# Gamenet Group S.p.A.

# Consolidated Financial Statements

Registered office in Corso D'Italia 6 – 00198 ROMA (RM)
Share capital Euro 30.000.000 fully paid up
Fiscal code 13917321005
REA (Rome) registration number 1482648

**DIRECTORS' REPORT**

## CORPORATE BODIES AND EXTERNAL AUDITOR

### BOARD OF DIRECTORS

| | |
|---|---|
| Vittorio Pignatti Morano Campori | Chairman |
| Guglielmo Angelozzi | Director and Chief Executive Officer |
| Giacinto D'Onofrio | Director |
| Marco Conte | Director |
| Laura Ciambellotti | Director |
| Antonios Kerastaris | Director |
| Giacomo Pignatti Morano | Director |
| Claudia Ricchetti | Director |
| Daniela Saitta | Director |

### BOARD OF STATUTORY AUDITORS

| | |
|---|---|
| Giovanni Fiori | Chairman |
| Francesca Di Donato | Auditor |
| Maurizio De Magistris | Auditor |
| Maria Federica Izzo | Alternate Auditor |
| Francesco Mariano Bonifacio | Alternate Auditor |

### INDEPENDENT EXTERNAL AUDITOR

(nominated by the Shareholders' Meeting on August 23, 2017 for a period of 9 years)

PricewaterhouseCoopers S.p.A.

Dear Shareholders

We hereby submit the consolidated financial statements of Gamenet Group S.p.A. (hereafter **"Gamenet Group**", the "**Company**" or the "**Parent**" and together with its subsidiaries and associates the "**Group**" or "**Gamenet Group**"), a company incorporated and domiciled in Italy, with registered offices in Rome, Corso d'Italia 6, organized under the laws of the Republic of Italy.

The Company was incorporated on June 21, 2016 to effect the acquisition (hereafter the "Acquisition") on June 27, 2016, effective July 1, 2016, of Intralot Holding & Services S.p.A. (hereafter "Intralot") by Gamenet S.p.A. (hereafter "Gamenet"), following agreement between Trilantic Capital Partners Europe, the controlling shareholder of Gamenet, and the Dutch company Intralot Italian Investments B.V. (previously Intralot Global Holdings B.V.), hereafter "**Intralot B.V.**", the controlling shareholder of Intralot, with a view to integrating the Italian operations of the two groups. The Company was initially controlled by TCP Lux Euroinvest S.à.r.l. (hereafter "TCP"), which held 79.1% of the share capital, with the remaining share capital being held 20% **Intralot B.V.**, and 0.9% by Stefano Francolini. On December 4, 2017, the Company published the final results of the share offering, which had been limited to institutional investors and was aimed at having the Company's ordinary shares listed on the STAR segment of the Mercato Telematico Azionario (the "MTA"), the Italian screen-based trading system managed by Borsa Italiana S.p.A. Including the shares relating to the greenshoe option exercised on December 13, 2017, the institutional placement involved some 10,429,838 shares. As a result, TCP and Intralot B.V. respectively now hold 45.23% and 20% of the Company's share capital, with the market holding the remaining 34.77%.

The Company is one of the most significant players in the Italian gaming market, with a network of around 750 betting rights, 8,570 VLT rights, 39,846 AWP operating permits, 635 of them ) would be revoked[1], and around 10,600 gaming halls, of which 68 directly managed.

In accordance with the applicable accounting standards, financial information reported in the consolidated financial statements for the period from January 1, 2016 to the Acquisition date relates solely to Gamenet, while information for the period from the Acquisition date to December 31, 2017 also relates to companies in the Intralot group.

The Acquisition that took place during 2016 further improved the Group's financial position and net financial debt and created the basis for further and more straightforward growth in future years.

This report on operations has been prepared to provide additional information and offer a more complete representation of the Group's financial position and economic results.

The following table provides details of the main financial and economic indicators, as of and for the years ended December 31, 2017 and 2016:

| ***(in thousands of Euro)*** | **As of and for the year ended December 31,** | |
|---|---|---|
| | **2017** | **2016** |
| Revenues | 619,309 | 537,495 |
| EBITDA (**) | 82,080 | 70,206 |
| Net profit (loss) for the year | 1,152 | (3,019) |
| Shareholders' Equity | 68,741 | 65,885 |
| Net financial debt - ESMA(**) | (163,046) | (171,671) |
| Net financial debt - Gamenet Group (**) | (153,252) | (158,797) |

*(**) As permitted by Consob Communication DEM/6064293 of July 28, 2006 as subsequently amended and supplemented by Consob Communication no. 0092543 of December 3, 2015, which reflects ESMA guidelines on alternative performance indicators, this report, in addition to references to recognized IFRS financial measures, also makes reference to certain non-GAAP measures, which although derived from IFRS are not defined under IFRS. Such measures are presented to aid understanding of the Group's financial performance and should not be considered as alternatives to recognized IFRS measures for the purposes of measuring the Group's performance and financial position.*

1 For more details see next paragraph

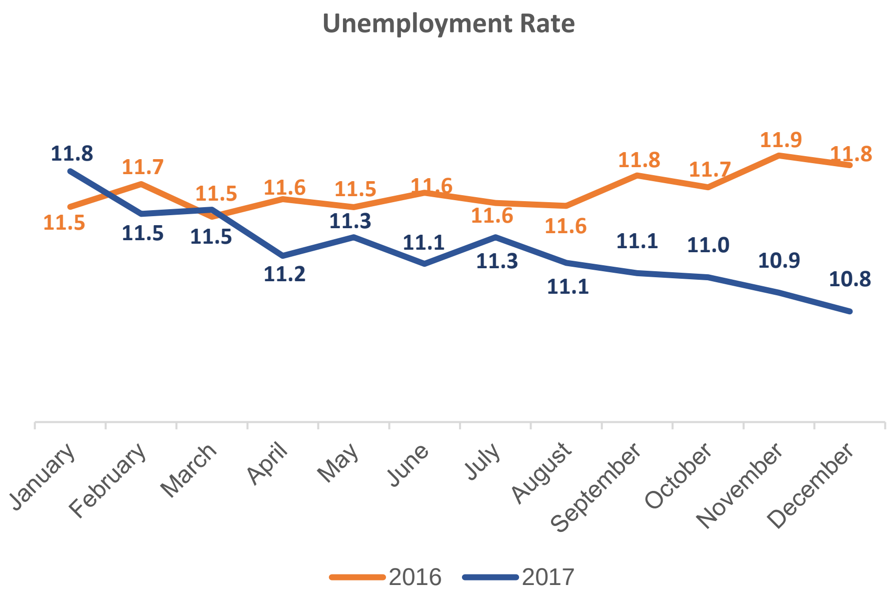
## 1. Macroeconomic context[2]

Global economic growth in 2017 remained strong and wide-spread, with a favorable short-term outlook in the principal advanced and emerging economies. Inflation, however, remained low. The main risks for the global economy still relate to potential higher volatility in the financial markets, linked to intensification of geopolitical tensions (in particular regarding North Korea) and greater uncertainty surrounding the future course of international economic policies that could have a negative impact on consumer and business confidence.

In the euro area the outlook for growth continued to improve in 2017 fueled by overseas demand and inflation remained low, standing at 1.4 percent in December[3]. Based on the most recent projections, euro-area GDP is expected to grow by 2.3% in 2018 (2.4% in 2017), while deflation expectations have dissipated.

The Italian economy picked-up in the third quarter of 2017 and by the end of the year, GDP had recorded an increase of around 1.5% with respect to 2016[4], sustained by increased value-added in both services and industry. Domestic demand and exports contributed equally to the increase in GDP, aided in particular by capital investment and overseas trade, with exports outstripping imports. The overall positive trend in 2017, however, remained below the euro-area average for recent quarters, although there was an acceleration in investment expenditure in the second half of the year.

Employment continued to rise in the third quarter and in the final months of 2017. The number of hours worked also increased while remaining, however, below pre-crisis levels. The increase in employment figures mainly related to fixed term contracts. In general, since the beginning of 2015 with the introduction of the Jobs Act and tax incentives for new hires during 2016, employment figures have increased by around 900, 000. The increase in the number of both fixed-term and permanent contract employees (up 600,000 and 500,000 respectively) has been offset by a fall in the number of the self-employed (down 200,00), mainly due to fewer cooperation agreements[5]. According to the labor force survey, the unemployment rate stood at 10.8% per cent in December 2017[6].




Notwithstanding a recovery in producer prices, consumer price inflation in Italy remained weak in 2017, reaching only 1.0 per cent in December; core inflation was particularly low, at 0.5 per cent. According to surveys, firms' inflation expectations continue to be subdued, but are above the low levels recorded at the end of 2016.

The expansion in lending to households is strong and lending to firms, especially manufacturing firms, is also growing. Business demand for bank loans in 2017 was limited by the ample availability of internal funds and greater recourse to bond issues.

2 Bank of Italy – Economic Bulletin n.1/2018

3 Based on national statistics and Eurostat and ECB data

4 Istat - initial GDP forecasts

5 Istat, *Conti economici trimestrali* e *Rilevazione sulle forze di lavoro*..

6 Istat, extract from monthly unemployment rate figures

**2. Gaming sector regulation and the evolution of gaming tax**

In accordance with Article 43 of the Italian Constitution, a legal reserve regime is applied to public gaming in Italy; indeed, the State retains all rights relating to the organization and operation of public gaming (Article 1 of Legislative Decree no. 496 of April 14, 1948), thereby excluding unregulated initiative by private individuals who, in order to operate legal gaming activities, are required to apply for, and obtain, relevant concessions.

The rationale for the State's involvement in the gaming industry is the need to ensure tax revenues at levels compatible with the protection of other relevant public interests, namely, consumer protection and the fight against crime.

Regulation of the gaming sector is the responsibility of the Ministry of the Economy and Finance and, specifically, of the Customs and Monopolies Agency, - hereafter "ADM" - (the "Agenzia delle Dogane e dei Monopoli", formerly the "Amministrazione Autonoma dei Monopoli dello Stato" - as provided for in Presidential Decree no. 33 of January 24, 2002, implementing Article 12 of Law no. 383 of October 18, 2001), which sets guidelines for the rational and dynamic development of the industry and verifies the lawfulness of the operations of concessionaires.

Specifically, the ADM, which is the authority with responsibility for the gaming sector, entrusts the operation of gaming activities to entities that it selects through open and non-discriminatory competitive (depending on the segment) tenders, in accordance with the principles laid down in EU and national rules regarding concessions.

