



Lottomatica S.p.A.

With Registered Office in Rome, Viale del Campo Boario, 56/d

Paid-in Capital Euro 151,512,500.00

Registered in the Companies Register of Rome with the no. 08028081001

Subjected to the management and coordination of

De Agostini S.p.A.

ILLUSTRATIVE REPORT BY THE BOARD OF DIRECTORS ON THE PROPOSAL LISTED AS ITEM NO. 1 OF THE EXTRAORDINARY SESSION ON THE AGENDA OF THE SHAREHOLDERS MEETING SUMMONED FOR APRIL 23 AND APRIL 24, 2007, RESPECTIVELY IN FIRST AND SECOND CALL

Item no. 1 of the extraordinary session on the agenda – “proposals to amend the following articles of the by-laws: art. 13 (Appointment of the Board of Directors); art. 20 (Board of Statutory Auditors); related resolutions”

Dear Shareholders,

The Board of Directors summoned the extraordinary Shareholders Meeting to resolve upon the approval of the proposals to amend the following articles of the By-Laws of the Company: Article 13 (Appointment of the Board of Directors) and Article 20 (Board of Statutory Auditors).

This summary report (the “**Report**”) is drawn up by the Board of Directors of Lottomatica pursuant to Article 72, Paragraph 1 of Consob regulation no. 11971/1999, as subsequently amended (the “**Regulation**”), that implements provisions on issuers of listed financial instruments, and particularly illustrates and motivates the proposals concerning the amendment to those clauses of the By-laws (i) governing the appointment of Directors and Statutory Auditors, as well as (ii) setting the maximum number of management and control offices held by each Statutory Auditor.

Please find hereinbelow a commented comparison between the current version of each concerned article of the By-laws and the proposed marked-up version.

1 DESCRIPTION AND REASONS FOR THE PROPOSED AMENDMENTS TO THE COMPANY BY-LAWS

Legislative Decree no. 303 of December 29, 2006 entered into force on January 25, 2007 provided for new rules aimed at coordinating with the new provisions of law no. 262 of December 28, 2005 (so called “**Savings Protection Law**”): (i) Legislative Decree no. 385 of September 1, 1993 (so called “**Consolidated Banking Law**”), (ii) Legislative Decree no. 58 of February 24, 1998 (so called “**Consolidated Financial Services Law**” or “**TUF**”), and (iii) other law provisions.

The term given to listed companies in order to reflect in their By-laws the Savings Protection Law provisions and the relevant Consob enforcing provisions (still to be issued), originally set on January 12, 2007, was extended to June 30, 2007. Although the By-laws of Lottomatica - following the resolutions of the extraordinary Shareholders’ Meeting held on October 18, 2006 - are already substantially in line with the new provisions, this report highlights those improvements and new amendments to the By-laws deemed necessary in order to better implement the provisions of the above mentioned Legislative Decree no. 303/2006; a new intervention on the By-laws will probably be necessary to reflect the above said enforcing provisions that will be issued by Consob (the relevant deadline was originally set as at March 31, 2007).

In accordance with Article 17.1, letter e) of the Company’s By-Laws and in accordance with Article 2365, Paragraph 2 of the Italian Civil Code, the Board of Directors has all the powers to amend the By-laws of the Company so as to implement any new provision of law; however, since some of the amendments that are hereby proposed involve discretionary choices, and most of the amendments

are aimed at strengthening the guarantees provided by the law and by the By-laws in order to protect the rights of the minorities, the Board of Directors has considered it appropriate to share such amendments with the Shareholders during the Meeting summoned to resolve on the 2006 Financial Statements.

Notwithstanding the above, should Consob issue the above said enforcing provisions prior to the Shareholders' meeting, this report might be amended and even partially ignored also during the same meeting, to the extent of merely incorporating such Consob provisions, in accordance with the wide powers granted to the Chairman of the Board of Directors.

Should, on the contrary, the Consob provisions still have to be issued as at the date of the Shareholders Meeting, the Board of Directors, within the limits of its competence, as provided by the law and by the By-laws of the Company, as well as in full respect of the resolutions of the Shareholders Meeting, if any, and in any event in full compliance of the principles of diligence and good faith, will autonomously amend the By-laws of the Company in accordance with the new provisions, when issued.

