



LOTTOMATICA S.p.A.

Registered office at Viale del Campo Boario, 56/d, Rome

Paid-up capital stock Euro 150.212.152,00

Rome Companies' Register, VAT and Tax Code no. 08028081001

Subject to the direction and control of De Agostini S.p.A.

**ILLUSTRATIVE REPORT OF THE BOARD OF DIRECTORS ON THE
PROPOSAL CONCERNING THE SECOND POINT OF THE AGENDA OF
THE SHAREHOLDERS MEETING CALLED FOR 18 AND 19 OCTOBER
2006 IN RESPECTIVELY FIRST AND SECOND CALL**

Point 2 on the agenda: “Revocation of the resolution made by stockholders in the general meeting held on September 21, 2005, whose object was to allocate powers to the Board of Directors, pursuant to article 2443, paragraph 2, of the Italian Civil Code, to increase capital stock by consideration. Delegation of powers to the Board of Directors, pursuant to article 2443, paragraph 2 of the Italian civil code, to increase capital stock, on one or more occasions, with the exclusion of the option rights pursuant to article 2441, paragraph 4, second sentence, of the Italian civil code, to be used for one or more stock option plans reserved for the directors and/or employees of Lottomatica S.p.A. and/or its subsidiaries and/or to be used to acquire equity investments (including by mergers and demergers) or companies or businesses. Consequent amendment to article 5 of the company’s bylaws. Related and consequent resolutions”

Ladies and Gentlemen,

We remind you that pursuant to article 5.2 of the company’s bylaws, “*in the event of an increase of capital stock by consideration, option rights may be excluded through a resolution of shareholders in general meeting or, in the case that it has been delegated, by a resolution of the board of directors, within the limits and by the means provided in article 2441, paragraph 4, second sentence, of the Italian civil code*”. In substance, the bylaws provide, in compliance with article 2441, paragraph 4, second sentence, of the Italian civil code, that the option rights may be excluded up to the limit of ten per cent of pre-existing capital stock, on condition that the issue price corresponds to the market value of the shares and that this is confirmed in an appropriate report of the auditors.

The Board of Directors of your company believes it appropriate that the legislation incorporated into article 5.2 of the current bylaws be used to allocate to the Board the possibility of resolving increases in capital to be used for one or more stock option plans reserved for the directors and/or employees of Lottomatica S.p.A. and/or its subsidiaries (including the stock option plan reserved for employees as per point 5 of the agenda of the Stockholders’ Meeting) and/or to be used to acquire equity investments (including by mergers and

demergers) or companies or businesses.

In this respect, it is recalled that stockholders in Meeting on September 21, 2005 resolved, amongst other things, to delegate the Board of Directors with the power for five years to increase stock capital for consideration by up to a nominal maximum of Euro 8,326,520, with the exclusion of option rights pursuant to article 2441, paragraph 4, second sentence of the Italian civil code, to be used to acquire equity investments or companies or businesses, without limit, and/or to be used for one or more stock option plans reserved for the directors of the company and for the managers of the company and/or its subsidiaries, by up to a maximum of 20% per year, equal to Euro 1,205,777.60 for the first year and Euro 1,780,185.60 for each subsequent year, without the possibility of being able to carry forward any unused portion in any given year to be used in future years together with the portions attributable to those years. As of today, the Board of Directors has not yet availed itself of the possibility allocated to it under this stockholders' resolution.

The Board of Directors is nevertheless proposing - in the light of the notable increase of the company's capital stock (which is now such as to enable a higher amount to be delegated) and the increased number of the employees of the Lottomatica group (the potential beneficiaries of the stock option plan) consequent upon the acquisition of GTECH Holdings Inc. - that a new delegation of powers to increase share capital be resolved pursuant to the laws and regulations referred to above, subject to the formal revocation of the delegation of powers resolved on September 21, 2005 mentioned shortly before. In addition, it is proposed that the stock option plans for which amongst other things the delegated new increases of capital can be resolved, should be reserved for broader categories of beneficiaries, including also directors of subsidiaries of Lottomatica S.p.A. and employees who are not necessarily in the managerial category (*dirigenti*).