The ADM regulates the public gaming sector through ongoing monitoring of the gaming operations of concessionaires and targeted action to combat any irregularities. In addition, it performs a control function in relation to the assessment of the sector specific taxes: specifically, the flat-rate tax - the Prelievo Erariale Unico, which was introduced by Article 39 of Decree Law no. 269 of September 30, 2003, as amended and converted by Law no. 326 of November 24, 2003 – (hereafter, the PREU) in the case of ADIs (entertainment devices pursuant to Article 110, Paragraph 6 of the TULPS); and the flat-rate tax on bets, pursuant to Legislative Decree no. 504 of December 23, 1998 in the case of betting.

The PREU due to the ADM is calculated by applying the required percentage rate to the total of bets placed.

With regard to the VLT segment - pursuant to Article 110, Paragraph 6.b of the Consolidated Text of Public Safety Laws (TULPS) - the ADM Directorial Decree of October 28, 2011, which was issued within the scope of the powers granted by Decree Law no. 138/2011, as converted by Law no. 148/2011, set the PREU rate for 2015 at 5.0%. For 2016, the Stability Law no. 208 of December 28, 2015 under Article 1, Paragraph 919, provided for an increase in the PREU rate to 5.5%.

The PREU was further increased as of April 24, 2017: specifically, Decree Law no. 50 of April 24, 2017 as amended and converted into law by Article 6, Paragraph 1 of Law no. 96 of June 21, 2017 increased the PREU tax to 6%.

Moreover, Article 6, Paragraphs 3 and 4 of the same Decree Law provide for an increase, effective October 1, 2017, in the tax applicable to the quota of winnings from VLTs exceeding Euro 500 from 6% (as provided in Article 5, Para. 1 (a) of the ADM Directorial Decree of October 12, 2011) to 12%.

With regard to the AWP segment - pursuant to Article 110, Paragraph 6.a. of the TULPS - the aforementioned ADM Directorial Decree also provided, with effect from January 1, 2015, for a PREU rate of 13%. For 2016, the Stability Law no. 208 of December 28, 2015 under Article 1, Paragraph 919, provided for an increase in the PREU rate to 17.5%. Furthermore, starting from January 1, 2016, the payout must be no less than 70% (previously 74%).

The aforementioned Decree Law no. 50 of April 24, 2017 as amended and converted into law by Law no. 96 of June 21, 2017 increased the PREU tax on AWP revenues to 19%, with effect from April 24, 2017.

It is recalled that, given that revenues are recognized net of the PREU tax and winnings paid, any changes in the PREU tax rate, if not offset by a similar reduction in winnings paid, generates a negative impact on revenues.

It is noted that since VLTs were introduced to the Italian market, concessionaires have made payouts in excess of the minimum legal thresholds. Such policy is aimed at increasing customer loyalty and the creation of a positive gaming experience.

The following table shows the minimum payout levels set, expressed as a percentage of bet, for the AWP and VLT gaming segments for the years ended December 31, 2016 and 2017.

| | As of and for the year ended December 31, | |
|---|---|---|
| | **2017** | **2016** |
| **Payout set by ADM** | | |
| AWP | 70,0% | 70,0% |
| VLT | 85,0% | 85,0% |

To provide an overview of the laws and regulations that had an impact on 2017, it is important to recall that:

- the 2016 Stability Law (Law no. 208 of December 28, 2015) provided as follows:

  Paragraph 936 provided that the Joint Conference would define: a) the characteristics of wager collection points; and b) the criteria for the territorial distribution and concentration of points of sale where public gaming wagers are collected. The objective of such ruling is to guarantee the highest levels of security in order to protect health, public order and player trust and prevent access to minors.

  On May 5, 2016, the Joint Conference began its review of gaming sector regulations, which is still ongoing. The objective of the review is consideration of a series of measures aimed at controlling the gaming offering through a significant reduction and concentration of the number of sales points and the introduction of higher standards aimed at preventing and limiting the risks of pathological gaming.

  On September 7, 2017, the Joint Conference (comprising representatives of Italian national and regional governments, as well as local authorities) reached a non-binding consensus regarding public gaming points of sale.

  Once the details of such consensus are implemented, laws and regulations issued by Regions and local authorities regarding the gaming sector must take into account the new requirements on the maximum number of sales points permitted (10,000 betting shops or points of sale offering gaming products as their main activity, 5000 corner shops offering gaming products as a secondary activity, 3,000 VLT and Bingo halls and 30,000-35,000 points of sale able to obtain licenses to offer gaming services).

  All 55,000 sales points that will remain at a national level following such reduction will be certified (classified as Type A). Certification of sales points offering gaming products will be based on a series of criteria set by the Joint Conference, such as: selective access, complete identification of players, the elimination of excessive imagery encouraging gaming, standard furniture and lights, public display of gaming certification, checks on the physical availability of gaming, checks on the minimum and maximum gaming machines permitted, etc. At the end of the three-year transition period, only certified points of sale will be authorized to host AWPs.

  The Joint Conference requested the Italian Ministry of Economy and Finance to implement the principles set out in its consensus (and summarized above) in a ministerial decree by October 31, 2017, however, to date, no such action has been taken.

- Article 6-bis of Decree Law no. 50 of April 24, 2017 as amended and converted into law by Law no. 96 of June 21, 2017 interpreted the provisions of Article 1, Paragraph 943 of Law no. 208 of December 28, 2015 (i.e. the reduction by each concessionaire of not less than 30 percent in number of the operating permits relating to devices in operation as of July 31, 2015) and provided that such reduction be implemented in accordance with the following terms of a Decree of the Ministry of Economy and Finance to be issued by July 31, 2017 (actually issued on July 25, 2017):
  a) by December 31, 2017, to reduce the number of active AWPs to a maximum of 345,000; and
  b) by April 30, 2018, to further reduce the number of active AWPs to a maximum of 265,000.

In the event of non-compliance, the Decree provides that the ADM may: cancel operating permits held by individual concessionaires where these exceed the thresholds (when considered as a proportion of the revenues generated by terminals registered in each region in the previous 12 months); and order the deactivation of the terminals exceeding such thresholds and apply an administrative sanction equal to Euro 10,000 for each terminal.

On October 6, 2017, the ADI Office of the ADM issued a communication (no. 106788) informing that it would be necessary to reduce the total existing number of operating permits by 15.25% to reach the maximum permitted number of 345,000. Then on November 22, 2017, the ADI Office of the ADM informed Gamenet (in Note no. 128795) that it would be permitted a maximum of 39,211 and 30,119 AWP operating permits as of December 31, 2017 and April 30, 2018 respectively. On January 17, 2018, the ADI Office of the ADM informed Gamenet (in Note no. 6797) that 635 of its existing operating permits (in excess of the permitted maximum number of 39,211) would be revoked. Gamenet then proceeded by 02/02/2018 (deadline set by the ADM for the blocking and disposal of the devices in excess) to completion of the activities useful for the termination of revocation procedure (Note ADM no. 22194 of 19/02/2018) without application of the 10,000 euros fine provided by art. 3, paragraph 4, of the Ministerial Decree of 25/07/2017.

## 3. Italian gaming market and the Group's positioning

Total collections in the Italian gaming market amounted to Euro 101.8 billion in 2016 (+ 6.0% on the previous year). The following table shows the latest available figures relating to the gaming market:

| in €/million | 2017 | | 2016 | | 2017 vs 2016 |
|---|---|---|---|---|---|
| | Bet (1) | % on Bet | Bet (1) | % on Bet | % |
| Machines (AWP and VLT) | 49.181 | 48.3 % | 49.676 | 51.7% | -1.0% |
| Betting | 9.976 | 9.8% | 7.505 | 7.8% | 32.9% |
| Other Games | 42.691 | 41.9% | 38.913 | 40.5% | 9.7% |
| **Total** | **101.848** | **100.00%** | **96.094** | **100.00%** | **6.0%** |

!1) Bet refers to the total amount of wagers on which gaming taxes are applied
Source - ADM, Raccolta ed entrate erariali dai giochi (riepilogo per gioco).

The Gamenet Group is one of the major operators in the gaming market in terms of total bets collected and size of distribution network, with Euro 7.1 billion in bets collected during the year ended December 31, 2017 through our network of approximately 10,600 points of sale.

Specifically, as of December 31, 2017, the Group's distribution network included 770 gaming halls, of which 68 managed directly, including 44 belonging to the Gamenet Entertainment brand, 4 belonging to the Billions Italia brand and 19 belonging to the Enjoy The Game brand. Indeed, since 2012, the Group has followed a strategy of vertical integration through the direct management of owned gaming halls and AWPs.

The Gamenet Group operates in four main operating segments: i) video lottery terminals ("**VLT**s"), (ii) amusement with prize ("**AWP**s"), (iii) betting and online businesses ("**Betting and Online**") and (iv) direct management of owned gaming halls and AWPs ("**Retail and Street Operations**").

The four operating segments are described below:

## AWP

AWPs were first approved for use in Italy in 2004. They are relatively easy to play and offer players a good level of interaction, through the use of a graphical reel containing pictures.

The maximum cost of each single game is Euro 1.00 and each game may last between 4 and 13 seconds. Any winnings must be distributed immediately after the game (only) in coins and jackpots are not permitted. By law, monetary winnings must not exceed Euro 100 for a single play. The machine must calculate the winnings in an unpredictable way over a cycle of a maximum of 140,000 games. The Italian Stability Law of 2016 increased the PREU on AWPs from

13% to 17.5%, thereby reducing the minimum pay-out ratio from 74% to 70% of wagers; then with effect from April 24, 2017 Decree Law No. 50 of April 24, 2017, as converted with amendments into law by Law No. 96 of June 21, 2017, the PREU tax was increased to 19%.

New slot machines may not reproduce the game of poker nor, even partially, its basic rules.

New slot machines may be installed in all authorized betting shops pursuant to Articles 86 or 88 of the TULPS, including bars, coffee shops and similar outlets, public gaming halls, horse racing and sports betting shops and agencies, etc.

In 2017, Gamenet Group collected AWP bets totaling Euro 2,677 million, representing an increase of 8.8% compared to the previous year when collections totaled Euro 2,460 million.

In 2017, Gamenet Group acquired ten AWP businesses as part of the Company's distribution insourcing strategy.

It is recalled that at December 31, 2017, the Group had 39,846 permits of which 635 subject to revocation procedure terminated with Note ADM no. 22194 of 19/02/2018, because the maximum permitted number was equal to 39,211 as explained in previous paragraph 2.