The Board proposes to amend **Article 13** of the Company's By-Laws on the appointment of the Board of Directors. The amendments are made necessary pursuant to the provisions of the legislative decree no. 303 of December 29, 2006. In particular, with reference to Article 147-*ter* of TUF, it has to be expressly provided that the minority list from which Directors are to be taken be not linked in any way, even indirectly, with the Shareholders that have filed or voted the list that ranked first by number of votes, rather than with such list (as currently provided by the By-laws). The Board of Directors proposes to amend Article 13 of the Company's By-Laws accordingly.

Furthermore, in the event that, due to a strict interpretation of Article 147 *ter*, last paragraph, of TUF, the loss of the independence requirements resulted in the termination of the office of any independent director, and not only of the director included in the minimum number of independent directors provided by the law (currently two, for Lottomatica), it is proposed to consider as statutory relevant for the termination of the offices only the independence requirements provided by the law, and not also those requirements provided for by the codes of conduct of Stock Exchanges where financial instruments issued by Lottomatica are traded. Notwithstanding the above, the Company shall continue to do its best to implement, on a voluntary basis, the above said codes, as resulting from the 2006 Corporate Governance Report.

Finally, it is proposed to specify that the lists for the appointment of Directors can be presented by those Shareholders that own a number of shares equal to the threshold provided or "allowed" by the law.

With reference to **Article 20** of the Company By-Laws on the Board of Statutory Auditors, it appears appropriate to introduce amendments thereto so as to favour the effective appointment and holding in office of the minority Statutory Auditor, although in advance of the issue of the relevant Consob provisions (currently available only in draft), which are designed to enforce Article 148, Paragraph 2 of TUF, as amended, by regulating the "*procedure for the appointment, by means of a*

voting list, of an effective member of the Board of Statutory Auditors by minority shareholders that are in no way connected, even indirectly, with the shareholders that have filed or voted the list that ranked first by number of votes”.

For such reason, it is hereby proposed to introduce in the By-laws:

- the prohibition for the Shareholders belonging to the same group and the Shareholders that have entered into a Shareholders’ agreement on the number of shares of the Company, to present or vote more than one list, even through an intermediary or a trust company;
- criteria for the automatic replacement of the minority Statutory Auditor that ceases, for whatever reason, from its office;
- the condition that the minority list that has ranked first be in no way connected to the Shareholders that have presented or voted for the majority list.

Moreover, it appears appropriate to (i) regulate the case that minority lists receive the same number of votes, and (ii) align those provisions of the By-laws that provide for a maximum number of offices held in other listed companies by the Statutory Auditors (pursuant to the previous provision of TUF), to the expected Consob regulation on the maximum number of management and control offices allowed for the Statutory Auditors of listed companies.

Finally, it would be appropriate to specify: (i) on one side, that the lists for the appointment of Statutory Auditors can be presented by those Shareholders that own a number of shares equal to the minimum threshold provided or “allowed” by the law, alternatively to the one expressly provided for in the By-laws; (ii) on the other side, that it shall be construed as a cause of ineligibility as Statutory Auditor or Chairman, or as a cause of termination from the relevant office, the refusal expressed by public administrations or public entities pursuant to administrative or legal provisions applicable to the Company, with particular and implicit reference to the prior approval reserved to the *Amministrazione Autonoma dei Monopoli di Stato* by the current concession provisions concerning the Lotto game.

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2. COMPARISON BETWEEN THE CURRENT BY-LAWS AND PROPOSED AMENDMENTS

2.1 The following is a description, article by article, of the proposed amendments to Articles 13 an 20 of the By-laws:

CURRENT BY-LAWS	NEW AMENDED BY-LAWS
TITLE IV – MANAGEMENT BODY	TITLE IV – MANAGEMENT BODY
13. Board of Directors: Appointment	13. Board of Directors: Appointment

