



**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. 3 OF THE ORDINARY SESSION ON THE  
AGENDA OF THE SHAREHOLDERS MEETING SUMMONED FOR APRIL 23  
AND APRIL 24, 2007, RESPECTIVELY IN FIRST AND SECOND CALL**

**Item no. 3 of the ordinary session on the agenda – “*approval of a new stock allocation plan reserved for employees of Lottomatica S.p.A. and/or its subsidiaries and delegation of powers to the Board of Directors for its execution; related resolutions.*”**

Ladies and Gentlemen,

We should above all like to draw your attention to the fact that, as described in the illustrative report relating to preceding point 2 of the agenda of the Ordinary 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 the Ordinary stockholders’ 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 2007 – 2010 (the “Stock Allocation Plan”), the Board of Directors intends to submit the Stock Allocation 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.

**Reasoning behind the Stock Allocation Plan**

The Board of Directors believes that it is appropriate to establish incentive plans, also for 2007, based on the company’s stock which are reserved for the employees and linked to the achievement of pre-determined objectives, and that these should consist on the one hand of a stock option plan - for which reference should be made to the illustrative report relating to preceding point 2 of the agenda of the

Ordinary Stockholders' Meeting - and, on the other, of the present Stock Allocation Plan. The formula of dividing the incentive plans into two different types reflects amongst other things the agreements reached in that sense with certain managers of GTECH Corp., which was recently acquired by the company. In any event, resuming the matters already described in the illustrative report relating to preceding point 2 of the agenda of the Ordinary Stockholders' Meeting, 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 Stock Allocation Plan, likewise, are therefore 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 a substantial part of the 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”*.

### **Beneficiaries**

The Stock Allocation Plan is reserved for executives of Lottomatica S.p.A. and/or its Italian subsidiaries, as well as for Senior Vice Presidents, Vice Presidents, Key Directors and Managers of its foreign subsidiaries. Managing Director, General Manager and CEO as well as Managing Director and General Manager of

Lottomatica S.p.A., W. Bruce Turner and Marco Sala, are included among the beneficiaries.

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 Stock Allocation Plan is a maximum number of 400,000 ordinary shares of the company, equal to approximately 0.26% 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 Board of Directors will have the faculty to increase the aforesaid maximum number of shares by an amount corresponding (in value terms) to that of any dividends and reserves which may be distributed by the company to the holders of ordinary shares in the period between the notification given to the beneficiaries of their participation in the Stock Allocation Plan and the actual allocation of the shares following the attainment of the pre-determined objectives and the other envisaged conditions; in substance, the Board may establish that once the pre-determined objectives have been reached and all the other envisaged conditions have been satisfied, a number of additional shares should be allocated having a value equivalent to the dividends and reserves that would have been distributed if the shares had been allocated to the beneficiaries at the beginning of the Stock Allocation Plan term.

The Stock Allocation Plan envisages that the allocation of the shares shall be carried out, by the means described above, once the objectives have been reached and once all the other pre-established conditions have been satisfied, and during the period to be described in the respective regulations. The Stock Allocation Plan shall expire not later than December 31, 2010.

### **Conditions**

In consideration of the matters described in the preceding paragraph, the execution of the Stock Allocation Plan is subject to the requirement that once all the pre-established conditions included in the Plan have been satisfied, 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 Stock Allocation 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 Stock Allocation Plan shall be allocated to the beneficiaries free of charge, subject to the conditions of the Plan itself.

### **Objectives**

The allocation of the shares shall be subject to and correlated with the achievement by the company of pre-determined results at a consolidated level for the years 2007, 2008 and 2009, 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 allocation of the shares.

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 Stock Allocation Plan, regarding results and/or performance indicators to which the allocation of the shares is subordinated.

### **The Stock Allocation Plan in the event of the termination of the employment relationship**

The regulations of the Stock Allocation 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 Allocation Plan**

The regulations of the Stock Allocation 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 Allocation 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 Allocation Plan**

We propose finally to grant the Board of Directors with all the powers necessary and opportune for executing the Stock Allocation 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 above said categories of 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) determine the results and/or performance indicators on which the allocation of the shares 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 Allocation 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 Stock Allocation 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.

\*\*\* \*\*

If the stockholders agree with the matters proposed, they are invited to approve the following resolutions:

*“ The Ordinary 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 2007 - 2010 stock allocation plan reserved for employees of Lottomatica S.p.A. and/or its subsidiaries (the “Stock Allocation 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 Allocation Plan. In particular, by way of mere example, the Board of Directors will have the power, with the possibility of sub-delegating, to (i) identify the beneficiaries amongst the executives 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, including the Managing Director – General Manager - CEO and the Managing Director – General Manager of Lottomatica S.p.A. W. Bruce Turner and Marco Sala, 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) determine the results and/or performance indicators on which the allocation of the shares 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 Allocation 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; (iv) draw up and approve the operating regulations of the Stock Allocation 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 sub-delegating, to fulfil all the legal and regulatory requirements resulting from the resolutions adopted.”*