

# LOTTOMATICA S.p.A.

INFORMATIONAL MEMORANDUM RELATING TO THE 2008-2016 STOCK OPTION PLAN, TO BE SUBMITTED FOR APPROVAL BY THE ORDINARY SHAREHOLDERS' MEETING, AND PREPARED PURSUANT TO ARTICLE 84-BIS OF THE CONSOB RULES UNDER RESOLUTION NO. 11971 OF 14 MAY 1999, AS SUBSEQUENTLY AMENDED

Rome, 10 March 2008

## Introduction

On 6 and 7 March 2008 the Board of Directors of LOTTOMATICA S.p.A. (the “**Company**”) resolved to submit the 2008-2016 stock option plan, to be reserved for the Company and/or its subsidiaries’ employees and having the terms and conditions to be described herein (the “**Stock Option Plan**”, or simply, the “**Plan**”), for the approval of the ordinary shareholders’ meeting, which has been convened for 15 and 17 April 2008, respectively, for the first and second calls.

It should be noted that the Stock Option Plan should be considered particularly material as regards Article 114-bis, 3rd comma, of Legislative Decree 58/98 (the “**TUF**”) and as regards Article 84-bis, 2<sup>nd</sup> comma, of the CONSOB Regulations adopted pursuant to resolution no.11971 of 14 May 1999, as subsequently amended (the “**Issuer Regulations**”).

This informational memorandum has been prepared in conformity with Form 7 of Attachment 3A of the Issuer Regulations, including as regards the numbering of its paragraphs.

## Definitions [FOLLOWS ORIGINAL ORDERING IN ITALIAN]

In relation to the informational memorandum, the terms referenced below have the following meanings:

|                               |  |
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| “Shares”                      | indicates the ordinary shares of the Company, having a nominal value of 1 euro each;   |
| “Beneficiaries”               | refers to the persons who will be assigned the Options;  |
| “Options Assignment Date”     | indicates each date on which the Board of Administration of the Company assigns the Options to the Beneficiaries determining the amounts assigned to each one, and setting the Options’ exercise price in accordance with point 4.19 herein; |
| “Options”                     | refers to the options included in the Stock Option Plan, which will give the respective Beneficiaries, under the established conditions, the right to subscribe for an equivalent number of Shares;  |
| “Stock Option Plan” or “Plan” | indicates the 2008-2016 stock option plan which is described in this informational memorandum;   |
| “Stock Market Regulations”    | refers to the regulations applicable to the financial markets organized and run by Borsa Italiana S.p.A.;  |
| “Issuer Regulations”          | indicate the Regulations adopted by CONSOB pursuant to resolution no. 11971 of 14 May 1999, as subsequently amended;   |
| “Company” or “Lottomatica”    | refers to LOTTOMATICA S.p.A., having its legal seat in Rome, on Viale del Campo Boario, 56/d;  |
| “TUF”                         | indicates Legislative Decree of 24 February 1998, no. 58 (unified text of rules governing financial intermediaries);   |

“TUIR”

indicates the Consolidated Act on Income tax, approved by Decree of the President of the Republic 22 December 1986, no. 917.

## **1. Plan recipients**

- 1.1 Among the Beneficiaries of the Plan there are Mr Marco Sala, Managing Director and General Manager of Lottomatica, and Mr Jaymin Patel, Director of Lottomatica and Chief Executive Officer of the subsidiary GTECH Corp.
- 1.2 The Stock Option Plan is destined for managers of Lottomatica S.p.A. and/or its Italian subsidiaries, as well as Senior Vice Presidents, Vice Presidents, Key Directors and Managers of its foreign subsidiaries.
- 1.3 Mr Marco Sala is the General Manager of Lottomatica.
- 1.4 Among the managers, Beneficiaries of the Plan, having regular access to privileged information and having the power to adopt resolutions which can affect the evolution and the future perspectives of the Company, is at present foreseen that there be Messrs Stefano Bortoli and Renato Ascoli, respectively Chief Financial Officer and Chief of the Business Division of Lottomatica.