<p>[...]</p> <p>13.2 In order to be vested as Director, a person must possess the individual requisites as provided under the law. An appropriate number of Directors, in any case not lower than the one provided by the law, must possess the independence requisites provided for by the law or by the codes prepared by companies managing the regulated markets on which the financial instruments issued by Lottomatica are executed.</p> <p>13.3 Directors are appointed by the ordinary Shareholders' Meeting on the basis of lists submitted by the Shareholders, whereby the candidates must be indexed by progressive numbering. Only the Shareholders representing, alone or together with other Shareholders, at least 1/40 of the share capital, or any other percentage provided by the law.</p> <p>Each Shareholder can submit or take part in the submission of only one list and each candidate will be entitled to present himself in one list only, otherwise resulting ineligible. Candidates not having the requisites as provided by the law or the by-laws (without prejudice to any other reason of forfeiture or ineligibility) cannot be inserted in the lists.</p> <p>Each list shall have to contain a number of candidates not exceeding the maximum number of Directors mentioned under art. 13.1 above; a minimum number of candidates, equal to the number as provided by the law, shall have to possess the independence requisites provided therein.</p> <p>The candidates' lists must be filed with the company's head office at least fifteen days before the date fixed for the Shareholder's Meeting and, accordingly, they must be forthwith published on the internet web site of the Company at this latter's care. Upon filing, they shall be accompanied by:</p> <p>A) exhaustive information on the personal and professional qualifications of the candidates, indicating their alleged independency qualification;</p> <p>B) a statement through which each candidate accepts to be candidate and certifies under his/her own responsibility that there are no reasons of ineligibility or incompatibility provided under the law, as well as that he/she possesses all requisites provided by the law.</p> <p>C) a copy of the certificates delivered by authorized intermediaries and certifying the</p>	<p>[...]</p> <p>13.2 In order to be vested as Director, a person must possess the individual requisites as provided under the law. An appropriate number of Directors, in any case not lower than the one provided by the law, must possess the independence requisites provided for by the law or by the codes prepared by companies managing the regulated markets on which the financial instruments issued by Lottomatica are executed.</p> <p>13.3 Directors are appointed by the ordinary Shareholders' Meeting on the basis of lists submitted by the Shareholders, whereby the candidates must be indexed by progressive numbering. Only the Shareholders representing, alone or together with other Shareholders, at least 1/40 of the share capital, or any other percentage provided or allowed by the law.</p> <p>Each Shareholder can submit or take part in the submission of only one list and each candidate will be entitled to present himself in one list only, otherwise resulting ineligible. Candidates not having the requisites as provided by the law or the by-laws (without prejudice to any other reason of forfeiture or ineligibility) cannot be inserted in the lists.</p> <p>Each list shall have to contain a number of candidates not exceeding the maximum number of Directors mentioned under art. 13.1 above; a minimum number of candidates, equal to the number as provided by the law, shall have to possess the independence requisites provided therein.</p> <p>The candidates' lists must be filed with the company's head office at least fifteen days before the date fixed for the Shareholder's Meeting and, accordingly, they must be forthwith published on the internet web site of the Company at this latter's care. Upon filing, they each list shall be accompanied by:</p> <p>A) exhaustive information on the personal and professional qualifications of the candidates, indicating their alleged independency qualification;</p> <p>B) a statement through which each candidate accepts to be candidate and certifies under his/her own responsibility that there are no reasons of ineligibility or incompatibility provided under the law, as well as that he/she possesses all requisites provided by the law and by the By-laws.</p> <p>C) a copy of the certificates delivered by authorized intermediaries and certifying the</p>
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<p>ownership of the number of shares required to file the lists.</p> <p>The lists or any candidate submission, the presentation of which do not comply with all the above provisions, except for those to be complied with by the Company, are deemed as not submitted.</p> <p>Moreover, the lists that have not obtained the minimum number of votes if provided by the law, are also deemed as not submitted.</p> <p>All those having the right to vote can vote for only one list.</p> <p>The election of the Directors will proceed as follows:</p> <p>a) a number of Members of the Board representing the entirety of those to be appointed will be elected from the list having obtained the majority of the votes at the Shareholders' Meeting, on the basis of the same progressive numbering they have been listed in the list, save for the minimum number reserved to the minority shareholders by the law;</p> <p>b) a number of Members of the Board equal to the minimum number set out under letter a) - unrelated in any manner whatsoever, also indirectly, to the list under letter a) above - will be elected from the list having obtained the second greatest number of votes at the Shareholders' Meeting, in accordance with the progressive numbering they have been listed in the list.</p> <p>In the event that, through the candidates elected in accordance with the above mentioned terms, the number of independent Members of the Board referred to under art. 13.2 above is not ensured, the last elected non-independent candidate(s) in progressive numbering in the list that has collected the greatest number of votes set out under the above letter a), shall be replaced by the first independent candidate(s), in accordance with the respective progressive numbering, non elected in the list that has registered or, if not sufficient, of the lists, having registered the majority of the votes.