Taking into consideration the above matters, you have been called to a stockholders' meeting to discuss and approve the delegation of powers to the Board of Directors, pursuant to article 2443, paragraph 2, of the Italian civil code,

for a period of five years from the date that the resolution is passed, to increase capital stock for consideration, on one or more occasions, by up to a nominal maximum of 10% of the subscribed capital at the date of the stockholders' meeting, with the exclusion of the option rights pursuant to article 2441, paragraph 4, second sentence, of the Italian civil code, to be used for one or more stock option plans reserved for the directors and/or employees of Lottomatica S.p.A. and/or its subsidiaries, up to a maximum of 33% of said amount per year with the possibility of being able to carry forward any unused portion in any given year to be used in future years together with the portions attributable to those years, and/or to be used to acquire equity investments (including by mergers and demergers) or companies or businesses which operate in sectors of strategic interest to the company, with no annual limit.

Any increases in capital stock that may be resolved by the Board of Directors in carrying out the delegated powers submitted for your approval will lead the company's stockholders to lose their option rights, but the sacrifice requested to them in terms of the dilution of their respective stockholdings, in the opinion of this Board of Directors, will be more than compensated by the benefits connected with the purposes of the capital increases and by precise requirements of corporate interest.

Referring in the first place to the stock option plans, the participation in the capital of Lottomatica S.p.A of persons having strategic and determinant roles in the success of the company and of the group responding to the company, or in any event of employees of the group, embodies a continuing incentive to make the company grow in value and an important factor in creating loyalty, judging also from the positive experience of previous years. We remind you in any event that in accordance with article 114 bis, paragraph 1, first part, of Legislative Decree no. 58/1998, stock option plans for which delegated increases in share capital can be resolved must be and shall be approved by stockholders in general meeting.

Secondly, the reasons supporting the suitability of delegating powers to the Board of Directors also to resolve increases in capital to be used to acquire equity investments (including by mergers and demergers) or companies or businesses which operate in sectors of strategic interest to the company, remain unchanged. These reasons consist in the need of the company to be in a position to respond in an efficient, timely and flexible manner to any opportunities that may arise to expand activities externally within the term provided for passing such a resolution.

As regards the issue price of the shares arising from the increases of capital that may be resolved by the Board of Directors in carrying out its delegated powers, we remind you that article 2441, paragraph 4, second sentence, of the Italian civil code, establishes as a means of protection for stockholders that the issue price must correspond to the market value of the shares and that this shall be confirmed in an appropriate report of the company's auditors.

The Board of Directors must therefore establish the issue price each time that it exercises its delegated powers, in compliance with the provisions of article 2441, paragraph 4, second sentence of the Italian civil code, and the report of the auditors shall be similarly requested each time that an increase in share capital is resolved by the Board of Directors in exercising its delegated powers.

In any event, it is believed opportune that stockholders in general meeting indicate from right now the criteria to be followed by the Board from time to time in determining the issue price of the shares, in a manner that may differ as to the various purposes for which the delegated increases in capital will be used. In particular, it is proposed that:

- (i) in the case of increases in capital to be used for one or more stock option plans reserved for the directors and/or employees of Lottomatica S.p.A. and/or its subsidiaries, the company's Board of Directors shall determine an issue price that corresponds to the market price of the shares, taking into account the average stock exchange price of the company's shares over a significant period of time, and

which in any case shall not be lower than the arithmetic average of the official price of the company's shares on the Milan Stock Exchange in the month preceding the granting of the options by the Board of Directors (by preceding month is meant the period from the date on which the options are granted, excluding that date, to the same day of the preceding month, without changing the fact that for the purposes of determining the arithmetic average only those days on which the stock exchange is open and an official price of the company's share is actually quoted shall be taken into account during that period);

- (ii) in the case of increases in capital to be used to acquire equity investments (including by mergers and demergers) or companies or businesses which operate in sectors of strategic interest to the company, the Board of Directors shall determine an issue price that corresponds to the market price of the shares, taking into account the average stock exchange price of the company's shares over a significant period of time, or by applying the most representative valuation criteria, such as, for example, the stock exchange quotation method, the discounted cash flow method or the method of market multiples.

No withdrawal rights pursuant to article 2437 of the Italian civil code apply with regard to the resolutions.

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If the stockholders' meeting agrees with the matters proposed, it is invited to approve the following resolutions:

“ The Stockholders' Meeting of Lottomatica S.p.A.

