

LOTTOMATICA

S.p.A.

2008 ANNUAL REPORT

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MANAGEMENT REPORT

As of December 31, 2008

LOTTOMATICA S.P.A. OVERVIEW

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

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

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

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

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

At December 31, 2008, Lottomatica had 868 employees (compared to 757 at December 31, 2007).

TRENDS IN REVENUES BY LINE OF BUSINESS

For the year ended December 31, 2008 Lottomatica had net profit of €115.6 million, as compared to €690 million in FY2007.

Revenues from sales and services totaled €372.8 million in FY2008, as compared to €394.4 million in FY2007.

INCOME STATEMENT Reclassified	2008	2007
Revenues from sales and services	372,771,017	394,377,854
Other revenues	92,828,294	90,346,858
Total revenues	465,599,311	484,724,712
Costs for good and services	197,185,965	201,234,193
Changes in inventories	-	-
ADDED VALUE	268,413,346	283,490,519
Labour costs	71,013,503	68,200,922
Management costs	3,776,542	5,212,791
Other provisions	65,345	7,232,909
Receivables write-downs	1,184,000	86,000
GROSS OPERATING MARGIN (EBITDA)	192,373,956	202,757,897
Intangible amortization	3,511,159	4,215,689
Tangible amortization	29,527,274	33,105,550
Fixed asset write-downs	-	1,281,516
OPERATING RESULT (EBIT)	159,335,523	164,155,142
Financia Earings (Expences)	(10,935,179)	(55,707,426)
GROSS RESULT (EBT)	148,400,344	108,447,716
Taxes	(32,864,131)	(39,447,986)
NET PROFIT	115,536,213	68,999,730

The figures as of December 31, 2008 showed a decrease compared to the same period of the previous year, both in terms of the overall wagers placed and revenues for the fees due to Lottomatica. There are two main types of wagers: “normal” wagers (so-called “core”), which remain structurally stable over time and allow Lottomatica to achieve significant economic results, and “speculative” bets made on late numbers (meaning those numbers that have not been drawn for more than 100 drawings), where some players concentrate an additional amount of bets, with unit values considerably higher than average.

Data analysis highlights total wagers of €5.85 billion in FY2008, a decrease of approximately 5.3% compared to FY2007. The wagers for late numbers in FY2008, equal to approximately €806 million, showed a decrease compared to the €942 million in the same period of the previous year. “Core” wagers also showed a decrease, totaling €5.0 billion in FY2008 compared to €5.2 billion in FY2007.

	Wagers €/000	Bets x 1,000	Revenues €/000
First Quarter 2008	1,487,287	610,185	96,545
First Quarter 2007	1,603,080	650,561	103,987
<i>Delta %</i>	(7.2)%	(6.2)%	(7.2)%
Second Quarter 2008	1,510,451	574,728	97,199
Second Quarter 2007	1,539,760	609,496	99,039
<i>Delta %</i>	(1.9)%	(5.7)%	(1.9)%
Third Quarter 2008	1,436,725	567,394	92,168
Third Quarter 2007	1,530,950	576,008	98,147
<i>Delta %</i>	(6.2)%	(1.5)%	(6.1)%

Fourth Quarter 2008	1,417,540	588,962	86,284
Fourth Quarter 2007	1,503,480	592,502	85,796
<i>Delta %</i>	(5.7)%	(0.6)%	0.6%
December 31, 2008	5,852,003	2,341,268	372,196
December 31, 2007	6,177,270	2,428,567	386,969
<i>Delta %</i>	(5.3)%	(3.6)%	(3.8)%

As a result of the decrease in wagers, the total number of bets declined from approximately 2.4 billion for FY2007 to 2.3 billion in the same period of FY2008.

The reduction in wagers may be attributable to the introduction of the third weekly drawing and to the reduction in the number of players due to an increased offer in the gaming market.

Lottomatica revenues experienced a decrease from €387 million in FY2007 to €372.2 million in FY2008 attributable to the 5.3% decrease in wagers.

Other revenues increased from €90.3 million in FY2007 to €92.8 million in FY2008 mainly attributable to the intercompany transactions issued by the parent company Lottomatica SpA to the subsidiaries in the Group. Intercompany transaction increased from €778 million in FY 2007 to €83.8 million in FY 2008.

OPERATING COSTS AND EBITDA ANALYSIS

Operating costs in FY2008 totaled €273.2 million, compared to €281.9 million in FY2007; EBITDA in FY2008 was €192.3 million, compared to €202.7 million in FY2007. The marginal revenue impact from sales and services decreased from 41.8% in FY2007 to 41.3% in FY2008.

The following factors contributed to the decrease of €8.7 million in operating costs:

- **decrease in advertisement costs of €(4.5) million (€(4.3) million in 12/31/2007):** related to the decrease in Lotto wagers. This item includes all expenses related to the Lotto game, which expenditure for website, contests with prizes, sponsorship and advertising costs;
- **decrease in costs (logistics, paper materials, and other variable costs) of €(2.7) million (€(2.6) million in 12/31/2007):** related to the decrease in Lotto wagers. This item primarily includes costs related to raw materials and relative transport costs.
- **decrease in receivable write down of €(6.1) million (€(0.8) million in 12/31/2007):** related to the Sisal litigation in 2007;
- **decrease in various management costs of €(2.1) million (€(14.6) million in 12/31/2007):** related mainly to the decrease in economies of scale;
- **increase in labor costs of €2.8million (€15.4 million in 12/31/2007):** related mainly to the increase resulting from the renegotiation of the national-level employment contract and from an increase of the headcount;
- **increase in network costs of €3.0 million (€(11.3)million in 12/31/2007):** related to the M380E terminal maintenance costs;
- **increase in other costs of €0.9 million:** related to higher costs incurred by insurance, training and promotional activities.

The promotional and advertising activities carried out in FY2008 have been carried out with the following objectives:

- Strategic incentive operations aimed at the final client and sales network in order to increase support to wagers;
- Consolidate gaming awareness in order to remind (current) players and to push sales;
- Restore the Lotto image and its positive values through communication activities that bring the game closer to the people.

In order to fulfil the above objectives:

- Two promotional activities (RCS Replay, Bella la Vita) aimed at the final client in order to reach all the targeted players in the course of the year. The activities gave the players the possibility to reuse non-winning Lotto playslips (and therefore have twice the possibility of winning). Both above the line (using the Media with headings known and appealing for both the male and female targets) and below the line (through ad hoc point of sale materials) communications were used.
- An incentive program for the sales network (PlayLotto) with the aim to increase and support the wager of Lotto in the second half of the year.
- Two promotional events “on site” (Gianni Morandi concert and Christmas promotions at the major train stations (“*Promo Natale nelle Grandi Stazioni*”) which reached a cast number of people and offered the possibility to inform the public about the game in a simple manner and in a fun environment.
Press releases were used to support the Morandi tour along with small promotional releases on a specialized circuit and media relations throughout the tour. Supporting the promotional activities at the Grandi Stazioni (major train stations) were the various commercials aired at the various stations.
- Together with the above mentioned activities, 2 communications flights were carried out in May and December through 30 second TV commercials that showed the game in a modern and iron light (the numbers and their meanings). The campaign was launched at the end of 2007 and aimed at “modernising” the image of the game and bringing up to date the traditional elements of Lotto and therefore bringing it closer to a younger generation of players.

EBIT for FY2008 totalled €160 million, compared to €138 million in the previous year. The €24.2 million in crease is attributable to the decrease in exchange rate costs incurred by the GTECH intercompany loan.

<i>(thousands of euro)</i>	December 31,		Changes	
	2008	2007	€	%
Operating income	159,336	164,155	(4,819)	(2.9)
Equity (income loss)	-	-	-	---
Other incomes	-	-	-	---
Other expences	-	-	-	---
Foreign exchange profit (loss)	666	(28,378)	29,044	>100%
EBIT	160,002	135,777	24,225	17.8

Financial earnings presented a negative balance of €10.7 million at the end of FY2008, as compared to €55.7 million at the end of FY2007.

Financial Income and Expenses <i>(euro)</i>	December 31, 2008	December 31, 2007	Difference
Total Financial Income	88,538,372	65,298,966	23,239,406
-) Dividends received	65,532,661	17,129,981	48,402,680
-) Bank interest income	4,644,983	6,707,435	(2,062,452)
-) Foreign exchange gain	837,382	319,593	517,789
-) Loan Interest income	17,270,754	41,099,566	(23,828,812)
-) Other finance income	252,592	42,391	210,201
Total Financial Expenses	(99,473,551)	(121,006,392)	21,532,841
-) Bank interest liabilities	1,841,184	74,483	1,766,701
-) Capital Securities	88,911,008	81,770,981	7,140,027
-) Foreign exchange losses	171,198	28,697,648	(28,526,450)
-) Loan Interest payable	8,031,855	10,463,280	(2,431,425)
-) Other finance expenses	518,306	-	518,306
Total	(10,935,179)	(55,707,426)	44,772,247

This negative balance derives in great part from the interest expense on the Capital Securities for a value of €750 million issued in connection with the GTECH acquisition in August 2006, from the 4.80% Bond closed in December 2008, from the new €360 million syndicate loan taken out in December 2008 and from the Revolver Facility of €300 million closed in May 2008.

Interest expenses for the various loans can be divided as follows: €64.4 million from the Capital Securities, €17.3 million from the €360 Bond, €6.7 million from Senior Credit Facility, €1.8 million from short term loans and €0.9 million from the €360 million syndicate loan (all amounts include the pro-rata effect from the capitalization of issuance costs and possible derivatives from the interest rate).

Investments

Investments at December 31, 2008 consist of:

- *Intangible Assets*: €6.4 million (€2.3 million at 12/31/2007) for the development of new platforms and operating systems (i.e. Linux) (€2.5 million), the improvement of the IP network (€2.1 million), new licenses (i.e. McAfee) (€0.8 million) and other (€1.9 million);
- *Fixed Assets*: €6.9 million, primary for the acquisition of electronic devices (€4.3 million), investments in the office locations (€1.9 million), and for equipments (€0.6 million);
- *Financial Assets*: €320.4 million (€640.1 million at 12/31/2007) for the following:
 - €150 million capital contribution to Lottomatica International Hungary. Lottomatica acquired 20% of the Company, established on July, 12, 2007 (Lottomatica International S.r.l. owned 80% of the company). Its main activity exclusively regards the acquisition of shares and participations in companies and other entities;
 - €157.5 million to GTECH Holding (€1.06 billion at 12/31/2006), mainly related to the stock option plans for GTECH employees in connection to the GTECH acquisition completed in August 2006;
 - €8.0 million for the capital reconstitution of SED Multitel S.r.l. on June 9, 2008 for its change from a joint stock company to a limited responsibility company when it was transferred from Totobit Informatica S.p.A. to Lottomatica. Totobit owned 80% of the company and its 640,000 shares were transferred;
 - €2.8 million capital payment to Ayperos Technologies on January 18, 2008.

PREDICTABLE DEVELOPMENTS

In 2009, the company expects to increase spending on Lotto in order to increase current high spending player fidelity, to consolidate occasional players and to develop and maximize the sales network as well as the continuous presence of the Lotto on various different media. The operations will aim to modernize the image of the game and make it more appealing as well as competitive (for example, by launching an optional game) and to improve some structural elements that are considered highly important by the players (for example, increase the winning frequency). At the same time, Management will continue to increase the incentive for trade and in-store activities. The above will be supported by a 360° communication strategy together with a combination of advertising on traditional media as well as strong media relations in order to motivate occasional players with a new language codes and to maintain the awareness of devoted players.

DE AGOSTINI S.p.A. FINANCIAL STATEMENTS

A summary report of De Agostini S.p.A.'s most recent financial statement, certified according to Italian accounting principles, is presented below. The Parent Company De Agostini S.p.A., pursuant to Article 2497-*bis* of the Italian civil code, carries out the activity of direction and control.

DE AGOSTINI S.p.A. - December 31, 2007	
<i>(thousands of euro)</i>	
BALANCE SHEET	
ASSET:	
A) Due from shareholders for unpaid capital	-
B) Fixed Assets	2,861,614
C) Current Assets	649,082
D) Accrued income and prepaid expenses	35,503
Total Assets	<u>3,546,199</u>
LIABILITY:	
A) Shareholders' Equity	
-) Issued Capital	42,000
-) Reserves	3,122,439
-) Profit (Loss) for the period	100,345
B) Provisions for risk and charges	29,234
C) Staff Several Fund (TFR)	1,719
D) Payables	250,411
E) Accrued expenses and deferred incomes	51
Total Liabilities	<u>3,546,199</u>
INCOME STATEMENT	
A) Value of Production	2,745
B) Production costs	26,651
C) Financial incomes and charges	136,440
D) Value adjustments to financial assets	(9,900)
E) Extraordinary incomes and charges	7,975
Income Tax for the period	10,264
Profit (Loss) for the period	<u>100,345</u>

Related Party Disclosure

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

Other Information

As required by Italian law, the Company declares that it has not directly carried out any research and development activities in the course of the year.

The Board of Directors' Meeting of Lottomatica, pursuant to the powers granted by the Shareholders' Meeting held on April 23, 2007 and on April 15, 2008 resolved on July 31, 2008 to assign free of charge to the beneficiaries of the *2006-2011 Share Allocation Time-Based plan* an overall maximum amount of 73,897 company owned shares corresponding to the second instalment of the Plan that were all consigned between August 29, 2008 and September 13. For further information, please refer to the following section *Long Term Incentive Plans*.

The Company is included in the Consolidation of Marco Drago's and C. S.a.p.A.'s B&D Holding which as of 2008 issued a new National Tax Consolidation Regulation on Company Interests participation.

LONG TERM INCENTIVE PLANS

Long term incentive plans adopted by the Company in favour of directors and/or employees of Lottomatica and/or its direct or indirect subsidiaries provide for stock option grants and restricted stock awards to their directors, executives and key employees. The principal purpose of granting long-term incentives is to assist the Company in attracting and retaining within its group directors, officers and other key employees, to provide a market competitive total compensation package and to motivate recipients to increase shareholder value by enabling them to participate in the value which has been created. Most of the plans are based upon three year performance measurements, generally based upon the Company's EBITDA. In general, the total value delivered is allocated 65% to stock options and 35% to restricted stock, respectively. The following are summaries of the long term incentive plans in force as of December 31, 2008.

Stock Option Plans

2003 – 2008 Plans

The Extraordinary Shareholders' Meeting of Lottomatica held on September 21, 2005 resolved to set December 31, 2008, as the expiration date for subscriptions of a maximum of €2,439,110, for issuances of a maximum of 2,439,110 new ordinary shares, par value of €1.00 each, with ordinary rights, excluding the right of option under Article 2441, paragraph 5, of the Italian Civil Code. To date, all the options have been exercised.

The Extraordinary Shareholders' Meeting of Lottomatica held on September 21, 2005 also resolved to set December 31, 2008, as the expiration date for subscriptions of a maximum of €223,175, for issuances of a maximum of 223,175 new ordinary shares, par value of €1.00 each, with ordinary rights, excluding the right of option under Article 2441, paragraph 5, of the Italian Civil Code. To date all the options have been exercised.

2005 – 2010 Plans

The September 21, 2005 Extraordinary Shareholders' Meeting of Lottomatica also resolved to set December 31, 2010, as the expiration date for the following subscriptions:

- a maximum of €297,580, for a maximum of 297,580 new ordinary shares, par value of €1.00 each, with ordinary rights, excluding the right of option under Article 2441, paragraph 5, of the Italian Civil Code. To date 297,580 options have been issued, of which 203,120 remain exercisable and 94,460 have been voided;
- a maximum of €57,016, for a maximum of 57,016 new ordinary shares, par value of €1.00 each, with ordinary rights, excluding the right of option under Article 2441, paragraph 5, of the Italian Civil Code. To date none of the 57,016 options have been issued;
- a maximum of €219,812, for a maximum of 219,812 new ordinary shares, par value of €1.00 each, with ordinary rights, excluding the right of option under Article 2441, paragraph 5, of the Italian Civil Code. To date, 219,812 options have been issued, of which 95,336 remain exercisable and 124,476 have been voided.

2006 – 2014 Plan

The Lottomatica Board of Directors' Meeting of October 18, 2006 resolved to increase the share capital by a maximum amount of €1,500,000 by issuing up to 1,500,000 new ordinary shares with a nominal value of €1.00 each, with ordinary rights, excluding the right of option under Article 2441, paragraph 4, of the Italian Civil Code to be subscribed by December 31, 2014, serving the exercise of 1,188,600 options assigned on the same date by the Board of Directors' Meeting and not yet due within the framework of the stock option plan 2006-2014 reserved for employees of Lottomatica and/or its subsidiaries, other than 127,700 options that may be exercised prior to the vesting period pursuant to the resolution of the Board

of Directors of the Company of December 11, 2007. As of December 31, 2008 n. 752,950 options have been assigned.

2007 – 2015 Plan

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

As of December 31, 2008 n. 1,483,710 options have been assigned.

2008-2016 Plan

The Lottomatica Board of Directors' Meeting of April 22, 2008 resolved to increase the share capital against payment, in one or more tranches and in divisible form, by a maximum amount of €2,318,045 by issuing up to 2,318,045 new ordinary shares with a nominal value of €1.00 each, with ordinary rights, excluding the right of option under Article 2441, paragraph 4, second sentence of the Italian Civil Code, to be subscribed by December 31, 2016, serving the exercise of 2,318,045 options assigned on the same date by the Board of Directors' Meeting and not yet due within the framework of the stock option plan 2008-2016 reserved for employees of Lottomatica and/or its subsidiaries. As of December 31, 2008 n. 2,188,902 options have been assigned.

Restricted Stock

(a) Executive Purchase of Shares at the Rights Offering Price

The Lottomatica Board of Directors' Meeting of August 29, 2006 resolved to increase the share capital against payment, in divisible form, by a maximum amount of €2,000,000 by issuing up to 2,000,000 new ordinary shares with a nominal value of €1.00 each, with ordinary rights, excluding the right of option under Article 2441 of the Italian Civil Code, to be assigned by December 15, 2007, to employees of Lottomatica and/or its subsidiaries for the price of Euro 24.425 each. Of the 2,000,000 shares, 1,528,582 have been assigned and are vested but are restricted from sale for one to three years from August 29, 2006 depending upon the employee's position at the Company or at its subsidiaries, provided shares can be sold if an employee terminates from the Company or its subsidiaries before the restriction is lifted.

(b) Share allocation plans (article 2349 of the Italian Civil Code)

- 2006-2009 Share Allocation Plan, Reserved For Employees of Lottomatica and/or its subsidiaries, approved by the Shareholders' Meeting of Lottomatica of October 18, 2006;
- 2006-2011 Share Allocation Time Based Plan, Reserved for Employees of Lottomatica and/or its subsidiaries, approved by the Shareholders' Meeting of Lottomatica of October 18, 2006;
- 2007-2010 Share Allocation Plan, Reserved for Employees of Lottomatica and/or its subsidiaries, approved by the Shareholders' Meeting of Lottomatica of April 23, 2007;
- 2008-2011 Share Allocation Plan, Reserved for Employees of Lottomatica and/or its subsidiaries, approved by the Shareholders' Meeting of Lottomatica of April 15, 2008.

Originally Approved Grants

The Board of Directors' Meeting of Lottomatica of October 18, 2006 resolved to assign up to 397,800 ordinary shares within the framework of the 2006-2009 Share Allocation Plan and 733,125 of ordinary shares within the framework of the time-based plan 2006-2011, identified the beneficiaries and established the number of shares to be allocated to each one of them. The Board of Directors' Meeting of Lottomatica of May 3, 2007 resolved to assign up to 285,130 ordinary shares within the framework of the

2007-2010 Share allocation plan. The Board of Directors' Meeting of Lottomatica of April 22, 2008 resolved to assign up to 286,916 ordinary shares within the framework of the 2008-2011 Share allocation plan.

Current Plan Balances

As of December 31, 2008 the following number of shares are outstanding in each plan, 231,522 ordinary shares have been assigned in the framework of the 2006-2009 Share Allocation Plan, 308,205 in the framework of the *time-based* 2006-2011, 131,570 ordinary shares in the framework of the 2007-2010 Plan and 270,083 ordinary shares in the framework of the 2008-2011 Plan.

In connection with the above mentioned share allocation plans, as well as any other future plan the Extraordinary Shareholders' Meeting of Lottomatica of April 23, 2007 empowered the Board of Directors for five years to increase the share capital in one or more tranches by a maximum amount of €3,200,000 by issuing up to 3,200,000 new ordinary shares, with a nominal value of €1.00 each.

The Ordinary Shareholders' Meeting of Lottomatica of April 15, 2008 empowered the Board of Directors to purchase a maximum number of own shares equal to 10% of the share capital, in compliance with the provision of law and of the contractual commitments concerning the group, also granting, pursuant to section no. 2357-*ter* of the Italian Civil Code, the power to dispose the own shares purchased, including the implementation of the stock plans, with no time limit and in the way deemed opportune.

The Board of Directors' Meeting of Lottomatica, pursuant to the powers granted by the Shareholders' Meeting held on April 23, 2007 and on April 15, 2008:

- On May 3, 2007, resolved a free increase in share capital, for a nominal amount of €99,271 by issuing up to 99,271 new ordinary shares, with a nominal value of €1.00 each, with ordinary rights, that were all assigned, between August 29, 2007 and September 30, 2007, to the 2006-2011 Share Allocation Time-Based plan beneficiaries;
- On December 11, 2007, resolved a free increase in share capital, for a nominal amount of € 139,962 by issuing up to 139,962 new ordinary shares, with a nominal value of €1.00 each, with ordinary rights, that were all assigned to some of the beneficiaries of the above stock allocation plans, contextually to the early termination of the respective employment relationships;
- On April 22, 2008, resolved a free increase in share capital, for a nominal amount of €155,497 by issuing up to 155,497 new ordinary shares, with a nominal value of €1.00 each, with ordinary rights, that were all assigned to the beneficiaries of the 2006-2009 Share Allocation Plan and of the 2007-2010 Share Allocation Plan; and
- On July 31, 2008, resolved to assign free of charge to the beneficiaries of the 2006-2011 Share Allocation Time-Based plan an overall maximum amount of 73,897 company owned shares corresponding to the second instalment of the Plan that were all consigned between August 29, 2008 and September 13.

Period	2003 - 2005 Plan (options relative to 2005) exercise price €14,63 new price for June 2006 €11,3281	Total 2003 - 2005 Plan	2004 - 2005 Plan (option relative to 2005) exercise price €18,338 new price for June 2006 €15,0361	Total 2004 - 2005 Plan
January 2008	15,100	15,100	-	-
February 2008	24,000	24,000	-	-
March 2008	20,700	20,700	32,900	32,900
April 2008	-	-	-	-
May 2008	5,700	5,700	-	-
June 2008	4,400	4,400	-	-
July 2008	-	-	-	-
August 2008	-	-	-	-
September 2008	9,400	9,400	-	-
October 2008	-	-	-	-
November 2008	5,700	5,700	3,700	3,700
December 2008	71,400	71,400	39,400	39,400
Sub Total	156,400	156,400	76,000	76,000
			Total	232,400

SHAREHOLDING OF STRATEGIC MANAGEMENT
Article 78 Issuing Regulations - Chart 3 Exhibit 3C

Surname	Name	Number of shares 12/31/2007	Number of share sold	Shares exercised	Number of shares 12/31/2008
Turner	Bruce	857,911	882,421	24,510	-
Sala	Marco	362,769	16,180	29,423	376,012
Bifulco	Rosario	186,245	20,000	-	166,245
Salvemini	Saverio	8,000	-	-	8,000
Bortoli	Stefano	869	3,141	6,075	3,803
Pelliccioli	Renzo	70,000	-	-	70,000
Patel	Jaymin	182,048	12,877	27,530	196,701
Ceretti	Paolo	3,000	-	-	3,000
Ascoli	Renato	2,500	4,942	8,968	6,526

REGULATORY FRAMEWORK REFERENCE

The following is a list of certain material Italian regulations to which the Lottomatica Group is subject issued and published on Gazzetta Ufficiale from October until December 2008.