</p> <p>In the event of several lists achieving an equal number of votes, an equal number of Members of the Board shall be elected from each of the lists, always in accordance with the respective progressive number they have been mentioned therein.</p> <p>In the event that only one list is submitted or voted, then all Members of the Board shall be elected from such list</p>	<p>ownership of the number of shares required to file the lists.</p> <p>The lists or any candidate submission, the presentation of which do not comply with all the above provisions, except for those to be complied with by the Company, are deemed as not submitted.</p> <p>Moreover, the lists that have not obtained the minimum number of votes if provided by the law, are also deemed as not submitted.</p> <p>All those having the right to vote can vote for only one list.</p> <p>The election of the Directors will proceed as follows:</p> <p>a) a number of Members of the Board representing the entirety of those to be appointed will be elected from the list having obtained the majority of the votes at the Shareholders' Meeting, on the basis of the same progressive numbering they have been listed in the list, save for the minimum number reserved to the minority shareholders by the law;</p> <p>b) a number of Members of the Board equal to the minimum number set out under letter a) - unrelated in any manner whatsoever, also indirectly, to <u>the shareholders that have submitted or voted</u> the list under letter a) above - will be elected from the list having obtained the second greatest number of votes at the Shareholders' Meeting, in accordance with the progressive numbering they have been listed in the list.</p> <p>In the event that, through the candidates elected in accordance with the above mentioned terms, the number of independent Members of the Board referred to under art. 13.2 above is not ensured, the last elected non-independent candidate(s) in progressive numbering in the list that has collected the greatest number of votes set out under the above letter a), shall be replaced by the first independent candidate(s), in accordance with the respective progressive numbering, non elected in the list that has registered or, if not sufficient, of the lists, having registered the majority of the votes.</p> <p>In the event of several lists achieving an equal number of votes, an equal number of Members of the Board shall be elected from each of the lists, always in accordance with the respective progressive number they have been mentioned therein.</p> <p>In the event that only one list is submitted or voted, then all Members of the Board shall be elected from such list</p>
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[...]	[...]
<p style="text-align: center;">20. Appointment, composition and requirements of the Board of Statutory Auditors</p> <p>[...]</p> <p>20.2 The Auditors are appointed on the basis of lists submitted by the Shareholders in which candidates are indexed by progressive numbering, specifying, where possible, if the candidate presents himself/herself, as regular or deputy auditor.</p> <p>The lists must be deposited at the head office of the Company and published in at least one daily national newspaper no less than fifteen days before the date set for the first Shareholders' Meeting on first call, and, accordingly, they must be forthwith published on the internet web site of the Company at this latter's care.</p> <p>Upon filing, they shall be accompanied by:</p> <p>A) exhaustive information on the personal and professional qualifications of the candidates, on the acquired expertises and on their past experiences, with particular attention given to the management and control offices held I other companies and relating expiration date;</p> <p>B) a statement through which each candidate accepts to be candidate and certifies under his/her own responsibility that there are no reasons of ineligibility or incompatibility provided under the law, as well as that he/she possesses all requisites provided by the law.</p> <p>C) a copy of the certificates delivered by authorized intermediaries and certifying the ownership of the number of shares required to file the lists.</p> <p>Each Shareholder can put forward or contribute to only one list and each candidate can appear in only one list under penalty of disqualification.</p> <p>The number of candidates in each list must not</p>	<p style="text-align: center;">20. Appointment, composition and requirements of the Board of Statutory Auditors</p> <p>[...]</p> <p>20.2 The Auditors are appointed on the basis of lists submitted by the Shareholders in which candidates are indexed by progressive numbering, specifying, where possible, if the candidate presents himself/herself, as regular or deputy auditor.</p> <p>The lists must be deposited at the head office of the Company and published in at least one daily national newspaper no less than fifteen days before the date set for the first Shareholders' Meeting on first call, and, accordingly, they must be forthwith published on the internet web site of the Company at this latter's care.</p> <p>Upon filing, they each list shall be accompanied by:</p> <p>A) exhaustive information on the personal and professional qualifications of the candidates, on the acquired expertises and on their past experiences, with particular attention given to the management and control offices held I other companies and relating expiration date;</p> <p>B) a statement through which each candidate accepts to be candidate and certifies under his/her own responsibility that there are no reasons of ineligibility or incompatibility provided under the law, as well as that he/she possesses all requisites, provided by the law and by the By-laws.</p> <p>C) a copy of the certificates delivered by authorized intermediaries and certifying the ownership of the number of shares required to file the lists.</p> <p><u>The refusal expressed by public administrations or entities pursuant to administrative or legal provisions applicable to the Company shall be construed as a reason of forfeiture or ineligibility as Statutory Auditor and/or Chairman.</u></p> <p>Each Shareholder can put forward or contribute to only one list and each candidate can appear in only one list under penalty of disqualification.</p> <p><u>The shareholders belonging to the same group or having entered into a shareholders' agreement on the shares of the Company may not submit or vote more than one list, even if through an intermediary or a trust company.</u></p> <p>The number of candidates in each list must not</p>