## VLT

VLTs, which were first approved for use in Italy in 2009 but only introduced in the second semester of 2010, are technologically advanced gaming machines that are directly controlled remotely by the concessionaire. They are similar to slot machines, except that they are connected to a centralized computer system that determines the outcome of each wager by using a random number generator located inside the terminal.

Relevant legislation requires that bets per game may range from a minimum of Euro 0.50 to a maximum of Euro 10, with payouts up of to Euro 5,000 as well as the chance to win jackpots of up to Euro 500,000; the percentage of bets paid out as winnings may not be lower than 85%. Indeed, it is the chance of higher average winnings with respect to other games that makes VLTs the most innovative and attractive gaming solution for players.

Gamenet currently offers three VLT platforms (Spielo, Novomatic and Inspired) which differ in terms of the games on offer and whether or not jackpots are foreseen. The maximum payout for a single game is Euro 5,000, however, as noted above, in certain cases higher winnings are possible as a result of the Jackpot mechanism.

In 2017, Gamenet Group collected VLT bets totaling Euro 3,210 million, representing an increase of 1.7% compared to the previous year, when VLT bet collected totaled Euro 3,156 million.

In 2017, Gamenet Group acquired one VLT business.

## Betting and Online

The sports-based betting segment (both physical and online) collected Euro 9.8 billion in 2017, representing an increase of 33% compared to 2016[7]. Within online gaming (which differs from sports betting) collections from online casino games, slots and poker increased by 24%[8].

Gamenet Group is active in the betting and online games segment through its subsidiaries Intralot Italia, Gamenet Scommesse and Veneta Servizi. which offer their customers a wide range of games including, but not limited to: poker, casino games, bingo, horse racing and other sports betting.

In 2017, total collections in the Betting and Online segment amounted to Euro 739 million, representing an increase of more than 100% with respect to the previous year when bet collection (including the contribution of the Italian business of the Intralot Group for the period July-December 2016) totaled Euro 355 million.

## Retail and Street Operations

In 2012, Gamenet Group began to pursue a strategy of vertical integration in the Retail segment (involving the direct management of owned gaming halls) by establishing Gamenet Entertainment (and such business was subsequently supplemented by direct management of owned AWPs – so called Street Operations). Significant efforts have resulted in

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7 Source: AAMS, Raccolta ed entrate erariali dai giochi (riepilogo per gioco)

8 Source: Jamma, *Giochi e scommesse. Nel 2017 puntate per oltre 100 miliardi di euro*, January 3, 2018

the Group now directly managing 68 company-owned gaming halls, with bet and numbers of gaming halls both forecast to grow in 2018. Bet increased from Euro 442 million in 2016 to Euro 474 million in 2017, representing an increase of 7.3%. It is noted that, after reclassifying bet generated in company owned gaming halls (through machines connected to the Gamenet Concessionaire), in 2017 the Retail and Street Operations segment generated around Euro 941 million worth of bet (Euro 759 million in 2016).

In recent years, Gamenet Group has invested in its vertical integration strategy through:

- Retail business:
  - the acquisition in March 2015 of 51% of Billions Italia Srl (which opened a new hall during 2017);
  - the acquisition through Gamenet Entertainment (into which it was merged by incorporation on November 1, 2017) of 100% of Gamecity S.r.l. in August 2016;
  - the start, during 2016, of the operations of the hall managed by Verve S.p.A., which is now owned 100% following the increase in the Group's shareholding (from 51%) in May 2017 and was merged by incorporation into Gamenet Entertainment S.p.A. on November 1, 2017. Both Gamecity and Verve have a specific focus on large gaming halls;
  - the acquisition in March 2017, through Gamenet Entertainment S.r.l., of 60%, subsequently increased to 85%, of the share capital of La Chance S.r.l. and, indirectly, 100% of the share capital of Slot Planet (wholly owned by La Chance).
- Street Operations business:
  - the acquisition in August 2015 of 100% of Gnetwork S.r.l.;
  - the acquisition in June 2016 of 70% of Jolly Videogiochi S.r.l.;
  - the acquisition in in June 2016 of 51% di NewMatic S.r.l.;
  - the acquisition in July 2016 of 60% of Agesoft S.r.l., a company specialized in the development of software for the AWP business;
  - the acquisition in October 2017, through Jolly Videogiochi S.r.l., of 51% of the share capital of RosilSport S.r.l..

**4. Review of Gamenet Group results**

The following table shows the income statements for the years ended December 31, 2017 and 2016.

It is noted that all 2016-related income statement figures and business data (collections, payout, number of points of sale, rights etc.) in this report relating to Gamenet Group consolidated companies with a Gamenet background refer to a 12-month period. On the other hand, the income statement figures and business data relating to consolidated companies coming of the Intralot Group refer solely to the period from July – December 2016.

| | **For the twelve months ended Decemeber 31,** | | | | **Change** | |
|---|---|---|---|---|---|---|
| *(in thousands of Euro)* | **2017** | **% of revenues** | **2016** | **% of revenues** | **(amount)** | **%** |
| Revenues | 619,309 | 100.0% | 537,495 | 100.0% | 81,814 | 15.2% |
| Other income | 4,327 | 0.7% | 3,510 | 0.7% | 817 | >100% |
| **Total revenues and income** | **623,636** | **100.7%** | **541,005** | **100.7%** | **82,631** | **15.3%** |
| Cost of services | (514,009) | -83.0% | (445,200) | -82.8% | (68,809) | 15.5% |
| Personnel expenses | (34,048) | -5.5% | (24,742) | -4.6% | (9,306) | 37.6% |
| Other operating costs | (8,370) | -1.4% | (3,944) | -0.7% | (4,426) | >100% |
| Depreciation, amortization and impairments | (40,327) | -6.5% | (32,426) | -6.0% | (7,901) | 24.4% |
| Accruals and impairments | (7,071) | -1.1% | (3,151) | -0.6% | (3,920) | 124.4% |
| Net finance (expenses)/income | (16,584) | -2.7% | (25,557) | -4.8% | 8,973 | -35.1% |
| Share of profit/(loss) of equity accounted investments | (15) | 0.0% | - | 0.0% | (15) | 100.0% |
| Impairment of financial assets | - | 0.0% | (57) | 0.0% | 57 | 0.0% |
| **Profit before tax** | **3,212** | **0.5%** | **5,928** | **1.1%** | **(2,716)** | **-45.8%** |
| Income tax expense | (2,060) | -0.3% | (8,947) | -1.7% | 6,887 | -77.0% |
| **Net profit (loss) for the period** | **1,152** | **0.2%** | **(3,019)** | -0.6% | 4,171 | <100% |

**Revenues**

The following table provides a breakdown of revenues by operating segment for the years ended December 31, 2017 and 2016.

| | As of and for the year ended 31 dicember, | | | | Change | |
|---|---|---|---|---|---|---|
| | 2017 | % of revenues | 2016 | % of revenues | (Euro) | % |
| AWP | 307,613 | 49.67% | 267,287 | 49.73% | 40,326 | 15.09% |
| VLT | 207,276 | 33.47% | 213,288 | 39.68% | -6,012 | -2.82% |
| Betting and Online | 84,477 | 13.46% | 38,413 | 7. 1% | 46,064 | 119.72% |
| Retail and Street Operations | 19,943 | 3.22% | 18,507 | 3.44% | 1,436 | 7.76% |
| **Totale** | **619,309** | **100.00%** | **537,495** | **100.00%** | **81,814** | **15.22%** |

Revenues for the year ended December 31, 2017 totaled Euro 619.3 million, an increase of Euro 81.8 million (+15.2%) with respect to Euro 537.5 million for the year ended December 31, 2016.
The increase was mainly due to: the growth of more than 100 percent in the Betting and Online segment (which from July 2016 onwards included the contribution of the acquisition of the Italian business of the Intralot Group, known for its strong presence in this segment); and the development of the Retail and Street Operations segment (+7.8%), linked to the acquisition of La Chance S.r.l., which in turn owns 100% of Slot Planet S.r.l., and the AWP and VLT businesses, as well as recognition of a full year of activities for the companies acquired during 2016.

**AWP**

AWP revenues amounted to Euro 307.6 million for the year ended December 31, 2017, an increase of Euro 40.3 million (+15.1%) with respect to Euro 267.3 million for the year ended December 31, 2016.

The year on year increase was in large part due to the increase in bet collected, from Euro 2,460.3 million to Euro 2,677.3 million (+8.8%), which resulted in higher revenues of Euro 24.9 million. The increase in revenues was in part reduced by the negative effect of the increase, from 17.5% to 19.0% in April 2017 in the PREU tax rate (Euro 25.2 million), while it benefitted from absence of the negative effect suffered in 2016 in relation to the temporal misalignment between the increase in the PREU (effective January 1, 2016) and the reduction (from 74% to 70%) in payout, (Euro 40.6 million).

| | As of and for the year ended 31 December, | |
|---|---|---|
| | 2017 | 2016 |
| | (€ in millions, except non-financial information and percentages) | |
| Number of AWPs in operation as of the period end | 39,494 | 39,957 |
| Average number of AWPs in operation for the period (1) | 41,321 | 34,528 |
| AWP Bet (2) | 2,677 | 2,460 |
| Average *AWP PREU (as percentage of bet)* | 18,5% | 17,5% |

*(1) 2016 figures relating to the Intralot companies included in the GMT Group consolidation refer solely to the period July – December*

*(2) The figure does not include bets generated by halls connected to other concessionaires, amounting to Euro 176.3 million, which are included in the Retail and Operations segment.*

**VLT**

As of December 31, 2017, the Gamenet Group held 8,750 licenses. During 2016, Gamenet increased the 7,805 licenses held at the start of the year by adding a further 765 rights acquired from IGM following the merger between Gamenet and Intralot (of which 382 were acquired after the merger). The average number of VLTs in operation during 2017 was 8,271 (7,739 in 2016), representing an increase of 6.9% with respect the prior year.