## **2. Reasons for the adoption of the plan**

- 2.1 In the judgment of the Board of Directors, the participation in the share capital of persons who hold strategic and determinant roles key to the success of the Company and its larger group, and in any event, of the employees of the group, constitutes a ongoing incentive favoring growth in corporate value.

The principle aims of the Stock Option Plan are those of focusing attention of the Beneficiaries on factors of strategic interest, favoring loyalty by providing incentives to stay within the Company or its subsidiaries, connecting compensation with the creation of value for the shareholders of the same, increasing the Company's and its group's competitiveness by permitting the reaching of pre-set objectives, as well as favoring the maintenance of market competitiveness as regards beneficiary compensation packages.

In addition, even the Code of Self-regulation for listed companies recommends the adoption of compensation plans which incentivize management having strategic responsibilities, recognizing that the use of variable compensation plans, including stock options, facilitates incentives for and the loyalty of all high-level management.

- 2.1.1 The Stock Option Plan will be carried out over total period of approximately eight years. In particular, the three-year vesting period was considered to be the most appropriate to reach the objectives that the Plan aims to fulfill, and such period was also chosen to permit the Beneficiaries to make use of the benefits provided for under current Italian tax regulations.

As indicated in point 2.3 below, the number of Options to be assigned to each Beneficiary will be determined by the Board of Directors pursuant to the terms in point 4.4. As regards the ratio between incentive compensation-based on stock options and other components of

total compensation packages, the Company looks to approaches in line with best practices adopted by companies operating in similar industries to those in which it is active.

2.2 The exercise of the Options by the Beneficiaries will be connected to and conditioned upon the Company's reaching certain consolidated EBITDA levels for the 2008, 2009 and 2010 financial years considered as a whole, as well as meeting a certain ratio between net consolidated financial indebtedness and consolidated EBITDA, which will be more specifically set by the Board of Directors when implementing the Stock Option Plan.

2.2.1 The performance conditions referred to at point 2.2 above will be applied to all Beneficiaries equally and will be defined in strict relation to the Company's medium- and long-term objectives.

The Board of Directors believes that the pre-set performance indicators are the most appropriate parameters to favor value creation for the Company, also taking into consideration the types of activities carried out.

2.3 The Board of Directors will decide the number of Options to be assigned to each Beneficiary, within the detailed parameters set forth in point 4.4 below, evaluating the capability of each person to contribute to the development of the Company's business activities, taking into account the each person's experience, competence and role in the corporate organization, as well as related loyalty requirements.

2.3.1 The number of Options to be assigned to each Beneficiary will be decided taking into account the factors detailed in points 2.1.1 and 2.3 above, based on detailed performance objectives. The Board of Directors will be able to also take into account benefits received pursuant to other prior or concurrent incentive plans.

2.4 Not applicable, as the Stock Option Plan is based on financial instruments issued by the Company.

2.5 Certain specific conditions of the Stock Option Plan have been dictated by applicable Italian tax regulations and, in particular:

- article 9, 4th comma, letter a) of the TUIR determined the choice of the exercise price for the Options, equal to the "normal value" of the Shares;
- for Beneficiaries subject to Italian income taxes, article 51, 2-bis comma, of the TUIR determined the choice of a vesting period under which Options cannot be exercised prior to three years from the Options Assignment Date.

2.6 The Stock Option Plan is not financed in any way by the Special Fund to provide incentives for worker participation in their companies, as per article 4, 112th comma of Law No. 350 of 24 December 2003.

