



**Lottomatica S.p.A.**

Head Office Roma, Viale del Campo Boario, 56/d

Paid up share capital Euro 150.212.152,00

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

**Point 7 on the agenda: “Approval of the 2006 - 2011 plan for the allocation of shares 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 again to the fact that, as described in the illustrative report relating to preceding point 5 of the agenda of the Stockholders’ Meeting, 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 plan to allocate shares to certain employees of the company’s and/or its subsidiaries for the period 2006 – 2011 (the “Retention Plan”), the Board of Directors intends to submit the Retention 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 substantial difference between the Retention Plan and the stock allocation plan discussed at point 6 of the agenda of the Stockholders’ Meeting lies in the fact that the Retention Plan is not linked to the achievement of specific objectives, as it is exclusively subject to the duration of the employment relationship between the beneficiary and the company and/or its subsidiaries.

### **Reasoning behind the Retention Plan**

The Board of Directors maintains that 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. The main objectives of the Retention Plan are therefore to encourage the loyalty of beneficiaries by providing an incentive to remain in the bosom of the company or its subsidiaries and to favour the need for the remuneration earned by the beneficiaries to remain competitive on the market. There is, in addition, the need to implement the Retention Plan as the result of the agreements reached in that sense with certain managers of GTECH Holdings Inc., which was recently acquired by the company.

### **Beneficiaries**

The Retention Plan is reserved for the employees of Lottomatica S.p.A. and/or its subsidiaries. Within the maximum quantity of shares available, the beneficiaries and the number of shares 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 subject of the Retention Plan is a maximum number of 1.000.000 ordinary shares of the company, equal to approximately 0.66 % of the present capital stock; such shares, at the company's discretion, will be made up of shares to be issued and assigned free of charge to beneficiaries pursuant to article 2349, paragraph 1, of the Italian civil code, or of treasury stock to be transferred free of charge to the beneficiaries.

The Retention Plan provides that shares will be allocated, by the means described above, in five annual instalments, during a period to be indicated in the respective regulations; at the present time it is envisaged that the first instalment will be allocated in the Summer of 2007. The Retention Plan will expire no later than December 31, 2011.

### **Conditions**

In consideration of the matters described in the preceding paragraph, the execution of the Retention Plan is subject to the requirement that at the envisaged due dates the company must find itself in the necessary circumstances provided by law to be able to issue the shares and allocate them free of charge to the beneficiaries, pursuant to article 2349, paragraph 1 of the Italian civil code, or to purchase and subsequently transfer the necessary treasury stock to the beneficiaries free of charge. In the event that the said legal circumstances do not exist, the Board of Directors must be aware in advance that there is the obligation for the company to pay the beneficiaries in cash for the rights they have as members of the Retention Plan, as a substitute for the allocation of shares in their favour. The Board of Directors may also in any event provide that the company make a payment in cash as an alternative in other situations.

### **Allocation free of charge**

The shares considered in the Retention Plan shall be allocated to the beneficiaries free of charge. The Board of Directors may establish conditions for individual beneficiaries that are in addition to or different from the express provisions of the respective regulations of the Retention Plan to which the allocation of the shares is subordinated.

### **The Retention Plan in the event of the termination of the employment relationship**

The regulations of the Retention 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 Retention Plan**

The regulations of the Retention 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 Retention 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 Retention Plan**

We propose finally to grant the Board of Directors with all the powers necessary and opportune for executing the Retention 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 from amongst the employees of Lottomatica S.p.A. and/or its subsidiaries and establish the number of shares 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) establish each and every term and condition in order that the Retention Plan may be put into effect, in a different way for each beneficiary if necessary, including any possibility or obligation for the company to settle in cash the rights of beneficiaries resulting from their participation in the Stock Allocation Plan as a substitute for the allocation of shares in their favour.

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 Retention 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- 2011 stock allocation plan reserved for employees of*

*Lottomatica S.p.A. and/or its subsidiaries (the “Retention 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 Retention 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 from amongst the employees of Lottomatica S.p.A. and/or its subsidiaries and establish the number of shares 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) establish each and every term and condition in order that the Retention Plan may be put into effect, in a different way for each beneficiary if necessary, including any possibility or obligation for the company to settle in cash the rights of beneficiaries resulting from their participation in the Retention Plan as a substitute for the allocation of shares in their favour; (iii) draw up and approve the operating regulations of the Retention 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;*
- 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