The following table provides details of the main indicators relating to the VLT segment.

| | As of and for the year ended 31 December, | |
|---|---|---|
| | 2017 | 2016 |
| | (€ in millions, except non-financial information and percentages) | |
| Number of VLT licenses | 8,570 | 8,570 |
| Average number of VLTs in operation for the period (1) | 8,271 | 7,739 |
| Number of VLTs in operation as of the period end | 8,316 | 8,183 |
| VLT in operation as percentage of VLT rights | 97% | 95% |
| VLT Bet (2) | 3.210 | 3.156 |
| Average *VLT PREU (as percentage of bet)* | 5,8% | 5,5% |

*(1) 2016 figures relating to the Intralot companies included in the GMT Group consolidation refer solely to the period July - December; It is also noted that 382 new licenses for the installation of VLT devices were acquired only in the second half of 2016 (August 2016)*

*(2) The figure does not include bets generated by halls connected to other concessionaires, amounting to Euro 297.6 million, which are included in the Retail and Operations segment.*

VLT revenues amounted to Euro 207.3 million for the year ended December 31, 2017, a decrease of Euro 6.0 million (-2.8%) with respect to Euro 213.3 million for the year ended December 31, 2016. The decrease was mainly due to the increase from 5.5% to 6.0% in the PREU flat-rate tax (which had a negative impact of Euro 10.8 million), partially offset by an increase of 1.7% in bet collected (a positive impact of Euro 3.5 million) and the slight reduction in payout (a positive impact of Euro 1.8 million).

### *Betting and online*

The Betting and online operating segment benefitted from the Intralot acquisition, which, in addition to generating a significant increase in the number of licenses and points of sale, also resulted in the company having access to an owned retail betting platform. The use of the Intralot owned IT platform, which is faster, better performing and with a broader range of instances than the platforms previously used, led to improvements in the performance of those points of sale included the Gamenet Scommesse network in relation to the Group's sports betting products. Specifically, in 2017 it benefitted from the full year contribution of the acquisition of the Italian business of the Intralot group, whereas the equivalent 2016 contribution related solely to the period following the acquisition, effective from July 1, 2016.

Bet amounted to Euro 738.5 million in 2017 as compared to Euro 354.6 million in the previous year. Specifically, bet in the physical Betting segment increased from Euro 256.1 million in 2016 to Euro 485.0 million in 2017 and bet in the online Betting segment increased from Euro 98.5 million to Euro 253.5 million.

Total Betting and online revenues amounted to Euro 84.5 million for the year ended December 31, 2017, an increase of Euro 46.1 million (more than 100%) with respect to Euro 38.4 million for the year ended December 31, 2016. In addition to the above, the segment benefitted from the extremely positive payout rate on physical sports betting, which in the last quarter of 2017 was equal to 73.0% (as compared to 85.5% in the last quarter of 2016). Payout on physical sports betting was 81.1% for the twelve months ended December 31, 2017 as compared to 83.5% in 2016 (or 82.8% if the Intralot business is considered for the full twelve months).

The following table provides details of the key indicators relating to the Betting and online segment.

| | As of and for the year ended 31 December, 2017 | 2016 |
|---|---|---|
| | (€ in millions, except non-financial information and percentages) | |
| Number of licenses/concessions (1) | 750 | 750 |
| Number of active points of sale (shops and corner) | 693 | 660 |
| Average number of points of sale in operations (shops and corner) (2) | 679 | 394 |
| Total retail bet | 485,0 | 256,1 |
| Average bet per point of sale for the period | 0.71 | 0.65 |
| Total online bet | 253,6 | 98,5 |

*(1) Does not include the 58 licenses related to horse racing bet*

*(2) 2016 data includes companies within Intralot Group included in the scope of consolidation of Gamenet Group for the period from July to December only*

### *Retail and Street Operations*

Bet in the Retail and Street Operations segment amounted to Euro 473.9 million for the year ended December 31, 2017, an increase of 7.3% with respect to Euro 441.8 million in 2016. Also, as indicated in Section 3, it should be noted that, after reclassifying bet generated in company-owned gaming halls connected to the Gamenet Concessionaire, bet generated in the Retail and Street Operations segment in 2017 amounted to Euro 940.9 million Euro 758.8 million in 2016).

Revenues from Retail and Street Operations amounted to Euro 19.9 million for the year ended December 31, 2017, an increase of Euro 1.4 million (+7.8%) with respect to Euro 18.5 million for the year ended December 31, 2016.

The increase was mainly due to the full year contribution of the companies acquired during 2016 as well as the contribution of the companies acquired in 2017 (see Section 3), as well as general improvement in the performance of the halls.

| | As of and for the year ended 31 December, 2017 | 2016 |
|---|---|---|
| | (€ in millions, except non-financial information and percentages) | |
| Number of gaming halls Eop | 68.0 | 67.0 |
| Bet VLT | 616,2 | 541,7 |
| Average number of VLT | 1,370 | 1,138 |
| Average bet VLT per machine (in Euro thousand) | 449,7 | 475,6 |
| Bet AWP | 324,6 | 217.1 |
| Average number of AWP | 4,451 | 3,390 |
| Average bet AWP per machine (in Euro thousand) | 72.9 | 64.0 |

**Other income**

Other income amounted to Euro 4.3 million for the year ended December 31, 2017, an increase of Euro 0.8 million with respect to Euro 3.5 million for the year ended December 31, 2016.

Other income for the main part comprised: income from customer charge-out penalties amounting to Euro 1.1 million in the year ended December 31, 2017 and Euro 1.0 million in the year ended December 31, 2016; and other amounts totaling Euro 3.3 million in 2017 and Euro 2.5 million in 2016. The increase in other income was mainly due to the full year contribution of the acquisition of the Italian business of the Intralot group and the companies acquired during 2016 as well as the contribution of the companies acquired in 2017.

**Cost of services**

Cost of services amounted to Euro 514.0 million for the year ended December 31, 2017, an increase of Euro 68.8 million (+15.5%) with respect to Euro 445.2 million for the year ended December 31, 2016.

Cost of services related mainly to compensation paid to the distribution network, which amounted to Euro 424.0 million for the year ended December 31, 2017, an increase of Euro 47.9 million (+12.7%) with respect to Euro 376.1 million for the year ended December 31, 2016.

Cost of services also included concession fees (Euro 20.8 million), the cost of VLT licenses (Euro 12.0 million) and hall rental charges (Euro 8.6 million).

The following table provides a breakdown of cost of services in the two years under review:

| | As of and for the year ended 31 December, | | | | Delta | |
|---|---|---|---|---|---|---|
| *(in thousand of Euro)* | **2017** | **% sui ricavi** | **2016** | **% sui ricavi** | **Euro** | **%** |
| Distribution network compensation | (423,996) | -68.5% | (376,132) | -70.0% | (47,864) | 12.7% |
| Concession Fee | (20,830) | -3.4% | (18,395) | -3.4% | (2,435) | 13.2% |
| Fee on VLT platform licenses | (12,049) | -1.9% | (11,683) | -2.2% | (366) | 3.1% |
| Rentals, leases and other rentals | (8,623) | -1.4% | (7,916) | -1.5% | (707) | 8.9% |
| Other | (48,511) | -7.8% | (31,074) | -5.8% | (17,437) | 56.1% |
| | **(514,009)** | **-83.0%** | **(445,200)** | **-82.8%** | **(68,809)** | **15.5%** |

**Personnel expenses**

Personnel expenses amounted to Euro 34.0 million for the year ended December 31, 2017, an increase of Euro 9.3 million (+37.6%) with respect to Euro 24.7 million for the previous year. The increase mainly reflected the increase in the average workforce during 2017 resulting from: (i) the full year effect of the acquisition of the Italian business of the Intralot Group (as well as the acquisitions made during 2017); and (ii) the impact of non-recurring benefits in relation to the Listing.

**Other operating costs**

Other operating costs amounted to Euro 8.4 million for the year ended December 31, 2017 and in large part related to the purchase of consumables for gaming halls amounting to Euro 1.9 million. The increase of Euro 3.9 million with respect to the previous year was due mainly to a subsequent amendment to an acquisition price (Euro 1.4 million) and to costs incurred in relation to uncollected prior year tickets (Euro 1.0 million).

**Depreciation, amortization and impairments**

Depreciation, amortization and impairments amounted to Euro 40.3 million for the year ended December 31, 2017, an increase of Euro 7.9 million (+24.4%) with respect to the equivalent total of Euro 32.4 million for the year ended December 31, 2016. The increase mainly related to the full year impact of the acquisition of the Italian business of the Intralot Group, with the most significant individual increase relating to depreciation of property, plant and equipment which increased from Euro 12.1 million as of December 31, 2016 to Euro 17.3 million as of December 31, 2017, mainly as a result of the increase in the depreciation of AWP game cards and cabinets (Euro 2.6 million) in line with the increase in the number of owned AWP machines, from 4,825 as of December 31, 2016 to 9,326 as of December 31, 2017.

**Accruals and impairments**

Accruals and impairments amounted to Euro 7.1 million for the year ended December 31, 2017, an increase of Euro 4.0 million (more than 100%) with respect to Euro 3.2 million for the previous year; the increase related mainly to the impairment of receivables (Euro 5.9 million) of which Euro 3.5 million was due to an extraordinary provision made during the third quarter of 2017 following an updated assessment by the Group's legal advisors of the recoverability of certain overdue receivables, partially offset by the release from the provision for technological renewals (Euro 0.8 million).

**Net finance income/expenses**

Net finance expenses amounted to Euro 16.6 million for the year ended December 31, 2017, a decrease of Euro 9.0 million (-35.1%) with respect to Euro 25.6 million for the previous year. In 2017, the item comprised finance income amounting to Euro 0.2 million , broadly in line with the previous year, and finance expenses amounting to Euro 16.8 million (as compared to the Euro 25.7 million recorded in 2016).

The decrease was mainly due to the higher costs incurred by the Group in 2016 as compared with 2017, mainly in relation to the acceleration of the amortization of residual transaction costs relating to the bond issued in 2013, in view of its advance reimbursement (Euro 4.3 million) and redemption costs incurred in relation to the above par (101.81%) advance reimbursement of the bond issued in 2013 (Euro 3.6 million).

**Profit before tax**

Profit before tax amounted to Euro 3.2 million for the year ended December 31, 2017, a decrease of Euro 2.7 million with respect to Euro 5.9 million for the previous year. The reasons for such decrease are commented on above.

**Income tax expense**

Income tax expense amounted to Euro 2.1 million for the year ended December 31, 2017, a significant decrease with respect to Euro 8.9 million for the year ended December 31, 2016. The main reasons for the decrease were as follows:

- absence of the negative impact of restating deferred tax assets in 2016, following the reduction of the IRES rate from 27.5% to 24% (Euro 1.7 million);
- recognition of a tax credit of Euro 3.0 million, relating to the (previously unrecognized) prior year losses of Intralot Holding & Services and Intralot Gaming Machines following their merger by integration into Gamenet SpA;
- recognition of a tax credit of Euro 0.5 million (net of current year tax), relating to the (previously unrecognized) prior year losses of Gamenet Scommesse

**Net profit (loss) for the year**

Net profit for the year ended December 31, 2017 amounted to Euro 1.2 million, an increase of Euro 4.2 million with respect to the net loss of Euro 3.0 million recorded for the year ended December 31, 2016.