### **3. Approval of the Plan and timetable for assignment of the Options**

3.1 The Company's Ordinary Shareholders' Meeting, which will be convened in order to approve the Stock Option Plan, will be asked to confer the Board of Directors with all necessary or opportune powers in order to carry out the Plan. In particular, merely to give a few non-exhaustive examples, the Board of Directors will have the following powers, with the ability to sub-delegate: (i) identify the beneficiaries of such Stock Option Plan among management of Lottomatica S.p.A. and/or its Italian subsidiaries, as well as among the

Senior Vice Presidents, Vice Presidents, Key Directors and Managers of its foreign subsidiaries, and to assign such stock options, determining the number to be so assigned to each such participant; (ii) to set the results-based conditions and/or the performance measures to which exercise of the stock options will be subject; (iii) to establish all other terms and conditions for the carrying out of the Stock Option Plan, also as regards differences between the various plan beneficiaries; (iv) to prepare and approve the executive regulation for the Stock Option Plan, as well as amend and/or change such, with the ability to eventually prepare customized regulations for different categories or groups of plan beneficiaries; all of the above to be in conformity with the terms as stated in this informational memorandum. The Board of Directors will make its decisions, if needed, having consulted with the Compensation Committee.

- 3.2 Administration of the Stock Option Plan will be managed by the Resources and Shared Services Department of the Company.
- 3.3 With the exception of point 4.23 below, no procedures for making changes to the Stock Option Plan as regards basic objectives are provided for.
- 3.4 In order to carry out the Stock Option Plan, the Board of Directors will be able to increase the Company's share capital- with the power to exclude/not apply the rights of first refusal pursuant to article 2441, comma 4, second period, of the Italian Civil Code – and such power was given by the Extraordinary Shareholders' Meeting on 18 October 2006.
- 3.5 The Stock Option Plan was prepared by the Board of Directors with the assistance of external consultants.
- 3.6 The Board of Directors resolved to submit the Stock Option Plan for shareholder approval at the meeting held on 6 and 7 March 2008, while the Compensation Committee gave its opinion in relation thereto on 6 March 2008.
- 3.7 Options will be assigned by the Board of Directors based on the specific powers delegated to it by the shareholders (see point 3.1 above). The Options Assignment Date will be notified in compliance with article 84-*bis*, 5th comma, letter a), of the Issuer Regulations.
- 3.8 The official price of the Shares, as appearing on the Telematic Share-trading Market [*Mercato Telematico Azionario*] organized and operated by Borsa Italiana S.p.A. on 6 and 7 March 2008 was equal to euro 23.92 and euro 23.69, respectively. The official price registered on the Options Assignment Date will be notified in compliance with article 84-*bis*, 5th comma, letter a), of the Issuer Regulations.
- 3.9 It is foreseen that the Board of Directors will approve the assignment of the Options to the Beneficiaries, in one or more tranches, contemporaneously with the approval(s) of the capital increase to be used to service such assignments, with the contemporaneous setting of the Options' exercise price. In this regard, it is held that the procedures to determine the price will be made in compliance with applicable tax rules, and based on mean market prices over a significant time period (see point 4.19 below), in such a way to avoid that the price be significantly influenced by potential disclosure of material information under article 114, 1<sup>st</sup> comma, of the TUF.

#### **4. Characteristics of the financial instruments to be assigned**

- 4.1 The Stock Option Plan provides for the gratuitous assignment of Options, which permits the Beneficiaries, pursuant to the set conditions, to subsequently subscribe for newly issued Shares, following the regulations for physical delivery (the so-called *stock options*).
- 4.2 The Options will be assigned to the Beneficiaries in one or more tranches and will be exercisable, even in multiple tranches, at the end of the three-year vesting period, and in any event, within the time limit indicated at point 4.18 below.
- 4.3 The Stock Option Plan will, in any case, terminate on 31 December 2016.
- 4.4 An aggregate maximum of no. 2.293.383 Options will be assigned. In particular, to the persons nominally indicated at the preceding points 1.1 and 1.4 will be assigned the maximum number of Options as follows: Marco Sala no. 237.958 Options, Jaymin Patel no. 174.854 Options, Stefano Bortoli no. 66.358 Options, Renato Ascoli no. 77.100 Options. The exact number of Options that will be assigned to each Beneficiary will be set by the Board of Directors when it acts to assign Options individually.
- 4.5 As regards the procedures and execution clauses for the Stock Option Plan which are currently available, cross-reference is made to those provided for in each individual point of this informational memorandum. As indicated in point 3.1 above, the Plan's execution rules will be prepared and approved by the Board of Directors based on the general powers that will be conferred upon them by the Ordinary Shareholders' Meeting which will be convened to approve the Plan itself.