Ministerial Decree of October 20, 2008	Technical conditions for carrying out the online Scratch and Win lottery: the “Sfida al croupier mobile”.
Ministerial Decree of October 20, 2008	Technical conditions for carrying out the online Scratch and Win lottery: the “Sette e mezzo mobile”.
Ministerial Decree of October 20, 2008	Technical conditions for carrying out the online Scratch and Win lottery: the “Miliardario mobile”.
Ministerial Decree of October 20, 2008	Technical conditions for carrying out the online Scratch and Win lottery: the “Scala reale mobile”.
Ministerial Decree of October 20, 2008	Technical conditions for carrying out the online Scratch and Win lottery: the “Black Jack on line”.
Ministerial Decree of August 14, 2008	Rules concerning technical conditions for carrying out the lottery: “Lotteria Italia 2008”.
Ministerial Decree of October 28, 2008	Technical conditions for carrying out the Scratch and Win lottery: the “L’Albero dei premi”.
Ministerial Decree of November 11, 2008	Technical conditions for carrying out the online Scratch and Win lottery: the “L’Albero dei premi online”.
Law of November 19, 2008 n. 184	Implementation of European Union rules concerning Public Games.
Ministerial Decree of November 26, 2008	Termination of the Scratch and Win lotteries: the “Super poker”, “Medaglia d’Oro”, “Tutti al mare” and “Spider-man 3”.
Ministerial Decree of December 4, 2008	Rules concerning a new way of participation to Lotto Game.
Ministerial Decree of December 9, 2008	Rules concerning special carats for the sport pool games “Totocalcio”, “il 9” and “+Gol”.
Ministerial Decree of December 11, 2008	Termination of the Scratch and Win online lottery: the “Indiana Jones online”.
Law of December 22, 2008 n. 203	Budget Law 2009 Article 1 – paragraph 49: - Rules concerning the operation of horse and sports betting; - Modification of the percentage of PREU coming from AWP (from 12.7% to 13.4%).

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

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

COMPLIANCE MODEL UNDER LEGISLATIVE DECREE NO, 231/01

Lottomatica first enacted the Compliance Model in November of 2004, pursuant to Legislative Decree No, 231 of June 8, 2001 as subsequently amended and integrated. The Decree introduced “administrative” legal liability in Italy, comparable in many respects to criminal liability, arising from specific crimes committed in the interest or to the advantage of entities (including the Company).

The Model conforms to the guidelines set out by qualified associations and with best practices. It represents an additional step of transparency and is aimed at inspiring a sense of responsibility in internal and external relations, and therefore simultaneously offers to the shareholders an adequate guarantee of the management’s efficiency and strength for legality.

The Model has been periodically amended to reflect the new corporate structure and to comply with the new provisions of law. The Model has been adopted also by Lottomatica’s Italian subsidiaries in October 2007.

In March 2008, the Board of Directors of Lottomatica adopted a new Group Code of Conduct.

A training program on the new Code of Conduct and on the updated Model, addressed to managers and to all employees, was launched in June 2008.

COMPLIANCE MODEL UNDER LEGISLATIVE DECREE NO, 262/05

In 2006, 2007 and the beginning of 2008 the Company updated its By-laws and launched the “262-Plan” to comply with Law no, 262/05. The “262-Plan” applied the COSO (Committee on Sponsoring Organization) Internal Control – Integrated Framework and includes the following:

Risk Assessment - A risk assessment was conducted to provide the basis for selecting priority financial reporting elements and the processes supporting those elements.

Documentation Phase - Documentation was created for each of the critical processes including the identification of process risks and related controls.

Evaluation Phase - An assessment of the controls design and operating effectiveness was performed.

Reporting Phase – Design and operating deficiencies identified to date have been reported to Management and remediation Action Plans developed. A mechanism to monitor execution of corrective action has been implemented.

On May 3, 2007 the Board of Directors, after receiving the opinion of the Board of Statutory Auditors, appointed as the manager in charge of drafting corporate reports and financial documents (hereinafter the “Accounting Manager”) the Company’s Chief Financial Officer effective as of June 30, 2007.

Pursuant to Article 154-*bis* of the Legislative Decree no, 58 of February 24, 1998, introduced by Law no.262 of December 28, 2005, the duty of the Accounting Manager is to establish appropriate administrative and accounting procedures for the preparation of the financial statements of the parent Company, the consolidated financial statements and all other financial documents. The Board of Directors is responsible for ensuring that the Accounting Manager has adequate powers and means to carry out these functions, and that the administrative and accounting procedures that the Accounting Manager establishes are actually observed. The Accounting Manager is required to issue a declaration (in a form prescribed by the Italian Stock Exchange) that accompanies the corporate documents and communications released to the market regarding accounting information, including interim information, and certifies that such information corresponds to what is recorded in the Company's documents, accounting records and books.

Art. 154-*bis* further provides that the delegated members of the administrative body and the Accounting Manager also certify in a report (in a form prescribed by Consob) attached to first half, annual and annual stand alone financial statements of the parent company, (i) the adequacy and actual application of the administrative and accounting procedures during the period to which such accounting documents refer, and (ii) the correspondence of such documents to the accounting records and their suitability for providing a truthful and accurate representation of the Company's assets, financial position and result of operations, for both stand alone and in consolidation.

PROCESSING OF PERSONAL DATA

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

D.P.S., in compliance with the law, specifies the technical and organizational security measures adopted on the basis of risk analysis as well as task and responsibility distribution within the data processing structure in order to protect personal data regarding their correct storage and handling.

Lottomatica regularly reviews and updates the D.P.S. which it did most recently on March 31, 2008 in accordance with Legislative Decree no, 196/03.

Shareholders' Meeting Proposals

The financial statements for the year ended December 31, 2008 were authorized for issuance in accordance with a resolution of the Board of Directors on March 5, 2009. On this date, the Board of Directors also proposed to distribute a dividend of €0.68 per share.

FINANCIAL STATEMENTS

and FOOTNOTES

December 31, 2008

LOTTOMATICA S.p.A. – BALANCE SHEET (€)	Note	December 2008	Related party transactions 2008 Note 28	December 2007	Related party transactions 2007 Note 28
ASSETS					
Non-current assets					
System, equipment and other assets	1	59,470,126		86,779,156	
Goodwill	2	622,896,606		622,896,606	
Intangible assets, net	3	5,902,940		3,040,628	
Securities and Equity investments	4	2,447,445,913		2,129,254,186	
Other non-current assets	5	766,622		793,504	
Deferred tax assets	6	14,278,058		36,720,274	
Total non-current assets		<u>3,150,760,265</u>		<u>2,879,484,354</u>	
Current Assets					
Inventories	7	3,298,492		2,792,354	
Trade and other receivables	8	104,019,612	94,108,828	83,244,005	72,187,297
Current financial assets	5	228,766,961	228,766,961	110,789,764	109,190,764
Other current assets	9	14,649,155		14,202,028	
Income tax receivables	10	122,351		-	
Cash and cash equivalents	11	28,846,084		260,990,410	
Total current assets		<u>379,702,655</u>		<u>472,018,561</u>	
TOTAL ASSETS		<u>3,530,462,920</u>		<u>3,351,502,915</u>	
EQUITY AND LIABILITIES					
Equity attributable to equity holders of the parent					
Issued Capital		152,286,837		151,899,196	
Legal Reserve		30,379,839		30,302,500	
Share Premium Reserve		1,139,070,820		1,574,955,577	
Treasury Shares		(73,184,181)		-	
Other Reserve		448,715,673		54,310,439	
Profits carried forwards and profits of the period		115,536,214		68,999,730	
Total Equity	12	<u>1,812,805,205</u>		<u>1,880,467,442</u>	
Non-current liabilities					
Long-term Debt, less current portion	13	1,135,916,577		729,649,570	
Staff Severance Fund (TFR)	14	4,809,816		4,926,846	
Deferred tax liability	15	46,069,930		65,897,488	
Long-term provisions	16	9,567,466		12,156,338	
Total non-current liabilities		<u>1,196,363,789</u>		<u>812,630,242</u>	
Current liabilities					
Trade and other payables	17	80,861,867	22,446,009	79,150,282	15,857,755
Short-term borrowings	13	367,348,044	316,294,001	509,780,326	150,277,258
Current portion of long-term debt	13	46,490,351		47,091,576	
Other current liabilities	18	26,593,664		20,875,167	
Income tax payables		-		1,507,880	
Total current liabilities		<u>521,293,926</u>		<u>658,405,231</u>	
TOTAL EQUITY AND LIABILITIES		<u>3,530,462,920</u>		<u>3,351,502,915</u>	

LOTTOMATICA S.p.A. – INCOME STATEMENT (€)	Note	December 2008	Related party transactions 2008 Note 28	December 2007	Related party transactions 2007 Note 28
Revenues	19	372,771,017		394,377,854	
Other revenues	20	92,828,294	85,220,742	90,346,858	79,056,743
Total Revenues		465,599,311		484,724,712	
Raw materials, services and other costs	21	201,027,852	38,573,981	213,679,893	40,062,741
Personnel	22	71,013,503		68,200,922	
Depreciation, Amortization and Write-downs	23	34,222,433		38,688,755	
Total costs		306,263,788		320,569,570	
Operating income		159,335,523		164,155,142	
-) Dividends received		65,532,661		17,129,981	
-) Interest income		4,897,575		6,749,826	
-) Other expense		(518,306)		-	
-) Foreign exchange gains (loss)		666,184		(28,378,055)	
-) Intercompany Interest		9,238,899	9,238,899	30,636,286	30,636,286
-) Interest expense	24	(90,752,192)		(81,845,464)	
		(10,935,179)		(55,707,426)	
Profit before taxes		148,400,344		108,447,716	
Income tax expenses	25	(32,864,131)		(39,447,986)	
Profit for the year		115,536,213		68,999,730	

<i>LOTTOMATICA S.p.A. - Cash Flow</i> (euros)	December 2008	December 2007
Operating activities		
Profit before taxes	148.400.344	108.447.716
Adjustements to reconcile profit before taxes with net cash flow:		
Fixed assets amortizations and depreciations	29.527.275	34.387.066
Intangible assets amortizations and depreciations	3.511.158	4.215.689
Risk and expense Fund and Staff Severance Fund	(2.705.902)	2.431.358
Accrued interest expences	88.426.865	89.740.209
Interest income	(21.915.737)	(47.824.229)
Dividends	(65.532.661)	(17.129.981)
Unrealized foreign excenge (gain)	(220.638)	490.876
Stock options	14.680.133	8.198.713
Bond issuance and cost amortization	3.152.602	3.185.915
Swap Option depreciation	(570.000)	(570.000)
Cash flow from operating activities before changes in net working capital	196.753.439	185.573.332
Changes in net working capital		
Inventories	(506.138)	196.783
Trade and other receivables	520.593	(9.122.703)
Account payable and other payable	(4.891.037)	(40.449.086)
Intercompany trade receivables/payables	(6.017.191)	53.012.530
Tax receivables/payables	(14.200.992)	(9.039.736)
Social Security payables	339.629	825.834
Taxes paid	(21.840.944)	(6.569.861)
Net cash flow from operating activities	150.157.359	174.427.093
Investing activities:		
Realized foreign exchange (gain)	(445.546)	27.814.636
Purchases of fixed assets	(2.218.245)	(8.047.072)
Purchases of financial assets	(318.164.845)	(8.143.259)
Cirmatica	-	121.691.801
Lottomatica International S.r.l. capitalization	-	(619.014.845)
Purchases of intangible assets	(6.373.470)	(2.308.484)
Proceeds from sale of intangible assets	1.119.931	2.414.261
Interest incomes collected	5.508.098	21.277.082
Net cash flow used in investing activities	(320.574.077)	(464.315.880)
Cash flor from financing activities		
Payments of short term debts	161.369.617	442.910.486
Interests paid	(81.123.984)	(71.262.083)
Proceeds from Stock Options	2.914.459	19.193.560
Buy back	(74.829.728)	-
Dividends collected	55.335.341	13.750.001
Dividends paid	(125.393.313)	(119.694.875)
Net cash flow from financing activities	(61.727.608)	284.897.089
Net increase (decrease) in cash and cash equivalents	(232.144.326)	(4.991.698)
Cash and cash equivalents at the beginning of the year	260.990.410	265.982.108
Cash and cash equivalents at the end of the year	28.846.084	260.990.410

Lottomatica S.p.A. – Statement of changes in Equity
Note 12)

(€)	Share Capital	Share Premium Reserve	Treasury Share Reserve	Other Reserves	Profits carried forward	Total
Balance at December 31, 2006	150,749,576	1,637,700,501	-	70,052,641	32,690,370	1,891,193,087
Distribution						
- Dividends (€0,79 per share)	-	(69,214,471)	-	(20,137,809)	(30,342,595)	(119,694,875)
- Others destination	-	-	-	2,345,007	(2,345,007)	-
- Legal reserve	-	(11,813,627)	-	11,813,627	-	-
Stock Option exercise	1,149,620	18,283,174	-	6,236,294	-	25,669,088
Swap Option	-	-	-	(570,000)	-	(570,000)
Stock Option compensation	-	-	-	14,870,819	-	14,870,819
Other movements in equity	-	-	-	2,737	(2,768)	(31)
Profits for the period	-	-	-	-	68,999,730	68,999,730
Balance at December 31, 2007	151,899,196	1,574,955,577	-	84,613,316	68,999,730	1,880,467,819
Distribution						
- Dividends (€0.825 per share)	-	(56,470,923)	-	-	(68,922,391)	(125,393,314)
- Others destination	-	(456,925,620)	-	456,925,620	-	-
- Legal reserve	-	-	-	77,339	(77,339)	-
Stock Option exercise	387,641	2,682,059	1,645,547	12,308,963	-	17,024,214
Swap Option	-	-	-	-	-	-
Stock Option compensation	-	-	-	-	-	-
Other movements in equity	-	-	-	-	-	-
Buyback	-	74,829,728	(74,829,728)	(74,829,728)	-	(74,829,728)
Profits for the period	-	-	-	-	115,536,213	115,536,213
Balance at December 31, 2008	152,286,837	1,139,070,821	(73,184,181)	479,905,514	115,536,213	1,812,805,205

ACCOUNTING PRINCIPLES AND FOOTNOTES

1. CORPORATE INFORMATION

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

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

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

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

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

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

The financial statements for the year ended December 31, 2008 were authorized for issuance in accordance with a resolution of the Board of Directors on March 5, 2009.

2.1 BASIS OF PREPARATION

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

Statement of Compliance

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

The financial statements are prepared in accordance with the following:

- current and non-current assets, as well as current and non-current liabilities, are reported separately in the balance sheet;
- cost analysis is carried out based on the nature of the cost in the income statement;
- the indirect method is used for the cash flow statement.

The financial statements are presented in euros and all values are rounded to the nearest thousand (€000) (except share and per share data) unless otherwise indicated.

The Annual Report for Fiscal Year 2008 has been prepared in accordance with the principle of corporate continuity.

The exchange rates used are those supplied by the Italian Exchange Rate Office (Ufficio Italiano Cambi) for the specific reference dates, pursuant to the principles of the De Agostini Group.

2.2 CHANGES IN INTERNATIONAL ACCOUNTING POLICIES AND OTHER INFORMATION

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2007, except for the adoption of new Standards and Interpretations noted below. Adoption of these Standards and Interpretations did not have a material effect on the financial position or performance of the Group.

Amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets: Effective Date and Transition

Amendment to the standard issued in October 2008 permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. A further amendment, issued on November 27, 2008, clarified the effective date and transition requirements of that earlier amendment. An entity is required to apply those amendments on or after from July 1, 2008. The adoption of this amendment had no effect on the financial position or performance of the Company.

IFRIC 11 IFRS 2 Group and Treasury Shares Transactions

This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The adoption of this interpretation had no effect on the financial position or performance of the Company.

IFRIC 12 Service Concession Arrangements

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. Service concession arrangements are arrangements whereby a government or other body grants contract for the supply of public services, such as roads, prisons or hospitals, to private operators. The adoption of this interpretation is not applicable to the Company.

IFRIC 14 IAS 19 The limit on a Defined Benefit Asset, Minimum funding requirements and their interaction

IFRIC Interpretation 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The adoption of this interpretation had no effect on the financial position or performance of the Company.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after October 1, 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The adoption of this interpretation had no effect on the

financial position or performance of the Company or it requires additional disclosures since the Company currently has no these kind of hedges.

2.3 INTERNATIONAL FINANCIAL REPORTING STANDARDS TO BE ADOPTED IN 2009 AND LATER

The International Accounting Standards Board and IFRIC issued additional standards and interpretations during the year which are effective for periods starting after the date of these financial statements and therefore have yet to be adopted by Lottomatica as described below.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements

The amendments to IFRS 1 allows an entity to determine the “cost” of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statement. Both revisions will be effective for financial years beginning on or after January 1, 2009. The revision to IAS 27 will have to be applied prospectively. The adoption of these amendments is not expected to have a material impact on the financial position or performance of the Group when adopted on January 1, 2009.

IFRS 2 (Revised) Share-based Payment

The IASB issued an amendment to IFRS 2 in January 2008 that clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The adoption of this standard will not have any effect on the financial position or performance of the Company and it will not require additional disclosures when adopted on January 1, 2009 since the Company currently has no share based payment plans.

IFRS 3 (Revised) Business Combinations

IFRS 3R introduces a number of changes in the accounting for business combinations occurring after its effective date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The revised standard was issued in January 2008 and becomes effective for financial years beginning on or after January 1, 2009. The changes by IFRS 3R will affect future acquisitions, if any.

IFRS 8 Operating Segments

IFRS 8 requires disclosure of information about the Company’s operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Company. The Company plans to adopt IFRS 8 on January 1, 2009, its effective date. The adoption of this standard will not have any impact on the financial position or performance of the Company, but will only require additional disclosures.

IAS 1 (Revised) Presentation of financial statements

On September 6, 2007 the IASB issued an amendment to IAS 1- Presentation of financial statement 2 becomes effective in January 1, 2009. The revised standard separates owner and non-owner changes in equity whereby there is comprehensive revision including requiring a statement of comprehensive income and amendments relating to disclosure of puttable instruments and obligations arising on liquidation. The effective date is for annual periods beginning on or after January 1, 2009. The adoption of this revised standard is not expected to have a material impact on the financial position or performance of the Company.

IAS 23 (Revised) Borrowing Costs

IAS 23 (Revised) requires capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale. This standard is effective for financial years beginning on or after January 1, 2009. The Company is

evaluating the impact the interpretation will have on the financial statements when adopted on January 1, 2009.

IAS 27 (Revised) Consolidated and Separate Financial Statements

IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill or give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The revised standard was issued in January 2008 and becomes effective for financial years beginning on or after July 1, 2009. The adoption of this revised standard is not expected to have a material impact on the financial position or performance of the Company.

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

The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after January 1, 2009. Lottomatica has concluded that these amendments will have no impact on the financial position or performance of the Company, as Lottomatica currently has no such financial instruments.

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

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as the hedged item. This amendment to IAS 39 was issued in August 2008 and becomes effective for financial years beginning on or after July 1, 2009. Lottomatica has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such instruments as accounting hedges.

IFRS improvements

The International Accounting Standards Board and IFRIC issued additional standards and interpretations which are effective for periods starting after the date of these financial statements and therefore have yet to be adopted by Lottomatica as described below.

IFRIC 13 Customer Loyalty Programs

This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The effective date is for annual periods beginning on or after January 1, 2009. The adoption of this interpretation had no effect on the financial position or performance of the Company or it requires additional disclosures since the Company currently has no customer loyalty programmes.

IFRIC 15 Agreement for the Construction of Real Estate

IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after January 1, 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. This interpretation will have no impact on the financial position or performance of the Company, as Lottomatica does not conduct such activity.

IFRIC 17 Distributions of Non-Cash Assets to Owners

On November 27, 2008 the IFRIC issued its guidance IFRIC 17 which clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of

the entity. It also clarifies that an entity should measure the dividend payable at the fair value of the net assets to be distributed and should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Interpretation is effective for annual periods beginning on or after July 1, 2009. The adoption of this interpretation is not expected to have an impact on the financial position or performance of the Company.

IFRIC 18 Transfers of Assets from Customers

On January 29, 2009 the IFRIC issued an Interpretation that provides additional guidance on the accounting for transfers of assets from customers. It clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water) or to do both. IFRIC 18 requires entities to apply the Interpretation prospectively to transfers of assets from customers received on or after July 1, 2009. IFRIC 18 is likely to be particularly relevant for the utility sector. The adoption of this interpretation is not expected to have a material impact on the financial position or performance of the Company.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgments

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

Estimates and Assumption

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

Allowance for doubtful accounts

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

Impairment of Goodwill

Lottomatica determines whether goodwill is impaired on at least an annual basis. This requires an estimation of the "value in use" of the cash-generating units to which the goodwill is allocated.

Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. At December 31, 2008 and 2007 the carrying amount of goodwill was €622.9 million. Further details are provided in Note 2.

Impairment of Intangible Assets

The Company determines whether intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires management to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The carrying amount of intangible assets at December 31, 2008 and December 31, 2007 was €6.0 million and €3.0 million, respectively. Further details are provided in Notes 3.

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them.

Deferred Tax Assets

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign Currency Translation

The financial statements are presented in euros, which is the Group's functional and presentation currency. Gains or losses resulting from foreign currency transactions are recorded in our income statements.

The Euro to US dollar foreign exchange rate was 1.3917 at December 31, 2008 (US\$/Euro 1.4721 at 12/31/2007).

Systems, equipment and other assets

Plant and machinery are stated on the basis of historical cost, net of their ordinary maintenance, less any accumulated amortization and any accumulated impairment losses.

The amortizations calculated in the Income Statement are systematically and consistently based on rates believed to be representative of the estimated useful life for each single asset category. The figures for asset amortizations have been calculated on a straight line method with reference to the date on which these assets entered into service.

The tangible asset values do not include either repair costs or ordinary maintenance costs required to keep the assets in efficient working condition and therefore to ensure their expected useful life, their working capacity and original productivity. Repair and maintenance costs are charged to the income statement only for the periods in which these costs have been incurred.

Costs incurred for the improvement of assets that are not Lottomatica's property have been entered as an increase of the same nature as the asset to which they refer. The amortization period corresponds to the lesser of the tangible asset's residual life or the residual duration of the lease.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If the presumed market value of an asset is greater than its book value, then the asset is written down to correctly reflect its market value. Fixed assets under construction include purchase costs and down payments to vendors for the acquisition of property, plant and equipment. The amortization of these costs will be carried out upon the effective use of the assets.

The book value of property, plant and equipment is reduced by public capital grants as regulated by IAS 20. The contribution, recognized in the financial year in which it becomes collectable, is deducted from the book value of the asset which it refers to. The income statement is therefore affected by the reduction of the asset's amortization cost.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, as of December 31, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Company at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the group's primary or secondary reporting format determined in accordance with IAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible Assets, net

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

Useful lives of intangible assets are assessed to be either definite or indefinite. Intangible assets with definite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a definite useful life are reviewed at least annually at year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization expense on intangible assets with definite lives is recorded in the expense category of depreciation, amortization and write-downs in our consolidated income statements.

Intangible assets with indefinite useful lives are tested for impairment annually, as of December 31, either individually or at the cash-generating unit level, as appropriate. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to definite is made on a prospective basis.

Specifically:

- "*Patents*" mainly include costs incurred for application software acquired by way of purchase, costs for application software acquired under license for use for an indefinite time, and costs for protected application software internally generated;
- "*Concessions, licenses, trademarks and similar rights*" mainly include software acquired in which the purchase price is paid upfront and the license is available over a predetermined period of time;

- “*Fixed assets under development*” relate to purchases that have not entered into service or been tested as of the reporting date.

Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows take into account the risks specific to the asset and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recorded in the expense category of depreciation, amortization and write-downs in our consolidated income statements.

Investments and financial Assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; or available-for-sale financial assets, as appropriate. Financial assets are recognized initially at fair value plus transaction costs.

Lottomatica determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Investment in subsidiaries and affiliated companies

Investment in subsidiaries and affiliated companies are measured at cost adjusted in presence of the loss value. The positive difference, resulting at the time of acquisition, between the cost of acquisition and the current net equity value is included in the book value of the financial asset.

Equity holdings in subsidiaries and affiliated companies are submitted to annual impairment tests, or more frequently if deemed necessary, to verify any eventual loss in value. In the case that a loss of value arises, it is then reported in the income statement as depreciation. If the company quote of loss value of the subsidiary exceeds the book value, the equity value is annulled and the resulting surplus is registered in the liabilities provisions. In case that the loss of value is less or reduced, it is reported in income statement as a value restoration of the cost limits.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method.

Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis; and option pricing models.

Inventories

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

Trade receivables and other receivables

Trade accounts receivable, which generally have 30 day terms, are reported net of allowances for doubtful accounts and liquidated damages (penalties incurred due to a failure to meet specified deadlines or performance standards). Allowances for doubtful accounts are generally recorded when there is objective evidence that we will not be able to collect the related receivables. Bad debts are written off when identified. Allowances for liquidated damages are recorded when they are probable and estimable.

Cash and cash equivalents

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

Debt

All debt is initially recorded at the fair value of the consideration received less directly attributable debt issuance costs. Following initial recognition, debt is subsequently measured at amortized cost using the effective interest method. Gains and losses are recorded in the consolidated income statement when the liabilities are extinguished as well as through the amortization process.

Derecognition of financial assets and liabilities

Financial assets

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

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Provisions

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

Post employment benefits

The Company has a defined benefit plan (staff severance fund) to provide certain post employment benefits to employees following termination from the Company. Employees may choose to participate in an unfunded plan within the Company or transfer their plan balance to independent external funds. These

benefits are funded only to the extent paid to the external funds. The cost of providing benefits under the plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are immediately recognized in the consolidated income statement. The defined benefit liability represents the present value of the Company's defined benefit plan obligation.

