

## **LOTTOMATICA S.P.A. 2006 CORPORATE GOVERNANCE REPORT**

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## **Foreword**

This report illustrates (i) the degree of enforcement within Lottomatica S.p.A. (hereinafter alternatively referred to as the “**Company**” or as “**Lottomatica**”) of the Italian Stock Exchange self-regulatory code of March 2006 (the “**Code**”), (ii) the reasons why certain principles and criteria of the Code have still not been fully applied, and (iii) when such still unapplied principles and criteria are expected to be implemented.

The compliance by the Company to the Code as well as the approval of this Corporate Governance Report were resolved upon by the Board of Directors of Lottomatica on 9 March 2007.

The paragraphs following the “General Company Overview” are generally numbered in accordance with the paragraphs of the Code, so as to facilitate the reading.

## **General Company Overview**

As at March 9, 2007 the deliberated share capital is equal to Euro 154,592,210.00, the underwritten and paid up portion of which amounts to Euro 151,512,500.00 divided into no. 151,512,500 ordinary shares with a par value of 1.00 Euro each, all equipped with equal rights and listed on the *Mercato Telematico Azionario* organized and managed by the Italian Stock Exchange.

No other type of shares nor financial instruments stock-alike have been issued by the Company to date, even though Section 6.2 of the By-laws of the Company (hereinafter referred to as the “**By-laws**”) provides that the Extraordinary Shareholders’ Meeting can assign ordinary shares, special categories of shares or other financial instruments to the employees of the Company or of its subsidiaries, pursuant to Article 2349 of the Italian Civil Code.

De Agostini S.p.A. directly holds the absolute majority of the Company’s stock capital (52.574% as at March 9, 2007). The share capital of De Agostini S.p.A. is entirely owned by B&D Holding di Marco Drago e C. S.A.p.A. The Company is therefore included within the consolidated financial statements of B&D Holding di Marco Drago e C. S.A.p.A. and is subject to the direction and co-ordination of De Agostini S.p.A., pursuant to Articles 2497 and following of the Italian Civil Code, which in full respect of the independence of the Directors of the Company has issued uniform managerial instructions to its subsidiaries, including the Company, to ensure a unified direction to the group.

The other shareholders of the Company known to hold more than 2% as at March 9, 2007 are:

- FMR Corporation with a holding of 4.738%;
- Assicurazioni Generali S.p.A. with a holding of 3.922%;
- Schroder Investment Management Ltd. with a holding of 2.040%.

The Company has in addition issued:

- a) non convertible bonds due 2008 with a total value of 360,000,000.00 Euro at an interest rate of 4.80% listed on the Luxembourg Stock Exchange;
- b) non convertible subordinated non guaranteed bonds due 2066 with a total value of 750,000,000.00 Euro at an annual interest rate of 8.25% for the first ten years, and starting from the tenth year at a floating interest regulated at EURIBOR six months + 505 base points. Such bonds were placed among Italian professional and foreign institutional investors, and are listed on the Luxembourg Stock Exchange as well.

### ***1) Role of the Board of Directors***

Lottomatica is organized on the basis of the “traditional” model, which consists of a Shareholders’ Meeting, a Board of Directors and a Board of Statutory Auditors.

The Board of Directors is composed from seven to fifteen members who serve for a maximum of three fiscal years and may be re-appointed.

#### *Appointment*

On accepting the directorship, the candidate Directors of the Company are invited to evaluate whether they may diligently perform their duties. To such an extent, each concerned candidate Director is systematically invited to carefully consider the number of offices held as director or auditor in other companies listed on regulated markets (including foreign markets), in financial companies, banks, insurance companies or companies of a considerable size; moreover, such offices are (i) brought to the attention of the Shareholders, when called to appoint new Directors, and of the Board of Directors, when called to periodically evaluate the continuing existence of the conditions for the diligent performance of Directors’ duties, and (ii) recorded in the annual report on corporate governance.