As indicated at point 2.2 above, the exercise of the Options by the Beneficiaries will be connected with and subject to the Company's meeting a certain level of consolidated EBITDA in the 2008, 2009 and 2010 financial years, considered together, as well as respecting a certain ratio between net consolidated financial indebtedness and consolidated EBITDA, as will be more specifically decided by the Board of Directors as they carry out the Stock Option Plan.

- 4.6 The Options are to be assigned to the Beneficiaries on an individual basis and cannot be transferred *inter vivos* in any way, since they are offered by the Company *intuitu personae* to the Beneficiary. In any case, the Options may not be pledged or be subject to any other act of disposition, whether for consideration or gratuitously, by effect of law or otherwise; in addition, they may not be subject to acts of execution or precautionary measures involving third parties, subject to immediate forfeiture by the Beneficiary of all rights awarded him/her under the Stock Option Plan. The Shares deriving from the exercise of the Options will be freely transferable.
- 4.7 No termination conditions are provided for in the event that the Beneficiaries carry out hedging transactions which permit the avoidance of the prohibition on the sale of assigned Options.
- 4.8 Without prejudice to that provided below in the event of death:
- a) if the employment work relationship is terminated by the Company (but not in cases of termination for just cause or on justified grounds), by the Beneficiary by resigning for any reason, as well as termination for any other reason (subject to the exception of work relationship termination by the Company for just cause or on justified grounds), the Beneficiary will definitively lose, contemporaneously with the

reception of termination or dismissal notice, the right to exercise the assigned, but not yet exercisable, Options, while he/she will only and exclusively be able to exercise any Options which are exercisable but not yet exercised, within the fundamental deadline of six months from the receipt of the termination or dismissal notice;

- b) in the event that termination of the employment work relationship is pursuant to just cause or on justified grounds, the Beneficiary will definitively lose, contemporaneously with receipt of the notice of dismissal, the right to exercise all assigned Options (but not yet exercised), not taking into consideration whether the Options are exercisable or not at the moment of termination of the employment relationship.

The Company's Board of Directors may, at its full discretion, permit the Beneficiary to exercise all or a portion of the assigned Options in a broader manner than the terms outlined here, giving a set deadline for such, in all cases not less than 30 days, or assigning the expired Options to another Beneficiary(ies).

Movement by a Beneficiary from the Company to one of its subsidiaries and vice versa, as well as movement by the Beneficiary from another of the Company's subsidiaries, as long as an employee, will not lead to the forfeiture of the options.

In the event that, before termination of the work relationship for any reason, a change of control in the Company occurs, the Board of Directors will be able to take actions it believes appropriate and equitable to carry out the aims of the Stock Option Plan and to protect the Beneficiaries. Such actions may include, and such are merely non-exhaustive examples, providing the Beneficiary the right to exercise all his/her assigned Options within a period set by the Board, in any case to be not less than 30 days, independently of whether, at the moment of the change of control, all objectives of the Plan have been met or not.

In the event of the Beneficiary's death, the following conditions shall apply:

- all exercisable, but not yet exercised, Options, as at the date of the Beneficiary's death, may be exercised by the Beneficiary's heirs or successors individually, with the fundamental term of 6 months from death or, if earlier, by the end of the Option exercise period, as established under the rules of the Stock Option Plan, and in all cases only after providing adequate documentation to legally prove their individual legal rights as heirs or successors in relation to the Beneficiary;
- non-exercisable Options as at the Beneficiary's date of death will be forfeited, and the specific heirs and successors of the Beneficiary will not have the right to any indemnity or kind of compensation. The Board of Directors may assign to another Beneficiary(ies) the suspended Options.

It is noted that, in the event that the Beneficiary had a written work contract with the Company, or with the Company and its subsidiary GTECH Corporation, if there is a conflict between the terms of the rules of the Stock Option Plan and the work contract, the provisions of the latter will prevail.

