SNAI Rete Italia S.r.l.	2,650	2,461
- to Teleippica S.r.l.	637	798
- to Cogetech S.p.A. (now merged into SNAITECH S.p.A.)	-	4
- from companies related to shareholders	1	-
Total Costs for services and chargebacks	3,356	3,756
Costs of seconded personnel		
- to Cogetech S.p.A. (now merged into SNAITECH S.p.A.)	-	234
Total Costs of seconded personnel	-	234
Other operating costs		
- to companies related to directors	3	3
Total Other operating costs	3	3
Interest expense and fees		
Interest expense to Teleippica S.r.l.	179	220
Total Interest expense and fees	179	220
Total Costs	3,538	4,213

34. Financial risk management

The Group had financial liabilities principally comprised of high yield bond loans and financial leases. Such contracts are medium- to long-term.

On October 24, 2016, the Board of Directors of SNAITECH S.p.A. approved the refinancing of the Company's outstanding bonds (hereinafter the "Existing Bonds" i.e. guaranteed, senior bonds with a nominal amount of Euro 320 million and a maturity term in 2018, the subordinated senior bonds, with a nominal amount of Euro 160 million and a maturity term in 2018 and the guaranteed, senior bonds with a nominal amount of Euro 110 million and a maturity term in 2018) through the issue of a new non-convertible, guaranteed, senior bond loan, for a total amount in principal of Euro 570 million, with maturity term in 2021 (the "New Bonds") and the concurrent tender offer related to the Existing Bonds (hereinafter the "Tender Offer"). The same Board of Directors approved a new revolving senior loan agreement, for uses up to a total amount in principal of Euro 85 million (hereinafter the "New Revolving Line"), to replace the previous revolving senior line totalling Euro 55 million.

The pricing decisions on the New Bonds were made on October 26, 2016, namely: (i) a fixed rate, guaranteed senior bond loan, for a total amount in principal of Euro 320 million, with 6.375% coupon and an issue price equal to 100.0% (the "Fixed Rate Guaranteed Senior Bonds") and (ii) a variable rate, guaranteed senior bond loan, for a total amount in principal of Euro 250 million, with coupon indexed at three-month Euribor rate (with a floor equal to 0%), in addition to 6.0% a year and an issue price equal to 99.0% (the "Variable Rate Guaranteed Senior Bonds"). The issue and regulation of New Bonds took place on November 7, 2016 with a maturity term on November 7, 2021.

Meanwhile, on November 1, 2016, SNAITECH S.p.A. announced the results of the Tender Offer for all Existing Bonds issued in 2013 and 2015.

The New Bonds, for which a listing request was made on the Euro MTF market, organized and managed by the Luxembourg Stock Exchange, have been initially subscribed by Deutsche Bank AG, London Branch, UniCredit Bank AG, Goldman Sachs International and BNP Paribas, and will then be exclusively placed with qualified investors. The same Institutions subscribed the new Revolving Line, for a total of Euro 85 million.

Gains from the issue of New Bonds, together with further cash resources of the Company, were used by the Company to finance: (i) the Tender Offer, launched on October 24, 2016, in relation to the Existing Bonds, (ii) the cancellation and final repayment of all Existing Bonds, which were not purchased through the Tender Offer, and (iii) some commissions and fees connected to the above.

The new Bonds which represent the financial indebtedness of the SNAITECH Group at March 31, 2017, are guaranteed (like the revolving credit line) by a number of collaterals granted by the companies of the SNAITECH Group, such as: a) pledge on 50% plus one share of SNAITECH S.p.A. comprising a portion of Global Games S.p.A. b) pledge on 100% of the Teleippica S.r.l. share capital comprising a portion of SNAITECH S.p.A., c) pledge on some intellectual property rights of SNAITECH S.p.A.

The SNAITECH Group's policy is to try to reduce its use of interest-bearing credit to fund its ordinary operations, reduce the collection periods for its trade receivables, to arrange timings and means of deferment in respect to trade creditors, and to plan and diversify the payment terms for its investments.

Financial derivatives

As of March 31, 2017, the SNAITECH Group had no derivative instruments in place.