Due to the opportunity to wait for the issue of new Consob regulations (i) enforcing Article 148-*bis* of Legislative Decree no. 58 of February 24, 1998 (as lately amended by Law no. 262 of December 28, 2005, so called “**Savings Protection Law**”), and (ii) aimed at determining, among the others, the maximum number of management or control offices that listed companies’ Statutory Auditors

may hold, the Board of Directors has still not identified, but is expected to identify within the end of 2007, general criteria aimed at recommending to the Board members a maximum number of offices as director or auditor in other listed companies, financial companies, banks, insurance companies or companies of a considerably large size.

Parent company B&D Holding di Marco Drago e C. S.A.p.A. (formerly De Agostini S.p.A.) has always followed strict procedures when selecting the candidates Directors to be submitted to the approval by the Shareholders' Meeting or, in the event of co-opted Directors, the Board. Such procedures have always ensured a diversified composition of the Board and a mix of experiences amongst its members.

The size, composition and performance of the Board were lately evaluated in summer 2006 within the context of the acquisition of Gtech Holdings Corp. (hereinafter also referred to as the "**Gtech Acquisition**"), which required that the new structure of the Lottomatica group be adequately reflected in the Board's composition; as a result of the resignation of 5 Directors, out of a total of 13, 5 new Directors were co-opted and then confirmed by the October 18, 2006 Shareholders' meeting.

The Board of Directors is not aware of any activity carried out by any of its members in competition with the Company, nor have the Shareholders authorized in advance any such activity pursuant to Article 2390 of the Italian Civil Code.

In order to ensure well balanced and transparent Board meetings, the Company recommends to its Directors to disclose their interests for any corporate transaction in accordance with Article 2391 of the Italian Civil Code (Interests of Directors). To such an extent, each Director is aware of being obliged – also pursuant to the intra-group and related party transaction charter (see paragraph 9 hereinbelow) – to inform the other Directors and the Board of Statutory Auditors by a 5-day advance written notice of any interest that he, on his own behalf or on behalf of third parties, has in a given transaction. Either Managing Director is further aware that he shall refrain from carrying out the transaction and shall submit the same to the Board. In order not to influence the Board, Managing Directors have sometimes not simply abstained themselves from carrying out the transaction, but also left the meeting, as required by the above said charter; powers to close the transaction were in such cases granted to other Directors (normally the Chairman). In all such cases, and more generally in the event of a related party transaction, the Board of Directors has always indicated the reasons and the convenience of the transaction for the Company.

#### Meetings and resolutions

The Board of Directors meets on a regular basis for the approval of the quarterly and half-yearly reports as well as of the consolidated and non consolidated financial statements. During 2006 it met 9 times on the following dates: January 10, March 9, April 12, April 27, May 18, August 29, September 11, October 18 and November 10. During such meetings there was an 83.7% average attendance by all Board members, and 85.2% average attendance by both the independent members and the Statutory Auditors. During 2007 the Board of Directors is expected to meet at least 4 times.

The meetings of the Board may be held by means of videoconference and/or teleconference. The meetings are summoned by the Chairman of the Board of Directors by means of a written communication sent to the Directors and Statutory Auditors at least three working days before the date scheduled for the meeting; should the Board be called to resolve on a particularly urgent matter, the By-laws also provide for a reduced term to summon the meeting (48 hours). Such necessity was only given once during the course of 2006.

The Board may also be summoned by the Board of Statutory Auditors or even by each single Auditor. In the event that no summon notice is given, the meeting of the Board of Directors is considered validly held when all the Directors and the Effective Statutory Auditors are in attendance.

In order to allow Directors to pass resolutions with full knowledge of corporate facts, the documents and information supporting the items to be discussed upon during each meeting of the Board, as well as of any internal Committee, are made available with reasonable advance both in Italian and English reasonably prior to the meetings.

Moreover the Chairman of the Board of Directors, also with the avail of experts, normally dedicates time during Board meetings to update the members on the latest relevant provisions of law. In particular, during the course of 2006, and in the initial months of 2007, the Chairman has updated the members on the latest provisions concerning the following provisions: (i) Law no. 62 of April 18, 2005 (so called, "Market Abuse"), and (ii) Savings Protection Law as well as on the amendments to the Code.