<p>be higher than the number of auditors set out by art. 20.1 above; any other candidate will not be considered.</p> <p>Only the Shareholders who singly or together with other Shareholders represent at least 2% (two percent) of the shares with voting rights in ordinary Shareholders' Meetings, or any other different minimum percentage provided by the law, can submit lists.</p> <p>Those lists or any candidate submission, the presentation of which do not comply with all the above provisions, except for those to be complied with by the Company, are deemed as non-submitted.</p> <p>All those having the right to vote can vote for only one list.</p> <p>The selection of the Auditors will proceed as follows:</p> <p>a) 2 (two) regular and 1 (one) deputy auditor(s) will be elected from the list which achieves the majority of the Shareholders' votes, following the progressive numbering of the list in case the candidates to regular auditor and deputy auditor have not been duly distinguished;</p> <p>b) the remaining regular auditor, with the office reserved by the law to the Auditors expressed by the minority - if any, and the remaining alternate auditor will be elected from the list which has the second highest number of votes following the progressive numbering of the list in case the candidates to regular auditor and deputy auditor have not been duly distinguished.</p> <p>The appointment of the Chairman of the Board of the Statutory Auditors, if not expressly reserved by the law to the Auditors expressed by the minorities, will be granted by means of a resolution of the Shareholders' Meeting to one the regular Auditors.</p> <p>In the event that, for whatever reason, the Chairman or the regular Auditor elected from one list cannot accept the office or, having it accepted, ceases such office, the deputy Auditor elected from the same list shall replace such Auditor, this latter being replaced in his/her turn, as deputy auditor, by the candidate</p>	<p>be higher than the number of auditors set out by art. 20.1 above; any other candidate will not be considered.</p> <p>Only the Shareholders who singly or together with other Shareholders represent at least 2% (two percent) of the shares with voting rights in ordinary Shareholders' Meetings, or any other different minimum percentage provided or allowed by the law, can submit lists.</p> <p>Those lists or any candidate submission, the presentation of which do not comply with all the above provisions, except for those to be complied with by the Company, are deemed as non-submitted.</p> <p>All those having the right to vote can vote for only one list.</p> <p>The selection of the Auditors will proceed as follows:</p> <p>a) 2 (two) regular and 1 (one) deputy auditor(s) will be elected from the list which achieves the majority of the Shareholders' votes, following the progressive numbering of the list in case the candidates to regular auditor and deputy auditor have not been duly distinguished;</p> <p>b) the remaining regular auditor, with the office reserved by the law to the Auditors expressed by the minority - if any, and the remaining alternate auditor will be elected from the list which has the second highest number of votes <u>and that is in no way connected, not even indirectly, with the shareholders that have submitted or voted the list that ranked first,</u> following the progressive numbering of the list in case the candidates to regular auditor and deputy auditor have not been duly distinguished.</p> <p><u>In the event that non-majority lists have the same number of votes, it shall be appointed the candidate from the list submitted by the shareholders with a higher percentage of share capital or, in suborder, by the larger number of shareholders.</u></p> <p>The appointment of the Chairman of the Board of the Statutory Auditors, if not expressly reserved by the law to the Auditors expressed by the minorities, will be granted by means of a resolution of the Shareholders' Meeting to one the regular Auditors.</p> <p>In the event that, for whatever reason, the Chairman or the regular Auditor elected from one list cannot accept the office or, having it accepted, ceases such office, the deputy Auditor elected from the same list shall replace such Auditor, this latter being replaced in his/her turn, as deputy auditor, by the candidate</p>
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<p>belonging to the same list and (i) expressly identified as such or, alternatively, (ii) following the relevant progressive numbering.</p> <p>In the event that only one list is submitted or voted, all auditors, both regular and deputy, shall be elected therefrom. [...]</p> <p>20.4 According to the provisions of the law regarding situations of incompatibility, those who already hold the position of regular auditor in more than five companies quoted on regulated Italian stock exchanges, excluding parent companies, subsidiaries and companies controlled by the same companies that control the Company involved directly or indirectly with the Company, cannot be nominated as Auditors and if elected will be debarred from the role. The above without prejudice to the various limits to the plurality of offices provided under the law, in which case shall be accepted in the least of the possible extent.</p> <p>[...]</p>	<p>belonging to the same list and (i) expressly identified as such or, alternatively, (ii) following the relevant progressive numbering.</p> <p><u>In the event that the minority Statutory Auditor ceases from or may not take its office for any reason, he shall be substituted by the alternate member or by the subsequent candidate belonging to the same list or, if not available, by the first candidate (even if as alternate member) of the minority list ranked second. In the event that these criteria may not be applied, it shall be selected the first useful candidate, also as an alternate member, according to the progressive number of the next ranked minority list.</u></p> <p>In the event that only one list is submitted or voted, all auditors, both regular and deputy, shall be elected therefrom. [...]</p> <p>20.4 According to the provisions of the law regarding situations of incompatibility, those who already hold the position of regular auditor in more than five companies quoted on regulated Italian stock exchanges, excluding parent companies, subsidiaries and companies controlled by the same companies that control the Company involved directly or indirectly with the Company, cannot be nominated as Auditors and if elected will be debarred from the role. The above without prejudice to the various limits to the plurality of offices provided under the law, in which case shall be accepted in the least of the possible extent <u>more management and control offices than the maximum number provided for by the law, cannot be appointed as Auditors and if elected will be debarred from the role.</u></p> <p>[...]</p>
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3. OPINION OF THE BOARD OF DIRECTORS AS TO THE OCCURRENCE OR NON OCCURRENCE OF THE SHAREHOLDERS' RIGHT TO WITHDRAW