## 5. Review of Gamenet Group results – EBITDA and Net profit (loss) for the period adjusted

| | For the twelve months ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (€ in thousands) | |
| **Net profit (loss) for the period** | **1,152** | **(3,019)** |
| Income tax expense | 2,060 | 8,947 |
| Finance income | (206) | (186) |
| Finance expenses | 16,790 | 25,743 |
| Share of (profit)/loss of equity accounted investments | 15 | - |
| Impairment of financial assets | - | 57 |
| Depreciation, amortization and impairment | 40,327 | 32,426 |
| IPO costs | 6,406 | - |
| Pre 2013 non-cashed VLT tickets paid to ADM | 986 | - |
| Extraordinary accruals to doubtfull receivable reserves | 3,650 | - |
| Non-monetary costs (reclassification to profit or loss of multiannual prepayments) | 5,688 | 5,375 |
| Severance costs | 539 | - |
| Non recurring employes benefits | 2,665 | - |
| Penalties | 135 | 150 |
| Accessory expenses for the purchase of participations (*) | 1,874 | 713 |
| **EBITDA** | **82,080** | **70,206** |

EBITDA is defined as net profit (or loss) for the year adjusted for: (i) Income tax expense; (ii) Finance expenses; (iii) Finance income; (iv) Impairment of financial assets; (v) Depreciation, amortization and impairments; (vi) Reclassification to profit or loss of multiannual prepayments; (vii) Acquisition related transaction costs; (viii) Expenses on corporate restructuring and redundancy; (ix) income and expenses that by their nature are not reasonably expected to re-occur in future periods
(*) With reference to 2017, the item includes the amendment to Gnetwork acquisition price

| | For the twelve months ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | (€ in thousands) | |
| **Net profit (loss) for the period** | **1,152** | **(3,019)** |
| IPO costs | 6,406 | - |
| Pre 2013 non-cashed VLT tickets paid to ADM | 986 | - |
| Extraordinary accruals to doubtfull receivable reserves | 3,650 | - |
| Severance costs | 539 | - |
| Non recurring employes benefits | 2,665 | - |
| Penalties | 135 | 150 |
| Accessory expenses for the purchase of participations | 1,874 | 713 |
| Refinancing costs of the 2013 bond | - | 7,880 |
| Tax effect (IRES + IRAP) | (4,733) | (2,439) |
| **Net profit (loss) for the period adjusted** | **12,673** | **3,285** |

"Net profit (loss) for the period adjusted has been calculated by the Group as follows: Net profit (loss) for the period adjusted for (i) Accessory expenses for the purchase of participations (ii) severance costs, as well as (iii) income and expenses that by their nature are not reasonably expected to re-occur in future periods. Tax effect has been calculated on the basis of the regulations in force for the relevant periods."

## 6. Review of Gamenet Group results by operating segment

The following table shows information relating to income statement items by operating segment for the periods indicated.

| *(in € thousands)* | **AWP** | | **VLT** | | **Betting and Online** | | **Retail and Street Operations** | | **Unallocated/Elimination** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **12/17** | **12/16** | **12/17** | **12/16** | **12/17** | **12/16** | **12/17** | **12/16** | **12/17** | **12/16** | **12/17** | **12/16** |
| **BET** | **2,677,260** | **2,460,281** | **3,210,426** | **3,156,089** | **738,518** | **354,640** | **473,929** | **441,792** | **-** | **-** | **7,100,133** | **6,412,802** |
| of wich Retail and Street operation | 148,297 | 80,054 | 318,625 | 236,993 | - | - | - | - | - | - | **-** | **-** |
| Bet | 2,677,260 | 2,460,281 | 3,210,426 | 3,156,089 | - | - | - | - | - | - | 5,887,686 | 5,616,369 |
| Payout | (1,873,802) | (1,762,518) | (2,818,704) | (2,772,824) | - | - | - | - | - | - | (4,692,506) | (4,535,342) |
| **GGR** | **803,458** | **697,763** | **391,721** | **383,264** | **-** | **-** | **-** | **-** | **-** | **-** | **1,195,180** | **1,081,027** |
| Tax (PREU, IU, ecc.) | (496,192) | (430,736) | (187,528) | (173,586) | - | - | - | - | - | - | (683,720) | (604,321) |
| **NGR** | **307,266** | **267,027** | **204,194** | **209,679** | **-** | **-** | **-** | **-** | **-** | **-** | **511,460** | **476,706** |
| Non-bet based revenues | 347 | 260 | 3,046 | 3,609 | - | - | - | - | - | - | **3,393** | **3,869** |
| Revenues toward third parties | 307,613 | 267,287 | 207,276 | 213,288 | 84,477 | 38,413 | 19,943 | 18,507 | - | - | 619,309 | 537,495 |
| Other income toward third parties | 586 | 790 | 538 | 260 | 33 | 56 | 1,071 | 708 | 2,099 | 1,696 | 4,327 | 3,510 |
| Intragoup Revenues and Other income | - | - | 7 | 127 | 22 | 166 | 15,632 | 10,044 | (15,661) | (10,337) | - | - |
| **Total Revenues and Income** | **308,198** | **268,077** | **207,821** | **213,675** | **84,533** | **38,635** | **36,645** | **29,259** | **(13,562)** | **(8,641)** | **623,636** | **541,005** |
| Third parties distribution costs | (271,795) | (237,851) | (122,950) | (125,468) | (42,258) | (20,500) | (866) | (986) | 12,956 | 7,455 | (424,911) | (377,350) |
| Tax- concession fees - other | (8,199) | (7,910) | (9,785) | (9,532) | (4,489) | (1,985) | - | - | 61 | 16 | (22,412) | (19,411) |
| Other distribution & platform costs | - | - | (11,983) | (11,862) | (3,152) | (1,450) | - | - | 176 | 51 | (14,959) | (13,261) |
| Other direct costs | (3,940) | (3,549) | (2,436) | (3,126) | (632) | (1,892) | (9,516) | (9,060) | (819) | (801) | (17,343) | (18,428) |
| **Contribution margin** | **24,265** | **18,767** | **60,667** | **63,687** | **34,002** | **12,808** | **26,264** | **19,213** | **(1,187)** | **(1,920)** | **144,010** | **112,555** |
| **Contribution margin /bet** | **0.9%** | **0.8%** | **1.9%** | **2.0%** | **4.6%** | **3.6%** | **5.5%** | **4.3%** | **n.a** | **n.a** | **2.0%** | **1.8%** |
| **Contribution margin / Total Revenues and Income** | **7.9%** | **7.0%** | **29.3%** | **29.8%** | **40.2%** | **33.2%** | **73.8%** | **67.3%** | **7.6%** | **18.6%** | **23.3%** | **20.9%** |
| Indirect costs | | | | | | | | | | | (83,872) | (48,587) |
| Finance income | | | | | | | | | | | (40,327) | (32,426) |
| Finance expenses | | | | | | | | | | | 206 | 186 |
| Share of profit/(loss) of equity accounted investments | | | | | | | | | | | (16,790) | (25,743) |
| Impairment of financial assets | | | | | | | | | | | (15) | - |
| Share of profit/(loss) of equity accounted investments | | | | | | | | | | | - | (57) |
| **Profit before tax** | | | | | | | | | | | **3,212** | **5,928** |
| Income tax expense | | | | | | | | | | | (2,060) | (8,947) |
| **Net profit (loss) for the period** | | | | | | | | | | | **1,152** | **(3,019)** |

GGR refers to gross gaming revenues, defined as total bet minus payout

NGR refers to net gaming revenues total bet minus winnings minus taxes

Contribution margin is calculated as the sum of: i) revenues; ii) other income; iii) distribution and platform costs; iv) concession fees; v) other distribution and platform costs; and vi) other direct costs.

In the following table, bet relating to owned gaming halls connected to the Gamenet concessionaire are reclassified from AWP/VLT to the Retail and Street Operations segment; accordingly, AWP/VLT relates to the "pure" business of the concessionaire. It is further noted that distribution insourcing activities are reflected in the AWP segment (except those undertaken by the Group companies that carry out Street Operators - Gnetwork / Jolly Videogiochi / Newmatic / Rosil).

| (in thousand of Euro) | FY'17 | FY'16 |
|---|---|---|
| **AWP** | 2,528,963 | 2,380,226 |
| **VLT** | 2,891,801 | 2,919,095 |
| **Betting and Online** | 738,518 | 354,640 |
| **Retail and Street Operations** | 940,851 | 758,840 |
| **Total** | **7,100,133** | **6,412,802** |

## AWP

The AWP segment recorded an increase in bet (+8.8%), from Euro 2,460 million for the year ended December 31, 2016 to Euro 2,677 million in 2017. If the contribution of the Intralot group had been included for the whole of 2016 (resulting in a total full year bet of 2,791 million), 2017 would have seen total bet decrease by 4.1% in this segment. Specifically, this is due to the reduction in payout, which was not followed by an adequate level of investment by operators in new products (games). Such reduction in investments was linked, in particular, to uncertainty regarding their duration (uncertainty related both to the programmed reduction in the number of devices and to the introduction of AWP-R machines, with respect to which, the related technical decree has not yet been issued). As a result, such machines' attractiveness for players has momentarily reduced. There was, however, a significant improvement in the second half of the year (+1.0% in the third quarter and +4% in the fourth quarter) confirming the substantial inelasticity of demand.

Revenues are discussed above in the relevant section of this report. Distribution costs increased from Euro 237.9 million in 2016 to Euro 271.8 million in 2017, broadly in line with the increase in revenues. In terms of year on year results, the following are noted:

- on the one hand, the absence in 2017 of the misalignment, seen in the prior year, between the increase in the PREU (effective January 1, 2016) and the reduction, from 74% to 70%, in payout (a long and complex process that was completed during the year). Such misalignment resulted in a temporary reduction in the net cash box available to the supply chain. From Gamenet Group's viewpoint, (considering the low number of owned machines at the time) the reduction in revenues was transferred to the rest of the supply chain in the form of lower distribution costs);
- on the other hand, the decrease in distribution costs in 2017, as a result of acceleration of the distribution insourcing strategy, and consequent increase in the number of owned machines, also in the AWP segment. It is recalled in this regard that the total number of owned devices increased from 4,825 as of December 31, 2016 to 9,326 as of December 31, 2017 (while those relating to the AWP segment increased from 1,151 as of December 31, 2016 to 4,944 as of December 31, 2017).