The resolutions of the Board of Directors are taken by means of simple majority vote except for those cases where a different majority is required by the law.

The meetings of the Board are adequately regulated by the By-laws and by the law, and no further regulation has therefore been deemed necessary.

### Powers

The Board of Directors has all the powers for the ordinary and extraordinary management of the Company in pursuance of the corporate purpose. In particular, the Board of Directors is responsible for the following:

- a) merging and spin-off resolutions concerning the Company, pursuant to Articles 2505, 2505-*bis* and 2506-*ter*, last paragraph, of the Italian Civil Code (merger and spin-off of at least 90% owned subsidiaries);
- b) setting up or closing secondary premises;
- c) appointment of Directors with powers of attorney;
- d) share capital reduction in the event of withdrawal of shareholders;
- e) amendments to the By-laws aimed at making them fully compliant with laws and regulations;
- f) transfer of the headquarters to another municipality within Italy;
- g) issuing non convertible bonds and setting the terms and conditions of their placement.

Furthermore, in accordance with the Company's practice as well as to the extent not already covered by the powers granted to single members, the Board of Directors is competent for the following matters mentioned under Section 1 of the Code, though not expressly reserved to it by the By-laws:

A) examining and approving in advance transactions having a significant impact on the Company's profitability, assets and liabilities or financial position, with specific reference to related party transactions, including any such transactions to be carried out by its most relevant subsidiaries, and particularly by Gtech Corporation, as well as any transaction which may involve personal interests of single Directors or be of special interest for the marketplace. Since uniform and general criteria may not be easily set for purposes of identifying any such transactions, all corporate transactions in excess of Euro 10 million worth are systematically and preliminarily evaluated by the Executive Committee, which is empowered to directly execute and then report to the Board of Directors on transactions involving an amount of up to 200 million Euro. Coherently therewith, Managing Directors - General Managers normally report to the Board of Directors on a quarterly basis on the main transactions carried out by them in accordance with the specific powers granted to them.

B) Examining and approving the Company's strategic, operational and financial plans and the corporate structure of the group it heads, normally on a three-year

basis. To this regard, the Company has not approved any strategic, operational nor financial plans during 2006 since it considered appropriate to postpone any such new plan once that the Gtech Acquisition had been executed at the end of August 2006 and the subsequent internal reorganization process had been started. The new 2007-2009 industrial plan was therefore presented to the financial community at the end of January 2007.

C) Granting and revoking powers to the corporate executive bodies, specifying the limits to such delegated powers, the manner of exercising them and the reporting frequency, usually not less than quarterly. The Board of Directors, on August 29 and on October 18, 2006, has delegated powers to two Managing Directors – General Managers - and to the Chairman of the Board as a substitute – as well as to the Executive Committee.

D) Determining, upon the proposal of the Remuneration Committee and the favourable opinion of the Board of Statutory Auditors, the remuneration of the executive bodies and of those directors who are appointed to particular positions within the Company. The basic remuneration of the Directors is decided by the Shareholders Meeting; in particular, the Gtech Acquisition has led to an increase in the activity of all the Directors, resulting in amendments to their basic remuneration. The remuneration of the Managing Directors and of the top management of the Company is partially connected to corporate results achieved and/or to the achievement of specific objectives; to such an extent, the overall remuneration is normally composed of MBOs and supplemented by the proceeds of stock based plans.

E) Periodically supervising and evaluating the general performance of the Company. The results of such evaluation is then described in general terms in the annual Financial Statements and in the infra-annual reports, as well as in press releases disseminated simultaneously with the approval of such Financial Statements and infra-annual reports, whereby the results achieved are compared to those planned.

F) Checking the adequacy of the general organisational, administrative and accounting structure established by the executive bodies for the Company and the group it heads. In particular, the adequacy of the organizational and of the managing structure of new businesses is evaluated on a time to time basis by the competent Managing Director.

