



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 FIFTH POINT OF THE AGENDA OF
THE SHAREHOLDERS' MEETING OF 18 AND 19 OCTOBER 2006 IN
RESPECTIVELY FIRST AND SECOND CALL**

Point 5 on the agenda: “Approval of the 2006 - 2014 stock option plan reserved for the employees of Lottomatica S.p.A. and/or its subsidiaries and delegation of powers to the Board of Directors for its execution; related and consequent resolutions”

Ladies and Gentlemen,

We should above all like to draw your attention to the fact that the legal framework regarding the allocation of shares to representatives, employees or collaborators of listed companies or of their controlling companies or subsidiaries has been amended as a result of the coming into effect of Law no. 262 of December 28, 2005; this legislation introduces provisions for the protection of savings and for the regulation of the financial markets. In particular, it introduces the regulations of article 114 bis into Legislative Decree no. 58/1998 (the so-called consolidated financial law) which, in the first part of its first paragraph, provides that stock-based or financial instrument-based compensation plans in favour of the above-mentioned persons must be approved by stockholders in general meeting.

Taking this change in legislation into consideration and the suitability of establishing a new stock option plan for certain employees of the company’s and/or its subsidiaries for the period 2006 – 2014 (the “Stock Option Plan”), the Board of Directors intends to submit the Stock Option Plan for the approval of stockholders, requesting in addition that the appropriate powers be granted to the Board to be able to execute the Plan, including for example the power to prepare the operating regulations and to change or integrate these. The Board may avail itself of delegated powers to increase capital stock to be used for the Stock Option Plan - with the exclusion of the option rights pursuant to article 2441, paragraph 4, second sentence, of the Italian civil code - as per point 2 of the agenda of the Stockholders’ Meeting.

Reasoning behind the Stock option Plan

In the opinion of the Board of Directors, if persons having roles that are strategic and determinant for the success of Lottomatica S.p.A. and the group headed by

the company have a share in its capital, or in any case if employees have a share in the company's capital, then this constitutes a continuing incentive for making the company grow in value, taking also into account the positive experience of previous years. The main objectives of the Stock Option Plan are to focus the attention of the beneficiaries on factors of strategic interest, to encourage loyalty by providing an incentive to remain in the bosom of the company or its subsidiaries, to link remuneration to the creation of value for stockholders, to increase the competitiveness of the company and the group headed by the company, enabling predetermined objectives to be reached, and to favour the need for the remuneration earned by the beneficiaries to remain competitive on the market.

The Code of Self-Discipline of listed companies moreover recommends that part of the overall compensation given to managers with strategic responsibilities should be linked to the economic results obtained by the company and/or to the achievement of specific objectives in the knowledge that *“the use of variable systems of remuneration, linked to results, including amongst these stock options, makes it easier to provide incentives and to obtain the loyalty of the whole of top management”*.

The final aim of the Stock Option Plan is to enable a certain number of managers of GTECH Holdings Inc. to benefit from the company's stock incentive plans following its acquisition by the company, moreover as the result of agreements reached in that sense with certain of these persons.

Beneficiaries

The Stock Option Plan is reserved for the employees of Lottomatica S.p.A. and/or its subsidiaries. Within the maximum quantity of options available, the beneficiaries and the number of options to be allocated to each of these will be identified by the Board of Directors in the company's interest, taking into consideration the role carried out by each individual beneficiary and his contribution to the development of business activities.

Subject and term

The Stock Option Plan has as its subject a maximum number of 1.500.000 options which may be exercised to subscribe an equal number of the company's ordinary shares, equivalent to approximately 1 % of the present capital stock, deriving from the increase in capital stock, with the exclusion of option rights pursuant to article 2441, paragraph 4, second sentence, of the Italian civil code (the "Capital Increase") which may be resolved by the Board of Directors availing itself of the delegated powers as per point 2 of the agenda of the Stockholders' Meeting. The Stock Option Plan will expire not later than December 31, 2014.

Characteristics of the options

Under the Stock Option Plan, option rights for the subscription of shares deriving from the Capital Increase are granted to beneficiaries free of charge at a price established by the Board of Directors in compliance with procedures described below.

In addition, the Stock Option Plan envisages that the options may be exercised in pre-determined periods during the term of the Plan, as shall be indicated in the respective regulations, and for amounts that the Board of Directors will establish, which may differ from one beneficiary to another.

The Stock Option Plan establishes moreover that the options cannot be transferred in any manner whatsoever by a deed between living persons; in any case, the options may not be given in pledge or be the subject of any other deed of arrangement, either free of charge or for compensation, either by law or otherwise; in addition, they cannot be the subject of third party executory deeds or precautionary measures.