Liquidity Risk

Liquidity risk is defined as the possibility that the SNAITECH Group is unable to settle its payment commitments as a result of an inability to obtain new funds (funding liquidity risk), to sell assets in the market (asset liquidity risk), or is obliged to incur very high costs in order to settle those commitments. The SNAITECH Group's exposure to such risk is linked primarily to the commitments related to the issue of new bonds in 2016 and the subscription of the Agreement of the New Revolving Line not used as at March 31, 2017.

Interest rate risk

The SNAITECH Group is exposed to interest rate risk in connection with the financial assets/liabilities related to its core operations; defined as the possibility that a loss may occur in its financial management, in terms of a lower return from an asset or an increased cost of an (existing or potential) liability, as a result of fluctuations in interest rates. The interest rate risk therefore represents the uncertainty associated with the trend of interest rates.

The SNAITECH Group, at March 31, 2017, is only partially subject to the risk of rate linked, in particular, to the coupons of the Variable Rate Guaranteed Senior Bonds which are indexed at the three-month Euribor rate (with a 0% floor). The aim of the interest rate risk management is to protect the SNAITECH Group's financial spread against changes in market rates, by keeping volatility in check and maintaining consistency between the risk profile and the return on financial assets and liabilities.

Floating rate instruments expose the SNAITECH Group to changes in cash flows, while fixed rate instruments expose the SNAITECH Group to changes in fair value.

Credit risk

In order to reduce and monitor credit risk, the SNAITECH Group has adopted organisational policies and instruments. Potential relationships with debtors are always subjected to reliability analysis prior to the event, through the use of information from leading credit rating companies. The analyses obtained are appropriately supplemented with such information as is available within the SNAITECH Group, resulting in a reliability assessment. This assessment is subject to review on a regular basis or, where appropriate, wherever new information emerges.

The Group's debtors (customers, shop and betting shop managers, AWP and VLT operators, and so forth) are often known to the SNAITECH Group, as a result of its presence over many years in all of the market segments in which it appears, which features a limited number of licensed operators.

A number of relationships with debtors are initially secured with guarantees or deposits, granted in favour of the SNAITECH Group on the basis of reliability assessments. The relationships established are monitored on a regular, ongoing basis by a specific department, which liaises with the various other departments involved.

Receivables are regularly subjected to in-depth assessments. In particular, receivables are shown net of the relevant provisions for doubtful receivables. Accruals to the provision for doubtful receivables are recorded where there is objective evidence of difficulty in the Company's recovery of the receivable. Receivables which are considered to be no longer recoverable are fully written off.

In relation to the above-mentioned receivables, the maximum exposure to credit risk, without taking into account any security that may be held or other instruments that may mitigate credit risk, is represented by their fair value. The risk regarding the SNAITECH Group's other financial assets is in line with market conditions.

Exchange rate risk

None of the Group's operations constitute any significant exposure to exchange rate risk.

Capital management

The capital management of the SNAITECH Group aims at guaranteeing a solid credit rating and adequate levels of capital and debt ratios in order to support its operations and its future investment plans, while continuing to fulfil its contractual obligations with lenders.

The SNAITECH Group is subject to contractual restrictions in its loan agreements with regards to the distribution of dividends to its shareholders and issue of new shares.

The SNAITECH Group has analysed its capital in terms of net debt ratio, i.e. the ratio of net debt to shareholders' equity plus net debt. It is the SNAITECH Group's policy to seek to maintain a ratio of between 0.3 and 1.0.

<i>Thousands of Euro</i>	31.03.2017	31.03.2016
Interest-bearing loans	568,655	563,216
Non-interest-bearing loans	32	32
Financial liabilities	568,687	563,248
Trade payables and other liabilities	181,894	189,723
Financial Assets	(18,952)	(18,867)
Cash and cash equivalents	(74,219)	(82,337)
Net indebtedness	657,410	651,767
Shareholders' equity	120,744	118,510
Total shareholders' equity	120,744	118,510
Shareholders' equity and net indebtedness	778,154	770,277
Ratio net indebtedness/(shareholders' equity and net indebtedness)	84.5%	84.6%

35. Significant non-recurring events and transactions

Following are the non-recurrent revenue and cost items in the first quarter of 2017, as defined pursuant to Consob Resolution No. 15519 of July 27, 2006, (to be intended as "positive and/or negative items of income deriving from non-recurring events or operations, i.e. those operations or events that are not frequently repeated in the ordinary course of business"). The positive amount of Euro 1,346 thousand is to be attributable primarily to the following items:

- for Euro +316 thousand to legal fees;
- for Euro +462 thousand to capital gains related to the sale of business units;

- for Euro -293 thousand for costs incurred in relation to the above mentioned active transactions;
- for Euro -190 thousand referring to consulting for corporate transactions;
- for Euro +1,051 thousand referring to the recovery of VAT, non-deductible in previous years.