On the contrary, the following main matters are expressly reserved by the law and/or the By-laws to

- the Ordinary Shareholders' Meeting: the approval of the Company's financial statements, the appointment and removal of Directors and

Statutory Auditors, as well as the determination of the amount of fees of Directors and Statutory Auditors;

- the Extraordinary Shareholders' Meeting: amendments to the By-laws not required by laws nor regulations, mergers and spin-offs of companies that are not at least 90% owned by the Company, issuance of convertible bonds and, in accordance with Section 25 of the By-laws, appointment of one or more receivers and resolutions on their respective powers and fees;

as a result, all of the other competences of the Board of Directors may be identified on a residual basis.

### Executive Committee

The Board of Directors has established amongst its members an Executive Committee entrusted with a range of managing powers and which meets periodically, normally almost on a monthly basis. The members of the Executive Committee are therefore deemed as executive Directors for the purposes of the Code.

An Executive Committee was first set during the Board meeting held on May 12, 2005. The Executive Committee currently in charge up to the date of approval of the financial statements as at December 31, 2007 was appointed in the Board meeting held on December 22, 2005 and, in connection with the Gtech Acquisition, its composition was amended as a result of (i) the resignation of Rosario Bifulco (former Chairman of the Committee), Antonio Belloni and Antonio Tazartes, and (ii) the appointment of W. Bruce Turner and Pietro Boroli. The Executive Committee is therefore currently composed of the following Directors: Lorenzo Pellicoli (Chairman), Pietro Boroli, Paolo Ceretti, Marco Drago, Marco Sala and W. Bruce Turner.

Statutory Auditors are normally expected to attend the Executive Committee meetings; a few top managers of the Company normally participate to the meetings too for purposes of actively contributing to the presentation of certain items of the agenda as well as of drafting the relevant minutes.

The Executive Committee is competent for:

- a) budget and long-term plan proposals to be submitted for the approval of the Board of Directors;
- b) controlling the implementation of the budget, long-term plans and strategic projects;

- c) the macro-organization of the Company and its subsidiaries;
- d) appointing the Company's top management and approving the related remuneration packages as well as the remuneration policies of the Company and its subsidiaries, upon prior consultation with the Remuneration Committee;
- e) engaging the primary advisors to the Company and its subsidiaries entailing commitments in excess of Euro 350,000.00;
- f) calling for and awarding tenders with various purposes for an amount ranging from Euro 10 million to Euro 50 million, including all powers to negotiate and execute all related agreements and covenants;
- g) resolving on investments and expenses ranging from Euro 10 million to Euro 200 million worth;
- h) submitting extraordinary transactions in excess of Euro 200 million worth for the approval of the Board of Directors.

In 2006 the Executive Committee has, among the other, continuously evaluated and cured the process that led to the execution of the Gtech Acquisition, examined the draft 2007-2009 industrial plan then submitted for the approval of the Board of Directors, examined the compensation plans submitted by the Remuneration Committee for the group's top management.

Pursuant to Section 14.3 of the By-laws, the Executive Committee reports at least quarterly to the Board of Directors.

During 2006 there were 6 Executive Committee meetings with a 92.4% attendance by Committee members (among whom only two resigning members and one currently in charge are below 100%), and 66.6% attendance by Statutory Auditors.

During the first 3 months of 2007, the Executive Committee has met on January 16 and March 8.

## **2) Composition of the Board of Directors**

The Board of Directors comprises six executive and seven non executive Directors. Non-executive Directors, thanks to their number and expertise, actively contribute to the discussions at Board meetings and concur to the adoption of well balanced decisions, as shown by the relevant number of meetings attended and by the high standard of their proposals and interventions, and as made possible by (i) their membership of the Remuneration as well as the Audit and Compliance

Committees of the Company, and (ii) the few other corporate offices held by them (see below a list of the main of such offices). Non-executive Directors play an important role in the supervision of potential conflict of interest situations involving the members of the Board, as well as, more in general, on those matters where the interests of executive Directors and those of non controlling shareholders might not perfectly coincide with each other, such as the remuneration of executive Directors and the internal audit system.