The amendment proposals described here above do not fall under any of the provisions under art. 2437 of the Italian Civil Code, and are exclusively aimed at conforming the By-Laws to binding regulatory provisions; the right of withdrawal is therefore excluded.

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Dear Shareholders,

based on the foregoing, the Board of Directors hereby proposes to adopt the following resolutions:

“The extraordinary Shareholders Meeting of Lottomatica:

- having examined and discussed the report of the Board of Directors, filed in accordance with the terms and provisions of law;
- having acknowledged the proposed amendments to the By-Laws,

resolved

1. to amend Articles 13 and 20 of the By-Laws in accordance with the above said report;
2. to grant the Chairman and the Managing Directors in charge such powers, to be severally exercised even through third parties, as to do everything necessary for purposes of executing the above said resolutions and to carry out all the relevant activities, including the enrolment with the register of enterprises pursuant to Section 2436 of the Civil Code and the faculty to amend the above resolutions and the Directors' report in the event of any such request from the competent Authorities or if anyway deemed necessary or appropriate in order to implement the above new provisions of law;
3. to delegate the Board of Directors, to the extent that may be necessary and within the limits of its competence, as well as in full compliance of the principles of diligence and good faith, the powers to autonomously amend the By-laws of the Company in accordance with the regulations that will be issued by Consob for the implementation of Legislative Decree no. 58 of February 24, 1998, as lately amended by Legislative Decree no. 303 of December 29, 2006.

Lottomatica S.p.A.

On behalf of the Board of Directors

The Chairman