36. Events or transactions arising from atypical and/or unusual transactions

No atypical and/or unusual transactions were recorded in the first quarter of 2017.

37. Group structure

Ownership of the Group

SNAITECH S.p.A., the parent company, is legally subject to the legal control of Global Games S.p.A.

Significant shareholdings in subsidiaries

	Percentage held		
	31.03.2017	31.12.2016	31.03.2016
Società Trenno S.r.l. held by a sole quotaholder	100	100	100
Teleippica S.r.l.	100	100	100
SNAI Rete Italia S.r.l.	100	100	100
Fondazione IziLove Foundation	100	100	100
Finscom S.r.l.	0	0	100
Cogemat S.p.A.	0	0	100
Cogetech S.p.A.	0	0	100
Cogetech Gaming S.p.A.	0	0	100
Azzurro Gaming S.p.A.	0	0	100

The composition of the whole Group, and the consolidation methods used, are set forth in Schedule 1.

38. Net financial position

In accordance with the requirements of CONSOB's Notice of July 28, 2006, and in accordance with the Recommendation from CESR of February 10, 2005, "CESR's recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses", the SNAITECH Group's net financial position is set forth in the following table:

<i>Thousands of Euro</i>	31.03.2017	31.12.2016
A. Cash on hand	1,031	1,226
B. Other cash and cash equivalents	73,188	81,111
<i>bank accounts</i>	<i>72,094</i>	<i>79,095</i>
<i>postal accounts</i>	<i>1,094</i>	<i>2,016</i>
C. Securities held for trading	1	1
D. Liquidity (A) + (B) + (C)	74,220	82,338
E. Current financial receivables	0	0
F. Current bank debts	135	141
G. Current portion of non-current indebtedness	0	0
H. Other current financial debt	10,681	5,693
- for interest on bond loans	10,370	5,352
- for acquisition of sports and horse racing concessions	32	32
- due to other lenders	279	309
I. Current financial indebtedness (F) + (G) + (H)	10,816	5,834
J. Net current financial indebtedness (I) - (E) -(D)	(63,404)	(76,504)
K. Non-current bank loans	0	0
L. Bonds issued	557,624	557,115
M. Other non-current loans	247	299
- due to other lenders	247	299
N. Non-current financial indebtedness (K) +(L) + (M)	557,871	557,414
O. Net financial indebtedness (J)+(N)	494,467	480,910

The net financial position does not include the term-deposit bank accounts or unavailable account balances in the amount of Euro 16,778 thousand, classified under item "current financial assets" in the statement of financial position, the special current account of Euro 87 thousand and the other non-current financial assets, equal to Euro 2,086 thousand (see Note 21).

With respect to the net financial indebtedness as at December 31, 2016, the net financial debt increased by Euro 13,557 thousand. This increase is mainly due to the decrease in liquid assets for Euro 8,118 thousand due primarily to the scheduling of the concession fee payments and the increase in current financial indebtedness of Euro 4,982 thousand referring to the allocation to provision, for the period, of interest expense accrued on bonds.

As required by CONSOB's notice ref. 10084105 of October 13, 2010, the following table shows the Parent Company SNAITECH S.p.A.'s net financial position.

<i>Thousands of Euro</i>	31.03.2017	31.12.2016
A. Cash on hand	343	368
B. Other cash and cash equivalents	70,530	77,029
- bank accounts	69,436	75,014
- postal accounts	1,094	2,015
C. Securities held for trading	1	1
D. Liquidity (A)+(B)+(C)	70,874	77,398
E. Current financial receivables	10,334	9,592
- financial current account with subsidiaries	10,334	9,592
F. Current bank debts	131	136
G. Current portion of non-current indebtedness	0	0
H. Other current financial debt:	22,117	18,227
- for interest on bond loans	10,370	5,352
- financial current account with subsidiaries	11,436	12,533
- for acquisition of sports and horse racing concessions	32	32
- due to other lenders	279	310
I. Current financial indebtedness (F)+(G)+(H)	22,248	18,363
J. Net current financial indebtedness (I)-(E)-(D)	(58,960)	(68,627)
K. Non-current bank loans	0	0
L. Bonds issued	557,624	557,115
M. Other non-current loans:	247	299
- due to other lenders	247	299
- Interest Rate Swap		
N. Non-current financial indebtedness (K)+(L)+(M)	557,871	557,414
O. Net financial indebtedness (J)+(N)	498,911	488,787