The AWP contribution margin was Euro 24.4 million in 2017, representing approximately 3.9% of consolidated revenues and 17.0% of the Group's total contribution margin. The increase of Euro 5.6 million (+30.1%) with respect to the prior year was mainly due to the acquisitions made in 2017 (linked to the distribution insourcing strategy referred to above) as well as the full year effect in the AWP segment of the acquisition of the Italian business of the Intralot Group.

**VLT**

The VLT segment recorded an increase in bet, from Euro 3,156 million for the year ended December 31, 2016 to Euro 3,210 million in 2017(an increase of 0.7%, even in the event that the consolidation of the Italian business of the Intralot Group had taken place on January 1, 2016; indeed, in such case, total bet in 2016 would have been Euro 3,188 million).

Revenues, which decreased by 2.8%, are discussed above in the relevant section of this report.

The VLT contribution margin in 2017 was Euro 60.7 million, representing approximately 9.8% of total consolidated revenues and 42.1% of the Group's total contribution margin. The decrease with respect to the prior year was due to the fall in revenues described above (which was in turn due to the effect of the higher PREU rate, partly offset by the increase in bet and reduction in payout), which in turn was partially offset by the decrease of Euro 2.5 million in distribution costs.

**Betting and online**

The Betting and online segment recorded an increase of more than 100% in bet, up from Euro 354.6 million in 2016 to Euro 738.5 million in 2017. Revenues are discussed above in the relevant section of this report.

The contribution margin in 2017 was Euro 34.0 million, representing approximately 5.5% of total consolidated revenues and 23.6% of the Group's total contribution margin. The increase with respect to the prior year was mainly due, in addition to the acquisition of the Italian business of the Intralot Group, to the extremely positive payout trend in the last quarter (as well as year on year) as described above.

**Retail and Street Operations**

Bet (linked to other concessionaires) in the Retail and Street Operations segment in 2017 amounted to Euro 473.9 million, an increase of 7.3% with respect to the equivalent figure of Euro 441.8 million recorded in 2016. Total bet in the segment (Gamenet Group and other concessionaires) amounted to Euro 940.9 million, an increase of Euro 182.0 million (+24%) with respect to the equivalent total in 2016. Revenues are discussed above in the relevant section of this report.

The contribution margin in 2017 was Euro 26.3 million, representing approximately 4.2% of total consolidated revenues and 18.2% of the Group's total contribution margin. The increase with respect to the prior year was mainly due to acquisitions during the period, as well as organic growth and general improvement in the performance of halls. See Section 3 for further details.

## 7. Gamenet Group cash flows

The following table shows summary details of the Group's cash flows for the years ended December 31, 2017 and 2016:

| | For the twelve months ended December 31, | |
|---|---|---|
| | **2017** | **2016** |
| | **(in thousands of Euro)** | |
| Cash flow from operating activities (a) | 70,325 | 42,102 |
| Cash flow from investing activities (b) | (46,910) | (6,952) |
| Cash flow from financing activities (c) | (20,854) | (35,441) |
| **Net Cash flow (a+b+c)** | **2,560** | **(291)** |
| **Cash and cash equivalents at the beginning of the period** | **49,819** | **50,110** |
| **Cash and cash equivalents at the end of the period** | **52,379** | **49,819** |

Cash flow from operating activities amounted to Euro 70.3 million in the year ended December 31, 2017. Year on year comparison shows an improvement of Euro 28.2 million (of which Euro 27.0 million relating to improvements in net working capital) from Euro 42.1 million in the year ended December 31, 2016. The main reasons for the improvement in working capital were as follows:

- the increase of Euro 8.3 million in cash generated, relating to the acquisition of Intralot and the related accumulation and payment of gaming tax payables. Specifically:
  - with regard to 2017: taxes due on customer gaming accumulated in relation to twelve months (January to December) while taxes paid to the Authority related to eleven months only (taxes for January to April were paid in August, taxes for May to August were paid in November and taxes for September to November were paid in December); and
  - with regard to 2016: taxes due on customer gaming accumulated in relation to six months (from July to December) while taxes paid to the Authority related to eleven months (taxes for January to April were paid in August, taxes for May to August were paid in November and taxes for September to November were paid in December). Accordingly, 2017 related gaming tax payables related to amounts due in respect of December and they increased even following the sharp reduction in payout during the final quarter of the year (as the tax is calculated on the bet net of payout).
- the increase of Euro 1.9 million in cash generated by the increase in bonuses payable to betting operators with respect to the previous year-end, also related to the sharp reduction in payout during the final quarter of the year;
- the decrease of Euro 2.8 million in cash mainly absorbed by advance payments for NOE concession agreements; this was due to the fact that, in 2016, the reduction in the AWP payout from 74% to 70% made it necessary to replace all the game cards and re-issue all NOE concession agreements;
- other changes (worth Euro 7.3 millions) mainly associated with the amount not yet liquidated at year end pertaining to IPO related non recurring costs (including employees benefits);
- the remaining change was mainly due to timing in payments made to suppliers.

Cash flow used in investing activities amounted to Euro 46.9 million in the year ended December 31, 2017 compared to Euro 7.0 million in the year ended December 31, 2016. The year on year change (which is reduced to Euro 18.9 million, net of Euro 21.1 million cash acquired from Intralot through the acquisition) was mainly due to the following:

- payments totaling Euro 11.7 million relating to finalization of the M&A transactions (net of the Euro 21.1 million cash acquired from Intralot through the acquisition). The year on year change was due both to the acquisition costs incurred in the year as well as deferred cash payments relating to prior year acquisitions;
- an increase in investments of Euro 7.1 million.

Cash flow used in financing activities amounted to Euro 20.9 million in the year ended December 31, 2017 compared to Euro 35.4 million in the year ended December 31, 2016. The main reasons for the change were as follows:

- the absence, in 2017, of payments of Euro 17.8 million relating to distribution of dividends and purchase of treasury shares in 2016;
- the absence, in 2017, of costs incurred in 2016 relating to the refinancing of the bond loan (including costs incurred in relation to its early reimbursement);
- the absence, in 2017, of Euro 3.5 million relating to the loan granted by the minority shareholder in the context of the Intralot Acquisition as guarantee for a tax credit due to Intralot Italia S.p.A;
- the negative impact of the costs relating to entering into/reimbursement of the revolving credit facility agreement ("RCF") (which generated cash amounting to Euro 5 million in 2016 and used cash of Euro 5.1 million in 2017);
- the positive impact of Euro 2.4 million, in 2017, relating to lower interest costs incurred as a result of refinancing the bond loan at a lower interest rate (6.0%) than previously (7.25%).

## 8. Gamenet Group financial position – Net financial debt

The following table provides a breakdown of the Group's Net Financial Debt as of December 31, 2017, 2016 and 2015, determined in accordance with paragraph 127 of the recommendations contained in ESMA/2013/319, implementing Regulation (EC) 809/2004. A reconciliation is also provided between Net Financial Debt as determined in accordance with the ESMA criteria and the measure used by the Company to monitor its financial position.

| | **As of December 31, 2017** | **As of December 31, 2016** |
|---|---|---|
| Cash at banks | 52,379 | 49,819 |
| Current Financial assets | 306 | 515 |
| | **52,685** | **50,334** |
| **Senior Secured Notes** | | |
| Due to bondholders - capital | (195,935) | (195,531) |
| Due to bondholders - interest | (4,600) | (5,000) |
| | **(200,535)** | **(200,531)** |
| Bank overdrafts | (1,182) | (6,859) |
| Other financial liabilities | (14,014) | (14,615) |
| **Total debt** | **(215,731)** | **(222,005)** |
| **Net financial debt - ESMA (*)** | **(163,046)** | **(171,671)** |

(*) "Financial assets" includes both current financial assets and certain non-current trade receivables for which the Group has granted significantly longer payment terms than those typically granted in normal operations and which therefore are considered in calculating the Group's net financial debt. It is noted that there are no financial instruments posted as collateral for such receivables. Net financial debt is not defined by IFRS. Accordingly, it may be calculated on a different basis from similar measures used by other groups and may, therefore, not be comparable with such information presented by other groups.

In monitoring its financial position, the Company uses Net Financial Debt – ESMA, adjusted as appropriate to exclude non-current financial assets and other non-current assets described. The following table provides a reconciliation between Net Financial Debt – ESMA and Net Financial Debt as used by the Company to monitor its financial debt as of December 31, 2017.

| | **Al 31 dicembre, 2017** | **Al 31 dicembre, 2016** |
|---|---|---|
| Net financial debt - ESMA | (163,046) | (171,671) |
| Non current Financial assets | 4,634 | 4,341 |
| Non current Other receivables | 5,160 | 8,533 |
| **Net financial debt - Gamenet Group** | **(153,252)** | **(158,797)** |

"Non-current financial assets" related mainly to guarantee bonds underwritten by Gamenet S.p.A. to back guarantees issued by Unicredit in favor of the ADM based on certain concession-related obligations, guarantee deposits relating to guarantees regarding the Group's secondary HQ and utility contracts and restricted cash, which relates to amounts held as collateral for guarantees issued in favor of the Group in relation to the issue of a guarantee in favor of the lessor of the Group's registered offices.

"Other non-current assets" related to certain non-current trade receivables for which the Group has granted significantly longer payment terms than those typically granted in normal operations and which therefore are considered in calculating the Group's net financial debt. It is noted that there are no financial instruments posted as collateral for such receivables.

Net financial debt amounted to Euro 153.3 million as of December 31, 2017 and Euro 158.8 million as of December 31, 2016.

"Bonds" relates to the high yield bonds, with a nominal value of Euro 200 million, issued by Gamenet Group on August 15, 2016; the bonds bear interest at 6% and will mature in 2021. The bond loan is recognized at amortized cost, which at

December 31, 2017 stood at Euro 195.9 million, broadly in line with the Euro 195.5 million recognized at the prior year end.

The decrease in "Bank borrowings" was mainly due to Gamenet S.p.A.'s reimbursement of the amount outstanding on the revolving credit facility agreement entered into with Unicredit Bank AG Milan Branch in the role of agent and security agent and Banca IMI S.p.A. and Unicredit S.p.A, among others, as lead arrangers.