Share-based payment transactions

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

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognized as of the beginning and end of that period. No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, at a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Operating leases

Operating lease payments are recognized as an expense in the income statement over the lease term.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenues can be entered into the Income Statement:

Operating contracts

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

- persuasive evidence of an arrangement exists, which is typically when a customer contract has been signed;
- services have been rendered;
- our fee is deemed to be fixed or determinable and free of contingencies or significant uncertainties;
- collectibility is reasonably assured.

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

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

Dividends

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

Income taxes

Current taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income taxes relating to items recognized directly in equity are recognized in equity and not in the income statement.

Deferred taxes

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

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

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

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

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

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

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

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Footnotes

Lottomatica S.p.A.

BALANCE SHEET

1. Systems, equipment and other assets

Systems, equipment and other assets total € 59,5million for the year ended December 31, 2008 (€86.8 million at 12/31/2007), of which €37.1 million (€57 million at 12/31/2007) are attributable to *Freely distributed assets* ("FDA").

- **Fixed assets** €22.4 million (€29.1 million at 12/31/2007).

The table below reports the historical costs and the changes as of FY2008 and FY2007:

As of December 31, 2007:

Fixed Assets	Opening	Increase	Amortization	Write-down	Transfers	Other changes	Reclassification	TOTAL
-) Property	19,283,237	3,817,897	-	-	-	-	-	23,101,134
-) Plant and machinery	43,688,429	3,394,920	-	5,379,220	2,437,824	(773)	(466,912)	38,798,620
-) Other assets	2,959,962	385,373	-	-	10,297	(1)	-	3,335,037
-) Fixed assets under constructions	123,530	-	-	112,275	-	-	(11,255)	-
HISTORICAL COST	66,055,158	7,598,190	-	5,491,495	2,448,121	(774)	(478,167)	65,234,791
-) Property	7,801,735	-	2,530,162	-	-	-	-	10,331,897
-) Plant and machinery	21,387,393	-	7,914,713	4,209,979	25,236	(522)	(349,022)	28,927,326
-) Other assets	760,637	-	348,355	-	8,640	1	-	1,100,353
Amortization	29,949,765	-	10,793,230	4,209,979	33,876	(521)	(349,022)	40,359,576
-) Property	11,481,502	3,817,897	2,530,162	-	-	-	-	12,769,237
-) Plant and machinery	22,301,036	3,394,920	7,914,713	1,169,241	2,412,588	(251)	(117,890)	14,081,273
-) Other assets	2,199,325	385,373	348,355	-	1,657	(2)	-	2,234,684
-) Fixed assets under constructions	123,530	-	-	112,275	-	-	(11,255)	-
NET VALUE	36,105,393	7,598,190	10,793,230	1,281,516	2,414,245	(253)	(129,145)	29,085,194

As of December 31, 2008:

Fixed Assets	Opening	Increase	Amortization	Decrease	Reclassification	TOTAL
-) Property	23,101,134	1,900,063	-	35,000	-	24,966,197
-) Plant and Machinery	38,798,620	4,068,125	-	7,699,386	1,154,331	36,321,690
-) Other assets	3,335,036	634,501	-	19,168	-	3,950,369
HISTORICAL COST	65,234,790	6,602,689	-	7,753,554	1,154,331	65,238,256
-) Property	10,331,897	-	3,296,584	9,693	-	13,618,788
-) Plant and Machinery	24,717,347	-	5,721,841	3,069,626	333,395	27,702,957
-) Other assets	1,100,353	-	412,993	12,911	-	1,500,435
Amortization	36,149,597	-	9,431,418	3,092,230	333,395	42,822,180
-) Property	12,769,237	1,900,063	3,296,584	25,307	-	11,347,409
-) Plant and Machinery	14,081,273	4,068,125	5,721,841	4,629,760	820,936	8,618,733
-) Other assets	2,234,683	634,501	412,993	6,257	-	2,449,934
NET VALUE	29,085,193	6,602,689	9,431,418	4,661,324	820,936	22,416,076

Increases for the year total €6.6 million, and refer almost entirely to investments for furnishing the new office location (€1.9 million) and to the acquisition of equipment used in the business (€4.1 million)

The transfer of assets for the period has the net value of €4.7 million of which €4.5 million refer to the turnover to SED Multitel of the routers for the OLO project. The remainder refers to the dismissal of obsolete machinery.

The reclassifications carried out in the period (for a net amount of € 0.8 million) represent the various uses for the assets allocated under category “*Freely distributed assets*” (“FDA”).

- ***Freely distributed assets*** €37.1 million (€57.7 million at 12/31/2007).

The “*Freely distributed assets*” refer predominately to the Company assets leased by third parties.

These refer to fixed assets used to carry out activities related to Lotto and which are to be returned to the Ministry of Finance upon the expiration of the license.

The table below reports the historical costs and accumulated amortizations, as of FY2008 and FY2007:

As of December 31, 2007:

Fixed Asset - FDA	Opening	Increase	Amortization	Write-down	Transfers	Reclassification	TOTAL
-) Plant and Machinery - FDA	241,893,276	440,667	-	4,572,586	10	3,743,629	241,504,996
-) Other assets - FDA	1,861,852	8,215	-	21,133	(1)	-	1,848,933
-) Assets under construction - FDA	3,283,303	-	-	-	-	(3,265,462)	17,841
HISTORICAL COST	247,038,431	448,882	-	4,593,719	9	478,167	243,371,770
-) Plant and Machinery - FDA	165,764,314	-	22,297,173	4,572,570	1	349,022	183,837,940
-) Other assets - FDA	1,845,854	-	15,147	21,133	(1)	-	1,839,867
Amortizations	167,610,168	-	22,312,320	4,593,703	-	349,022	185,677,807
-) Plant and Machinery - FDA	76,128,962	440,667	22,297,173	16	9	3,394,607	57,667,056
-) Other assets - FDA	15,998	8,215	15,147	-	-	-	9,066
-) Assets under construction - FDA	3,283,303	-	-	-	-	(3,265,462)	17,841
NET VALUE	79,428,263	448,882	22,312,320	16	9	129,145	57,693,963

As of December 31, 2008:

Fixed Asset - FDA	Opening	Increase	Amortization	Decrease	Reclassification	TOTAL
-) Plant and Machinery - FDA	241,504,996	276,879	-	11,730,170	(1,154,331)	228,897,374
-) Other assets - FDA	1,848,933	-	-	59,306	-	1,789,627
-) Assets under construction - FDA	17,841	-	-	-	-	17,841
HISTORICAL COST	243,371,770	276,879	-	11,789,476	(1,154,331)	230,704,842
-) Plant and Machinery - FDA	183,837,940	-	20,093,419	11,730,171	(333,395)	191,867,793
-) Other assets - FDA	1,839,867	-	2,437	59,305	-	1,782,999
Amortizations	185,677,807	-	20,095,856	11,789,476	(333,395)	193,650,792
-) Plant and Machinery - FDA	57,667,056	276,879	20,093,419	(1)	(820,936)	37,029,581
-) Other assets - FDA	9,066	-	2,437	1	-	6,628
-) Assets under construction - FDA	17,841	-	-	-	-	17,841
NET VALUE	57,693,963	276,879	20,095,856	-	(820,936)	37,054,050

The increases for the year totaled €0.3 million, and refer mainly to the acquisition of terminals and printers for the replacement project of all old Lotto terminals.

The reclassifications carried out in the period totaling €0.8 million correspond to the various uses of assets placed in *Fixed Assets*.

The amortization periods for the individual categories are reported below,

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

2. Goodwill

Totals €622.9 million (€622.9 million at 12/31/2007) and is composed of the following categories:

- goodwill of €404 million (€404 million at 12/31/2007) from the merger by incorporation of Lottomatica into Tyche in 2002;
- goodwill of €2.1 million (€2.1 million at 12/31/2007) connected to the acquisition of the Games division of Eis S.p.A. and Twin S.p.A. (pari-mutuel system);
- goodwill of €216.8 million (€216.8 million at 12/31/2007) from the merger transaction between New Games, FinEuroGames and Lottomatica completed on December 20, 2005.

According to the international accounting principles, specifically IFRS 3 and IFRS 36, goodwill is not subject to amortization. The Company annually reviews goodwill for impairment in order to verify if the asset has been impaired. In case the asset results to have lost value the Company writes down the goodwill of the asset.

The book value of the unit generating financial flows is used to calculate its recuperable goodwill value.

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

The 2009-2011 budget for units generating financial flows has been prepared according to the following criteria:

- Compound Annual Revenue Growth Rate of (1.48)%;
- Compound Annual Operating Cost Growth Rate of 2.29%.

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

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

The Weighted Average Cost of Capital used was 8.30%.

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

3. Intangible Assets

Total €5.9 million (€3.0 million at 12/31/2007) and break down as follows:

- *Patents* €2.1 million (€1.9 million at 12/31/2007);
- *Concessions and licenses* €0.9 million (€1.1 million at 12/31/2007);
- *Other Intangible Assets* €3.0 million

In further detail, as of FY2008 and FY2007.

As of December 31, 2007:

Intangible Asset As of December 31, 2007	Opening	Increase	Amortization	TOTAL
Patents	42.388.940	1.169.303	-	43.558.243
Concessions and licenses	8.263.263	1.139.181	-	9.402.444
HISTORICAL COST	50.652.203	2.308.484	-	52.960.687
Patents	38.360.400	-	3.264.049	41.624.449
Concessions and licenses	7.343.970	-	951.640	8.295.610
Amortizations	45.704.370	-	4.215.689	49.920.059
Patents	4.028.540	1.169.303	3.264.049	1.933.794
Concessions and licenses	919.293	1.139.181	951.640	1.106.834
NET VALUE	4.947.833	2.308.484	4.215.689	3.040.628

As of December 31, 2008:

Intangible Asset As of December 31, 2008	Opening	Increase	Amortization	Decrease	TOTAL
Patents	43,558,243	2,497,863	-	54,000	46,002,106
Concessions and licenses	9,402,444	764,004	-	-	10,166,448
Other	-	3,122,104	-	-	3,122,104
HISTORICAL COST	52,960,687	6,383,971	-	54,000	59,290,658
Patents	41,624,449	-	2,366,133	43,500	43,947,082
Concessions and licenses	8,295,610	-	981,787	-	9,277,397
Other	-	-	163,239	-	163,239
Amortizations	49,920,059	-	3,511,159	43,500	53,387,718
Patents	1,933,794	2,497,863	2,366,133	10,500	2,055,024
Concessions and licenses	1,106,834	764,004	981,787	-	889,051
Other	-	3,122,104	163,239	-	2,958,865
NET VALUE	3,040,628	6,383,971	3,511,159	10,500	5,902,940

The annual increase totals €6.4 million of which €25 million refer to *Patents*, specifically for the maintenance of the Lotto software, and €0.7 million for *Licenses*. The increase in other *Other Intangible Assets* (€3.1 million) refers to a one-time contribution to Telecom Italia for the improvement of the data transmission network.

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

Intangible Assets	Amortization Period
1) Patents	3 years
2) Concessions and licenses	3 years
3) Other Intangible Assets	2 years – 5 years

4. Securities and equity investments

Total €2.4 billion (€2.13 billion at 12/31/2007) and break down as follows:

- *Subsidiaries* €2.4 billion (€2.13 billion at 12/31/2007),
The increase of €315.5 million refers to the following:
 - €150 million capital contribution to Lottomatica International Hungary. Lottomatica acquired 20% of the Company, established on July, 12, 2007 (Lottomatica International S.r.l. owned 80% of the company). Its main activity exclusively regards the acquisition of shares and participations in companies and other entities;

- €157.5 million to GTECH Holdings (€1.06 billion at 12/31/2006) in reference to costs related to the GTECH employee stock option plans;
- €8.0 million for the acquisition of SED Multitel S.r.l. on June 9, 2008 from Totobit Informatica S.p.A. to Lottomatica, with the transfer of the 640,000 shares owned by Totobit. SED Multitel changed its business name from a joint stock company to a limited responsibility company, when it was transferred.

The €0.61 million decrease results from the liquidation of the Spanish company Cirmatica S.A. (€2.0 million) on April 15, 2008.

- *Other* €3.8 million (€1.1 million at 12/31/2007), entirely refers to the participation in *Ayperos Technology S.p.A.* which due to the capital payment of January 18, 2008 is a €2.8 million (€0.1 million at 12/31/2007) increase compared to December 31, 2007. The participation in the company *Imprenditori Associati S.p.A.* for €0.1 million was sold on October 4, 2008.

The table below reports the changes that occurred during the period:

Securities and Equity investments € in thousands	12/31/2007	Changes		12/31/2008
		Increases	Decreases	
Lottomatica Italia Servizi S.p.A.	18,064	-	-	18,064
Lottomatica Sistemi S.p.A.	8,719	-	-	8,719
Consorzio Giochi Sportivi	85	-	-	85
Consorzio Lotterie Nazionali	10,080	-	-	10,080
Lottomatica Videolot Gestione S.p.A.	6,620	-	-	6,620
Lottomatica Videolot Rete S.p.A.	7,216	-	-	7,216
Lottomatica Scommesse S.r.l.	20,000	-	-	20,000
Lottomatica International S.r.l.	619,015	-	-	619,015
Lottomatica International Hungary	-	150,000	-	150,000
Cirmatica S.A.	61	-	61	-
Sed Multitel S.r.l. (*)	2,004	8,000	-	10,004
Invest Games S.A.	360,249	-	-	360,249
GTECH Holdings	1,076,082	157,543	-	1,233,625
Ayperos Technology S.p.A.	955	2,813	-	3,768
Imprenditori Associati S.p.A.	104	-	104	-
Total	2,129,254	318,356	165	2,447,445

(*) ex SED Multitel S.p.A.

5. Financial instruments

Fair values

Set out below is a comparison by class of the carrying amounts and fair values of our financial instruments (thousands of euro):

	December 31, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>(thousands of euros)</i>				
Financial assets				
Cash and cash equivalents				
Cash and cash equivalents	28.846	28.846	260.990	260.990
	<u>28.846</u>	<u>28.846</u>	<u>260.990</u>	<u>260.990</u>
Current financial assets				
Intercompany loan	300	300	4.344	4.344
Cash pooling	212.767	212.767	99.116	99.116
Interest	15.600	15.600	6.300	6.300
Bingo plus loan	-	-	1.000	1.000
Other	100	100	30	30
	<u>228.767</u>	<u>228.767</u>	<u>110.790</u>	<u>110.790</u>
Financial liabilities				
Interest bearing loans and borrowings				
Capital Securities	730.525	461.250	774.487	729.375
4.80% Bonds	-	-	359.976	359.550
Long term borrowings	403.355	403.355	-	-
Other	2.037	2.037	1.780	1.780
	<u>1.135.917</u>	<u>866.642</u>	<u>1.136.243</u>	<u>1.090.705</u>
Current financial liabilities				
Intercompany loan	12.991	12.991	12.346	12.346
Cash pooling	288.072	288.072	123.182	123.182
Interest	4.967	4.967	11.913	11.913
Other	10.483	10.483	2.835	2.835
	<u>316.513</u>	<u>316.513</u>	<u>150.276</u>	<u>150.276</u>

Current financial assets total €228.8 million (€109.8 million at 12/31/2007) of which €228.8 million (€109.8 million at 12/31/2007) refer to cash pooling activities to group subsidiaries.

Detail of the receivables from principal subsidiaries is as follows:

€ in thousands	Lottomatica Sistemi S.p.A.	Lottomatica Videolot Rete S.p.A.	Lottomatica Scommesse S.r.l.	GTECH Holdings	Other	Total
Financing	-	-	-	-	300	300
Cash-Pooling	19,377	91,504	101,335	-	551	212,832
Interests	578	2,940	2,943	3,739	5,400	15,600
Other	-	-	-	65	35	100
Total	19,955	94,444	104,278	3,804	6,286	228,767

The fair value of the financial assets shown above, considering their nature, is approximate to their book value.

Non-current financial assets at December 31, 2007 referred to the 4.80% Bond reimbursed in December 2008.

The fair values for the Capital Securities and 4.80% Bonds were determined by independent investment bankers calculated using market interest rates.

6. Deferred tax assets

Net deferred tax assets total €14.3 million (€36.7million at 12/31/2007). The most significant amounts refer to the following:

- Write down of trade receivables;
- Tax amortization of So.Ge.I. goodwill;
- tax effect derived from eliminating the costs related to the establishment and expansion of intangible assets, pursuant to international accounting standards;
- unrealized foreign exchanges losses; and
- allowances for litigation proceedings currently in course.

The difference of €26.0 million in deferred tax assets between December 31, 2007 and December 31, 2008 is mainly due to the the deficit resulting from the merger of Lottomatica into Tyche which was calculated in 2001 as a result of the difference of the tax accounts and statutory reports.

In further detail:

Deferred tax assets	
(€)	
Balance at January 1, 2007	52,149,055
-) Increases	5,926,075
-) Decreases	(21,354,856)
Balance at December 31, 2007	36,720,274
-) Increases	3,514,541
-) Decreases	(25,956,757)
Balance at December 31, 2008	14,278,058

7. Inventories

Total €3.3 million (€2.8 million at 12/31/2007) and consist almost entirely of Lotto playslips and receipts.

8. Trade and other receivables

Total €104 million (€83.2 million at 12/31/2007) and refer to:

- *Trade receivables* of €9.9 million (€11.1 million at 12/31/2007), net of an Allowance for doubtful accounts equal to €1.8 million (€1.7 million at 12/31/2007);
- *Receivables from subsidiaries collectable within 12 months* of €94.1million (€67.7 million at 12/31/2007), consisting mainly of the charge-back of marketing costs, network services (related to the activation, connection and assistance to the points of sales), back-office services, administrative services for activities of management in the ordinary course of business, and contracts with the subsidiaries in normal market conditions.

In greater detail:

Trade Receivables	12/31/2008	12/31/2007
(€)		
Trade receivables	9,910,784	11,056,708
-) Trade	11,664,822	12,726,746
-) Allowance for doubtful accounts	(1,754,038)	(1,670,038)
Receivables from Subsidiaries	94,108,828	67,703,114
-) Trade	94,108,828	67,703,114
Receivable from Parent Company	-	4,484,183
-) Trade	-	140
-) Tax	-	4,484,043
Total	104,019,612	83,244,005

In the course of FY2008, the Allowance for doubtful accounts increased by €1.2 billion and was used to subscribe the €1.1 billion Toto2000 S.r.l. transaction of November 15, 2007.
For further information see Note 31.

Tax receivables from parent company collectable within 12 months are €0.0 compared to the €4.5 million of FY 2007 since the company has repaid the receivables due to D&D Holding in accordance with the National Tax Consolidation of the De Agostini Group Companies, following the deliberation of the Board of Directors Meeting of September 9, 2004. The National Tax Consolidation Regulation for the Companies of the De Agostini Group was approved by the De Agostini Board of Directors Meeting of October 20, 2004. It regulates the relations between the B&D Holding and the companies which adhere to said regulation including Lottomatica, and aims to attain and ascribe the advantages derived from the application of the national tax consolidation pursuant to articles 117 to 129 of Presidential Decree no. 917 of December 22, 1986 and as modified by the cited Legislative Decree no. 344/2003 and Ministerial Decree of June 9, 2004.

The new Regulation for the De Agostini Group issued in order to safeguard the economic/financial interests of the individual sub holdings will be approved in the next BoD meeting of Lottomatica.

9. Other current assets

Total €14.6 million (€14.2 million at 12/31/2007) and break down as follows:

- Other Receivables for €6.3 million (€5.6 million at 12/31/2007) include credits deriving from the withholdings of the *intercompany loan* with GTECH Holding regarding liquidated interests due to Lottomatica. According to bilateral agreements between the US and Italy, such amounts will be transferred to the Parent Company under the national tax consolidation contract;
- Receivables for €3.0 million from the reduction imposed by the Audit Court of the penalty imposed by the Italian Antitrust on September 7, 2005 to Lottomatica from €8.0 million to €5.0 million;
- Receivables from points of sale, net of the Allowance for doubtful accounts equal to €0.8 million (€2.2 million at 12/31/2007), related to the amounts that still are to be collected for Giochi Sportivi and Tris which are no longer operated by Lottomatica and the subsidiary Lottomatica Scemme S.r.l.;
- Receivables for €0.2 million from social security institutions Asfalis (€0.2 million) and INAIL (€0.002 million) with reference to advanced payments to the previously mentioned pensions.

The Allowance for doubtful accounts adequately covers all possible losses to receivables, even in the case of complex contractual relations.

In greater detail:

Other Current Assets		
(€)	12/31/2008	12/31/2007
Receivables to Social Security Institutions	240.790	-
Other Assets	14.408.365	14.202.028
-) Tax withholdings on asset interests	1.114.225	1.820.883
-) Other tax receivable	426	426
-) Other receivable	7.136.836	9.876.962
-) Antitrust penalty reduction	3.047.000	-
-) Employee receivables	273.779	-
-) Accrued income and prepaid expenses	2.008.974	1.315.051
-) Point of Sale receivables	1.699.224	3.431.275
-) Other Receivable Allowance for doubtful accounts	(872.099)	(2.242.569)
Total	14.649.155	14.202.028

For further information please refer to Note 31.

10. Income Tax receivables

Income Tax receivables total €0.1 million (€0.0 at 12/31/2007) and refer to the IRAP tax receivables.

Income tax receivables at 31/12/2007 were €0.0 due to the advance tax payments made in 2007 covered the IRAP payable for the year for a total of €10.0million.

11. Cash and cash equivalents

Total €28.8 million (€261 million at 12/31/2007), of which €28.8 million (€260.9 million at 12/31/2007) is in bank and postal accounts and €0.02 million (€0.05 million at 12/31/2007) is on hand.

The bank and postal accounts have an annual interest rate of 3.89%.

In further detail:

Cash and cash equivalents (€)	12/31/2008	12/31/2007
Cash at bank	28,826,842	260,975,371
Cash on hand	19,242	15,039
Total	28,846,084	260,990,410

In May 2008, Lottomatica entered into a €300 million senior unsecured revolving credit facility with a syndicate of financial institution in order to compensate for the reduction of USD credit line. To date, only €50.0 million have been used.

12. Equity holders of the Parent

Totals € 1.81 billion (€1.88 billion at 12/31/2007), of which:

- *Share Capital*: €152.2 million (€151.9 million at 12/31/2007), consisting of 152,286,837 (151,899,196 at 12/31/2007) shares of €1.00 value constituted after the stock option subscription and offering related to the GTECH acquisition.

In greater detail:

N° of Shares at 12/31/2007	151,899,196
Stock-Option January	15,100
Stock-Option February	10,700
Stock-Option March	66,900
Stock – Option May	5,700
Stock-Option July	4,400
Treasury share attraction	155,241
Stock-Option September	9,400
Stock-Option October	9,400
Stock-Option December	110,800
N° of Shares at 12/31/2007	152,286,837

- *Legal Reserve*: €30.3 million (€30.3 million at 12/31/2007). Due to the resolution passed by the General Shareholders' Meeting of April 15, 2008, the reserve was increased by €0.07 million.
- *Share Premium Reserve*: €1.1 billion (€1.57 billion at 12/31/2007).

In greater detail:

Share Premium Reserve (€ in thousands)	
Balance at 12/31/2006	1,637,700
-) Dividend distribution	(69,214)
-) Stock Option capital increase	18,283
-) Secondary expenses related to capital increase (Legal Reserve)	(11,814)
Balance at 12/31/2007	1,574,956

-) Dividend distribution	(56,471)
-) Other	(456,926)
-) Stock Option capital increase	2,682
-) Buy back	74,830
Balance at 12/31/2008	1,139,071

The Lottomatica Shareholders' Meeting of April 15, 2008 approved a resolution to supply a dividend of €0.825 per share for a total amount of €125.4 million (€56.5 million on Share premium reserve).

In greater detail:

Dividend Distribution - April 15, 2008 Meeting -	
-) share premium reserve	56,470,923
-) FY2007 profits	68,922,391
Total	125,393,314

- *Buy Back Reserve*: €73.2 million and represents a similar amount used for the buy-back operation (€74.8 million), modified by €1.6 million for the fair value of the restricted stock of the portfolio. As of February 23, 2009, the number of Treasury shares is 3,845,451.