The net financial position of SNAITECH S.p.A. does not include the escrow accounts and restricted deposits or other non-current financial assets.

38.1 Covenants

As is customary for similar lending facilities, the current loan agreements (Senior Revolving credit line and bond loans) involve a number of obligations for the SNAITECH Group.

More specifically, the Company is required to undertake commitments aimed at safeguarding the credit position of the financing entities. Amongst these provisions are the restrictions on the distribution of dividends until expiration of other bond loans, as well as restrictions on the early repayment of bonds, in taking on financial indebtedness and in making specific investments and disposing of corporate assets and properties. Events of default are also specified, which may make it necessary for the lenders to demand early repayment.

In particular SNAITECH S.p.A., pursuant to the Senior Revolving credit line, undertook to provide a Compliance Certificate, on a quarterly basis, with the confirmation of the absence of default events during the period in question.

Finally, the Group is obliged to provide its lenders periodic information on its cash flows and income, as well as key performance indicators, including, inter alia, EBITDA and net financial indebtedness.

All covenants at March 31, 2017 are complied with.

39. Financial Instruments and information on fair value

The following table shows a comparison between the carrying values and fair value of all categories of the Group's financial instruments and other Group assets and liabilities, as well as a breakdown based on the categories set forth in IAS 39.

Financial assets and liabilities	Carrying amount		Fair value	
	31.03.2017	31.12.2016	31.03.2017	31.12.2016
Cash on hand	74,219	82,337	74,219	82,337
Loans (LaR)	102,466	114,548	102,466	114,548
Current financial assets (LaR)	16,866	16,858	16,866	16,858
Non-current financial assets (LaR)	2,086	2,009	2,086	2,009
Current and non-current financial liabilities (FLAC) (*)	567,994	562,467	597,925	594,458
Current and non-current financial liabilities (debts for leasing and others)	693	781	693	781
Other Assets and Liabilities				
Other current assets (LaR)	70,327	53,326	70,327	53,326
Other non-financial non-current assets (LaR)	9,520	3,530	9,520	3,530
Sundry payables and other non-current liabilities (FLAC)	3,990	4,291	3,990	4,291
Trade payables (FLAC)	33,283	34,330	33,283	34,330
Other current liabilities (FLAC)	144,621	151,102	144,621	151,102

(*) in the designation of the fair value of current and non-current financial liabilities (FLAC), the value in exchange on the market, taken from the Bloomberg platform in the last session of the period, was taken into consideration.

IAS 39 categories key

Finanziamenti e crediti:	Loans and receivables	Acronym
Attività possedute sino a scadenza:	Financial assets held to maturity	LaR
Attività finanziarie disponibili per la vendita:	Financial assets available for sale	HtM
Attività e passività al fair value rilevato a conto economico possedute per la negoziazione	Financial asset/ liabilities designated at fair value to income statement, held for training	AfS
Passività al costo ammortizzato	Financial Liabilities at amortised cost	FA/LHFT
Derivati di copertura	Hedge derivatives	FLAC
		HD

Measurements at fair value of the Group financial instruments were reclassified in the 3 levels envisaged by IFRS 7. In particular, the hierarchy is as follows:

- Level 1: the financial instrument is listed in an active market;
- Level 2: the fair value is measured based on measurement techniques taking benchmark parameters that are observable on the market, other than prices of the financial instrument;
- Level 3: the fair value is calculated based on measurement techniques taking benchmark parameters that are not observable on the market.

To be noted is that at March 31, 2017 and December 31, 2016, there are no financial assets and liabilities designated at fair value that were recognised in the Income Statement, and no financial assets available for sale or hedging derivatives.

The SNAITECH Group has adopted internal valuation models, generally used in financial practice for fair value designation.