- 4.9 No other reasons for the annulment of the Stock Option Plan are provided for.

- 4.10 Redemption by the Company for the Shares covered by the Stock Option Plan is not provided for.
- 4.11 Loans or other credit facilities to purchase the Shares pursuant to article 2358, 3<sup>rd</sup> comma, of the Italian Civil Code, are not to be provided.
- 4.12 The burden on the Company is not, at this time, quantifiable.
- 4.13 The Stock Option Plan's dilutive effect, calculated assuming an assignment of the maximum number of Options, as indicated at point 4.4 above and the exercise of all such Options, would be equal to approximately 1.5% of Lottomatica's current corporate share capital.
- 4.14 Not applicable, as this regards a Stock Option Plan.
- 4.15 Not applicable, as this regards a Stock Option Plan.
- 4.16 Each assigned Option will give the right to subscribe for a Share, subject to the conditions of the Stock Option Plan.
- 4.17 The Options will be exercisable, in one or more tranches, within the time deadline indicated in point 4.18 below.
- 4.18 The exercise of the Options may be carried out by the Beneficiaries - in one or more tranches, but in any case for a total that is not less, for each such tranche, than a set percentage of exercisable Options – in the period running from the 31<sup>st</sup> day of the calendar (month) after the date of approval by the Company's Board of Directors of the consolidated balance sheet for financial year 2010 and the 5<sup>th</sup> anniversary of such day. For Beneficiaries subject to Italian income tax, without prejudice to the above-stated final term, the exercise of the Options may not be carried out before 3 years have passed from their date of assignment. Exercise of the Options will be suspended in the periods which will be defined in the Stock Option Plan's executive rules.
- 4.19 The Board of Directors – in compliance with the terms of article 2441, 4th comma, second period, of the Italian Civil Code, and that which was decided at the Extraordinary Shareholder's meeting on 18 October 2006 – must set the issuance price for the Shares (and therefore the Options' exercise price) using measures which correspond to their market value, taking into account the average of the Company's stock market share prices over a significant period of time, and in any case not less than the arithmetical average of the Shares' official prices appearing on the Telematic Share-trading Market [*Mercato Telematico Azionario*] organized and operated by Borsa Italiana S.p.A. in the month preceding the assignment of the Options by the Board of Directors ("preceding month" understood as the period running from the Options Assignment Date, excluding the same day, to the same day of the previous month and without prejudice to the fact that in such period, in order to calculate the arithmetical average, account be taken only of the open stock market days in which the Shares' official price is actually available).
- 4.20 The price-calculation mechanism for the exercise of the Options corresponds to their fair market value (see point 4.19 above).

- 4.21 Different criteria for the various Beneficiaries for the determination of the exercise price are not foreseen, even though concretely such prices could be different due to the differing Option Assignment Dates, and since the assignment could occur in multiple tranches.
- 4.22 Not applicable, as the Shares are traded on the Telematic Share-trading Market [*Mercato Telematico Azionario*] organized and operated by Borsa Italiana S.p.A.
- 4.23 In case of gratuitous or paid up increases in share capital (with the exception of those effected to service stock incentive plans), splits or reverse-splits of shares, the distribution of reserves, mergers, demergers, delisting of the Company's shares from official trading on the Telematic Share-trading Market [*Mercato Telematico Azionario*] (or from any other regulated market), legislative or regulatory reforms or other events capable of influencing the Options, the Shares, the meeting of the Company's objectives or, more generally, on the Stock Option Plan, the Company's Board of Directors will make changes or amendments to the Plan that it considers necessary and/or opportune to maintain as much as possible the essential bases of the Plan, including the possibility of permitting the advance exercise of the Options.
- 4.24 Attached to this informational memorandum is section 1 of outline 2 of the table included in form 7 of attachment 3A of the Issuer Regulations.

Section 2 of outline 2 of the aforementioned table will be provided pursuant to article 84-*bis*, 5th comma, letter a), of the Issuer Regulations.