Exercise price of the options

The Board of Directors shall determine the exercise price, being the price of subscribing to the shares deriving from the Capital Increase rights pursuant to article 2441, paragraph 4, second sentence, of the Italian civil code, in an amount that corresponds to their market price, 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). For further details regarding the determination of the issue price of the shares deriving from the Capital Increase, reference should be made to the illustrative report regarding point 2 of the agenda of the Stockholders' Meeting.

Objectives

The exercise of the options shall be subject to and correlated with the achievement by the company of pre-determined results at a consolidated level for the years 2006, 2007 and 2008, considered overall, in accordance with details that will be more specifically established by the Board of Directors. If the said results are not achieved or if they are only partially achieved, this will affect the right to exercise the options.

On granting the options to individual beneficiaries, the Board of Directors may establish conditions that are in addition to or different from the express provisions of the respective regulations of the Stock Option Plan, regarding results and/or performance indicators to which the exercise of the options is subordinated.

The options in the event of the termination of the employment relationship

The regulations of the Stock Option Plan shall, amongst other things, govern the situation regarding the Plan in the event of the termination of the employee relationship, including the case of the death of the beneficiary.

Modifications to the regulations of the Stock Option Plan

The regulations of the Stock Option Plan shall also govern modifications and/or integrations to the regulations themselves, which may become necessary or opportune in the case that there are changes in the applicable laws and regulations or if specific or extraordinary events take place such as are likely to affect the

Stock Option Plan, including the provision for the Board of Directors to be able to make such modifications and/or integrations.

Delegation of powers to the Board of Directors to execute the Stock Option Plan

We propose finally to grant the Board of Directors with all the powers necessary and opportune for executing the Stock Option Plan. In particular, by way of mere example, the Board of Directors shall have the power, with the possibility of sub-delegating, to (i) identify the beneficiaries within the employees of Lottomatica S.p.A. and/or its subsidiaries and establish the number of options to be allocated to each one of them, in the company's interest but also on the basis of the role carried out by each individual beneficiary and of their contribution to the development of the company's activities; (ii) determine the results and/or performance indicators on which the exercise of the options is dependant; this may be done in a different way for each beneficiary; (iii) establish each and every other term and condition in order that the Stock Option Plan may be put into effect, in a different way for each beneficiary if necessary, including any possibility for the company to settle in cash the rights of beneficiaries resulting from their participation in the Stock Option Plan as a substitute for the exercise of options.

To this purpose we request that you grant an explicit mandate to the Board of Directors in order that it may draw up and approve the regulations of the Stock Option Plan and may modify and/or integrate the Plan on the basis of the contents of the previous paragraph in respect of changes to the regulations themselves, with the faculty of being able to draw up different sets of regulations for different categories or bands of beneficiaries.

The Board of Directors will take the appropriate resolutions having heard the Compensation Committee, if such is the case.

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If the stockholders agree with the matters proposed, they are 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*

resolves

- I. *to approve the 2006 - 2014 stock option plan reserved for employees of Lottomatica S.p.A. and/or its subsidiaries (the “Stock Option Plan”) in accordance with the matters indicated in the illustrative report of the Board of Directors;*
- II. *to entrust the Board of Directors with every power necessary and opportune for executing the Stock Option Plan. In particular, by way of mere example, the Board of Directors will have the power, with the possibility of subdelegating, to (i) identify the beneficiaries within the employees of Lottomatica S.p.A. and/or its subsidiaries and establish the number of options to be allocated to each one of them, in the company’s interest but also on the basis of the role carried out by each individual beneficiary and of their contribution to the development of the company’s activities; (ii) determine the results and/or performance indicators on which the exercise of the options is dependant; this may be done in a different way for each beneficiary; (iii) establish each and every other term and condition in order that the Stock Option Plan may be put into effect, in a different way for each beneficiary if necessary, including any possibility for the company to settle in cash the rights of beneficiaries resulting from their participation in the Stock Option Plan as a substitute for the exercise of options; (iv) draw up and approve the operating regulations of the Stock Option Plan and modify and/or integrate them on the basis of the contents of the illustrative report of the Board of Directors with the faculty of being able to draw up different sets of regulations for different categories or bands of beneficiaries. The Board of Directors may avail itself of delegated powers to increase capital stock to be used for the Stock Option Plan - with the exclusion of the option rights pursuant to article 2441, paragraph 4, second sentence, of the Italian civil code - as*

per point 2 of the agenda of the Stockholders' Meeting;

- III. to entrust the Chairman and the Managing Director or Managing Directors in office pro tempore, also severally amongst themselves, with every power that may be required, with the possibility of subdelegating, to fulfil all the legal and regulatory requirements resulting from the resolutions adopted.”*

Lottomatica S.p.A.

On Behalf of the Board of Directors

The Chairman