In the first quarter of 2017, no transfers occurred between fair value hierarchy Levels.

The management has assessed that the carrying amount of cash on hand and short-term deposits, as well as trade receivables and payables, bank overdrafts and other current liabilities are consistent with fair value due to the short-term expiration terms of these instruments.

The fair value of financial assets and liabilities is disclosed for the amount which might be exchanged in a current transaction between willing parties, rather than in a forced sale or in a liquidation procedure. The following methods and assumptions have been adopted in measuring fair value:

- long-term accounts receivable and loans, both with fixed and variable rate, are measured by the SNAITECH Group based on parameters including interest rates, country-specific risk factors, creditworthiness of each single customer and the typical risk of the financial project. Allocations for expected expenses on these receivables are accounted

for based on the above evaluations. As of March 31, 2017, the carrying amount of these accounts receivable, net of allowances, was substantially similar to their fair value;

- the fair value of bonds resulting from financial leases and other non-current financial liabilities is measured through future cash flows discounted by applying the current rates available for accounts payable with similar terms, such as credit risk and remaining expiration terms;
- the fair value of SNAITECH Group's loans and borrowings is measured using the discounted cash flow method and a discount rate which would reflect the interest rate of the issuer at period-end. Insolvency risk for the SNAITECH Group as at March 31, 2017 was assessed as irrelevant;
- the fair value of debt instruments issued by the SNAI Group is measured using the discounted cash flow models based on current financing marginal rates of the SNAITECH Group for similar types of loans and maturities consistent with the residual useful life of the debt instruments in question.

40. Subsequent events

40.1 Tax assessment report – PVC

Following a general tax assessment, started in June 2015 by the Regional Directory of the Inland Revenue Office of Tuscany, on the company SNAITECH for the years 2011, 2012 and 2013, on October 14, 2016 a tax assessment report was delivered by the Tax Directory. Subsequently, on December 29, 2016, the Company was served with a notice of assessment concerning both the value-added taxes for the year 2011 and the corporate taxes for the year 2011.

Following the afore-mentioned assessment notices, on January 11, 2017, the Company submitted a tax settlement proposal for a final *inter-partes* resolution. These activities led to the definition of the amounts assessed for the year 2011 extending them also to the year 2012 and 2013.

On April 7, 2017, the settlement agreements were executed for the years 2011-12-13 for a total amount of Euro 3,008 thousand, inclusive of the interests without application of penalties due to an objective vague definition of the law. The amount in question was broken up into 16 quarterly instalments, as set forth in the tax law.

On April 12, 2017, the Italian Tax Authorities, Provincial Division of Lucca, following a general tax assessment started in January, served the Company with a tax assessment report with which the deduction of costs and VAT in relation to the costs associated with the charge-back of management services by the parent company, was contested. The Company believes that its conduct was correct and therefore the claim, unfounded both in fact and in law, does not require any allocation to a risk provision.

40.2 Transfers of Business Units

On April 28, due to the profitability that was judged as non-satisfactory, the shop of Brugherio was closed.

On May 9, 2017, before the Notary Public Elena Terrenghi of Milan, the contract for the sale of the shop of Rome Giardinetti, effective immediately, was executed. At the reporting date of these financial statements, the conditions precedent have not been fulfilled yet.

40.3 Negotiations with Trade Unions

In 2016, negotiations were started with trade unions, at the national and local level, aimed at defining the post-merger by incorporation organization of the former Cogemat Group into SNAITECH S.p.A., both in terms of overall headcount and the location of functions in the three operating headquarters of Porcari, Rome and Milan. The last meeting at the national level was held on May 4 in Florence, where details on the number of workforce in excess to be included in the reduction in personnel procedure were defined. The procedure started on March 21, 2017 affected a total of 70 people nationally. A pre-agreement was reached with the unions, which will be formalised in detail at the next meeting scheduled for May 16, 2017 and endorsed by the Ministry of Labour and Social Policy within 30 days after. Following are the main points:

- 1) Use of the services provided by the Wage Guarantee Fund (for a period of 26 weeks starting from July 3, 2017 to zero hours, for a maximum number of 66 employees).
- 2) Incentive initiative on a voluntary basis aimed at a non-traumatic management of workers in excess, starting from the endorsement of the agreement by the Ministry until the end of the use of the Wage Guarantee Fund.