The *Other Reserves* are represented in the following table:

Other reserves €/000	Merger Reserve	Share based payment Reserve	Other Reserve	Ex art. 2349 Reserve	Swap option Reserve	Total
Balance December 31, 2006	20.138	7.942	18.282	-	5.320	70.053
Dividend distribution	(20.138)	-	-	-	-	(20.138)
Stock options exercised	-	(7.253)	7.253	(239)	-	(239)
Legal reserve	-	-	-	-	-	-
Other movements	-	-	-	2.228	-	2.228
Stock compensation	-	21.347	-	-	-	21.347
Amortization swap option	-	-	-	-	(570)	(570)
Balance December 31, 2007	-	22.036	25.535	1.989	4.750	54.310
Other movements	-	-	456.926	-	-	456.926
Stock options exercised	-	(9.501)	9.501	-	-	-
Legal reserve	-	-	-	-	-	-
Capital increase	-	-	-	(155)	-	(155)
Treasury shares	-	-	-	-	-	-
Buy back	-	-	(74.830)	-	-	(74.830)
Treasury share attribution	-	(676)	(970)	-	-	(1.646)
Stock compensation	-	14.680	-	-	-	14.680
Amortization <i>swap option</i>	-	-	-	-	(570)	(570)
Balance December 31, 2008	-	26.539	416.162	1.834	4.180	448.716

- *Share-based Payment Reserve*: €26.5 million (€22.0 million at 12/31/2007); which includes an amount related to the authorization of the existing stock option plan of January 1, 2008 (€22.0 million), as well as for those later authorized in the course of the year (€14.7 million) net of €10.2 million which refer to stock options which have been exercised. Specifically, the stock option plans reserved to the Lottomatica employees have been recorded in the Income Statement as an increase in the Personnel cost for €7.1 million (€8.2 million at 12/31/2007), while those reserved to GTECH employees have been recorded as an increase in the investment in GTECH Holdings Equity.
- *Other Reserves*: €416.1 million (€25.5 million at 12/31/2007) and break down as:
 - €457.0 million deriving from the resolution to buy-back company shares issued by the Shareholders' Meeting of April 15, 2008;
 - €9.5 million deriving from the stock options matured in the period;

- €74.8 million deriving from the application of the buy-back reserve and the partial reclassification of the Share Premium Reserve for the period of the buy-back plan in the course of the year;
 - €0.9 million deriving from the fair value for restricted stock assigned to the portfolio.
- *Ex Art. 2349 Reserve:* €1.8 million (€2.0 million at 12/31/2007). The exArt. 2349 Reserve was established by shareholders' resolution issued at the Shareholders' Meeting of April 23, 2007 in accordance with Company by-laws, for the destination of Company for share-based payment plans. Decreases relate to the number of stock awards granted to employees that vested during the year. The €0.15 million decrease result from the assignment of restricted stock applied to the share-based payment plans deliberated by the company.
 - *Swap Option Reserve:* €4.2 million (€4.8 million at 12/31/2007) (net of amortization quota of €0.6 million for the period).
Prior to the issuance of the Capital Securities in May 2006, Lottomatica entered into swap option contracts for €750 million with financial institutions that effectively limited the Company's exposure to movements in interest rates from the date it entered into the swap option contracts to the date that pricing was fixed on the Capital Securities issuance. The swap option contracts were terminated during May 2006 for earnings of approximately €5.7 million, which was recorded to in Other Reserves in the Consolidated Statement of Changes in Equity and is being amortized over 10 years.
 - *Retained earning and profit for the year:* €115.5 million (€69.0 million at 12/31/2007). It refers solely to retained earnings and profits for the FY2008 (€0.0 million as of 12/31/2007) to be used as legal reserve in the course of the year. The share price is €0.7587 per share (€0.0156 at 12/31/2007).

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

Nature/Description (€ in thousands)	Amount	Use	Distribution quota
Capital	152,287		
Future capital increase reserves	-	A-B	
Capital reserve			
Merger reserve	-	A-B-C	-
Share premium reserve	1,139,071	A-B-C	1,135,378
Other reserves	375,531	A-B	-
Earnings Reserve			
Legal reserve	30,380		
Net Income	115,536	A-B-C	115,459
Total Reserve	1,660,518		1,250,837

A: Capital increase
B: Loss Reorganization
C: Distribution

The reserves and retained earnings are non-distributable to the members totals €409.6 million (€91.6 million at 12/31/2007) and refer to:

- Legal Reserve;
- Share Premium Reserve of €3.7 million (€6.9 million at 12/31/2007) regarding the unrealized deferred taxes for secondary expenses related the capital increase;
- Buy-back reserve of €308.9 million as resolved by the Shareholders' Meeting of April 15, 2008;
- Profit for the period of €0.08 million (€0.08 million at 12/31/2007) allotted to the Legal Reserve pursuant to Article 2430 of the Italian civil code;
- Reserve generated by stock compensation expenses still to be vested, €60.6 million (€47.6 million at 12/31/2007);

- Swap option reserve (for the part still to be amortized) amount to €4.1 million (€4.8 million at 12/31/2007);
- €1.8 million (€2.0 million at 31/12/2007) allotted to the restricted plan for Restricted stock option plan for Company employees approved at the Shareholders' Meeting of April 23, 2007.

13. Debt

(thousands of euros)	December 31,	
	2008	2007
Long-term debt, less current portion		
Capital Securities	730.525	727.869
4.80% Bonds	-	-
Other long term borrowings	403.355	-
Other	2.037	1.780
	<u>1.135.917</u>	<u>729.649</u>
Short-term borrowings		
Short term borrowings	316.513	150.277
4.80% Bonds	-	359.503
Other	50.835	-
	<u>367.348</u>	<u>509.780</u>
Current portion of long-term debt		
Capital Securities	46.490	46.618
4.80% Bonds	-	473
	<u>46.490</u>	<u>47.091</u>

Capital Securities

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

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

The Capital Securities allow Lottomatica to optionally defer coupon payments and mandates deferral of coupon payments if Lottomatica is in breach of the interest coverage ratio as defined in the Capital Securities agreement. Under circumstances described in the Capital Securities agreement, Lottomatica is required to settle deferred coupon payments in cash or equity (1.35). Lottomatica is restricted from paying any dividend prior to settling deferred coupon payments.

The terms of the Capital Securities require Lottomatica to authorize the issuance of ordinary shares in accordance with a resolution approved by Lottomatica shareholders. At each annual general meeting, the value of the ordinary shares authorized for issuance must be equivalent to the coupon payments due during the following two-year period.

Prior to the issuance of the Capital Securities in May 2006, Lottomatica entered into swap option contracts for a notional value of €375 million with financial institutions that effectively limited Lottomatica's exposure to movements in interest rates from the date Lottomatica entered into the swap option contracts to the date that pricing was fixed on the Capital Securities issuance.

Capital Securities breaks down as follows:

Capital Securities €000	Nominal Value	Accessory Expenses	Amortization	Net Value as of 12/31/2008
Capital Securities (beyond 5 years)	750,000	(26,557)	7,082	730,525
Total	750,000	(26,557)	7,082	730,525

4.80% Bonds

4.80% Bond totals €0.0 million (€359.5 million at 12/31/2007) after its reimbursement executed in December 2008. As of December 31, 2007 with reference to the reimbursement schedule for the current year, the 4.80% Bond was reclassified as current financial liability.

The 4.80% Bond breaks down as follows:

4.80% Bond €000	Nominal Value	Accessory Expenses	Amortization	Issuing Expense	Net Value as of 12/31/2007
Bond	360,000	(1,679)	1,371	(189)	359,503
Total	360,000	(1,679)	1,371	(189)	359,503

The 4.80% Bond consists of 360,000 bonds with a nominal value of €1.00 per bond. The Bond has been allocated in Italy (56%), England (19%) and in other European States. The Bond has an annual interest rate of 4.80% and payable in a single solution on December 22, 2008.

Long term borrowings

Long term borrowings for €403.4 million (€0 at 12/31/2007) refer to the Revolving Credit Facility entered by Lottomatica for €50.0 million and to the Long Term Loan Facility for €353.4 million, for a total borrowing of €403.4 million which must include amortization for €0.2 million and net of issuance costs of €6.8 million.

Long Term Facility	Nominal Value	Issuance Costs	Accumulated Amortization	Net value at 12/31/2008
Loan	360,000	(6,846)	200	353,354
Total	360,000	(6,846)	200	353,354

Long Term Loan Facility

In December 2008, Lottomatica entered into a €360 million Long Term Loan that expires on December 2013 and is predominately used to reimburse the 4.80% Bond that expired in December 2008.

In greater detail:

2011	132.000
2012	132.000
2013	96.000
Totale	<u>360.000</u>

Interest is generally payable monthly in arrears at rates determined by reference to the EURIBOR rate plus a margin based on the Group's ratio of total net debt to earnings before interest, taxes, depreciation and amortization, and the Group's senior unsecured long-term debt rating.

The Facility has covenants and restrictions including, among other things, requirements relating to the maintenance of certain financial ratios, limitations on capital expenditures and acquisitions, and limitations on dividends. Violation of these covenants may result in the full principal amount becoming

immediately payable upon written notice. At December 31, 2008 we were in compliance with all covenants and restrictions.

Revolving Credit Facility

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

Interest is generally payable monthly in arrears at rates determined by reference to the EURIBOR rate plus a margin based on the Group's ratio of total net debt to earnings before interest, taxes, depreciation and amortization, and the Group's senior unsecured long-term debt rating. A facility fee is payable quarterly at a rate of 0.36% per annum on the total available commitment of the LTO Revolving Credit Facility.

The LTO Revolving Credit Facility has covenants and restrictions including, among other things, requirements relating to the maintenance of certain financial ratios, limitations on capital expenditures and acquisitions, and limitations on dividends. Violation of these covenants may result in the full principal amount becoming immediately payable upon written notice. At December 31, 2008 we were in compliance with all covenants and restrictions.

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

During the quarter ended June 30, 2008, Lottomatica borrowed the €300 million available under the LTO Revolving Credit Facility and the Group used the proceeds to prepay US\$467.4 million of the GTECH Term Facilities. As of December 31 2008, €50.0 million remains outstanding under the LTO Revolving Credit Facility.

Short-term borrowings

Total €367.1 million (€509.8 million at 12/31/2007) and refer mainly to *Subsidiaries Payables* (€316.3 million).

In detail:

Short term borrowing	2008	2007
-) Bank	50,835,089	-
-) 4.80% Bond	-	359,503,068
-) Subsidiary	316,294,001	150,277,258
Total	367,129,090	509,780,326

The most significant *Subsidiary Payables* refer to:

- cash pooling for Consorzio Lotterie Nazionali for €129.3 million, including €0.1 million (€0.2 million at 12/31/2007) in interests in collections by Lottomatica on behalf of the Consorzio points of sale. The sum also includes €0.4 million which refer to costs deriving from credit issuing from Mediofactoring S.p.A., Gruppo Banca Intesa and Consorzio to Lottomatica S.p.A. as established by the Executive Committee of the Consorzio on December 17, 2008. The value includes the commission percentage of 0.20% of nominal value and a discount rate equal to one month +1.250% of Euribor. Based on the factoring contract, the cost of the operation weighs on (i) the Consorzio in measure of its nominal value of the credit amount issued considering the risk of default based on the average historic default rate on an annual point of sale average and (ii) on Lottomatica S.p.A;
- cash pooling for Lottomatica Italia Servizi S.p.A. for €116.4 million (€95.9 million as of 12/31/2007) including €1.8 million (€2.4 million at 12/31/2007) in interests and €8.6 million (€2.7 million at 12/31/2007) for services rendered by Lottomatica on behalf of Lottomatica Italia Servizi S.p.A.;
- cash pooling for Totobit Informatica S.p.A. for €47.1 million (€12.1 million at 12/31/2007) including €1.7 million (€0.6 million at 12/31/2007) in interests.

In greater detail:

<i>(thousands of euro)</i>	Lottomatica Italia Servizi S.p.A.	Consorzio Lotterie Nazionali	Lottomatica Videolot Gestione S.p.A.	GTECH Holding	LIS Finanziaria S.p.A.	Lottomatica International S.r.l.	PCC S.p.A.	SED Multitel S.r.l.	Totobit Informatica S.p.A.	Totale
-) Financing	-	-	-	-	-	6,341	6,650	-	-	12,991
-) Cash Pooling	105,916	127,439	3,346	-	-	-	-	5,936	45,435	288,072
-) Collection	-	1,336	-	-	-	-	-	-	-	1,336
-) Interests	1,818	125	66	4	612	330	188	122	1,702	4,967
-) Other	8,636	446	65	-	-	-	-	-	-	9,147
Total	116,370	129,346	3,477	4	612	6,671	6,838	6,058	47,137	316,513

Bank payables total €50.8 million and refer to the line of credit stipulated by Lottomatica and its bank partners.

As previously mentioned, the variation from December 31, 2007 refers to the reimbursement of the 4.80% Bond in December 2008.

Short term payments on Long term borrowings

Total €46.5 million (€47.1 million at 31/12/2007) and refer to interest matured on the Capital Securities.

14. Staff Severance Fund (TFR)

The total expense, at net value, for the annual Staff Severance Fund is summarized in the following table,

<i>(thousands of euro)</i>	December 31,	
	2008	2007
Balance at January 1	4,927	5,495
Current service cost	2,337	2,227
Actuarial gain (loss) and "curtailment" effect	100	(469)
Other	(2,553)	(1,935)
Benefits paid	-	(391)
Balance at December 31	<u>4,810</u>	<u>4,927</u>

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

This method involves the following procedures:

- projections were made based on a series of financial assumptions (increase in the cost of living, increase in wages, etc), any future benefits that could be paid to each employee subscribing to the program as a result of retirement, death, invalidity, resignation etc. The estimate of future benefits also included any further increases related to seniority that may have accrued, as well as a presumed increase in the remuneration level earned at the time of valuation;
- at the time of valuation, the present average value of future benefits was calculated, on the basis of the annual interest rate applied and the likelihood of single benefits being actually paid;
- the liability for the Company was established by identifying the share of the present average value of future benefits in relation to service already accrued by the employee with the Company at the time of valuation;
- the reserve recognized as valid for IAS purposes was identified on the basis of the liability established using the method outlined in the paragraph above and the reserve set-aside for the purposes of the Italian statutory financial statements.

Financial Hypothesis	Executives	Non Executives
Increase in Cost of Living	2,2% annual (2,0% FY2007)	2,2% annual (2,0% FY 2007)
Discount Rate	4,8% annual (4,6% FY 2007)	4,8% annual (4,6% FY 2007)
Compensation Increase		
- 40 years old and under	2,95% annual (2,75% al 2007)	2,7% annual (2,5% FY 2007)
- over 40 years old up to 55	2,7% annual (2,5% FY2007)	2,45% annual (2,25% FY2007)
- over 55 years old	2,45 annual (2,25% FY2007)	2,2 annual (2,0% FY2007)
Demographic Hypothesis	Executives	Non Executives
<u>Probability of Death</u>	Mortality Table RG48 published by Ragioneria Generale dello Stato	Mortality Table RG48 published by Ragioneria Generale dello Stato
<u>Probability of invalidity</u>	Unisex Table edited by C,N,R, and reduced by 70%	Unisex Table edited by C,N,R, and reduced by 70%
<u>Probability of Resignation</u>		
- up to 50 years old	4% each year	3% each year
- over 50 years old	none	None
<u>Probability of Retirement</u>		
- upon reaching 60 years old	35% (100% for women)	60% (100% for women)
- up to 65 years old	20% each year	10% each year
- upon turning 65 years old	100%	100%
<u>Probability of receiving an anticipated Severance Fund of up to 70% at the beginning of the year</u>	3% each year	3% each year

The financial hypothesis adjustments were introduced in order to reflect the variations in interest rates in the financial market.

There has been no adjustment taken into consideration regarding a demographic hypothesis.

The impact of the new legislation issued in the course of the year for companies exceeding no. 50 employees is valued with the "Traditional Unit Credit Method" in adherence to IAS 19.

15. Deferred tax liabilities

Totals € 46.1 million (€65.9 million at 12/31/2007) and consists almost entirely of:

- deferred tax liabilities on goodwill, €45.6 million (€50.2 million at 12/31/2007);
- TFR actualization pursuant to IAS of €0.2 million (€0.3 million at 12/31/2007);
- Profits from unrealized exchange rates, €0.1 million (€0.002 million at 12/31/2007).

The deferred tax liabilities decreases by €19.8 million as a result of the combination of deferred taxes matured in the course of the year (€10.3 million) and the return of the subscriptions provided for in previous years (€30.1 million). As a result of this adjustment, the tax fund has decreased to €30.1 million which refer principally to the deferred tax liabilities from amortizations relative to previous years and to Tyche goodwill.

In further detail:

Deferred tax liabilities	
(€)	
Balance at 01/01/2007	60,211,105
-) Increases	15,768,062
-) Decreases	(10,081,679)
Balance at 12/31/2007	65,897,488
-) Increases	10,256,721
-) Decreases	(30,084,281)
Balance at 12/31/2008	46,069,930

16. Long-term Provisions

Total €9.6 million (€12.2 million at 12/31/2007).

In further detail:

Provisions (€ in thousands)	Balance at 12/31/2007	Increases	Utilized	Balance at 12/31/2008
-) Legal	9,783	-	(2,602)	7,181
-) Tax	2,070	-	-	2,070
-) Other	199	127	(10)	316
-) Provision for write down of Equity investments	104	-	(104)	-
Total	12,156	127	(2,716)	9,567

Increases for the period, totaling €0.127 million, relate primarily to prizes on certain games.

Other provisions utilized (€2.7 million) relate primarily to the amounts previously allocated and used in the course of FY2008. The most significant amounts to specify include the closing of the Karissa litigation for €1.9 million and the use of €0.1 million from the write down provisions of equity investments for the liquidation of the company Imprenditori Associati on October 8, 2008.

The risk provisions in the present financial statements are not affected by their actualization.

17. Trade and other payables

Total of € 81.0 million (€79.2 million at 12/31/2007).

In greater detail:

- *Trade payables* of €58.4 million (€63.2 million at 12/31/2007), consisting of unpaid invoices recorded as of December 31, 2008, and debts matured during FY2008 which have been documented in the months following December 31, 2008. The payables are connected to the purchase of goods and services for the activities of the period and investment programs under way;
- *Payables to subsidiaries* of €17.6 million (€11.7 million at 12/31/2007) for normal activities carried out regarding management and for contracts signed with the subsidiaries in accordance with market conditions. Significantly, €8.1 million (€6.6 million at 12/31/2007) regards the subsidiary Lottomatica Sistemi S.p.A. for the management services of its Call Center, €1.2 million (€1.2 million at 12/31/2007) regards PCC Giochi e Servizi S.p.A. for the production of paper materials, €2.9 million (€2.2 million at 12/31/2007) in network management services for Totobit Informatica S.p.A. and €3.5 million for general services rendered by the subsidiary GTECH Holdings under normal market conditions;
- *Payables to Parent Company* of €0.6 million (€0.2 million at 12/31/2007) for services rendered to De Agostini S.p.A. under normal market conditions;
- *Tax payables to parent company* of €4.3 million (€4.1 million at 12/31/2007), including the following tax payables towards Marco Drago S.a.p.A. B&D Holding :
 - €1.8 million (€4.1 million at 12/31/2007) in VAT dbt as participant in the VAT liquidation procedure pursuant to Article 73, last point, of Presidential Decree no. 633/1972.
 - €2.5 million as payables for the period since the company has repaid the receivables due to D&D Holding in accordance with the National Tax Consolidation of the De Agostini Group Companies, following the deliberation of the Board of Directors Meeting of September 9, 2004. The National Tax Consolidation Regulation for the Companies of the De Agostini Group was approved by the De Agostini Board of Directors Meeting of October 20, 2004. It regulates the relations between the B&D Holding and the companies which adhere to said regulation including Lottomatica, and aims to attain and ascribe the advantages derived from the application of the national tax consolidation pursuant to articles 117 to 129 of Presidential Decree no. 917 of December 22, 1986 and as modified by the cited Legislative Decree no. 344/2003 and Ministerial Decree of June 9, 2004. The new Regulation for the De Agostini Group issued in order to safeguard the economic/financial interests of the individual sub holdings will be approved in the next BoD meeting of Lottomatica.

Trade payables are normally settled in 30-60-90 days.

In greater detail:

Trade Payables (€)	December 31, 2008	December 31, 2007
Trade payables	58,415,858	63,233,946
-) Trade	58,415,858	63,233,946
Payables to subsidiaries	17,558,319	11,653,560
-) Trade	17,558,319	11,653,560
Payables to Parent Company	4,887,690	4,262,776
-) Trade	599,505	197,592
-) Tax	4,288,185	4,065,184
Total	80,861,867	79,150,282

18. Other current liabilities

Total €26.6 million (€20.9 million at 12/31/2007) ad refer to:

- *Payables to Social Security Institutions:* €2.4 million (€2.1 at 12/31/2007) and refers almost exclusively to the payables due to social security institutions regarding the employee pension funds;
- *Defined Contribution Plans:* €0.6 million (€0.5 million at 12/31/2007), specifically includes the Staff Severance Fund (TFR) quota matured as of January 1, 2007 to-date and deposited in the "Treasury Fund" managed by INPS, as well as to the complementary pension funds which are considered as "Defined Contribution Plans" according to IAS 19 - Employee benefits;
- *Other liabilities:* €23.7 million (€18.3 million at 12/31/2007).

The most significant amounts refer to:

- Payables to Personnel: € 12.8 million (€10.0 million at 12/31/2007), which consist of payables to personnel matured as of December 31, 2008 in terms of productivity awards and accumulated unused vacation days;
- Other Payables: €3.3 million (€6.0 million at 12/31/2007) consist of derived payables resulting from network service contracts.

In greater detail:

Other Current Liabilities (€)	December 31, 2008	December 31, 2007
Payables to Social Security Institutions	2,362,523	2,142,311
Defined Contribution Plans	571,107	451,690
Other payables within 12 months	23,660,035	18,281,166
-) Personnel	12,779,094	10,036,753
-) Other payables	3,326,615	6,007,097
-) Accrued Liabilities	4,351,739	-
-) VAT	754,368	-
-) Irpef	2,314,599	2,150,252
-) Other tax liabilities	133,620	87,064
Total	26,593,665	20,875,167

19. Income Tax Payables

Total of €0.0 million (€1.5 million at 12/31/2007) refers to the IRAP payables to the State Treasury, net of advance payments for the period.

INCOME STATEMENT

20. Revenues

Total €372.8 million (€394.4 million at 12/31/2007) almost entirely relevant to Lotto business:

In greater detail:

Revenues (€)	December 31, 2008	December 31, 2007	Difference
-) Lotto collection revenues	372,196,067	386,972,779	(14,776,712)
-) Betting service revenues	186,188	1,791,662	(1,605,474)
-) Lottery point of sale revenues	382,838	203,686	179,152
-) Other revenues (CONI sports pools)	5,924	5,409,727	(5,403,803)
Total	372,771,017	394,377,854	(21,606,837)

For an in-depth analysis of the variations compared to FY2007, see the Lottomatica business trend section.

21. Other Revenues

Other Revenues total of €92.8 million (€90.3 million at 12/31/2007).

The captions refer almost entirely to:

- *Group revenues* totaling €85.2 million (€79.1 at 12/31/2007), consisting of proceeds resulting from Parent Company services provided to various subsidiaries for the accounting services, employee secondment, etc, and €1.4 million (€1.3 million as of 12/31/2007) from revenues resulting from intercompany bank guarantees;
- Non operative profit for €2.3 million (€7.2 million at 12/31/2007) from revenues from previous years;
- Surplus of €3.2 million (€0.007 million at 12/31/2007) from the sale of routers to SED Multitel for the OLO project (€1.1 million) and from the zero charge acquisition of 15,860 IP 2005 routers (€2.1 million).

In greater detail:

Other Revenues (€)	2008	2007	Variazione
-) Intercompany revenues	85,220,742	79,056,743	6,163,999
-) Other revenues	2,129,847	4,097,624	(1,967,777)
-) Revenues from previous year	2,295,973	7,185,825	(4,889,852)
-) Surplus	3,181,732	6,666	3,175,066
Totale	92,828,294	90,346,858	2,481,436

22. Raw Materials, Services and Other Costs

Total of €201.0 million (€213.7 million at 12/31/2007).

In greater detail:

Raw Material, Services and other costs (€)	December 31, 2008	December 31, 2007	Difference
-) Raw material costs	19,876,732	20,928,869	(1,052,137)
-) Service costs	177,309,233	180,305,324	(2,996,091)
-) Other operating costs	3,841,887	12,445,700	(8,603,813)
Total	201,027,852	213,679,893	(12,652,041)

The individual items are detailed below:

Raw materials and consumables used

Total of €19.9 million (€20.9 million at 12/31/2007).

In greater detail:

<i>Raw material costs</i> (€)	December 31, 2008	December 31, 2007	Difference
-) Paper products	16,940,683	18,522,053	(1,581,370)
-) EDP materials and consumables	2,516,380	2,163,467	352,913
-) Betting services	-	4,812	(4,812)
-) Other	419,669	238,537	181,132
Total	19,876,732	20,928,869	(1,052,137)

The stock of paper products refers to playslips and receipts purchased in the course of FY2008. As previously mentioned, the reduction in paper products is directly related to the decrease in Lotto wager volume.