In order to ensure that highly skilled professionals are appointed as non-executive Directors, the controlling shareholder has adopted internal policies aimed at selecting and submitting to the other shareholders a diversified range of candidates, from university professors to entrepreneurs and other experts who are familiar with the Company's activities.

Up to the date of approval of the financial statements as of December 31, 2007, the Board of Directors is composed as follows:

- . Lorenzo Pellicoli (Chairman);
- . Robert Dewey Jr. (Vice-Chairman);
- . W. Bruce Turner (General Manager, Managing Director, CEO);
- . Marco Sala (General Manager, Managing Director);
- . Paolo Ainio;
- . Rosario Bifulco;
- . Pietro Boroli;
- . Paolo Ceretti;
- . Marco Drago;
- . James F. McCann;
- . Anthony Ruys;
- . Severino Salvemini;
- . Gianmario Tondato Da Ruos.

The following members are deemed executive Directors for the purposes of the Code, since actively involved in the management of the Company, mainly due to their membership of the Executive Committee: Lorenzo Pellicoli, W. Bruce Turner, Marco Sala, Pietro Boroli, Paolo Ceretti and Marco Drago.

During 2006 the number of executive Directors in the Board was reduced from 7 to 6, due to the resignation of Rosario Bifulco to the offices as Chairman of both the Board of Directors and the Executive Committee, as well as Managing Director.

#### Offices updating

On April 12, 2006, Lorenzo Pellicoli replaced Rosario Bifulco, appointed on April

12, 2005, as Chairman of the Board of Directors.

On August 29, 2006, W. Bruce Turner was co-opted by the Board as Director of the Company and simultaneously appointed as General Manager, Managing Director and Chief Executive Officer competent for the foreign activities of the Company. The Shareholders' Meeting held on October 18, 2006 then confirmed him as Director and, on the same date, the Board confirmed to him the above said offices and the relevant powers.

On the same date the General Manager, Marco Sala, appointed on April 12, 2005, was further appointed Managing Director competent for the Italian activities of the Company.

Always on August 29, 2006, Robert Dewey Jr., James F. McCann, Anthony Ruys and Gianmario Tondato Da Ruos were co-opted as Directors of the Company and then confirmed by the Shareholders' Meeting on October 18, 2006.

On the same dates the Board of Directors ascertained that the following Board members (currently in charge) were eligible or continued to be eligible as independent Directors: Robert Dewey Jr., Paolo Ainio, James F. McCann, Anthony Ruys, Severino Salvemini and Gianmario Tondato Da Ruos, who was appointed as Lead Independent Director in order to counterbalance the role of the Chairman of the Board of Directors in consideration of the position of the latter as Managing Director of parent company De Agostini S.p.A. (now B&D Holding di Marco Drago e C. S.A.p.A.).

On the same meetings held in August and in October 2006, Robert Dewey Jr. was appointed Vice-Chairman.

#### Main offices held in other entities

Below are the main offices held by the Directors in other companies listed on regulated markets (including foreign markets) as well as in financial companies, banks, insurance companies or companies of considerably large size:

Lorenzo Pellicoli	Managing Director of De Agostini S.p.A.; Director of B&D Holding di Marco Drago e C. S.A.p.A.; General Manager of Dea Factor S.p.A.; Director of De Agostini Editore S.p.A.; Director of De Agostini Periodici S.r.l.; Vice Chairman of De Agostini Finance S.A.; Director of Editions Atlas (France) S.A.S.; Director of Editoriale Genesis S.r.l.; Chairman of DeA Capital S.p.A.;
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	Chairman of Idea Alternative Investments S.p.A; Chairman of Magnolia S.p.A.
Robert Dewey Jr.	-
W. Bruce Turner	Chairman and CEO of Gtech Holdings Corp.; Director of Gtech Corp.
Marco Sala	-
Paolo Ainio	Director of Expert System S.p.A.; Chairman of the Board of Directors of Altervista S.r.l.; Sole Director of G3G S.r.l.; Chairman of the Board of Directors of Im3D S.r.l.; Chairman of the Board of Directors of Onedegree S.r.l.; Chairman of the Board of Directors of Pixel Advertising; Member of the Board of Studenti Media Group S.p.A.; Sole Director of PUPS S.r.l.; Chairman of the Board of Directors of ePrice S.r.l.
Rosario Bifulco	Director of DeA Capital S.p.A; Director of Permasteelisa S.p.A.; Vice Chairman of Humanitas S.p.A.
Pietro Boroli	Director/Deputy Chairman of De Agostini S.p.A.; Chairman of De Agostini Editore S.p.A.; Director of De Agostini Diffusione del Libro S.p.A.; Director of Mikado Films S.p.A.; Director of M-Dis Distribuzione Media S.p.A.; Chairman of S.G.P. Società Gestione Periodici S.r.l.; Director of De Agostini Partworks Licensing S.p.A.; Director of Istituto Geografico de Agostini S.p.A.; Chairman of De Agostini Periodici S.r.l.; Sole Director of Vis Value Partecipazioni S.r.l.; Director of Armando Testa S.p.A.; Director/Deputy Chairman Unione Tipografico Editrice Torinese S.p.A.; Director of De Agostini UK Limited; Director of Grupo Planeta – De Agostini SL; Director of DeA Planeta SL; Director/Deputy Chairman of Editorial Lanetta De Agostini S.A.; Director of Edizioni Atlas (France) SAS; Director of De Agostini Atlas Edition BV;

	Director of Magnolia S.p.A.
Paolo Ceretti	General Manager of De Agostini S.p.A.; Director of DEA Factor S.p.A.; Director of De Agostini Editore S.p.A.; Director of De Agostini Invest S.A.; Director of Mikado Films S.p.A.; Managing Director of DeA Capital S.p.A.; Director of Idea Alternative Funds; Director of Magnolia S.p.A.
Marco Drago	Chairman of the Board of Directors of De Agostini S.p.A.; Chairman of B&D Holding di Marco Drago e C. S.a.p.A.; Director of DeA Capital S.p.A.; Director of De Agostini Editore S.p.A.; Honorary Chairman of De Agostini Diffusione del Libro S.p.A.; Director of Editions Atlas S.a.s. (France); Director of Antena 3 TV SA; Vice Chairman De Agostini Communications S.A. (Lux); Member of the Board/Supervisory Board of San Faustin N.V. Curacao; Vice Chairman of Grupo Planeta De Agostini S.L. (Spain).
James F. McCann	Director of Willis Holdings Group; Director of 1-800-Flowers.com; Director of Winthrop University Hospital.
Anthony Ruys	Director of Sara Lee International B.V.NL; Director of ABN AMRO Bank NL; Director of British American Tobacco PLC UK; Director of Luchthaven Schiphol NV NL; Chairman of the Supervisory Board of Het Rijksmuseum NL; Chairman of the Supervisory Board of Stop Aids Now Foundation NL; Co-Chairman of ECR Europe B; Board member of the Dutch foundation for International affairs; Board member of the International Chamber of Commerce Nederland.

Severino Salvemini	Director of Euphon S.p.A.; Director of Lombarda & Associati S.p.A.; Chairman of Mikado Films S.p.A.; Director of Accademia Arti e Mestieri Teatro della Scala S.p.A.; Director of Cinecittà Holding S.p.A.; Director of Fondazione Unicredito – Unidea.
Gianmario Tondato Da Ruos	Managing Director of Autogrill S.p.A.; Director of Guala Closures S.p.A.; Director of Aldeasa S.A.

*Powers granted to the Chairman of the Board of Directors*

During 2006, the Board has delegated exclusive and non-exclusive management powers to its Chairman.

In particular, exclusive powers are granted to the Chairman in order to enable him to manage, within the Board guidelines, top level public relations, corporate communication and image, institutional relationships as well as to supervise the effective working of the Company's internal control system.

On the other hand, non-exclusive powers enable the Chairman to substitute each Managing Director in the event that the latter is unable to exercise its statutory powers, including when the signature of both Managing Directors is required, so as to assure top management continuity within the new group structure resulting from the Gtech Acquisition.