Also on March 21, 2017, the procedure for personnel reduction for the Company Trenno, involving a total of 17 people (at the Milan and Montecatini premises) started and some meetings for a joint analysis are under way, pursuant to article 4 of the Law 223/91. The union representatives requested to the Company to extend the terms in order to carry out these analyses and an in-depth study in order to define the above-described possible solutions. In this extension period, the same representatives would freeze any union initiatives already planned or to be planned by the employees general meeting.

For the company SNAI Rete Italia, during 2016, a review of the organisational model, which now does no longer include a direct management of the activities performed by the agencies, was carried out. Therefore, the number of direct agencies was reduced by closing the businesses and through some personnel reduction, as well as through the sale of business units.

40.4 Rejection of a petition against the resolution of June 9, 2016

On June 13, 2017 – SNAITECH S.p.A. has stated that, within the proceeding challenging the resolution issued by the shareholders' meeting of SNAITECH on June 9, 2016, concerning the third agenda item (for the appointment of the members of the Board of Directors of the Company), promoted by some shareholders of SNAITECH and already the subject matter of a communication to the market dated September 12, 2016, on January 11, 2017 the Court of Florence has rejected the interim application aimed at obtaining the suspension of the implementation of the above resolution, thus accepting the arguments of the Company and ruling as unsubstantiated both the so called “fumus boni iuris”, i.e. the appearance of the validity of the claims of the petitioners, and the reasons for urgency brought up by the petitioners. More specifically, the Judge has confirmed the correctness of the actions taken by the Chairman of the Shareholders' Meeting in ensuring the presence of a connection between the list submitted by the petitioner and the other list submitted by the majority shareholder of SNAITECH, Global Games S.p.A.

The Judge has confirmed the legitimacy of the actions undertaken by the Company and by the Chairman in managing the shareholders' meeting of June 9, 2016.

On January 25, 2017, the petitioners have filed a complaint against the judgement of the Court of Florence; the related appeal and the decree scheduling the hearing were notified on February 27, 2017. The hearing was held on April 03, 2017. The Board intends to decide about the complaint.

40.5 Expiry of betting licenses

On March 14, 2017, ADM has informed the Company of the expiry and revocation, due to the interruption of waging for a number of days exceeding the number set forth in the concession agreement, of 27 licenses for the waging of horse racing and sports bets.

It should be noted that the interruption of the waging is due to an illegal withdrawal carried out by the shop operator in breach of the contractual conditions. Following the complaint filed by the Company with a request for a stay of execution, the Chairman of TAR has rejected the request, without reasons, moving the hearing to April 26, 2017 for the discussion of said stay of execution.

With a decree of April 06, 2017, the second individual interim motion was rejected with a confirmation of the scheduled chambers for discussing the collective interim motion at April 26, 2017.

With a Court Order of April 27, 2017, the Regional Administrative Court rejected also the collective interim motion.

40.6 Consistency assessments of the gaming systems and VLT gaming machines - amount related to 2016

With notice no. 36293 of April 03, 2017 (“ADM Note of April 03, 2017”), ADM - Gaming Machines Office - requested SNAI to pay Euro 283,945.07 to cover costs for the consistency assessments on gaming systems and VLT gaming machines performed by the technological partner SOGEI S.p.A. in 2016, in relation to which ADM made annual prepayments in favour of SOGEI S.p.A..

The Company will file a motion within the legal terms, with the Lazio Regional Administrative Court for invalidating the provision.

40.7 Approval of Budget and Business Plan 2017 – 2019

In April 2017, the Directors approved the Budget for the year 2017 and the Three Year Plan 2017-2019.

40.8 Corrective measure of public accounts

On April 24, 2017, the Law Decree no. 50 of April 24, 2017, with “Urgent financial measures, initiatives in favour of territorial entities, additional interventions for the areas struck by seismic events and development measures” was published in the Official Gazette.

In particular, article 6 of the above decree provides for the increase in the PREU tax by:

- 1.5 percentage points for the gaming machines, paragraph 6, letter a), of TULPS - called AWP – raising it to 19% of the amounts bet;
- 0.5 percentage points for the gaming machines, paragraph 6, letter b), of TULPS - called VLT – raising it to 6% of the amounts bet.

The increase in tax is effective immediately from the publication date of the law decree in the Official Gazette.