Other Costs for €0.4 million (€0.24 million at 12/3/2007), of which €0.4 million (€0.17 million at 12/31/2007) refers to gasoline expenses.

Service costs

Total of €177.3 million (€180.3 million at 12/31/2007).

In greater detail:

<i>Service costs</i> (€)	December 31, 2008	December 31, 2007	Difference
Service costs	170,020,436	172,366,174	(2,345,738)
-) Network management	51,578,650	53,277,903	(1,699,253)
-) Maintenance	10,466,234	6,563,763	3,902,471
-) Office location costs	6,784,429	6,668,167	116,262
-) Point of sale assistance	13,173,423	14,799,144	(1,625,721)
-) Advertisement and promotional costs	44,346,655	48,112,971	(3,766,316)
-) Consulting costs	19,753,806	21,152,646	(1,398,840)
-) BoD costs	1,416,443	1,003,443	413,000
-) Group costs	11,101,381	11,913,800	(812,419)
-) Banking service expenses	1,826,835	2,049,214	(222,379)
-) Financial Statement certification	757,288	309,948	447,340
-) Other service costs	8,815,292	6,515,175	2,300,117
Leased Assets	7,288,797	7,939,150	498,207
-) Rents paid	6,079,411	5,533,213	546,198
-) Miscellaneous rents	1,209,386	1,257,377	(47,991)
-) Other	-	1,148,560	(1,148,560)
Total	177,309,233	180,305,324	(1,847,531)

The FY2008 trend compared to FY2007 shows a continuation of the processes involving the optimization of network costs as a result of the replacement project of the Lotto terminals. The substitution of the old terminals has resulted in notable financial savings in terms of network management expenses and assistance to intermediaries.

Other services costs for €8.8 million (€6.5 million as of 12/31/2007) mainly refer to various business costs such as travel expenses for €3.7 million (€2.4 million as of 12/31/2007), food tickets for €1.5 million (€1.4 million as of 12/31/2007), training courses for €0.7 million (€0.5 million at 12/31/2007), insurance for €1.1 million (€0.8 million at 12/31/2007) and shipping and transportation costs for €0.6 million (€0.6 million as of 12/31/2007).

Leasing costs refer essentially to the building rental costs for the Parent Company of the Group. The leasing costs total €6.1 million (€5.5 million as of 12/31/2007).

At December 31, 2008 the Company no longer presents any concession fees for sporting games because they've are now covered by Lottomatica Scommesse S.r.l.

Other operating costs

Total of €3.8 million (€12.4 million at 12/31/2007)

In further detail:

Other operating costs (€)	December 31, 2008	December 31, 2007	Difference
-) Charity	485,200	420,700	64,500
-) Annual fees	223,173	120,191	102,982
-) Various taxes	361,478	195,195	166,283
-) Non deductible VAT	1,131,553	427,364	704,189
-) Other expenses	1,575,138	4,049,341	(2,474,203)
-) Other allocations	65,345	7,232,909	(7,167,564)
Total	3,841,887	12,445,700	(8,603,813)

Other expenses for €0.9 million (€2.3 million at 12/31/2007) refer to network management costs.

Other allocations for €0.07 million (€7.2 million at 12/31/2007) include provisions set aside in order to cover any possible legal disputes and litigations in which the Company may be involved.

23. Personnel Costs

Total of €71.0 million (€68.2 million at 12/31/2007) and break down as follows:

In further detail:

Personnel costs (€)	December 31, 2008	December 31, 2007	Difference
-) Wages and Salaries	44,699,523	43,508,651	1,190,872
-) Social Security	15,090,274	14,319,003	771,271
-) Staff Severance Fund (TFR)	2,436,315	1,757,642	678,673
-) Stock Option costs	7,136,840	8,198,713	(1,061,873)
-) Other costs	1,650,551	416,913	1,233,638
Total	71,013,503	68,200,922	2,812,581

- *Wages and salaries* and *Social security* in addition to ordinary personnel costs include costs for early termination;
- *Staff Severance Fund (TFR)* includes the actualizations of the fund;
- The *Stock options costs* of €7.1 million (€8.2 million at 12/31/2007) were valued according to the procedures set forth under IFRS 2 and break down as follows:
 - €1.5 million (€2.4 million at 12/31/2007) for Retention plans;
 - €4.3 million (€4.8 million at 12/31/2007) for Restricted stock plans;
 - €1.4 million (€1.0 million at 12/31/2007) for stock compensation costs.

The period results include the 2005-2010 plan as well as the new plans established since August 29, 2006. For further information, refer to Long-term incentive plans.

As of December 31, 2008, the Company was composed of no. 868 employees (757 as of 12/31/2007).

In further detail:

December 31, 2008	No.	No.	Difference
Executives	55	49	6
Junior Management	116	100	16
Office Staff	697	608	89
Manual Workers	-	-	-
Total	868	757	111

24. Depreciation, Amortization and Write-downs

Total €34.2 million (€38.7 million at 12/31/2007):

- *Intangible Asset Amortization* €3.5 million (€4.2 million at 12/31/2007);
- *Fixed Assets Depreciation* €29.5 million (€33.1 million at 12/31/2007), including €20.1 million (€22.3 million at 12/31/2007) for FDA assets.

In greater detail:

Depreciations and Writedowns (€)	December 31, 2008	December 31, 2007	Difference
Asset Write-downs	-	1,281,516	(1,281,516)
Receivable write-downs	1,184,000	86,000	1,098,000
Ordinary Fixed Assets Depreciation	9,431,418	10,793,230	(1,361,812)
-) Property depreciation	3,296,584	2,530,162	766,422
-) Plant and Machinery depreciation	5,721,841	7,914,713	(2,192,872)
-) Other asset depreciation	412,993	348,355	64,638
Fixed Assets Depreciation FDA	20,095,856	22,312,320	(2,216,464)
-) Plant and Machinery depreciation	20,093,419	22,297,173	(2,203,754)
-) Other asset depreciation	2,437	15,147	(12,710)
Intangible Assets Amortization	3,511,159	4,215,689	(704,530)
-) Patent amortization	2,366,133	3,264,049	(897,916)
-) Concession and license amortization	981,787	951,640	30,147
-) Other asset amortization	163,239	-	163,239
Total	34,222,433	38,688,755	(4,466,322)

Asset write-downs equal to €1.3 million and refer to Lottomatica assets that are no longer in use and as previously mentioned, refer mainly to the M380 terminals which have been transferred to the subsidiary Lottomatica Scommese S.r.l.

25. Interest Income and Expenses

Financial income and expenses at December 31, 2008 had a negative balance of €10.9 million (€55.7 million at 12/31/2007), as follows:

Financial Income and Expenses (€)	December 31, 2008	December 31, 2007	Difference
Total Financial Income	88,538,372	65,298,966	23,239,406
-) Dividends received	65,532,661	17,129,981	48,402,680
-) Bank interest income	4,644,983	6,707,435	(2,062,452)
-) Foreign exchange gain	837,382	319,593	517,789
-) Loan Interest income	17,270,754	41,099,566	(23,828,812)
-) Other finance income	252,592	42,391	210,201
Total Financial Expenses	(99,473,551)	(121,006,392)	21,532,841
-) Bank interest liabilities	1,841,184	74,483	1,766,701
-) Capital Securities and 4,8% bond interest	88,911,008	81,770,981	7,140,027
-) Foreign exchange losses	171,198	28,697,648	(28,526,450)
-) Loan Interest payable	8,031,855	10,463,280	(2,431,425)
-) Other finance expenses	518,306	-	518,306
Total	(10,935,179)	(55,707,426)	44,772,247

Dividends Received: €65.5 million (€17.1 million at 12/31/2007) refer to dividends accounted during the period, of which €52.8 million (€10.1 million at 12/31/2007) related to Consorzio Lotterie Nazionali, €10.2 million (€3.4 million at 12/31/2007) related to Cirmatica S.A. and finally €2.5 million (€3.4 million at 12/31/2007) related to Lottomatica Sistemi S.p.A.

“Bank Interest income” for €4.6 million (€6.7 million at 12/31/2007) refers to interests matured on banking investments such as extremely short term monetary funds and Treasury Bonds (BOT) with an annual yield of 3.89%.

Foreign Exchange Gain (Loss), net: €0.7 million (€28.4 million at 12/31/2007).

As of December 31, 2008, the caption can be broken down into the following:

- *Foreign exchange revenues* for €0.8 million (€0.32 million at 12/31/2007) of which €0.5 million (€0.31 million at 12/31/2007) have been realized;
- *Foreign exchange costs* for €0.17 million (€28.7 million at 12/31/2007) of which €0.03 million (€28.2 million at 12/31/2007) have been realized. The difference with FY2007 foreign exchange costs results from the transfer of the GTECH intercompany financial receivable to the Hungarian subsidiary. Lottomatica registered the difference in foreign exchange from the valorization of the USD currency financial receivable in 2007.

“Interest financing assets”: €17.3 million (€41.1 million at 12/31/2007) are primarily related to:

- Interests matured on subsidiary financing for €14.1 million (€33.7 million at 12/31/2007) due to cash pooling and direct financing. The consistent variation with reference to the previous year is attributable to the interests matured from the intercompany loan between Lottomatica and GTECH (€26.0 million at 12/31/2007);
- €2.4 million (€8.3 million at 12/31/2007) for profits matured from bank guarantees offered by Lottomatica regarding the Senior Credit Facility (*“upstream guarantee”*); The significant difference results from the adjustment operation carried out in order to distribute the guarantee profits including Lottomatica Hungary. The €3.7 million has been reduced by the non-operating loss following the transfer of the 2007 revenues from the Hungarian subsidiary by Lottomatica;
- €1.7 for interest incomes matured on regarding the €150 million Intercompany loan issued by Lottomatica S.p.A. to GTECH. The promissory note has been transferred to Lottomatica International Hungary; Senior Credit Facility;
- €0.9 million (€0.9 million at 12/31/2007) for profits matured from guarantees offered to GTECH (*“surety guarantee”*);
- €(1.8) million (€1.8 million at 12/31/2007) for costs matured by Lottomatica for the bank guarantee offered by GTECH regarding Lottomatica’s issuance of the €360 million bond in December 2003 (*“downstream guarantee”*).

Interest Expense: €99.5 million (€121.0 million at 12/31/2007). The amount refers to €89.0 million (€81.8 million at 12/31/2007) in interests expenses from the Capital Securities and €8.0 million (€10.5 million at 12/31/2007) from intercompany loans,

26. Income Taxes

The amount of income tax at December 31, 2008 totaled € 33.0 million (€39.4 million at 12/31/2007), and break down as follows:

- Current taxes totaled €25.7 million (€18.3 million at 12/31/2007), of which €16.9 million (€11.1 million at 12/31/2007) refer to IRES and €8.7 million (€10.0 million at 12/31/2007) refer to IRAP, both of which were calculated based on the tax laws in vigor;
- Deferred tax assets totaled €3.0 million (€15.4 million at 12/31/2007), mainly resulting from the payment of the 2008 deferred tax assets of €3.5 million (€5.9 million at 12/31/2007) and the use of the €26.0 million (€21.4 million at 12/31/2007) in deferred tax assets from previous years;
- Deferred tax liabilities totaled € 13.6 million (€57 million at 12/31/2007), resulting from the 2008 deferred tax liabilities for €10.2 million (€15.8 million at 12/31/2007), of which €10.1 million (€9.0

million at 12/31/2007) from Tyche, Twin and Eis goodwill, €7.0 in tax returns due from deferred tax asset amortizations from previous years, and €16.9 million from the Tyche goodwill fund.

In greater detail:

Income Taxes	December 31, 2008	December 31, 2007	Difference
-) IRAP	8.746.080	10.040.083	(1.294.003)
-) IRES	16.911.159	8.275.442	8.635.717
-) IRES from previous years	(737.629)	-	-
-) IRAP from previous years	(894.996)	-	-
-) Deferred Tax Asset	22.450.305	15.446.079	7.004.226
-) Deferred Tax Liabilities	(13.610.788)	5.686.382	(19.297.170)
Totale	32.864.131	39.447.986	(6.583.855)

The tables on the following pages show a breakdown of the deferred tax assets and liabilities as well as the reconciliation between the ordinary and effective tax rates.

Deferred tax assets <i>thousands of euro</i>	Balance Sheet 2008	Asset differences 2007 - 2008	Economic differences 2007 - 2008	Balance Sheet 2007
Sogei goodwill amortization	930	-	(667)	1,597
COS goodwill amortization	289	-	(264)	553
Tyche goodwill amortization	-	-	(6,832)	6,832
Other goodwill amortization	-	-	(259)	259
Goodwill amortization	1,219	-	(8,022)	9,241
Tyche goodwill write-down	-	-	(10,117)	10,117
Goodwill write-down	-	-	(10,117)	10,117
Amortizations	152	-	(1,007)	1,159
Asset write downs	7	-	(386)	393
Write downs	7	-	(386)	393
Accruals provisions	1,861	-	(1,729)	3,590
Provision for restructuring expenses	-	-	(159)	159
Allowance for doubtful accounts accrual	1,984	-	109	1,875
Other provisions	9	-	(276)	285
Provisions	3,854	-	(2,055)	5,909
CAPITAL INCREASE	3,693	-	(1,861)	5,554
Startup and expansion costs	16	-	(115)	131
Other intangible assets	-	-	182	(182)
Tax loss	1,598	-	-	1,598
Bonus + MBO	3,088	-	481	2,607
Entertainment expenses	105	-	(60)	165
Unrealized exchange losses	54	-	(98)	152
BoD compensation	-	-	(4)	4
Other	493	7	612	(126)
Other temporary differences	3,740	7	931	2,802
Total	14,279	7	(22,450)	36,722

Deferred tax liabilities <i>thousands of euro</i>	Balance Sheet 2008	Asset differences 2007 - 2008	Economic differences 2007 - 2008	Balance Sheet 2007
Goodwill amortization	45,577	-	(4,669)	50,246
Amortizations	55	-	(1,407)	1,462
Accelerated amortizations	-	(6,217)	(7,516)	13,733
Amortizations	45,632	(6,217)	(13,592)	65,441
Interest incomes	1	-	(6)	7
Unrealized exchange revenues	105	-	103	2
Receivables write downs	111	-	(87)	198

Actuarial gain/loss on Staff Severance Fund (TFR)	223	-	(27)	250
Other temporary differences	439	-	(11)	450
Total	46,072	(6,217)	(13,610)	65,899

Net deferred tax liabilities	(31,793)	6,224	(8,841)	(29,177)
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Total net deferred tax liabilities on Income Statement				8,841
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Reconciliation of effective income tax rate	2008		2007	
Profit before income tax	148,400		108,448	
IRES	16,911		8,275	
IRAP	8,746		10,040	
Current income taxes	25,657		18,316	
Deferred tax assets	3,019		15,446	
Contingents	941		-	
EC deferred tax liabilities	(6,980)		-	
Deferred tax liabilities	10,227		5,686	
Total income tax recorded on income statement	32,864		39,448	
Effective tax rate	22.15%		36.38%	

Reconciliation of effective income tax rate	base	%	tax rate	base	%	tax rate
Profit before income tax			148,400			108,448
Italian statutory tax rate - IRES (27.50%)	148,400	27.50%	40,810	108,448	33%	35,788
Permanent IRES increasing differences						
Car and cellular costs	604	27.50%	166	260	33%	86
Entertainment expenses, charities	1,375	27.50%	378	890	33%	294
Employee expenses (stock options, business trips, rents)	8,933	27.50%	2,457	8,868	33%	2,926
Taxes	80	27.50%	22	209	33%	69
Non-deductible expenses	265	27.50%	73	3,592	33%	1,185
Contingent liability	893	27.50%	246	495	33%	163
Other IRES differences	4,035	27.50%	1,110	-	33%	-
Permanent IRES decreasing differences						
Non taxable contingent receivables	-	27.50%	-	(102)	33%	(34)
Other permanent IRES differences	(62,256)	27.50%	(17,120)	(16,758)	33%	(5,530)
Italian statutory tax rate - IRAP (4.82%)	148,400	4.82%	7,153	108,448	5.25%	5,694
Permanent IRAP increasing differences						
Personnel costs (stock options, business trips, rents)	85,153	4.82%	4,104	73,992	5.25%	3,885
Provisions	65	4.82%	3	7,233	5.25%	380
Write downs and losses on loans	1,184	4.82%	57	1,368	5.25%	72
Interest expenses	99,527	4.82%	4,797	55,707	5.25%	2,925
Contingent liability	893	4.82%	43	495	5.25%	26
Car and cellular costs	-	4.82%	-	260	5.25%	14
Entertainment expenses, charities	-	4.82%	-	890	5.25%	47
Taxes	-	4.82%	-	209	5.25%	11
Non-deductible expenses	-	4.82%	-	2,592	5.25%	136
Permanent IRAP decreasing differences						
Financial incomes	(88,592)	4.82%	(4,270)	-	5.25%	-
Revenues from non relevant captions	-	4.82%	-	(6,151)	5.25%	(323)
Non taxable contingent receivables	-	4.82%	-	(102)	5.25%	(5)
Deductible personnel expenses	(12,092)	4.82%	(583)	(175)	5.25%	(9)
Other permanent IRAP differences	(10,079)	4.82%	(486)	-	5.25%	-
			38,960			47,798
Tax rate on permanent differences			26.25%			44.07%
Effective income tax rate			22.15%			36.38%
Difference			4.11%			7.70%
Reconciliation						
Adjustment tax asset to 2008 tax rate	-	-	-	23,770	32.40%	7,702
Adjustment deferred to 2008 tax rate	-	-	-	(26,264)	32.40%	(8,510)
Current IRES rate non corresponding to rate for deferred reversal	-	-	-	(72,363)	5.50%	(3,980)
Current IRAP rate non corresponding to rate for deferred reversal	-	-	-	(53,527)	0.35%	(187)
Deferred tax asset/liability changes non corresponding		27.50%	(6,980)	(1,584)	27.50%	(436)

to current differences					
Movement of deferred tax asset/liability changes non corresponding to current differences	32,40%	884	47	32,40%	13
Current IRAP rate varying from deferred reversal rate	4,90%	-	(6,200)	4,90%	(304)
Reversal CFC	-	-	-	-	(2,792)
Other	-	-	-	-	145
Total income tax considering reconciliation		32,864			39,448
Effective income tax rate post-reconciliation		22,15%			36,38%

27. Net Financial Position

The Lottomatica's net financial position at December 31, 2008 amounted to €1.3 billion (€913.0 million at 12/31/2007), which can be broken down into the following:

- Short-term debt for €156.2 million (€185.1 million at 12/31/2007);
- Long-term debt for €1.1 billion (€727.9 million at 12/31/2007).

In greater detail:

	December 31		Difference
	2008	2007	
	<i>(€ in thousands)</i>		
Cash on hand	19	15	4
Cash at bank	28,827	260,975	(232,148)
Cash and cash equivalents	28,846	260,990	(232,144)
Current financial receivables from subsidiaries	228,767	109,790	118,977
Other current financial receivables	-	1,000	(1,000)
Current financial receivables	228,767	110,790	117,977
Current financial payables to subsidiaries	316,513	150,277	166,236
4,80% Bond	-	359,503	(359,503)
Bank loans	50,835	-	50,835
Other current financial payables	46,490	47,091	(601)
Short-term Financial payables	413,838	556,871	(193,868)
Short-term debt, net	156,225	185,091	(79,701)
Non-current financial receivables from subsidiaries	-	-	-
Capital Securities	730,525	727,869	2,656
Other	403,355	-	403,355
Long-term loans	1,133,880	727,869	406,011
Long-term debt, net	1,133,880	727,869	406,011
Net Financial Position	1,290,105	912,960	326,310

Below, a brief comment on each of the captions:

Short-term debt of €156.2 million (net debt of €185.1 million at 12/31/2007) consists of:

- Current account balances, cash on hand and securities of €28.8 million (€261.0 million at 12/31/2007);
- Current financial receivables for € 228.8 million (€110.8 million at 12/31/2007);
- Short-term financial payables for € 413.8 million (€556.9 million at 12/31/2007).

The main components of current financial receivables for €228.8 million (€110.8 million at 12/31/2007) are the following:

- Financial receivables from Lottomatica Sistemi S.p.A. for *cash pooling* and inter-company financing of €20.0 million (€17.7 million at 12/31/2007) interest included (€0.58 million);
- Financial receivables from Lottomatica Videolot Rete S.p.A. for a total of €94.4 million (€27.7 million at 12/31/2007) for *cash pooling*, including interests (€2.9 million);
- Financial receivables from Lottomatica Scommesse S.r.l. for a total of €101.3 million (€50.7 million at 12/31/2007) including interests for cash pooling (€2.9 million);
- Financial receivables mainly for intercompany interests to GTECH Holdings for €3.8 million (€1.1 million at 12/31/2007).

The principal elements of the current financial payables of €413.8 million (€110.8 million at 12/31/2007) are:

- Intercompany financial payables total €316.5 million (€150.3 million at 12/31/2007) are composed of the following:
 - Financial payables to Lottomatica Italia Servizi S.p.A. for cash pooling and collections carried out by Lottomatica on behalf of Lottomatica Italia Servizi S.p.A. for €116.4 million (€95.9 million at 12/31/2007), including €1.8 million (€2.4 million at 12/31/2007) in interests;
 - Financial payables to Consorzio Lotterie Nazionali for cash pooling and collections carried out by Lottomatica on behalf of Consorzio Lotterie Nazionali for €129.3 million (€15.1 million at 12/31/2007) including €0.1 million (€0.2 million at 12/31/2007) in interests;
 - Financial payables to Totobit Informatica S.p.A. for cash pooling for €47.1 million (€12.1 million at 12/31/2007) including €1.7 million (€0.6 million at 12/31/2007) in interests.
- As previously mentioned, the 4.80% Bond total of €359.5 million (€359.5 million at 12/31/2007) included related issue costs and issue discount which has been reimbursed.

In greater detail:

4,80% Bond €'000	Nominal Value	Issuance Costs	Accumulated Amortization	Issuance Discount	Net value at 12/31/2007
4.80% Bond	360,000	(1,679)	1,371	(189)	359,503
Total	360,000	(1,679)	1,371	(189)	359,503

- Bank loans for €50.8 million refer to the credit line stipulated by Lottomatica and its bank partners.
- Interests accrued for the two loans issued by Lottomatica total €46.5 million (€47.1 million at 12/31/2007).

Long-term debt of €1.1 billion (€727.9 million at 12/31/2007) refers to:

- Capital Securities for €730.5 million (€727.9 million at 12/31/2007) including related issuance costs, - €26.6 million (€26.6 million at 12/31/2007) and to the accumulated amortization, €7.1 million (€4.4 million at 12/31/2007),

In greater detail:

Capital Securities €'000	Nominal Value	Issuance Costs	Accumulated Amortization	Net value at 12/31/2008
Capital Securities (over 5 years)	750,000	(26,557)	4,426	727,869
Total	750,000	(26,557)	4,426	727,869

- Other financial payables for €403.4 million (€0.0 at 12/31/2007) refer to the Revolving Credit Facility entered by Lottomatica for €50.0 million and to the Long Term Loan Facility for €353.4 million, for a

total borrowing of €360 million which must include issuance costs of €6.8 million and amortization for €0.2 million,

Long Term Facility	Nominal Value	Issuance Costs	Accumulated Amortization	Net value at 12/31/2008
Loan	360,000	(6,846)	200	353,354
Total	360,000	(6,846)	200	353,354

In May 2008, Lottomatica entered into a €360 million senior unsecured revolving credit facility with a syndicate of financial institutions, The LTO Revolving Credit Facility expires on November 2012 and is predominately used to reimburse the 4.80% Bond that expired in December 2008.

In greater detail:

2011	132.000
2012	132.000
2013	96.000
Totale	<u>360.000</u>

Interest is generally payable monthly in arrears at rates determined by reference to the Euribor rate plus a margin based on the Group's ratio of total net debt to earnings before interest, taxes, depreciation and amortization, and the Group's senior unsecured long-term debt rating.

The LTO Revolving Credit Facility has covenants and restrictions including, among other things, requirements relating to the maintenance of certain financial ratios, limitations on capital expenditures and acquisitions, and limitations on dividends. Violation of these covenants may result in the full principal amount becoming immediately payable upon written notice. At December 31, 2008 we were in compliance with all covenants and restrictions.

For further information on Long Term Facility and Revolving Credit Facility, please refer to Note 13.