- *having examined the illustrative report of the Board of Directors and the proposals contained therein, and*
- *having seen the representation of the Board of Statutory Auditors that the present share capital is fully paid up*

resolves

- I. *to repeal the resolution of the Stockholders' Meeting of September 21, 2005, whose subject matter was to delegate powers to the Board of Directors, pursuant to article 2443, paragraph 2, of the Italian civil code, to increase capital stock by consideration with the exclusion of the option rights pursuant to article 2441, paragraph 4, second sentence, of the Italian civil code;*
- II. *to delegate powers to the Board of Directors, pursuant to article 2443, paragraph 2, of the Italian civil code, for a period of five years from the date of this resolution, to increase capital stock by consideration, on one or more occasions, up to a maximum nominal amount of Euro [●] **[an amount equal to 10% of subscribed capital at the date of the stockholders' meeting]**, with the exclusion of the option rights pursuant to article 2441, paragraph 4, second sentence, of the Italian civil code, to be used for one or more stock option plans reserved for the directors and/or employees of Lottomatica S.p.A. and/or its subsidiaries, up to a maximum of 33% per year with the possibility of being able to carry forward any unused portion in any given year to be used in future years together with the portions attributable to those years, and/or to be used to acquire equity investments (including by mergers and demergers) or companies or businesses which operate in sectors of strategic interest to the company, with no annual limit.*
- III. *that the Board of Directors, in compliance with the provisions of article 2441, paragraph 4, second sentence, of the Italian civil code, shall establish the issue price of the shares by conforming to the following criteria:*

- (i) *in the case of increases in capital to be used for one or more stock option plans reserved for the directors and/or employees of Lottomatica S.p.A. and/or its subsidiaries, the company's Board of Directors shall determine an issue price that corresponds to the market price of the shares, taking into account the average stock exchange price of the company's shares over a significant period of time, and which in any case shall not be lower than the arithmetic average of the official price of the company's shares on the Milan Stock Exchange in the month preceding the granting of the options by the Board of Directors (by preceding month is meant the period from the date on which the options are granted, excluding that date, to the same day of the preceding month, without changing the fact that for the purposes of determining the arithmetic average only those days on which the stock exchange is open and an official price of the company's share is actually quoted shall be taken into account during that period);*
- (ii) *in the case of increases in capital to be used to acquire equity investments (including by mergers and demergers) or companies or businesses which operate in sectors of strategic interest to the company, the Board of Directors shall determine an issue price that corresponds to the market price of the shares, taking into account the average stock exchange price of the company's shares over a significant period of time, or by applying the most representative valuation criteria, such as, for example, the stock exchange quotation method, the discounted cash flow method or the method of market multiples;*

IV. *to amend article 5 of the company's bylaws as follows:*

Article 5 (Capital stock) – Present text	Article 5 (Capital stock) – Proposed text
5.1 (omitted)	5.1 (unchanged)
5.2 (omitted)	5.2 (unchanged)

<p>5.3 The extraordinary stockholders' meeting of September 21, 2005 resolved, starting from the effective date of the merger of Fineurogames S.p.A. and Lottomatica S.p.A. into the company:</p> <p>(i) (omitted)</p> <p>(ii) (omitted)</p> <p>(iii) (omitted)</p> <p>(iv) (omitted)</p> <p>(v) (omitted)</p> <p>(vi) (omitted)</p> <p>(vii) to provide delegated powers to the board of directors, pursuant to article 2443, paragraph 2, of the Italian civil code, for a period of five years from the date of the resolution, to increase share capital for consideration, on one or more occasions, by a maximum nominal amount of Euro 8,326,520.00 (eight million three hundred and twenty six thousand five hundred and twenty), with the exclusion of the option rights pursuant to article 2441, paragraph 4, second sentence of the Italian civil code, to be used to acquire equity investments (including by mergers and demergers) or companies or businesses, without limit, and/or to be used for one or more stock option plans reserved for the directors of the company and for the managers of the company and/or its subsidiaries, by up to a maximum of 20% per year, equal to Euro 1,205,777.60 (one million two hundred and five thousand seven hundred and seventy seven point sixty) for the first year and Euro 1,780,185.60 (one million seven hundred and eighty thousand one hundred and eighty five point sixty) for each subsequent year, without the possibility of being able to carry forward any unused portion in any given year to be used in future years together with the portions attributable to those years. In compliance with the provisions of article 2441, paragraph 4, second sentence of the Italian Civil Code, the board of directors shall establish the issue price by conforming to the following criteria:</p> <p>a) in the case of increases in capital to be used for one or more stock option plans reserved for the directors of the company and for the managers of the company and/or its subsidiaries, the company's Board of Directors shall determine an issue price that corresponds to the market price</p>	<p>5.3 The extraordinary shareholders' meeting of September 21, 2005 resolved, starting from the effective date of the merger of Fineurogames S.p.A. and Lottomatica S.p.A. into the company:</p> <p>(i) (unchanged)</p> <p>(ii) (unchanged)</p> <p>(iii) (unchanged)</p> <p>(iv) (unchanged)</p> <p>(v) (unchanged)</p> <p>(vi) (unchanged)</p> <p>(vii) cancelled</p>
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of the shares, taking into account the average stock exchange price of the company's shares over a significant period of time, and which in any case shall not be lower than their normal value according to applicable fiscal legislation (the normal value shall be equal to the arithmetic average of the official price of the company's ordinary shares on the Milan Stock Exchange in the month preceding the granting of the options by the Board of Directors; by "preceding month" is meant the period from the date on which the options are granted, excluding that date, to the same day of the preceding month, without changing the fact that for the purposes of determining the arithmetic average only those days on which the stock exchange is open and an official price of the company's share is actually quoted shall be taken into account during that period);