In addition, the same article sets forth the following provisions, effective as from October 1, 2017:

- double tax on the wins exceeding Euro 500 for instant lotteries, VLT, SuperEnalotto and Win for Life which is raised from 6 to 12%;
- increase in the tax on wins from the Lottery which is raised from 6 to 8%.

Corporate Management has verified, for the purpose of impairment test on the goodwill, that the above changes, similar to other conditions, would have not entailed a write-down of the goodwill.

40.9 ADM and SNAITECH S.p.A./A.GI.SCO. - rejection of the exercise of control power on agreements between concession holders and managers

On July 15, 2014, A.GI.SCO asked ADM to exercise control powers regarding the agreement executed by some of its associates with SNAITECH, for the management of betting collection points (deriving from the so-called “Monti tender”). AGISCO with a motion (not notified to SNAITECH), acted against the silence of ADM and with additional arguments (notified also to SNAITECH), challenged the ADM notice of December 24, 2014 with which ADM had stated that it did not have any additional powers other than to hope for constructive negotiations between the concession holders and managers, since the relationships between them fall under the scope of private law - as are the related negotiations.

The Lazio Regional Administrative Court, with judgement dated March 29, 2017, declared as non-admissible the main motion (since it was not notified to SNAITECH) and accepted the additional arguments, deeming that ADM held the power (i) to authorise the framework agreements, pursuant to article 15 of the agreement executed with SNAITECH, and that it should have informed AGISCO on whether and when it had authorised the framework agreement, or (ii) to exercise, both then and now, the power of control on the provisions stated in the framework agreement. The judgement was notified to SNAITECH on April 27, 2017 and the Company has already taken steps to appeal it.

40.10 Unified Conference (State/Regions Joint Conference)

The Unified Conference was called to discuss, amongst other things, the possible agreement areas between the government and local entities, in order to regulate and harmonize standards concerning legal gaming in Italy. The Under-Secretary, Pier Paolo Baretta, has submitted the new proposal from the Government – which acknowledges the motions filed by the Mayors and the Regions – for the reorganisation of the territorial distribution, at the Unified Conference level, but an agreement has not yet been reached. The Under-Secretary hopes for the approval of a Decree by June 30, 2017.

As envisaged by the 2016 Stability Law, this agreement is condition precedent for the launching of the tender for the renewal of concessions on betting, with expiration date of June 30, 2016, and which are currently being extended. The date for the new tender has not yet been set.

Other Disclosures

These explanatory notes supplement the information included in Schedule 1 “Composition of the SNAITECH Group at March 31, 2017”.

The annexes form an integral part of these notes and provide additional details and explanations of the relevant items in the financial statements.

The financial statements of consolidated subsidiaries and affiliates are all expressed in Euros.

These financial statements are a true and faithful representation of the consolidated net worth, financial and earnings position for the period and reflect the accounting records.

For the Board of Directors
Fabio Schiavolin
(The Managing Director)

Milan, May 15, 2017

The director in charge of the preparation of the corporate accounting documents, Mr. Chiaffredo Rinaudo, declares, pursuant to paragraph 5, Art. 154-bis of the Finance Act, that the accounting information contained in these Condensed Consolidated Interim Financial Statements are consistent with the information contained in the documents, books and accounting records.

SCHEDULE 1

Composition of the SNAITECH Group as of March 31, 2017

(thousands of Euro)