28. Related party disclosures

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

- *Lottomatica Italia Servizi S.p.A.* - Wholly owned (100%) by Lottomatica, providing services for citizens, businesses and sporting ticket services, Lottomatica Italia Servizi consolidated its position in the service industry with the acquisition of the Totobit Group in December 2003.
- *Lottomatica Sistemi S.p.A.* - Established on December 10, 1999 and currently wholly owned (100%) by Lottomatica. Lottomatica Sistemi S.p.A was created to manage the Centro di Elaborazione Multizona (Multi-Area Data Processing Center) of Naples and to provide technical and commercial assistance. On January 28, 2008 a new agreement between Lottomatica and Lottomatica Sistemi was formalized resulting in the transferring of the Data Processing Center and technical and commercial assistance areas to Rome under Lottomatica and the transferring of the Contact Center management activities and additional customer support services for betting and e-money services to Lottomatica Sistemi;
- *Lottomatica Videolot Gestione S.p.A.* – established on November 16, 2004 and 100% owned by Lottomatica. The Company is responsible for not only the acquisition and distribution of gaming machines, but also of their management and operation. On the Extraordinary Shareholders' Meeting of February 1, 2007 the resolution to change the title of the company from “Videolot Gestione S.p.A.” to “Lottomatica Videolot Gestione S.p.A.” was passed.

- *Lottomatica Videolot Rete S.p.A.* - 100% owned by Lottomatica. On December 10, 2003, Lottomatica, Scientific Games International Inc., Arianna 2001 S.p.A., Olivetti Tecnost S.p.A (taking over for Tecnost Sistemi S.p.A following their merger by incorporation) and Servizi Base 2001 S.p.A., established the “Consorzio Lotterie Nazionali”. As of October 14, 2003, Consorzio Lotterie Nazionali took over the licenses to manage national lotteries.
- *Consorzio Lottomatica Giochi Sportivi* - 85% owned by Lottomatica. On June 3, 2003, the Consorzio Lottomatica Giochi Sportivi was created between Lottomatica and Totobit Informatica Software e Sistemi S.p.A., Consorzio Totocom – Agenzie online, and Telcos S.p.A.. Its headquarters are located in Rome and its objective is to manage the business specified as “*a license to assign activities and public functions regarding sports pools as well as any other games related to sporting events*”. Operations began with the first competition of Totocalcio (Soccer pools) on August 17, 2003. The liquidation process of the Consorzio Lottomatica Giochi Sportivi will begin upon the approval of the FY2007 Annual Report. The sports pools wagers will be transferred to the subsidiary Lottomatica Scommesse S.r.l. in connection to the sports betting concession granted by AAMS.
- *PCC Giochi e Servizi S.p.A.* - The Company is entirely (100%) owned by the subsidiary Lottomatica Sistemi S.p.A. The objective of the Company is to produce and supply specialized paper supports (betting forms, print-outs, travel tickets, betting and gaming slips). Its operating headquarters are located in Tito, a town in the district of Potenza.
- *Consorzio Lotterie Nazionali* - 63% owned by Lottomatica. The company was established November 28, 2002 for the purpose of providing a specialized organization capable of ensuring the necessary technological support, by coordinating and managing its own processing centers and through outsourcing, for the typical transaction activities of the online service offered.
- *Lottomatica Scommesse S.r.l.* - Established in FY2006 and wholly (100%) owned by Lottomatica. The Company has become operative during FY 2007 in the fixed odds betting sector after the granting of the Concession in FY2006.
- *Toto Carovigno S.p.A.* – Acquired on August 29, 2008 and wholly owned 100% by Lottomatica Scommesse S.r.l., Toto Carovigno is the owner of the TotoSì brand and AAMS-authorized concessionaire with 1,100 horse race betting points of sale and 3,673 sports betting points of sale in Italy, Toto Carovigno is also a leader in the Italian online gaming market and was the first in Italy to offer sports betting via telephone and online.
- *Lottomatica Bingo S.r.l.* – Established on July 7, 2008 by Lottomatica Scommesse S.r.l. Its main activity is to organize, carry out, manage and accept betting via bookmakers and/or totalizzatori of any kind, accept sports pools and/or other totalizzatore games including “Bingo.”
- *Royal Gold S.r.l.* - Established in January 2008 and acquired 100% by Lottomatica Videolot Rete S.p.A. on December 5, 2008. The company creates, organizes, manages, acquires and sells, and operates in the gaming machine market.
- *L.S. Alpha S.r.l.* – Lottomatica Scommesse S.r.l. acquired 95% of the share capital (€10,000) of the company which holds 17 horse racing and sports betting concessions.
- *Lottomatica International S.r.l.* – owned 100% by Lottomatica as of June 15, 2007. Its main activity exclusively regards the acquisition of shares and participations in companies and other entities.
- *Lottomatica International Hungary KFT* – owned 80% by Lottomatica International S.r.l. and 20% by Lottomatica, as of August 28, 2007. Its main activity regards the “*Business and Management consulting*”.

- *Totobit Informatica Software e Sistemi S.p.A.* - 100% owned by the subsidiary Lottomatica Italia Servizi S.p.A. The Company operates a network of multi-functional mini-terminals installed at outlets such as bars, betting collection points, gas stations, newsstands, etc.
- *SED Multitel S.r.l.* – established on November 28, 2002. 100% owned by Lottomatica as of June 9, 2008 after acquiring the 80% owned by Totobit Informatica S.p.A. The Company operates in Italy through its Services Center and ensures the necessary technological support, by coordinating and managing its own processing centers and through outsourcing, for the typical transaction activities of the online services offered offers transaction and execution services for the Group.
- *TTS S.r.l.* – 100% owned by Totobit Informatica Software e Sistemi S.p.A. It develops and distributes the software product to process and develop gaming system at bet collection points. It provides client with thorough technical/system service, both by phone (through an in-house call center) and on site. It gathers subscription contracts throughout the territory for the services provided by the Parent Company. Furthermore, in 2006 it signed under contract Points of Sale that directly manage the sale of cellular top-ups.
- *LIS Finanziaria S.p.A.* - 100% owned by the subsidiary Totobit Informatica Software e Sistemi S.p.A., specifically established and registered with the Financial Brokers Register (pursuant to Article 106 of TULB (*Testo Unico delle Leggi in materia bancaria e creditizia* - Consolidation Act of Banking and Credit Laws).The company is responsible for managing the Lottomatica Group financial services. The utilities bill payment service was the first service to be developed, becoming fully operational at the end of September 2004.
- *CartaLIS Imel S.p.A.* - Established by LIS - Lottomatica Italia Servizi S.p.A (holding 85% of share capital) and by Banca Sella S.p.A. (holding 15% of share capital) on September 12, 2005. Its main activity is to issue electronic money through immediate conversion of funds received, as well as the related and instrumental activities within the limits laid down by law, pursuant to art. 114-bis and ss. of the Legislative Decree n. 385/1993, and related implementing provisions issued by the Bank of Italy, in accordance with the LIS business plan. Operations commenced in 2006.
- *Invest Games S.A.* - A company incorporated under Luxembourg law, established on December 27, 2005, and is entirely owned (100%) by Lottomatica. Its organization is connected with the acquisition of the GTECH Group.
- *GTECH Holdings* - An American company located in Delaware, established in January 2006 and wholly owned (100%) by Lottomatica. Its organization is connected to the acquisition of the GTECH Group.

The related party disclosures of Lottomatica as of December 31, 2008 are detailed below:

RELATED PARTIES – Income Statement					
€/000	Subsidiaries	Nature of Transaction	Amount		% on 2008
			2008	2007	
Other revenues	Lottomatica Italia Servizi S.p.A.	Administrative and professional services	4,141	3,827	4.86%
	Lottomatica Sistemi S.p.A.	Administrative and professional services	3,819	1,018	4.48%
		Administrative, professional and back office services	65,925	66,348	77.35%
	Consorzio Lotterie Nazionali	CONI services	6	-	0.01%
	Consorzio Giochi Sportivi				
	Lottomatica Videolot Rete S.p.A.	Administrative and professional services	4,583	3,025	5.38%
	Lottomatica Videolot Gestione S.p.A.	Administrative and professional services	20	22	0.02%
	PCC Giochi e Servizi S.p.A.	Administrative services	5	10	0.01%
		Administrative, professional and back office services			
	Totobit Informatica S.p.A.		1,229	959	1.44%
	LIS Finanziaria S.p.A.	Guarantees and cash pooling operations	164	108	0.19%
	Lottomatica Scommesse S.r.l.	Administrative and professional services	4,432	3,259	5.20%
	SED Multitel S.r.l.	Administrative and professional services	10	-	0.01%
	Toto Carovigno S.p.A.	Administrative and professional services	79	-	0.09%

	CartaLIS IMEL S.p.A.	Administrative and professional services	536	481	0.63%
	GTECH Holding	Administrative and professional services	277	-	0.33%
		Totale Other revenues	85,226	79,057	
	Lottomatica Sistemi S.p.A.	Interest incomes on financing	1,102	1,471	6.04%
	Consorzio Lotterie Nazionali	Interest incomes on cash pooling	5,255	3,375	28.79%
	Consorzio Giochi Sportivi	Interest incomes on financing	38	39	0.21%
	Lottomatica Videolot Rete S.p.A.	Interest incomes on cash pooling	3,379	939	18.51%
	Lottomatica Videolot Gestione S.p.A.	Interest incomes on cash pooling	-	12	-
	LIS Finanziaria S.p.A.	Interest incomes on cash pooling	126	10	0.69%
	Lottomatica Scommesse S.r.l.	Interest incomes on cash pooling	4,515	1,872	24.74%
	Lottomatica International S.r.l.	Interest incomes on financing	-	2	-
	Lottomatica International Hungary	Interest incomes on financing	310	-	1.70%
Financial incomes	GTECH Holdings	Unrealized foreign exchange gain	363	1	1.99%
	GTECH Holdings	Interest incomes on financing	3,165	33,380	17.34%
		Tot. Financial incomes	18,253	41,101	
	Lottomatica Italia Servizi S.p.A.	Administrative and professional services	383	418	0.99%
	Lottomatica Sistemi S.p.A.	Administrative, professional and back office services	21,657	21,462	56.146%
	Lottomatica Scommesse S.r.l.	Administrative and professional services	541	-	1.40%
	PCC Giochi e Servizi S.p.A.	Administrative and professional services	-	344	-
	SED Multitel S.r.l.	Administrative and professional services	1,004	-	2.60%
	Totobit Informatica S.p.A.	Administrative and professional services	5,647	4,600	14.64%
	LIS Finanziaria S.p.A.	Administrative and professional services	1,021	1,007	2.65%
	De Agostini S.p.A.	Administrative and professional services	648	600	1.68%
	De Agostini Editore S.p.A.	Administrative and professional services	68	51	0.18%
	De Agostini Periodici S.p.A.	Professional services	101	-	0.26%
Raw material, services and other costs	GTECH Holdings	Administrative and professional services	2,444	5,325	6.34%
	Consorzio Giochi Sportivi	Contribution	61	-	0.16%
	PCC Giochi e Servizi S.p.A.	Raw material	4,999	6,186	12.96%
		Tot. Raw material, services and other costs	38,574	40,063	
	Lottomatica Italia Servizi S.p.A.	Interest expences on cash pooling	3,723	2,996	45.44%
	Consorzio Lotterie Nazionali	Interest expences on cash pooling	708	173	8.64%
	Lottomatica Videolot Rete S.p.A.	Interest expences on cash pooling	127	-	1.55%
	Lottomatica Videolot Gestione S.p.A.	Interest expences on cash pooling	188	80	2.29%
	PCC Giochi e Servizi S.p.A.	Interest expences on financing	202	76	2.47%
	SED Multitel S.r.l.	Interest expences on cash pooling	2,041	69	24.91%
	Totobit Informatica S.p.A.	Interest expences on cash pooling	1,001	1,074	12.22%
	LIS Finanziaria S.p.A.	Interest expences on cash pooling	92	133	1.12%
	Cirmatica Gaming S.A.	Interest expences on financing	50	5,857	0.61%
Financial expences	DeAgostini S.p.A.	Interest expences on financing	62	-	0.76%
	Lottomatica Scommesse S.r.l.	Interest expences on cash pooling	-	5	-
		Tot. Financial expences	8,194	10,463	

RELATED PARTIES – Balance sheet

€/000	Subsidiaries	Nature of transaction	Amount		% on 2008
			2008	2007	
Trade receivable and other	Lottomatica Italia Servizi S.p.A.	Administrative and professional services	2,218	2,714	3.34%
	Lottomatica Sistemi S.p.A.	Administrative and professional services	2,075	291	2.19%
	Consorzio Lotterie Nazionali	Administrative, professional and back office services	71,276	59,439	75.12%
	Consorzio Giochi Sportivi	Sport betting fees	4	208	-
	Lottomatica Videolot Rete S.p.A.	Administrative and professional services	2,733	1,613	2.88%
	Lottomatica Videolot Gestione S.p.A.	Administrative and professional services	1,017	-	1.07%
	TTS S.r.l.	Cost charge-back	3	-	-
	PCC Giochi e Servizi S.p.A.	Administrative services	2	6	-
	Totobit Informatica S.p.A.	Administrative, professional and back office services	851	645	0.90%
	LIS Finanziaria S.p.A.	Guarantee fees and cash pooling operations	229	62	0.24%
	De Agostini S.p.A.	Intercompany VAT	1,046	4,484	1.10%
	GTECH Holdings	Administrative and professional services	275	-	0.29%
	CartaLIS IMEL S.p.A.	Administrative and professional services	545	265	0.57%
	Toto Carovigno S.p.A.	Administrative and professional services	132	-	0.14%

	SED Multitel S.r.l.	Administrative and professional services	6,748	-	7.11%
	Lottomatica Scommesse S.r.l.	Administrative and professional services	2,480	2,455	2.61%
	Lottomatica International Hungary	Advances	3	3	-
	Lottomatica International S.r.l.	Advances on payments	3,243	1	3.42%
		Tot. Trade receivables and other	94,880	72,186	
	Lottomatica Italia Servizi S.p.A.	Other services	35	30	0.02%
	Lottomatica Sistemi S.p.A.	Cash pooling and interest income on financing	19,956	17,704	8.71%
	Consorzio Lotterie Nazionali	Interest incomes on financing and cash pooling	5,255	2,521	2.29%
	Consorzio Giochi Sportivi	Financing and interest incomes	318	821	0.14%
	Lottomatica Videolot Rete S.p.A.	Cash pooling and interest incomes	94,444	27,690	41.22%
	LIS Finanziaria S.p.A.	Cash pooling and interest incomes	1,023	8,523	0.45%
	Lottomatica Scommesse S.r.l.	Cash pooling and interest incomes	104,278	50,660	45.51%
	Lottomatica International Hungary	Financing and interest incomes	-	702	-
Current financia assets	GTECH Holdings	Intercompany guarantees	3,803	1,140	1.66%
		Tot. Current financial assets	229,112	109,791	
	Lottomatica Italia Servizi S.p.A.	Administrative and professional services	51	128	0.23%
	Lottomatica Sistemi S.p.A.	Administrative, professional and back office services	8,114	6,613	36.91%
	Consorzio Lotterie Nazionali	Administrative, professional and back office services	45	-	0.20%
	Consorzio Giochi Sportivi	Loss coverage	61	-	0.28%
	Lottomatica Videolot Gestione S.p.A.	Advances on payments	-	8	-
	Lottomatica Videolot Rete S.p.A.	PREU	-	319	-
	SED Multitel S.r.l.	Administrative, professional and back office services	943	-	4.29%
	PCC Giochi e Servizi S.p.A.	Raw material and administrative services	1,177	1,179	5.35%
	Totobit Informatica S.p.A.	Administrative, professional and back office services	2,876	2,202	13.08%
	LIS Finanziaria S.p.A.	Administrative services	527	449	2.40%
	Lottomatica International S.r.l.	Advances on payments	3	-	0.01%
	Lottomatica Scommesse S.r.l.	Advances on payments	-	3	-
	GTECH Holdings	Administrative and professional services	3,485	695	15.85%
	DEA Factor	Receivable assignment	415	53	1.89%
Trade and other payables	De Agostini S.p.A.	Intercompany VAT	4,288	4,209	19.50%
		Tot. Trade and other payable	21,985	15,858	
	Lottomatica Italia Servizi S.p.A.	Cash pooling and interest expences	116,370	95,877	36.77%
	Consorzio Lotterie Nazionali	Cash pooling and interest expences	129,346	15,101	40.87%
	GTECH Holdings	Cash pooling and interest expences	4	-	-
	LIS Finanziaria	Cash pooling and interest expences	612	-	0.19%
	Lottomatica Videolot Gestione S.p.A.	Cash pooling and interest expences	3,412	3,456	1.08%
	PCC Giochi e Servizi S.p.A.	Cash pooling and interest expences	6,838	3,076	2.16%
	SED Multitel S.r.l.	Cash pooling and interest expences	6,058	2,676	1.91%
	Totobit Informatica S.p.A.	Cash pooling and interest expences	47,137	12,082	14.90%
	Cirmatica Gaming S.A.	Cash pooling and interest expences	-	11,663	-
	Lottomatica International S.r.l.	Cash pooling and interest expences	6,671	6,341	2.11%
Short term bnorrowings	Lottomatica Scommesse S.r.l.	Cash pooling and interest expences	-	5	-
		Tot. Short term borrowings	316,448	150,277	

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

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

At December 31, 2008 the Company did not register any allowance for doubtful accounts accrual on amounts due from related parties.

29. Guarantees

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

The bank guarantees requested by Lottomatica as of December 31, 2008 total approximately €383.1 million (€353.3 million at 12/31/2007). A significant amount of the guarantees, €248.3, are stipulated to service companies, among which telephone operators and AAMS.

30. Significant Judicial and Arbitration proceedings as of December 31, 2008

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

Pursuant to the arbitration clause set out in article 30 of the Lotto Concession, Lottomatica initiated arbitration proceedings to ascertain the effective date of said Concession. Lottomatica asked the arbitration panel to ascertain and state that the effective starting date of the Lotto concession is June 8, 1998 (date in which the Permanent Representation of Italy at the European Union in Brussels was notified by the European Commission that the infringement procedure no. 91/0619 was closed) and that, as a result, the final expiration date of the Lotto Concession is June 8, 2016.

Lottomatica had reached said conclusion as a result of the ministerial decree dated November 8, 1993 that envisaged the concession to be enforced only subject to the condition that the EU Commission deem the concession not to be in violation of the provisions of the Treaty of Rome.

The arbitration panel accepted Lottomatica's request by lodging its award on August 1, 2005, AAMS challenged the arbitration award before the Rome Court of Appeal pursuant to art. 828 of the Italian code of civil procedure by serving a deed to defending counsel on December 15, 2005, and to Lottomatica on December 30, 2005. The first hearing was held on April 20, 2006, and was adjourned to January 28, 2010 to hear the conclusions.

On January 18, 2008, upon AAMS's request to anticipate said hearing, the Court of Appeal has anticipated the hearing date to January 15, 2009.

Lottomatica did not appear at the April 20, 2006 hearing in order to avoid the curability of the errors in service.

Actually, the challenge was contested by Lottomatica, because it was served in term to the defending counsel but late to Lottomatica. The decision was taken by Lottomatica based upon the legal opinion rendered by the counsel assisting the Company, which also highlighted that Lottomatica, in any case, would still be in a position to file any objections in spite of its non appearance.

On January 15, 2009 Lottomatica appeared before the Court of Appeal and requested that the file be suspended on the grounds that the same file is pending ruling before the TAR (Regional Administrative Court) of Lazio. Lottomatica specified in its request for suspension that it is of the opinion that challenge brought forth is groundless.

The Court of Appeal set the hearing to July 2, 2009 in order to discuss the conclusions of the case at issue. On June 18, 2007, Stanley International Betting Limited filed an appeal before the TAR of Lazio to AAMS and Lottomatica asking for the cancellation and/or disapplication of the Lotto Game concession deeds because in violation of the rules regarding the tacit renewal of public contracts, as well as the April

19, 2007 notice with which AAMS rejected the plaintiff's motion to jointly operate the Lotto Game on the assumption that the concession is still effective for Lottomatica. The TAR of Lazio has not yet set a date for the hearing to discuss the case at issue.

The Counsels assisting the Company are of the opinion that the challenge initiated by Stanley is groundless.

On July 13, 2007 Sisal filed with AAMS and Lottomatica an appeal under article 25 of Law no. 241 of August 7, 1990, before the TAR of Lazio requesting that their right to access documents relating to the awarding of the Lotto Concession, the subsequent extensions and/or renewals, the AAMS - Lottomatica arbitration award and the correspondence between AAMS and the European Commission be ascertained.

Sisal argued to have learned only in recent months of the arbitration award setting the expiration date for the Lotto Concession to 2016 in favour of Lottomatica, and to have then filed with AAMS a formal request for access aimed at obtaining copies of the aforementioned documents on May 11, 2007, AAMS never responded to said request.

Lottomatica duly appeared at the October 10, 2007 hearing, during which Sisal stated that it was not interested in pursuing the appeal anymore due to another challenge it was about to serve.

On October 12, 2007 Sisal served an appeal on AAMS and Lottomatica before the TAR of Lazio for the annulment of the provision indicated in the July 9, 2007 notice setting out that AAMS ignored the request made by plaintiff for the concession relating to the Lotto game operation, as well as of any prior, consequent deed relating and/or connected to the aforementioned AAMS notice and, in particular, of the Ministerial Decree dated March 17, 1993 and any subsequent and related deed including the renewal of the Lotto Concession in favour of Lottomatica. Stanley has intervened in the appeal in support of Sisal, Lottomatica has made an appearance in the case at issue. To date, no date has yet been set for the hearing for debate.

On November 19, 2007 the TAR of Lazio ordered AAMS to lodge the documents relating to the awarding of the Lotto Concession within 60 days. Specifically, AAMS must lodge the following: assignment deeds and the renewal and/or extension of the concession to the prosecuting Company, a copy of the arbitration award of AAMS vs Lottomatica, and the deeds issued by the European Community regarding the matter in issue.

Counsels are of the opinion that the challenge brought forth by Sisal is groundless.

2. Ticket One S.p.A. Litigation

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

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

On December 3, 2003. Ticket One also commenced civil proceedings before the Civil Court of Rome, substantially repeating the same claims made in the administrative proceedings before the TAR of Lazio.

In addition, Ticket One requested €10 million in damages for alleged unfair competition and illegal use of the network by Lottomatica and LIS, and an order enjoining them from committing any further acts of unfair competition and, alternatively, access to Lottomatica's electronic network.

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

At the hearing on June 24, 2004, the TAR of Lazio accepted the request filed by Lottomatica and Lottomatica Italia Servizi S.p.A. and suspended the proceeding, arranging for the documents to be sent to the Supreme Court of Cassation. The Supreme Court declared Lottomatica and LIS's appeal to be inadmissible on February 9, 2006.

As a result of the Supreme Court's declaration, Ticket One motioned to set the hearing.

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

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

The testimonies of Elisabetta Cragnotti (former SS Lazio soccer team manager) and Fabrizio Conti (Milan Indoor Tennis Championship organizer) were heard on January 26, 2007. At the July 5, 2007 hearing the Judge, having taken note of Ticket One's waiver to depose additional witnesses, upon the parties' request adjourned the case to the December 18, 2008 hearing for stating his conclusions. As of the December 18, 2008 hearing, the Judge has not completed his analysis of the suit.

3. Instant and Traditional Lotteries

Lottomatica participated, as a representative of a temporary joint venture, in the call for tenders organised by the AAMS for the management of the national Traditional and Instant Lotteries. In a letter dated July 30, 2001, the AAMS informed Lottomatica that the tender had been awarded to the aforesaid joint venture (comprised of Scientific Games, Arianna 2001 S.p.A., Poligrafico Calcografica & Cartevalori S.p.A., Eis, Tecnost Sistemi S.p.A. and Servizi Base 2001 S.p.A. in addition to Lottomatica).

The award of the concession to the joint venture has been the subject of a number of challenges by the other participants to the tender as summarised below:

- a) appeal brought by Sisal: Sisal abandoned this suit at the April 10, 2002 hearing, therefore this action may be considered definitively concluded;
- b) appeal filed by the Consirium consortium (comprised of Autogrill, GTECH Corporation, Oberthur Gaming Technologies S.a.S. and others). The appeal was delisted on October 28, 2004, and has been declared expired by the Council of State on March 30, 2007, since no motion for scheduling a hearing has been filed within the required term.
- c) appeal of the Esultalia Consortium (comprised of Snai, Venturini e C. S.p.A., Poste Italiane S.p.A. and Ente ETI): Poste Italiane S.p.A. and ETI intervened in an ad adiuvandum appeal filed by Snai and Venturini with the purpose of contesting the award of the tender on July 30, 2001. At the May 14, 2003 hearing, Poste Italiane S.p.A. and ETI requested that the case be delisted. On July 21, 2003, Snai and Venturini notified all parties involved that they intended to forgo the appeal, making the award unappealable, after which the concession agreement was signed by the Lottomatica temporary joint venture. In December 2002, Snai, Venturini, Poste Italiane and ETI asked the AAMS to award the contract to them. In a letter dated January 21, 2003, the AAMS responded that it could not award the contract to them prior to the resolution of the dispute. This letter was then challenged by Snai and Venturini on grounds that are additional to the previously filed appeal and

by Poste Italiane S.p.A. and ETI in a separate appeal. On July 17, 2003, Poste Italiane S.p.A. and ETI filed a motion to schedule a hearing to resolve the dispute having as object the January 21, 2003 deed under which the Administration refused to proceed with the awarding in favour of the Esultalia Consortium. On July 25, 2003, Poste Italiane S.p.A. and ETI requested the AAMS to not make the awarding until the administrative judge rendered his decision.