b) in the case of increases in capital to be used to acquire equity investments (including by mergers and demergers) or companies or businesses which operate in sectors of strategic interest to the company, the board of directors shall determine an issue price that corresponds to the market price of the shares, taking into account the average stock exchange price of the company's shares over a significant period of time, or by applying the most representative valuation criteria, such as, for example, the stock exchange quotation method, the discounted cash flow method or the method of market multiples.

5.4 (omitted)

5.4 (unchanged)

5.5 On September [●], 2006 the stockholders' extraordinary meeting resolved to delegate powers to the Board of Directors, pursuant to article 2443, paragraph 2, of the Italian civil code, for a period of five years from the date of the resolution, to increase capital stock by consideration, on one or more occasions, up to a maximum nominal amount of Euro [●] [an amount equal to 10% of subscribed capital at the date of the stockholders' meeting], with the exclusion of the option rights pursuant to article 2441, paragraph 4, second sentence, of the Italian civil code, to be used for one or more stock option plans reserved for the directors and/or employees of Lottomatica

S.p.A. and/or its subsidiaries, up to a maximum of 33% per year with the possibility of being able to carry forward any unused portion in any given year to be used in future years together with the portions attributable to those years, and/or to be used to acquire equity investments (including by mergers and demergers) or companies or businesses which operate in sectors of strategic interest to the company, with no annual limit. The Board of Directors, in compliance with the provisions of article 2441, paragraph 4, second sentence, of the Italian civil code, shall establish the issue price of the shares by conforming to the following criteria:

a) in the case of increases in capital to be used for one or more stock option plans reserved for the directors and/or employees of Lottomatica S.p.A. and/or its subsidiaries, the company's Board of Directors shall determine an issue price that corresponds to the market price of the shares, taking into account the average stock exchange price of the company's shares over a significant period of time, and which in any case shall not be lower than the arithmetic average of the official price of the company's ordinary shares on the Milan Stock Exchange in the month preceding the granting of the options by the Board of Directors (by preceding month is meant the period from the date on which the options are granted, excluding that date, to the same day of the preceding month, without changing the fact that for the purposes of determining the arithmetic average only those days on which the stock exchange is open and an official price of the company's share is actually quoted shall be taken into account during that period);

b) in the case of increases in capital to be used to acquire equity investments (including by mergers and demergers) or companies or businesses which operate in sectors of strategic interest to the company, the Board of Directors shall determine an issue price that corresponds to the market price of the shares, taking into account the average stock exchange price of the company's shares over a significant period of time, or by applying the most representative valuation criteria, such as, for example, the stock exchange

	<i>quotation method, the discounted cash flow method or the method of market multiples.</i>
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- V. *to entrust the Chairman and the Managing Director or Managing Directors in office pro tempore, also severally amongst themselves, with every power required to make the changes to article 5 of the company's bylaws resulting from the resolution, execution and finalization of the delegated increases in capital, arranging for all the steps to be taken and notices to be given in accordance with law;*
- VI. *to entrust the Chairman and the Managing Director or Managing Directors in office pro tempore, also severally amongst themselves, with every power required to fulfil the formalities necessary for the resolutions adopted to be recorded with the Registrar of Companies, accepting and making any formal amendments that may be required to this end, together with every power that may be required to fulfil all legal and regulatory requirements resulting from the resolutions adopted."*

Lottomatica S.p.A.

On Behalf of the Board of Directors

The Chairman