Name	Head office	Share Capital	Owned percentage	Note	Type of business	Consolidation method/Valuation criteria
- SNAITECH S.p.A.	Milan (MI)	97.982	Parent Company		Acceptance of horse racing and sports betting through its own concessions - coordination of operations of subsidiaries and any electronic operation of dissemination of data and services for betting agencies - electronic operation of the connection network of gaming machines - skill games	Line-by-line basis
Subsidiaries:						
- Società Trenno S.r.l. held by a sole quotaholder	Milan (MI)	1.932	100,00%	(1)	Organization and operation of horse races and the training centre	Line-by-line basis
- Teleippica S.r.l. held by a sole quotaholder	Porcari (LU)	2.540	100,00%	(2)	Dissemination of information and events through all means permitted by technology and regulatory provisions in force now and in the future with the exception of publication in newspapers	Line-by-line basis
- SNAI rete Italia S.r.l. held by a sole quotaholder	Milan (MI)	10	100,00%	(3)	Acquisition of shareholdings in companies managing sales points, as well as at the centralisation and management of direct sales points	Line-by-line basis
- IziLove Fondation	Milan (MI)	100	100,00%	(4)	Non-profit Foundation - Social solidarity and charity	Line-by-line basis
- Teseo S.r.l. in liquidation	Palermo (PA)	1.032	100,00%	(5)	Design and planning of betting management software systems	Shareholders' Equity
Affiliates:						
- HIPPOGROUP Roma Capannelle S.p.A.	Rome (RM)	945	27,78%	(6)	Organization and operation of horse races and the training centre	Shareholders' Equity
- Solar S.A.	LUXEMBOURG	31	30,00%	(7)	Financial company	Shareholders' Equity
- Alfea S.p.A.	Pisa (PI)	1.006	30,70%	(8)	Organization and operation of horse races and the training centre	Shareholders' Equity
- Connex S.r.l. in liquidation	Porcari (LU)	82	25,00%	(9)	Distribution and assistance of electronic services, hardware and software	Shareholders' Equity
Other companies:						
- Lexorfin S.r.l.	Rome (RM)	1.500	2,44%	(10)	Financial holding company in the horse race sector	Cost

Notes on the composition of the SNAITECH Group

- (1) Wholly-owned subsidiary of SNAITECH S.p.A., as a result of the merger by incorporation of Ippodromi San Siro S.p.A. (formerly Società Trenno S.p.A.). The Company was incorporated on July 27, 2006, and on September 15, 2006 Ippodromi San Siro S.p.A. contributed its "horse racing operations" business unit.
- (2) Acquired by third parties on 5 May, 2000. On 2 October 2003, the extraordinary shareholders' meeting changed the Company's name from SOGEST Società Gestione Servizi Termali S.r.l. to Teleippica S.r.l., and also its corporate purpose. Over the course of 2005, the extraordinary shareholders' meeting resolved to increase the share capital to Euro 2,540,000. On January 31, 2011 SNAITECH S.p.A. acquired control of 80.5% of the share capital of Teleippica S.r.l. from SNAI Servizi S.p.A. SNAITECH S.p.A. owns 100% of the share capital of Teleippica S.r.l.
- (3) On April 03, 2015, the new Company named SNAI Rete Italia S.r.l., 100% owned by SNAITECH S.p.A., was incorporated with share capital of Euro 10 thousand, also aimed at the acquisition of shareholdings in companies managing sales points, as well as at the centralisation and management of direct sales points. On October 24, 2016 (effective on November 1, 2016) SNAI Rete Italia S.r.l. incorporated, through merger, Finscom S.r.l.. With a resolution issued by the Shareholders' Meeting on December 21, 2016 (recorded in the Companies Registry on December 28, 2016) the registered office changed from Porcari (LU) to Milan.
- (4) Wholly-owned subsidiary through Cogetech S.p.A., acquired with the merger of the Cogemat Group on November 19, 2015.
- (5) Incorporated on November 13, 1996, and acquired by SNAITECH S.p.A. on December 30, 1999. On August 03, 2001, Teseo S.r.l. entered winding-up.
- (6) On January 12, 2011, the shareholders' meeting of Hippogroup Roma Capannelle S.p.A. resolved, inter alia, to reduce the share capital to Euro 944,520.00. SNAITECH S.p.A.'s shareholding remained unchanged at 27.78%.
- (7) A company incorporated under Luxembourg law on March 10, 2006 by SNAITECH S.p.A., which holds 30%, and FCCD Limited, a company incorporated under Irish law, which holds 70%.
- (8) 30.70% shareholding already held in Ippodromi San Siro S.p.A. (former Società Trenno S.p.A.), now merged into SNAITECH S.p.A..
- (9) On December 07, 2000, the shareholding in Connex S.r.l. was acquired through the purchase of option rights from former shareholders, and the subsequent subscription (and payment) of the share capital increase reserved to the holders of those rights. On February 04, 2015, the shareholders' meeting resolved to wind up the company. Under bankruptcy procedure since October 2015.
- (10) Shareholding of 2.44% acquired on July 19, 1999 by Società Trenno S.p.A., which was subsequently merged into SNAITECH S.p.A., by incorporation.