In the opinion of Lottomatica, upon advice from its counsel, the appeal by Poste Italiane S.p.A. and ETI cannot have any effect on the award to RTI Lottomatica of the operation of Instant and Traditional Lotteries, which occurred following the abandonment of the main action by Snai and Venturini and is thus unappealable.

In point of fact, the appeal by Poste Italiane S.p.A. and ETI is against the AAMS letter of January 21, 2003 to not proceed with the awarding and not against the awarding itself. Again in the opinion of the counsels assisting Lottomatica, the invitation made by Poste Italiane S.p.A. and ETI heads into a completely different direction with respect to that affirmed in the appeal, i.e. to not further delay the awarding. As a result, the separate appeal by Poste Italiane S.p.A. and ETI can only end with the case being dismissed.

Further, as already confirmed by Lottomatica counsels, the deadline has passed for Poste Italiane S.p.A. and ETI to contest the awarding to the Lottomatica temporary joint venture, with the result that they cannot continue with the lawsuit.

4. Summons to Formula Giochi Shareholders

On October 26, 2005, the companies Karissa Holding S.A., Cored International S.A., Mr. Massimo Maci and shareholders of Formula Giochi S.p.A. in liquidation (operating in the gaming collection and wagering market) served summons on Lottomatica and Sisal, on their own behalf and subrogation for the Formula Giochi, to appear on January 30, 2006 before the Court of Appeal of Rome. The plaintiffs requested the assessment of the liability of Lottomatica and Sisal S.p.A. for engaging in the anticompetitive conduct enjoined by the order of the Authority of November 23, 2004, which conduct, the plaintiffs allege, was responsible for (i) their inability to sell their stake for €3.0 million and (ii) Formula Giochi S.p.A.'s inability to enter the gaming and wagering market, which caused the business value of Formula Giochi to decrease by €34.2 million. The plaintiffs also requested, on their own behalf and subrogation for the Formula Giochi, that Lottomatica and Sisal S.p.A. be ordered, jointly and severally, to pay directly to the plaintiffs damages totalling €37.2 million in the aggregate.

On January 10, 2006 Lottomatica presented before the court that apart from a number of prejudicial issues concerning, *inter alia*, plaintiff legitimacy, the documents of the proceedings initiated by the Italian Competition and Market Supervisory Authority (the "Authority") do not indicate that Lottomatica's conduct was prejudicial and detrimental to Formula Giochi. Conversely, the documents in the trial dossier, literally transposed in the Authority order to close the case, and in particular, the statements made during the November 10, 2003 hearing by the managing director of Formula Giochi, show that "*the dissolution of the recently established third pole*" derives from causes that are not related to Lottomatica.

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

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

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

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

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

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

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

The expert opinion presented on February 21, 2008 included:

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

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

Due to the extremely favourable outcome of the expert opinion, Lottomatica and its legal representatives retained that it was not necessary to deposit their reasoning regarding the expert opinion.

At the June 9, 2008 hearing the Court of Appeals reserved any observations regarding some objections presented by Formula Giochi pertaining to the expert witness testimony. The Court of Appeals claimed that the objections should be however included during the decision-making process. The closing hearing has been set to October 4, 2010.

5. Appeal Concerning Network Tender

On October 27, 2005, the joint venture composed of Albacom-Fastweb served an appeal on Lottomatica before the TAR of Lazio challenging the tender process relating to, and seeking the annulment, after

suspension of a contract for data transmission services on the private Lotto network operated by Lottomatica in favour of Telecom Italia; and requested that Lottomatica be sentenced to pay damages.

Lottomatica filed an appearance requesting that the claims made by plaintiff be rejected.

At the hearing of November 23, 2005, the JV Albacom-Fastweb withdrew its suspension request. The hearing was scheduled for October 11, 2006, at which Lottomatica filed a motion to suspend the hearing due to the merger of Lottomatica into NewGames S.p.A. The appeal was sent for a decision specifically highlighting the cause of the suspension, on which the TAR of Lazio reserved to decide. On October 11, 2006 the TAR of Lazio decided to interrupt after taking note of the merger of Lottomatica into NewGames S.p.A.

On January 9, 2007 the JV Albacom – Fastweb notified resumption of the proceeding. According to the legal counsel of Lottomatica, the resumption of the appeal was notified late. Furthermore, on November 4, 2008 Fastweb notified its withdrawal from the appeal.

6. Appeals Concerning the AAMS Tender for the Awarding of Sporting Rights

On February 26, 2007, Aycons, Società Consortile a Responsabilità Limitata (“Aycons”), served a notice of appeal to the TAR of Lazio challenging the Decree of December 21, 2006 published in the Official Journal of the Italian Republic (G.U.R.I.) no. 300, ordinary supplement no. 248 on December 28, 2006, which finally awarded the point of sale rights for sporting games as well as the activation of the online sporting game network.

Lottomatica, on behalf of a company to be incorporated, was awarded the following: the concession of the gaming rights according to article 38, section 2 and 4 of the Legislative Decree no. 223/06, the sale rights according to article 38, section 2 of the Legislative Decree no. 223/06 which was then converted to Law no. 248 of August 4, 2006 and the rights to activate the online sporting game network.

On April 16, 2007, through a filing reporting additional reasons, Aycons served a notice to Lottomatica requesting the suspension of (i) the notice of February 23, 2007 (registry number 2007/6087/Uff.10°/Conc) with which AAMS communicated to Lottomatica Scommese S.r.l. the final award of the concession and (ii) the “agreement for the concession of the public games as awarded to Lottomatica Scommese S.r.l.”

Aycons claims that Lottomatica, as sole stockholder of the company to be established, in violation of article 4.2 of the Tender, still held 35% of the Cogetech share capital on the expiry date for the presentation of the tender participation application (October 20, 2006) through its subsidiary GTECH.

On March 16, 2007 Lottomatica appeared before the court denying Aycons’s claim and submitted documents demonstrating that GTECH (100% owned by Lottomatica), further to Authorisation from AAMS, had sold its share of Cogetech on October 16, 2006 and therefore before the said deadline of October 20, 2006. As a result, when Lottomatica presented its application to participate in the tender, there was no connection with and/or control of Cogetech by Lottomatica.

As of yet, Aycons has not requested to set a merit hearing and it can therefore be deduced that the plaintiff will not continue the case.

The tender at issue was also challenged before the TAR of Sicily by Jackbet S.r.l., King Bet S.r.l. and Agenzia Ippica dello Stretto s.n.c. With regard to said appeal, Lottomatica proposed to have a preliminary decision issued by the Council of State.

By judgement of July 10, 2007, the Council of State, accepting the reasons proposed by Lottomatica, declared the TAR of Lazio to have jurisdiction. As of yet, a discussion hearing of the appeal has not been set.

7. SUPERENALOTTO Tender

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

A similar appeal, which however has not been served on Lottomatica but to AAMS and Sisal, was filed by Index Group. On November 21, 2007, the TAR of Lazio declared the appeal brought forth by Stanley to be inadmissible and rejected it based on merit. Stanley contested the TAR of Lazio's ruling before the Council of State, presenting again the same arguments as presented before the TAR and requested the suspension of the tender deeds.

During this time, the bidders (Sisal, Lottomatica and Snai) were summoned by AAMS for the conclusion of the tender awarding procedure.

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

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

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

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

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

The award of the tender to Sisal was also challenged by Snai on the grounds of erroneous evaluations carried out by the Commission. The TAR of Lazio issued a court order on June 4, 2008 requesting the tender documentation from AAMS. The hearing was postponed to October 22, 2008.

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

The January 14, 2009 hearing set to discuss the merit was postponed to May 27, 2009 upon the request by both parties.

31. Financial risk management objectives and policies

Our principal financial instruments are comprised of debt and cash and cash equivalents. The main purpose of these financial instruments is to fund the capital needs of the operations. We have various other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from operations.

The primary risk inherent in our financial instruments is the market risk arising from adverse changes in interest rate. The Company does not present significant foreign currency transactions in its operating activities, consequently changes in foreign currency exchange rate risk would not result in significant effect in net income and net equity.

Credit risk

Lottomatica primary credit risk is derived from our cash and trade accounts receivable balances. We maintain cash deposits and trade with only recognized, creditworthy third parties. We evaluate the collectibility of trade accounts and sales-type lease receivables on a customer-by-customer basis and we believe our reserves are adequate. A majority of our trade accounts receivable are from government lottery entities from which we have historically experienced insignificant write-offs. Trade accounts receivable, which generally have 30 day terms, are reported net of allowances for doubtful accounts and liquidated damages. Allowances for doubtful accounts are generally recorded when there is objective evidence we will not be able to collect the receivable. Bad debts are written off when identified.

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

Past due financial assets

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

	December 31, 2008		December 31, 2007	
	€	%	€	%
(migliaia di euro)				
Current	9.864	99,5%	10.534	95,3%
Past due:				
1-30 days	43	0,4%	47	0,4%
31-60 days	4	0,0%	50	0,5%
61-90 days	0	0,0%	25	0,2%
More than 90 days	0	0,0%	401	3,6%
	47	0,5%	523	4,7%
Total trade receivables	9.911	100,0%	11.057	100,0%

Changes in the Allowance for doubtful accounts are the following (thousand of euro):

	December 31	
	2008	2007
Balance at the beginning of the year	1.670	5.522
Provisions	1.184	-
Utilization	(1.100)	(3.172)
Provision release		(680)
Balance at the end of the year	1.754	1.670

Other receivables that were over due at December 31, 2008 but were not written down are as follows:

	December 31, 2008		December 31, 2007	
	€	%	€	%
(thousand of euro)				
Current	0	0,0%	531	44,7%
Past due:				
1-30 days	0	0,0%	0	0,0%
31-60 days	0	0,0%	0	0,0%
61-90 days	0	0,0%	0	0,0%
More than 90 days	827	100,0%	657	55,3%
	<u>827</u>	<u>100,0%</u>	<u>657</u>	<u>55,3%</u>
Total Other receivables	<u>827</u>	<u>100,0%</u>	<u>1.188</u>	<u>100,0%</u>

Changes in the Other Receivable Allowance for doubtful accounts are the following:

	December 31	
	2008	2007
(thousand of euro)		
Balance at the beginning of the year	2.243	2.334
Provisions		86
Utilization		(177)
Balance at the end of the year	<u>2.243</u>	<u>2.243</u>

Liquidity risk

The Company's primary liquidity risk is derived from our long term debt and on-going working capital needs. The Company's objective in managing this risk is to maintain a balance between continuity of funding and flexibility through the use cash generated by operating activities, bank overdrafts, and bank loans. We believe our ability to generate excess cash from operations to reinvest in our business is one of our fundamental financial strengths and combined with our committed borrowing capacity we expect to meet our financial obligations and operating needs in the foreseeable future. We expect to use cash generated primarily from operating activities to meet contractual obligations and to pay dividends.

We expect our growth to be financed through a combination of cash generated from operating activities, existing sources of committed liquidity, access to capital markets, and other sources of capital. Our corporate debt ratings of Baa3 from Moody's and BBB- from Standard and Poor's contribute to our ability to access capital markets at attractive prices, therefore, we do not believe the Group is exposed to a significant concentration of liquidity risk.

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

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

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

Year ended Dicembrer, 31 2008

(thousands of euro)	Within 1 year	1 - 2 years	3 - 4 years	More than 4 years	Total
Fixed rate					
Capital securities	46.491	-	-	750.000	796.491
Floating rate					
Term Loan Facility Lottomatica	601	-	132.000	96.000	360.601
Revolving Credit Facility Lottomatica	95	-	-	-	50.095

Year ended Dicembrer, 31 2007

(thousands of euro)	Within 1 year	1 - 2 years	3 - 4 years	More than 4 years	Total
Fixed rate					
Capital Securities	46.618	-	-	750.000	796.618
4.80% Bond	360.473	-	-	-	360.473

Market risk

Interest rate market risk

Our exposure to changes in market interest rates is not considered relevant due to the exposure just to fixed interest rates financial liabilities (Capital Securities and 4.80% Bonds). Consequently, changes in market interest rate would not result in significant effect in net income and net equity.

Foreign currency exchange rate risk

The Company does not present significant foreign currency transactions from its operating activities. Consequently, changes in foreign currency exchange rate would not result in significant effect in net income and net equity.

Capital management

The primary goal of the Company's capital management strategy is to ensure strong credit ratings and healthy financial ratios in order to support its business while maximizing corporate value and reducing the Company's financial risks. We consider all equity and debt to be managed capital of the Group.

The Company manages its capital structure and makes adjustments based on long term strategy decisions in light of changes in economic conditions. Additionally, the Company seeks to preserve an optimal weighted average cost of capital and maintain sufficient financial flexibility to pursue growth opportunities. There were no changes in the objectives. Policies, or processes during the years ended December 31, 2008 and 2007.

32. Events following the closing of the FY2008 period

In the first months of 2009, Lottomatica and Dogan Sirketler Grubu Holding A.S. (of the Dogan Group), one of the largest conglomerates in Turkey and the leading position in media and energy distribution together with activities in industry, trade, financial services and tourism, signed an agreement establishing a joint venture for jointly participating in the Turkish National Lottery, ("Milli Piyango"), tender.

On February 16, 2009 Lottomatica and Dogan submitted their application for the tender to the Turkish Authorities. The tender will grant a 10-year license as sole concessionaire to operate all lotteries in Turkey.

EXECUTIVE MANAGEMENT BENEFITS

(€)	2008	2007
Short-term benefits	4,468,305	3,938,353
Retirement benefits and post-employment assistance	140,859	102,373
Staff Severance Fund benefits	-	-

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

Stock option plans 31 12 2008	Outstandings Stock options at the beginning of the period (january 2008) (granted without rights cancelled and without executions in the previous years)			N° stock options granted during the period		Rights cancelled (january-Dicember 2008)	Executions during the period (january-Dicember 2008)		Outstandings Stock options at the end of the period (31/12/2008) (s.o. vested plans 2003 - 2005; 2004 - 2005 and 2005 - 2010; granted 2007 - 2015 and 2008 2016) without rights cancelled and without executions during the period		Number stock options exercisable	
	Number stock options	Strike price as the regulations	New strike price (applied from june 2006) (°)	Number stock options	Strike price	Number stock options	Number stock options	Strike price	Number stock options	Strike price	Number stock options	Strike price
Stock Option 2003 - 2005 Managers Plan	156.400	14,630	11,3281	-	-	-	156.400	11,3281	-	11,3281	-	11,3281
Stock Option 2004 - 2005 Managers Plan	76.000	18,338	15,0361	-	-	-	76.000	15,0361	-	15,0361	-	15,0361
Stock Option 2005 - 2010 Managing Director Plan	95.336	26,470	23,1681	-	-	-	-	-	95.336	23,1681	95.336	23,1681
Stock Option 2005 - 2010 Managers Plan	224.540	26,470	23,1681	-	-	21.420	-	-	203.120	23,1681	203.120	23,1681
Stock Option 2007 - 2015 Managing Director Plan	160.000	30,400	-	-	-	-	-	-	160.000	30,40	-	-
Stock Option 2007 - 2015 Managers Plan	405.600	30,400	-	-	-	12.400	-	-	393.200	30,40	-	-
Stock Option 2008 - 2016 Managers Plan	-	-	-	748.365	20,29	-	-	-	748.365	20,29	-	-
Stock Option 2008 - 2016 Director Managers Plan	-	-	-	237.958	20,29	-	-	-	237.958	20,29	-	-
Total	1.117.876		24,6178	986.323		33.820	232.400		1.837.979	23,8003	298.456	23,1681
			Weighted average exercise price							Weighted average exercise price		Weighted average exercise price

(°) Resolution of Board of Directors (date 27/04/20 06) and after capital stock increased established by Board of Directors (date 18/05/2006)

Footnotes: 2003 - 2005; 2004 - 2005 Plans
 - Executions in the period include stock options vested in 2004, exercisable from 01/01/2007 to 15/12/2007 and s.options vested in 2005 exercisable in advance. (based on agreement with managers who have resigned)

Chart 1 – Exhibit 3C - Issuing Regulations – Remuneration of the members of the Board of Directors and the Board of Statutory Auditors of Lottomatica S.p.A.

Remuneration of the member of the Board of Directors and the Board of Statutory Auditors of Lottomatica S.p.A.							
Name and Surname	Position	Period in the position	Duration	Emoluments	Non monetary benefits	Bonus	Other
Lorenzo Pellicoli	Chairman	4/12/06-12/31/08	12/31/2010	50.000			
	General Manager - CEO Executive Committee - Chairman	4/12/06-12/31/08	12/31/2010	42.500			
Robert Dewey	Vice Chairman	8/29/06-12/31/08	12/31/2010	50.000			
	Remuneration Committee Member	4/12/08-12/31/08		42.500			
Marco Sala	Managing Director and General Manager	4/12/06-12/31/08	12/31/2010	50.000			
	Executive Committee - Member	4/15/08-12/31/08	12/31/2010	50.000	36.092	727.220	1.084.648
Pietro Boroli	Board Member	4/12/05-12/31/08	12/31/2010	50.000			
	Executive Committee - Member	4/15/08-12/31/08	12/31/2010	36.250			
Paolo Ceretti	Board Member	5/13/04-12/31/08	12/31/2010	50.000			
	Executive Committee - Member	4/15/08-12/31/08	12/31/2010	40.000			
Marco Drago	Board Member	9/24/02-12/31/08	12/31/2010	50.000			
	Executive Committee - Member	4/15/08-12/31/08	12/31/2010	27.500			
Jeremy Hanley	Board Member	4/15/08-12/31/08	12/31/2010	50.000			
	Audit Committee - Member	4/15/08-12/31/08		24.967			
James McCann	Board Member	8/29/06-12/31/08	12/31/2010	50.000			
	Remuneration Committee Member	4/12/08-12/31/08		42.500			
Jaymin Patel	Board Member	12/11/07-12/31/08	12/31/2010	50.000			
	Executive Committee - Member	4/15/08-12/31/08	12/31/2010	42.500	7.489	406.720	509.718
Anthony Ruys	Board Member	8/29/06-12/31/08	12/31/2010	50.000			
	Audit Committee - Member	4/15/08-12/31/08	12/31/2010	32.275			
Severino Salvemini	Board Member	3/14/03-12/31/08	12/31/2010	50.000			
	Audit Committee - Member	4/15/08-12/31/08		56.673			
	Vigilance Committee	5/6/08-12/31/08		25.000			
Bruce Turner	Board Member	8/29/06-12/31/08	12/31/2010	72.500			
Giammario Tondato Da Ruos	Board Member	8/29/06-12/31/08	12/31/2010	50.000			
	Remuneration Committee Member	4/12/08-12/31/08		47.500			
Rosario Bifulco	Board Member	4/12/06-4/15/08	15/4/2008	14.560			
Sergio Duca	Board of Statutory Auditors - Chairman	15/04/08-12/31/08	12/31/2010	62.420			
Andrea Colombo	Board of Statutory Auditors - Chairman	16/12/05 - 04/15/08	04/15/2008	39.107			
Fancesco Martinelli	Board of Statutory Auditors - Regular Member	12/16/05-12/31/08	12/31/2010	97.687			
Angelo Gaviani	Board of Statutory Auditors - Regular Member	12/16/05-12/31/08	12/31/2010	75.000			
	Vigilance Committee	5/6/08-12/31/08		10.000			
				1.481.439	43.581	1.133.940	1.594.366

PERSONNEL

Pursuant to Article 2427, c,1 n,15 of the Italian civil code, the average number of employees totals 797,3 (731,3 at December 31, 2007), subdivided into the following categories:

Work Force for FY2008	N°
Executives	51,4
Junior Management	107,8
Office Staff	637,7
Manual Workers	-
Total	797,3

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

The administration of receipts and payments of Lotto accounts solely related to Lottomatica for €113.7 million (€69.2 million at 12/31/2007) under the powers granted by Presidential Decree n. 560 are provided below:

RECEIVABLES

Total receivables for the management credit from points of sale for the sums to be paid, net fees and expenses, were €50.7 million (€2.3 million at 12/31/2007).

CASH AND CASH EQUIVALENTS

Cash and cash equivalents were €63.0 million (€60 million at 12/31/2007) and reflect the administered receipts held in bank and postal accounts as of December 31, 2008:

- €50.9 million (€47.7 million at 12/31/2007) in a specific current account held with Banca Intesa S.p.A.; and
- €12.1 million (€19.3 million at 12/31/2007) in a specific postal account.

PAYABLES

Totaled € 113.7 million (€69.2 million at 12/31/2007) consisting of:

- €72.7 million (€32.8 million at 12/31/2007) in profits due to the AAMS at December 31, 2008;
- €18.5 million (€16.1 million at 12/31/2007) due to the Ministry of Finance's pension fund;
- €0.4 million (€0.5 million at 12/31/2007) due to the AAMS for the total interest income accrued on the specific bank account used for the administration of receipts and payments, net of tax charges and related expenses;
- €9.3 million (€6.6 million at 12/31/2007) for the premium on the last three drawings made over the period under consideration to be paid to the licensee; and
- €12.8 million (€13.3 million at 12/31/2007) for winnings not paid as of December 31, 2008.

DE AGOSTINI S.P.A. FINANCIAL STATEMENTS

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

DE AGOSTINI S.p.A. - December 31, 2007	
<i>(thousands of euro)</i>	
BALANCE SHEET	
ASSET:	
A) Due from shareholders for unpaid capital	-
B) Fixed Assets	2,861,614
C) Current Assets	649,082
D) Accrued income and prepaid expenses	35,503
Total Assets	3,546,199
LIABILITY:	
A) Shareholders' Equity	
-) Issued Capital	42,000
-) Reserves	3,122,439
-) Profit (Loss) for the period	100,345
B) Provisions for risk and charges	29,234
C) Staff Several Fund (TFR)	1,719
D) Payables	250,411
E) Accrued expenses and deferred incomes	51
Total Liabilities	3,546,199
INCOME STATEMENT	
A) Value of Production	2,745
B) Production costs	26,651
C) Financial incomes and charges	136,440
D) Value adjustments to financial assets	(9,900)
E) Extraordinary incomes and charges	7,975
Income Tax for the period	10,264
Profit (Loss) for the period	100,345

List of Lottomatica S.p.A. subsidiaries				
<u>Name</u>	<u>Jurisdiction</u>	<u>Share Capital**</u>	<u>Ownership %</u>	<u>Azionista</u>
Consorzio Lotterie Nazionali	Italy	16,000	63	Lottomatica
Lottomatica Italia Servizi S.p.A.	Italy	2,582	100	Lottomatica
Lottomatica Scommesse S.r.l.	Italy	20,000	100	Lottomatica
Lottomatica Videolot Rete S.p.A.	Italy	3,226	100	Lottomatica
SED Multitel S.r.l. (1)	Italy	800	100	Lottomatica
Lottomatica Videolot Gestione S.p.A.	Italy	120	100	Lottomatica
Lottomatica Sistemi S.p.A.	Italy	5,165	100	Lottomatica
Lottomatica International S.r.l.	Italy	100	100	Lottomatica
Totobit Informatica Software e Sistemi S.p.A.	Italy	3,043	100	Lottomatica Italia Servizi S.p.A.
CartaLIS Imel S.p.A.	Italy	10,000	85	Lottomatica Italia Servizi S.p.A.
Toto Carovigno S.p.A. (2)	Italy	500	100	Lottomatica Scommesse S.r.l.
Lottomatica Bingo S.r.l. (3)	Italy	50	100	Lottomatica Scommesse S.r.l.
L.S. Alpha S.r.l. (4)	Italy	118,000	95	Lottomatica Scommesse S.r.l.
Royal Gold S.r.l. (5)	Italy	99,000	100	Lottomatica Videolot Rete S.p.A.
PCC Giochi e Servizi S.p.A.	Italy	21,000	100	Lottomatica Sistemi S.p.A.
LIS Finanziaria S.p.A.	Italy	1,000	100	Totobit Informatica S.p.A.
TTS S.r.l.	Italy	100	100	Totobit Informatica S.p.A.
Consorzio Lottomatica Giochi Sportivi	Italy	100	90	Lottomatica (85%); Totobit Informatica S.p.A. (5%)
Lottomatica International Hungary <i>Korlátolt Felelősségű Társaság</i>	Hungary	1,000	100	Lottomatica International S.r.l. (80.49%); Lottomatica (19.51%)
Edrin Ltd. (6)	UK	19	100	Lottomatica Scommesse S.r.l.
Invest Games S.A.	Lux	31,000	100	Lottomatica.
GTECH Holdings Corporation	Delaware, USA	1,133,545,651	100	Lottomatica (77.8712%); Invest Games S.A. (22.1288%)

** All Share Capital amounts are stated in local currency amounts and in thousands.

(1) On June 9, 2008, SED Multitel S.p.A. became SED Multitel S.r.l. Subsequently, Lottomatica acquired Totobit S.p.A.'s interest participation (80%) and became the sole shareholder with 100% interest participation,

(2) On August 29, 2008 Lottomatica Scommesse S.r.l. acquired 100% Toto Carovigno S.p.A.'s interest participation

(3) On July 7, 2008, Lottomatica Scommesse S.r.l. created the new company Lottomatica Bingo S.r.l.