As of December 31, 2017, "Other borrowings" mainly comprised liabilities relating to the put option (Euro 2.1 million), earnout payments and business combination commitments in the context of the Group's vertical integration strategy (Euro 8.8 million). The item also includes the present value, amounting to Euro 3.1 million as of December 31, 2017, of shareholders' loans granted by Intralot Global Holdings B.V. as part of the Framework Agreement regarding the Intralot acquisition.

### 9. Reconciliation between the Group's Net profit (loss) for the year and Total Shareholders' Equity as of December 31, 2017 with those of the Parent Company

| DESCRIPTION | SHAREHOLDER'S EQUITY AS OF 31/12/2017 | NET PROFIT (LOSS) FOR THE PERIOD ENDING 31/12/2017 |
|---|---|---|
| **Parent Shareholder's Equity and net profit (loss)** | **( 7,917 )** | **305,845** |
| Elimination of investments in subsidiaries | **-** | **(313,420)** |
| Subsidiaries Shareholder's Equity and net profit (loss) | 8,837 | 76,818 |
| Changes in consolidation method | - | (502) |
| **Total Consolidation Entries** | **8,837** | **(237,104)** |
| **Group Shareholder's Equity** | **919** | **68.741** |
| Equity Attributable to Minority Interests | (707) | 2.871 |
| **Total Shareholders' Equity** | 1.626 | 65.870 |

### 10. Risk from operating activities

On October 20, 2017, pursuant to and in compliance with Legislative Decree 231/2001, the Company adopted a management and control model and Group Ethics Code and nominated a Supervisory Board. During 2017, the Board of Directors approved amendments to its procedures on privileged information (MAR), its procedures on Internal Dealing and draft of its procedures regarding related party transactions. With regard to the Group's exposure to financial risks, see the Notes to the Consolidated Financial Statements.

### 11. Significant events

On August 23, 2017, the Shareholders' Meeting resolved to adopt revised articles of association (By-laws). The revised By-laws provided that the share capital would amount to Euro 30,000,000 and be comprised of 30,000,000 ordinary shares with no par value. The revised By-laws also required that clauses referring to Category A and Category B shares be eliminated or otherwise amended in such a way as to refer solely to uniform ordinary shares.

On the same date, the Shareholders' Meeting also decided to transfer Euro 6,000 thousand from the Share Premium Reserve to the Legal Reserve, to increase the balance of the latter equity reserve to the minimum level required by Art. 2430 of the Italian Civil Code, which is one-fifth of the Company's share capital.

Moreover, on the same date, the Shareholders' Meeting approved the application for admission to listing of the Company's shares on the STAR Segment of the MTA (to be submitted to Borsa Italiana) as well as the related request to Consob for approval of the offering circular. The listing of the Company's shares on the STAR Segment of the MTA was aimed at gaining greater international visibility and potential improvement in the Issuer's capacity to develop its activities.

On August 29, 2017, the Company presented Borsa Italiana S.p.A. with its application for admission to listing of its shares on the MTA and, together with the shareholders TCP LUX Eurinvest S.à r.l. and Intralot Italia Investments B.V., deposited with Consob (the public authority responsible for regulating the Italian financial markets) its request for approval of the offering circular, which had been prepared in accordance with the terms of Art. 113 of Italian Legislative Decree No. 58 of 24 February 1998 and Art. 52 of the regulation adopted by Consob under resolution No. 11971 of 14 May 1999.

Following confirmation of approval of the prospectus, the securities note and the summary note on November 22, 2017, in accordance with the combined provisions of Article 9 of Commission Delegated Regulation (EU) 2016/301 of November 30, 2015 and Article 56, para 5 of Consob Regulation No. 11971 of May 14, 1999, as amended, the Company announced that a prospectus had been published in relation to the offering, limited to institutional investors, regarding the admission to listing of its shares on the MTA, the Italian screen-based trading system organized and managed by Borsa Italiana S.p.A.

Through provision no. 8411 of November 22, 2017, Borsa Italiana S.p.A. initiated the admission to listing of the shares on the MTA.

On December 4, 2017, the Company published the final results regarding the offering of its ordinary shares, limited to institutional investors, aimed at having the shares listed on the STAR segment of the MTA. Including the shares relating to the greenshoe option exercised on December 13, 2017, the institutional placement involved some 10,429,838 shares. As a result, TCP and Intralot B.V. respectively now hold 45.23% and 20% of the Company's share capital, with the market holding the remaining 34.77%.

Paolo Ernesto Agrifoglio, Stefano Francolini and Athanasios Chronas resigned from their positions as Directors (with effect from the date the Company's shares are listed) and on October 20, 2017 the Shareholders' Meeting nominated Laura Ciambellotti, Claudia Ricchetti and Daniela Saitta to replace them as Directors (with effect from the date the Company's shares are listed) and the "New Directors" accepted their nominations. The New Directors took office on the date the Company's shares were listed and will remain in office until the current term of the Board of Directors expires, following approval of the financial statements for the year ending December 31, 2018.

In order to comply with corporate governance characteristics required by codes of conduct promoted by regulated market management companies and the principles contained in the Corporate Governance Code for listed companies, the Company has also:

- adopted procedures to govern the running of shareholders' meetings and ensure their orderly and effective conduct;
- established a Nomination and Compensation Committee and a Control, Risk and Sustainability Committee;
- appointed Guglielmo Angelozzi to administer the system of internal control and risk management;
- appointed Mario Bruno as Chief Financial Officer with responsibility for preparation of the Company's accounting and financial information.

**National fiscal consolidation**

Gamenet Group Spa has adopted the national fiscal consolidation option for the three-year period 2017-2019 in its role as consolidating entity. It is noted that the terms of the previous national fiscal consolidation, with Gamenet Spa in the role of consolidating entity, ended as of December 31, 2016.Relating to Gamenet S.p.A.

**Relating to Gamenet S.p.A.**

On May 8, 2017, Gamenet S.p.A. signed an agreement for the purchase of 49% of the share capital of Verve S.p.A., ("Verve"), thereby increasing its holding to 100% of the company's share capital. Verve operates in the retail area of the Retail & Street Operations operating segment.

On July 1, 2017, in accordance with the decisions of the relevant Shareholders Meetings and with all legal, accounting and tax effects backdated to January 1, 2017, Intralot Holding Services S.p.A. and Intralot Gaming Machines S.p.A. were merged by incorporation into Gamenet S.p.A.

On November 1, 2017, in accordance with the decisions of the relevant Shareholders Meetings and with all legal, accounting and tax effects backdated to January 1, 2017, Gamenet Renting S.r.l. was merged by incorporation into Gamenet S.p.A.

It is recalled that on November 22, 2017, in accordance with the decisions of the relevant Shareholders Meetings and with all legal, accounting and tax effects effective from January 1, 2018, Gamenet Scommesse S.p.A. was merged by incorporation into Gamenet S.p.A. On the same date, effective January 1, 2018, Gamenet S.p.A., in its role as shareholder in Intralot Italia S.p.A., approved the contribution of the betting related business concern, comprising the assets and liabilities of Gamenet Scommesse and certain sports betting related assets and liabilities of Gamenet S.p.A., acquired following the merger by incorporation of Intralot Holding Services S.p.A. on July 1, 2017.

During 2017, Gamenet S.p.A. entered into 11 contracts to acquire businesses from smaller AWP and VLT operators. Such businesses include, *inter alia*, AWP and VLT machines, contracts for the connection of AWP devices to the online network and contracts with operators of businesses where AWP machines are located.

**Zenit 2012/ Intralot Gaming Machine+Snaitech Spa**

On March 23, 2016, before the Court of Florence, Zenit 2012 S.r.l. served a writ of summons against Intralot Gaming Machines S.p.A. (now Gamenet S.p.A.) and Snai S.p.A., with the hearing to take place on July 24, 2016 (subsequently deferred to September 20, 2016). Zenit contested that Intralot and Snai had not fulfilled their obligations in accordance with the "Agreement on collaboration regarding the collection of bets through video display units installed in dedicated environments" and claimed: i) verification of the non-fulfilment of obligations on the part of Intralot and Snai; ii) payment of contractually agreed amounts, to be determined following the cash handling of the VDU devices present in the hall; iii) payment by Intralot and Snai of the cost of the cash handling of the VDU devices; iv) payment by Intralot and Snai of an amount of Euro 244,350.00 (300,000.00 – 55,650.00) as compensation; v) payment by Intralot and Snai of an amount of Euro 20,000.00 in respect of L.S.; vi) payment by Intralot and Snai of an amount of Euro 90,575.91 in respect of win tax; and vii) payment by Intralot and Snai of an amount of Euro 300,000.00 in respect of abuse of economic dependence. On July 28, 2017 Gamenet S.p.A. appeared before the Court and challenged the claim in fact and in law and objected in terms of lack of capacity to be sued. The hearing for the admission of preliminary evidence scheduled for September 20, 2017 has been postponed to May 16, 2018. Based on the opinion of our legal advisors, no provision is required.

**Bet Game/Intralot Gaming Machine**

Towards the end of 2015, the ex-subsidiary, Intralot Gaming Machines S.p.A., was sued by a counterparty that during the period from January 2014 to May 2015 performed gaming hall operator selection and contracting services, contesting the alleged payment of additional compensation for the installation of AWP and VLT devices. The magnitude of such compensation has not been determined as it depends on interpretation of the agreement between the parties, which is complex and in certain cases contradictory. The Company has contested the legitimacy of the claim and has made a counterclaim. At the hearing on January 25, 2018, the judge remitted the case to June 28, 2018 to hear a witness who was not present at the hearing. On conclusion of the oral examination, the judge will decide on the nature of the remaining preliminary enquiries (order to produce evidence and expert witnesses) required to quantify the amount.

**Alpi Tre S.r.l./Gamenet S.p.A**.

Alpigame Tre (the plaintiff) has brought an action against Gamenet S.p.a., alleging delay on the part of the Concessionaire in disposing of the hall managed by the operator. The counterparty has claimed damages relating to lost opportunity. A ruling is expected by May 31, 2018

**Tax audit assessment report**

On October 13, 2017, the Lazio Region Tax Authorities concluded a tax audit of Gamenet S.p.A. regarding the 2012 tax year. The audit, which had been initiated in May 2017 to review the tax period October 1, 2013 – December 31, 2013, had then been extended to cover 2012 in respect of relations with two suppliers of services. Following the document gathering stage, audit activities regarding the 2013 tax period were suspended on October 9, 2017.