(4) On December 5, 2008, Lottomatica Scommesse S.r.l. acquired 95% L.S. Alpha S.r.l.'s interest participation.

(5) On December 5, 2008, Lottomatica Videolot Rete S.p.A. acquired 100% Royal Gold S.r.l.'s interest participation

(6) On November 3, 2008, Lottomatica Scommesse S.r.l. created the new company Edrin Limited.

LOTTOMATICA S.p.A.**Registered Office in Rome, Viale del Campo Boario, 56/d****Share Capital: €152,286,837.00**

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

To the Shareholders,

Pursuant to Articles 2429 and 2403 of the Italian Civil Code, and Article 153 (1) of Legislative Decree no. 58 of February 24, 1998, we inform you that during the year ended December 31, 2008, we performed our oversight activities in accordance with the provisions of the Italian Civil Code, with Articles 148 and subsequent articles of the aforementioned Legislative Decree, and with the instructions issued by the Companies and Stock Exchange Commission (CONSOB), taking into account, moreover, the rules of conduct recommended by the National Council of Accountants and Bookkeepers.

Considering the above, we present our report on oversight activities required by law and performed by this Board during the year ended December 31, 2008. We would like to specify that the previous Board of Auditors carried out the oversight activities until April 15, 2008 and that two members of the previous Board are part of the present Board of Auditors.

Specifically,

- We attended all meetings of the Board of Directors, totalling 9 in number, and of the Executive Board, totalling 4 in number, during which we were informed of the Company's activities and notified of all major operations or transactions carried out by the Company and its subsidiaries;
- We held 7 periodical meetings during which information was mutually exchanged with the independent auditors and with the Directors, and we ascertained that no imprudent or risky operations or transactions were undertaken, nor any that might create conflicts of interest or run counter to the resolutions of the shareholders' meeting and thereby jeopardise the Company's capital soundness;
- We continued to monitor the Company's organisational structure and the administrative-accounting system, finding both to be adequate for their respective purposes;

-
- We received the information form the Internal Control Committee on its current activity, on its controlling schedule and on its plans for implementing the internal control system;
 - We reviewed the Internal Control Committee annual report;
 - We acquired information from the Remuneration Committee and with the *Lead Independent Director* regarding their activities;
 - We obtained from the Board of Directors, within the time prescribed by the law, the draft of the 2008 financial statements, the consolidated balance sheet and the Directors' report;
 - We ascertained that the annual report and consolidated financial statements were prepared pursuant to the laws in vigour regarding the adoption of IAS-IFRS principles. The consolidation criteria and the consolidation are described in detail in the notes to the financial statements;
 - We examined the documents pertaining to the intra-group financial and industrial transactions and supporting operations, which are reasonably considered to be in compliance with the principals of sound management, compatible with the Company by-laws and consistent with the applicable legislation;
 - We verified that the Directors, in compliance with the instructions issued by CONSOB, drew their attention to all operations or transactions conducted with companies belonging to the Group and related parties. On our part, we verified, with the assistance of the Company's administrative officers, the observance of all procedures designed to ensure that such operations or transactions were conducted under the appropriate conditions and in the Company's interests;
 - We ascertained that no atypical or unusual transactions, as defined in the CONSOB note no. 1025564 dated April 6, 2001 and No. DEM/6064293 dated July 28, 2006, took place wither among the group, with related parties or with third parties, finding proof thereof in the information provided by the Board of Directors, by independent auditors and by persons responsible for the internal control;
 - We ascertained that the Company complied with the self-discipline code of the Committee for Corporate Governance of Listed Companies. We monitored the manner in which the corporate governance rules, set out in the self-discipline code, were implemented. We have no observations to make with regards to the self-discipline code implementation. We also inform you that the

assessment criteria and procedures adopted by the Board of Directors to evaluate the independence of its members were correctly applied;

- We ascertained that the Company continued to update the organisational management and control model as per Legislative Decree 231/01, taking into account the guidelines issued by trade associations as well as relevant legislative developments, also applying this model to subsidiary companies and consortia belonging to the Group.
- Through our continuous contact with the independent auditors as well as due to our own periodic controls, we ascertained that the relevant non-European subsidiaries as defined by Title VI, section II of the CONSOB regulation adopted with the resolution no. 11971 in 1999:
 - Have an administrative-accounting system that is able to regularly send the necessary economic and financial information for the preparation of the consolidated financial statements to the Company and to the independent auditors;
 - Regularly provide the necessary information to carry out the controlling activities regarding the annual and quarterly reviews to the independent auditors.

We further declare that:

- We have not received any report of offences as per Article 2408 of the Italian Civil Code;
- No exposures have been presented;
- We did not issue any legal opinions as defined by the law during the year;
- The Company Reconta Ernst & Young, or parties linked to it under continuous agreement, was appointed not only to audit the financial statements for the year, including the signing of the tax returns, but also to perform the following:
 - Complete review of the Scientific Games Corp. annual report pursuant to SEC requirements - €145,000.00
 - Restricted review of quarterly situation (SAS 100 reviews) in order to ensure the compliance of the Scientific Games Corp. annual report to SEC requirements - €48,000.00
 - Accounting review of the Company Equity as of August 29, 2008 aimed at the Purchase Price Allocation operation - €70,000.00
 - Technical accounting opinion - €15,000.00
 - Statutory FS and reporting package as of 12/31/2008 - €2,500.00

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- Review stand-alone statements of subsidiaries and tax consulting services - €537,855.00
 - Accounting Consultancy - €308,979.00
 - Eurobond offering procedures - €152,791.00

Within the scope of our authority we verified that:

- The Company complied with the provisions of the law and by-laws and with the principles of sound management;
- The Company's organisational structure, internal control system and administrative-accounting systems are satisfactory insofar as their effective operation is concerned;
- The provisions of the laws in force including Legislative Decree No. 87 of January 26, 1992 and the subsequent CONSOB recommendations, the preparation and structure of the financial statements and the Director's report were carried out appropriately and included the performance of direct checks and information obtained from the independent auditors;
- The instructions given by the Company to its subsidiaries were appropriate in compliance with Article 114, point 2 of Legislative Decree 58/1998;
- The report submitted by the independent auditors regarding the financial statements the year ended December 31, 2008 communicates that no reprehensible facts emerged in the course of the auditing process of the financial statements and accounts, thereby declaring that such statements comply with the applicable regulations and the Italian civil code and hence with the accounts as well as national, international and group accounting standards and principles;

The Board of Auditors would like to report that the Independent Auditors have issued a favourable opinion in terms of the coherence of the Lottomatica S.p.A. financial statements for the year ended December 31, 2008 as required by Article 156, section 4-bis, letter d) of Legislative Decree no. 58/1998.

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

In view of the above, we therefore recommend the approval of the financial statements for the year ended December 31, 2008 presented by the Board of Directors together with this report and the proposal to distribute dividends.

Pursuant to Article 144-quinquiesdecies of the stock exchange regulations for listed companies, the present report includes the list of administrative and auditing roles carried out by the members of the Board of Auditors at companies as defined by Book V, Title V, Chapters V, VI and VII of the Italian civil code as of March 5, 2008.

Rome, March 20, 2009

THE BOARD OF AUDITORS

Mr. Sergio Duca

Mr. Angelo Gaviani

Mr. Francesco Martinelli

This Report as been translated into the English language solely for the convenience of international readers

List of the various roles held by Lottomatica S.p.A. Board of Auditors members for the Companies as per Book V, Title V, sections V, VI and VII of the Italian Civil Code.

Sergio Duca

Chairman of Board of Auditors of Orizzonte S.g.r. S.p.A.;

Member of Surveillance Committee of Exor S.p.A.;

Chairman of Board of Auditors of ALUB;

Chairman of Board of Auditors of Fondazione Silvio Tronchetti Provera;

Member of Board of Auditors of ISPI;

Member of Board of Auditors of Fondazione ERGA;

Chairman of *Associazione Amici dell'Università di Scienze Gastronomiche* of Pollenzo;

Member of Board of Directors and Executive Committee of Pollenza Gastronomy University;

Chairman of Board of Auditors of Tosetti Value SIM S.p.A.;

Chairman of Board of Auditors of Fondazione Intesa San Paolo Onlus;

Member of Board of Auditors of Compagnia di San Paolo.

Angelo Gaviani

Auditor of Banzai S.p.A.;

Auditor of B&D Holding di Marco Drago e C. S.A.p.A.;

Chairman of Board of Auditors of Cideb Editrice S.r.l.;

Auditor of De Agostini S.p.A.;

Chairman of Board of Auditors of De Agostini Diffusione del Libro S.p.A.;

Auditor of De Agostini Editore S.p.A.;

Auditor of De Agostini Edizioni Scolastiche S.p.A.;

Chairman of Board of Auditors of DeA Capital S.p.A.;

Chairman of Board of Auditors of DeA Factor S.p.A.;

Auditor of Diffusione Scolastica S.r.l.;

Chairman of Board of Auditors of First Atlantic RE SGR S.p.A.;

Chairman of Board of Auditors of First Atlantic Real Estate S.p.A.;

Auditor of Fondazione De Agostini;

Chairman of Board of Auditors of Istituto Geografico De Agostini S.p.A.;

Auditor of Lottomatica Italia Servizi S.p.A.;

Chairman of Board of Auditors of Lottomatica Scommesse S.r.l.;

Auditor of Lottomatica Sistemi S.p.A.;

Auditor of Utet S.p.A.;

Auditor of Banca Popolare di Novara S.p.A.;

Auditor of M.Dis Distribuzione Media S.p.A.;

Chairman of Board of Auditors of Milano Press S.r.l.;

Chairman of Board of Auditors of Mineral Resources S.r.l.;

Auditor of Righi S.p.A.;

Auditor of Saronni S.p.A.;

Auditor of Sogeim S.p.A.;

Chairman of Board of Auditors of Spig S.p.A.;

Chairman of Board of Auditors of Stoppa Antonio e Figli S.p.A..

Francesco Martinelli

Auditor of Aviofin S.p.A.;

Auditor of Actalis S.p.A.;

Chairman of Board of Auditors of Almaviva Consulting S.r.l.;

Auditor of Alma Viva S.p.A.;

Chairman of Board of Auditors of Alma Viva Technologies S.r.l.;

Chairman of Board of Auditors of Almaviva Finance S.p.A.;

Auditor of Alicos S.p.A.;

Auditor of G.Matica S.r.l.;

Auditor of Al maviva Contact S.p.A.;
Auditor of T.S.F. Tele Sistemi Ferroviari S.p.A.;
Chairman of Board of Auditors of Banca Impresa Lazio S.p.A.;
Auditor of Servizio Italia S.r.l.;
Chairman of Board of Auditors of Servizi in Rete 2001 S.r.l.;
Chairman of Board of Auditors of Arianna 2001 S.p.A.;
Chairman of Board of Auditors of Press & Image S.p.A.;
Chairman of Board of Auditors of Melior Trust S.p.A.;
Member of Board of Auditors of Istituto Commercio Estero (ICE);
Auditor of Reteitalia Internazionale S.r.l.;
Chairman of Board of Auditors of CartaLIS Imel S.p.A.;
Chairman of Board of Auditors of Consorzio Lotterie Nazionali;
Chairman of Board of Auditors of Consorzio Lottomatica Giochi Sportivi;
Chairman of Board of Auditors of Lottomatica Italia Servizi S.p.A.;
Auditor of Lottomatica Scommesse S.r.l.;
Chairman of Board of Auditors of Lottomatica Sistemi S.p.A.;
Chairman of Board of Auditors of Lottomatica Videolot Rete S.p.A.;
Chairman of Board of Auditors of Lottomatica Videolot Gestione S.p.A.;
Chairman of Board of Auditors of PCC GS S.p.A.;
Chairman of Board of Auditors of Toto Carovigno S.p.A.;
Chairman of Board of Auditors of CFN – Compagnia Fondiaria Nazionale S.p.A.

LOTTOMATICA S.p.A.
Registered Office in Rome, Viale del Campo Boario, 56/d
Share Capital: €152,286,837.00

REPORT OF THE BOARD OF AUDITORS

to the Shareholders' Meeting of Lottomatica S.p.A.

To the Shareholders,

Pursuant to Articles 2429 and 2403 of the Italian Civil Code, and Article 153 (1) of Legislative Decree no. 58 of February 24, 1998, we inform you that during the year ended December 31, 2008, we performed our oversight activities in accordance with the provisions of the Italian Civil Code, with Articles 148 and subsequent articles of the aforementioned Legislative Decree, and with the instructions issued by the Companies and Stock Exchange Commission (CONSOB), taking into account, moreover, the rules of conduct recommended by the National Council of Accountants and Bookkeepers.

Considering the above, we present our report on oversight activities required by law and performed by this Board during the year ended December 31, 2008. We would like to specify that the previous Board of Auditors carried out the oversight activities until April 15, 2008 and that two members of the previous Board are part of the present Board of Auditors.

Specifically,

- We attended all meetings of the Board of Directors, totalling 9 in number, and of the Executive Board, totalling 4 in number, during which we were informed of the Company's activities and notified of all major operations or transactions carried out by the Company and its subsidiaries;
- We held 7 periodical meetings during which information was mutually exchanged with the independent auditors and with the Directors, and we ascertained that no imprudent or risky operations or transactions were undertaken, nor any that might create conflicts of interest or run counter to the resolutions of the shareholders' meeting and thereby jeopardise the Company's capital soundness;
- We continued to monitor the Company's organisational structure and the administrative-accounting system, finding both to be adequate for their respective purposes;

- We received the information from the Internal Control Committee on its current activity, on its controlling schedule and on its plans for implementing the internal control system;
- We reviewed the Internal Control Committee annual report;
- We acquired information from the Remuneration Committee and with the *Lead Independent Director* regarding their activities;
- We obtained from the Board of Directors, within the time prescribed by the law, the draft of the 2008 financial statements, the consolidated balance sheet and the Directors' report;
- We ascertained that the annual report and consolidated financial statements were prepared pursuant to the laws in vigour regarding the adoption of IAS-IFRS principles. The consolidation criteria and the consolidation are described in detail in the notes to the financial statements;
- We examined the documents pertaining to the intra-group financial and industrial transactions and supporting operations, which are reasonably considered to be in compliance with the principals of sound management, compatible with the Company by-laws and consistent with the applicable legislation;
- We verified that the Directors, in compliance with the instructions issued by CONSOB, drew their attention to all operations or transactions conducted with companies belonging to the Group and related parties. On our part, we verified, with the assistance of the Company's administrative officers, the observance of all procedures designed to ensure that such operations or transactions were conducted under the appropriate conditions and in the Company's interests;
- We ascertained that no atypical or unusual transactions, as defined in the CONSOB note no. 1025564 dated April 6, 2001 and No. DEM/6064293 dated July 28, 2006, took place wither among the group, with related parties or with third parties, finding proof thereof in the information provided by the Board of Directors, by independent auditors and by persons responsible for the internal control;
- We ascertained that the Company complied with the self-discipline code of the Committee for Corporate Governance of Listed Companies. We monitored the manner in which the corporate governance rules, set out in the self-discipline code, were

implemented. We have no observations to make with regards to the self-discipline code implementation. We also inform you that the assessment criteria and procedures adopted by the Board of Directors to evaluate the independence of its members were correctly applied;

- We ascertained that the Company continued to update the organisational management and control model as per Legislative Decree 231/01, taking into account the guidelines issued by trade associations as well as relevant legislative developments, also applying this model to subsidiary companies and consortia belonging to the Group.
- Through our continuous contact with the independent auditors as well as due to our own periodic controls, we ascertained that the relevant non-European subsidiaries as defined by Title VI, section II of the CONSOB regulation adopted with the resolution no. 11971 in 1999:
 - Have an administrative-accounting system that is able to regularly send the necessary economic and financial information for the preparation of the consolidated financial statements to the Company and to the independent auditors;
 - Regularly provide the necessary information to carry out the controlling activities regarding the annual and quarterly reviews to the independent auditors.

We further declare that:

- We have not received any report of offences as per Article 2408 of the Italian Civil Code;
- No exposures have been presented;
- We did not issue any legal opinions as defined by the law during the year;
- The Company Reconta Ernst & Young, or parties linked to it under continuous agreement, was appointed not only to audit the financial statements for the year, including the signing of the tax returns, but also to perform the following:
 - Complete review of the Scientific Games Corp. annual report pursuant to SEC requirements - €145,000.00
 - Restricted review of quarterly situation (SAS 100 reviews) in order to ensure the compliance of the Scientific Games Corp. annual report to SEC requirements - €48,000.00
 - Accounting review of the Company Equity as of August 29, 2008 aimed at the Purchase Price Allocation operation - €70,000.00

- Technical accounting opinion - €15,000.00
- Statutory FS and reporting package as of 12/31/2008 - €2,500.00
- Review stand-alone statements of subsidiaries and tax consulting services - €537,855.00
- Accounting Consultancy - €308,979.00
- Eurobond offering procedures - €152,791.00

Within the scope of our authority we verified that:

- The Company complied with the provisions of the law and by-laws and with the principles of sound management;
- The Company's organisational structure, internal control system and administrative-accounting systems are satisfactory insofar as their effective operation is concerned;
- The provisions of the laws in force including Legislative Decree No. 87 of January 26, 1992 and the subsequent CONSOB recommendations, the preparation and structure of the financial statements and the Director's report were carried out appropriately and included the performance of direct checks and information obtained from the independent auditors;
- The instructions given by the Company to its subsidiaries were appropriate in compliance with Article 114, point 2 of Legislative Decree 58/1998;
- The report submitted by the independent auditors regarding the financial statements the year ended December 31, 2008 communicates that no reprehensible facts emerged in the course of the auditing process of the financial statements and accounts, thereby declaring that such statements comply with the applicable regulations and the Italian civil code and hence with the accounts as well as national, international and group accounting standards and principles;

The Board of Auditors would like to report that the Independent Auditors have issued a favourable opinion in terms of the coherence of the Lottomatica S.p.A. financial statements for the year ended December 31, 2008 as required by Article 156, section 4-bis, letter d) of Legislative Decree no. 58/1998.

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

In view of the above, we therefore recommend the approval of the financial statements for the year ended December 31, 2008 presented by the Board of Directors together with this report and the proposal to distribute dividends.

Pursuant to Article 144-quinquiesdecies of the stock exchange regulations for listed companies, the present report includes the list of administrative and auditing roles carried out by the members of the Board of Auditors at companies as defined by Book V, Title V, Chapters V, VI and VII of the Italian civil code as of March 5, 2008.

Rome, March 20, 2009

THE BOARD OF AUDITORS

Mr. Sergio Duca

Mr. Angelo Gaviani

Mr. Francesco Martinelli

List of the various roles held by Lottomatica S.p.A. Board of Auditors members for the companies as Book V, Title V, sections V, VI and VII of the Italian Civil Code.

Sergio Duca

Chairman of Board of Auditors of Orizzonte S.g.r. S.p.A.;
Member of Surveillance Committee of Exor S.p.A.;
Chairman of Board of Auditors of ALUB;
Chairman of Board of Auditors of Fondazione Silvio Tronchetti Provera;
Member of Board of Auditors of ISPI;
Member of Board of Auditors of Fondazione ERGA;
Chairman of *Associazione Amici dell'Università di Scienze Gastronomiche* of Pollenzo;
Member of Board of Directors and Executive Committee of Pollenza Gastronomy University;
Chairman of Board of Auditors of Tosetti Value SIM S.p.A.;
Chairman of Board of Auditors of Fondazione Intesa San Paolo Onlus;
Member of Board of Auditors of Compagnia di San Paolo.

Angelo Gaviani

Auditor of Banzai S.p.A.;
Auditor of B&D Holding di Marco Drago e C. S.A.p.A.;
Chairman of Board of Auditors of Cideb Editrice S.r.l.;
Auditor of De Agostini S.p.A.;
Chairman of Board of Auditors of De Agostini Diffusione del Libro S.p.A.;
Auditor of De Agostini Editore S.p.A.;
Auditor of De Agostini Edizioni Scolastiche S.p.A.;
Chairman of Board of Auditors of Dea Capital S.p.A.;
Chairman of Board of Auditors of Dea Factor S.p.A.;
Auditor of Diffusione Scolastica S.r.l.;
Chairman of Board of Auditors of First Atlantic RE SGR S.p.A.;
Chairman of Board of Auditors of First Atlantic Real Estate S.p.A.;
Auditor of Fondazione De Agostini;
Chairman of Board of Auditors of Istituto Geografico De Agostini S.p.A.;
Auditor of Lottomatica Italia Servizi S.p.A.;
Chairman of Board of Auditors of Lottomatica Scimmesse S.r.l.;
Auditor of Lottomatica Sistemi S.p.A.;
Auditor of Utet S.p.A.;
Auditor of Banca Popolare di Novara S.p.A.;
Auditor of M.Dis Distribuzione Media S.p.A.;
Chairman of Board of Auditors of Milano Press S.r.l.;
Chairman of Board of Auditors of Mineral Resources S.r.l.;
Auditor of Righi S.p.A.;
Auditor of Saronni S.p.A.;
Auditor of Sogeim S.p.A.;
Chairman of Board of Auditors of Spig S.p.A.;
Chairman of Board of Auditors of Stoppa Antonio e Figli S.p.A..

Francesco Martinelli

Auditor of Aviofin S.p.A.;
Auditor of Actalis S.p.A.;
Chairman of Board of Auditors of Almaviva Consulting S.r.l.;
Auditor of Alma Viva S.p.A.;
Chairman of Board of Auditors of Alma Viva Technologies S.r.l.;
Chairman of Board of Auditors of Almaviva Finance S.p.A.;
Auditor of Alicos S.p.A.;
Auditor of G.Matica S.r.l.;
Auditor of Almaviva Contact S.p.A.;
Auditor of T.S.F. Tele Sistemi Ferroviari S.p.A.;
Chairman of Board of Auditors of Banca Impresa Lazio S.p.A.;
Auditor of Servizio Italia S.r.l.;

Chairman of Board of Auditors of Servizi in Rete 2001 S.r.l.;
Chairman of Board of Auditors of Arianna 2001 S.p.A.;
Chairman of Board of Auditors of Press & Image S.p.A.;
Chairman of Board of Auditors of Melior Trust S.p.A.;
Member of Board of Auditors of Istituto Commercio Estero (ICE);
Auditor of Reteitalia Internazionale S.r.l.;
Chairman of Board of Auditors of CartaLis Imel S.p.A.;
Chairman of Board of Auditors of Consorzio Lotterie Nazionali;
Chairman of Board of Auditors of Consorzio Lottomatica Giochi Sportivi;
Chairman of Board of Auditors of Lottomatica Italia Servizi S.p.A.;
Auditor of Lottomatica Scommesse S.r.l.;
Chairman of Board of Auditors of Lottomatica Sistemi S.p.A.;
Chairman of Board of Auditors of Lottomatica Videolot Rete S.p.A.;
Chairman of Board of Auditors of Lottomatica Videolot Gestione S.p.A.;
Chairman of Board of Auditors of PCC GS S.p.A.;
Chairman of Board of Auditors of Toto Carovigno S.p.A.;
Chairman of Board of Auditors of CFN – Compagnia Fondiaria Nazionale S.p.A.

INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 156 OF LEGISLATIVE DECREE OF FEBRUARY 24, 1998, N. 58
(translation from the original italian text)

To the Shareholders of Lottomatica S.p.A.

1. We have audited the financial statements of Lottomatica S.p.A. as of and for the year ended December 31, 2008, comprising the balance sheet, the statement of income, changes in shareholders' equity and cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Italian Legislative Decree n°. 38/2005 is the responsibility of the Lottomatica S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

For our opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March, 14, 2008.

3. In our opinion, the financial statements of Lottomatica S.p.A. at December 31, 2008 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Italian Legislative Decree n° 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations, the changes in shareholders' equity and the cash flows of Lottomatica S.p.A. for the year then ended.
4. The management of Lottomatica S.p.A. is responsible for the preparation of the Management Discussion & Analysis ("MD&A") in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the MD&A with the financial statements as required by art. 156, paragraph 4-bis, letter d) of the Legislative Decree 58/98. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the MD&A is consistent with the financial statements of Lottomatica S.p.A. as of December 31, 2008.

Rome, Italy
March 20, 2009

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

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