On conclusion of the 2012 tax year audit, the Tax Authorities issued the related assessment report which included:

- a note regarding an increase of Euro 10,780,596 in taxable income subject to IRES and IRAP, corresponding to an increase in IRES of Euro 2,964,644 and an increase in IRAP of Euro 551,967; and

- a note regarding non-application of withholding tax on an amount of Euro 6,634,603.82, corresponding to higher withholding tax due of Euro 331,730.

Specifically, the Lazio Region Tax Authorities:

- in the first note, consider a contract entered into with one of the service suppliers to be a profit sharing agreement and disallow the related IRES and IRAP deductions; and

- in the second note, contest the non-application of withholding tax on amounts paid to the second service supplier, on the basis that the entire amount due to the supplier should be considered as royalties subject to a withholding tax of 5%.

On December 19, 2017, the Company received formal notices of assessment regarding IRES, IRAP and the Model 770 report for the 2012 tax year, which confirmed the findings set out in the prior assessment report and imposed penalties, applying the most favorable sanctions regime, based on the "favor rei" principle (90% of the IRES and IRAP taxes due and 20% of the taxes due in relation to the Model 770 report).

On January 19, 2018, with the intent of arriving at a reassessment of the amount in question, the Company filed the related tax settlement requests.

Based on the best information available and the opinions of authoritative legal and tax advisers, as of the date of approving these consolidated financial statements, management believe the risk of losing any tax case brought in relation to the two notes to be remote. Accordingly, no provision is made in the financial statements in relation to this matter.

**Relating to Gamenet Entertainment S.r.l.**

On March 2, 2017, Gamenet Entertainment S.r.l. signed an agreement with Riogrande S.r.l. and G Holding S.r.l. for the purchase of 60% of the share capital of La Chance S.r.l. ("La Chance"), through which it acquired 51% of the share capital of the former and 9% of the share capital of the latter. On November 7, 2017, Gamenet Entertainment S.r.l. purchased a further 25% of the share capital of La Chance, bringing its total shareholding to 85%. La Chance operates both directly and through its subsidiary, Slot Planet S.r.l., in the retail area of the Retail & Street Operations operating segment.

On November 1, 2017, in accordance with the decisions of the relevant Shareholders Meetings and with all legal, accounting and tax effects effective as of the same date, Verve S.p.A. was merged by incorporation into Gamenet Entertainment S.r.l. On the same date, in accordance with the decisions of the relevant Shareholders Meetings and with all legal, accounting and tax effects backdated to January 1, 2017, Gamecity S.r.l. was merged by incorporation into Gamenet Entertainment S.r.l.

During 2017, the Company opened two new gaming halls located in Gioiosa Jonica e Montecatini and, following the merger of Verve and Gamecity, added the halls owned by these companies. It is also recalled that 4 halls were closed at the beginning of 2017.

The following table provides an overview of the company's gaming halls through the end of 2017:

| Year | Gaming halls | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Active - Beginning period | Acquired | Opened | Closed | Merged | Reactivate | Transfered | Dismetted | Active - End of period |
| 2012 | - | 37 | - | - | - | - | - | - | 37 |
| 2013 | 37 | 63 | - | - | - | - | - | - | 100 |
| 2014 | 100 | 2 | - | (15) | - | - | (3) | (8) | 76 |
| 2015 | 76 | 2 | - | (12) | - | - | (5) | (8) | 61 |
| 2016 | 61 | 1 | - | (2) | - | 1 | - | - | 61 |
| 2017 | 61 | - | 2 | (4) | 2 | - | - | - | 61 |

**Relating to Intralot Italia S.p.A.**

Intralot Italia S.p.a. is a public gaming concessionaire in accordance with the provisions of Article 38, Paragraphs 2 and 4 of Decree Law No. 223 of July 4, 2006 (converted into Law No. 248 of August 4, 2006), having signed the relevant concession contracts with the then "Amministrazione Autonoma dei Monopoli di Stato", the Italian gaming regulatory authority.

On January 19, 2018, AAMS Director's decision no. 8718 further postponed the expiry of concession contracts no. 4098 e no. 4341, which had been originally set for June 30, 2016 and then initially postponed to June 30, 2017, to December 31, 2018. Based on the Director's decision and the operating instructions of January 24, 2018, pursuant to Article 1, Paragraph 2 of the aforementioned decision, the Company communicated the details of the rights and/or points of sale for which it had decided not to exploit the postponement.

It is noted that, albeit concessions 4098 and 4341 are due to expire on December 31, 2018, as of the present date, we are aware of no reason why such concessions should not be renewed on their natural expiry date.
On October 24, 2017 the shareholders' meeting of Veneta Servizi S.r.l., a wholly owned subsidiary of Intralot Italia, approved the liquidation of the company, which was completed on December 20, 2017, with the liquidation accounts, report of the liquidator and distribution plan being approved by the shareholders' meeting on December 21, 2017, as the final formal act.

**Relating to Jolly Videogiochi S.r.l.**

On October 11, 2017, Jolly Videogiochi S.r.l. entered into an agreement for the acquisition of 75% of the share capital of RosilSport, which operates in the Retail sector, and the acquisition of RosilSport is aimed at developing the Group's activities in the Retail & Street Operations segment.

During 2017, Jolly Videogiochi S.r.l. entered into an agreement to acquire the AWP businesses of a small-sized AWP manager. The business includes, *inter alia*, AWP machines, contracts for the connection of AWP devices to the online network and contracts with operators of businesses where AWP machines are located.

## 12. Significant events occurring after the reporting period

It is noted with regard to the aforementioned tax assessment that, following resumption of audit activities regarding the 2013 tax period, on February 5, 2018, the Tax Authorities notified Gamenet S.p.A. that they intended to extend the review to cover tax years 2014 and 2015.

On March 16, 2018, the Revenue Agency's Lazio Regional Department concluded its audit in relation to fiscal years 2013-2014- 2015 and served a tax audit report (processo verbale di constatazione; hereinafter "PVC") which contained the following claims: for the purposes of IRES, it found a higher taxable income of approximately € 53.4 million, which corresponds to a higher IRES amount of nearly € 14.7 million and for the purposes of IRAP it found a higher taxable income of approximately € 58.2 million, a higher IRAP amount of € 3.0 million thousand, as well as the omitted deduction of withholding taxes for € 25.0 million, which corresponds to higher withholding taxes of 3.0 million thousand. In further detail, the Lazio Regional Department:
- in its first finding, re-qualified a service contract as a participation agreement, and it challenged (on the basis of the audit) the deductibility of the remuneration costs paid by the Guarantor for the purposes of IRES and IRAP;
- in its second finding, disputed the omitted withholding of taxes on remuneration paid to a company maintaining that the entire consideration should have been qualified as royalties and accordingly be subject to conventional withholding tax of 5%;
- in its third finding, disputed the omitted withholding of interests paid to a company because it challenged (based on the audit) the status of beneficial owner in order to determine the availability of reductions or exemptions from withholding tax deducted at the source;
- in its fourth finding, disputed the deductibility of the costs of management fees related to a consultancy agreement with non-resident company for the purposes of IRES and IRAP;
- in its fifth finding, disputed the deductibility for the purposes of IRAP of the amortization costs Bond and others.
- in its sixth finding, re-qualified the underwriting fee related to the financing Bond as interests and consequently disputed the omitted withholding taxes.

Based on the Director's decision no. 8718 and the operating instructions of January 24, 2018, pursuant to Article 1, Paragraph 2 of the aforementioned decision, Intralot Italia communicated the details of the rights and/or points of sale for which it had decided not to exploit the postponement.

In January 2018, Rosil Sport entered into a business acquisition contract with an AWP operator regarding the acquisition of 25 AWP devices for a total consideration of approximately Euro 0.1 million (excluding the cash in the hoppers).

In February 2018, Gamenet Spa entered into two business acquisition contracts with AWP operators regarding the acquisition of 422 AWP devices for a total consideration of approximately Euro 1.3 million (excluding the cash in the hoppers).

Also in February 2018, Gnetwork entered into a business acquisition contract with an AWP operator regarding the acquisition of 192 AWP devices for a total consideration of approximately Euro 1.0 million (excluding the cash in the hoppers).

### 13. Outlook

The stabilization of the Italian economy after several years of economic crisis represents a positive backdrop against which to take forward our management strategy.

## 14. Related party transactions

In accordance with Article 2428 of the Italian Civil Code, details of receivables and payables and income and expenditure with the parent company Gamenet Group S.p.A are disclosed in the information on related party transactions in the Notes to the Consolidated Financial Statements. Based on the opinion of the Control, Risk and Sustainability Committee, the Company has adopted the "Procedure for related party transactions" pursuant to Article 2391-bis of the Italian Civil Code and the Related Parties Regulation. The Procedure, based on the criteria set forth in the Related Parties Regulation, governs the modalities regarding, *inter alia*, the approval of related party transactions of greater importance and related party transactions of lesser importance. The procedure assigns a corporate oversight function, (consisting of the Chief Financial Officer (CFO) and the head of the Legal Corporate Affairs (LCA) function) the task of determining how the procedure should be applied to given transactions and whether a transaction is of greater importance or lesser importance. The procedure provides that the Company, as a recently listed company, will avail itself of the derogation permitted by Article 10 (1) of the Regulation, which provides that the rules regarding the approval of related party transactions of greater importance will be the same as the rules regarding the review and approval of transactions of lesser importance and that such simplified procedure will be applied until the approval of the financial statements for the year ending December 31, 2019. In accordance with the Related Parties Regulation, the procedure requires that, prior to the approval of a related party transaction, the Committee for Related Party Transactions, composed of at least three independent directors, express a non-binding reasoned opinion regarding the interest of the Company, regarding the completion of the transaction as well as regarding its substantial suitability and correctness of the relevant conditions. The Company has identified the Control, Risk and Sustainability Committee as being the competent body with regard to related party transactions. The aforementioned procedures are published on the Company's website. For details regarding the balance sheet and income statement effects of related party transactions see the relevant note in the Notes to the Consolidated Financial Statements.

## 15. Human Resources

During the year under review, there were no fatalities or serious accidents in the workplace that entailed serious injuries to employees.

Nor were any charges reported in respect of occupational illness, regarding employees or ex-employees, or mobbing for which the company has been found to be liable.

## 16. Environment

During the year under review, no sanctions or penalties were imposed on the company for environmental offences or damages and there are no pending lawsuits in this respect.

## 17. Research and development

In compliance with Article 2428, Paragraph 3, item no.1 of the Italian Civil Code, we hereby inform Shareholders that the Company incurred no costs for research and development during the year under review.

On behalf of the Board of Directors

Ing. Guglielmo Angelozzi,

Chief Executive Officer