The following exclusive and non-exclusive powers were granted to the Chairman during the meeting of the Board of Directors of August 29, 2006:

*“The Chairman of the Board of Directors is granted such powers – in addition to those provided for by the law and the By-laws – to manage within the Board guidelines top level public relations, corporate communication and image as well as institutional relationships with, among the others, the Ministry of Economics and Finance, the Amministrazione Autonoma dei Monopoli di Stato, public bodies and public or private, domestic or foreign entities, consortia, partnerships, joint ventures involving the Company whether on a temporary or permanent basis. The Chairman shall further supervise the effective working of the Company's internal audit system.*

*The Chairman is also granted the power to substitute either Managing Director in any case of need or impediment or absence, within the applicable budget*

*thresholds determined by the Board of Directors and except for either Managing Director's faculty to double his powers of attorney, when expressly permitted, which shall be anyway subject to a joint willing.*

*Within the powers granted to him by the Board of Directors, the Chairman may delegate certain acts or groups of acts, and take all other actions that may be necessary for the proper conduct of the Company's business, and grant powers and proxies to the Company's executives or managers.*

*The Chairman is finally granted extraordinary powers, subject to reporting duties vis-à-vis the Board of Directors on the first possible occasion, to be exercised (i) severally up to Euro 2,000,000.00, and (ii) jointly with either Managing Director up to Euro 5,000,000.00."*

#### *Powers granted to the Managing Directors - General Managers*

The corporate offices as Managing Director and General Manager are concentrated in W. Bruce Turner and Marco Sala, are of similar nature and size, although referred to different geographical contexts (foreign and domestic activities, respectively), and clearly equip them with the role of heads of the Company. W. Bruce Turner has additionally been granted the office of Chief Executive Officer of the Company as well as the responsibility for the corporate financial statements and the coordination of the Italian and foreign activities.

During 2006, the concentration of corporate offices in only one person regarded Rosario Bifulco (Chairman and Managing Director) due to the temporary need for a centralised management of the Company following the resignation of the previous Chairman. Such concentration of powers has then not been renewed. The concentration of the offices of General Manager and Managing Director is instead considered appropriate in light of the very simple organization and management structure of the Company.

Pursuant to Section 14.3 of the By-laws of the Company, the Managing Directors report at least quarterly to the Board of Directors.

During the meeting held on August 29, 2006, Marco Sala was granted the following powers as Managing Director and General Manager of the Company:

- 1. "preparing, in coordination with the Chief Executive Officer, the budget and the operational plans relating to the Italian activities of the Company, to be submitted to the Board of Directors for approval in the context of the whole budget and operational plans of the Company and its Group;*
- 2. submitting proposals to the competent corporate Bodies; within the budget thresholds approved from time to time by the Board of Directors, preparing for the same Board proposals regarding the acquisition or disposal of equity investments*

*and going concerns, the entering into consortia and partnerships, as well as the purchase, sale and exchange of real estate assets;*

*3. within the general directives given by the Board of Directors and coordinating with the Chairman, holding the day-by-day relationships with the Ministry of Economics and Finance, the Amministrazione Autonoma dei Monopoli di Stato, public and private entities, bodies and consortia where the Company holds interests on a temporary or permanent basis;*

*4. appointing and removing representatives, agents or commission agents, establishing and modifying their rights and duties;*

*5. engaging consultants and advisors for specific tasks connected with the corporate business up to Euro 500,000.00 fee per each engagement, subject to reporting duties vis-à-vis the Board of Directors on the first occasion;*

*6. negotiating and entering into contracts for the day-to-day management of the Company, including contracts for the sale and purchase of products, goods and equipment related to the Company's scope, as well as agreements with government bodies, in any case up to Euro 10,000,000.00 each, and agreeing on all the relevant terms and conditions;*

*7. negotiating contracts with government bodies over Euro 20,000,000 worth to be then submitted to the Board of Directors for approval;*

*8. organizing and awarding prize events or competitions, tenders for the supply of goods, services and works up to a maximum of Euro 10,000,000.00 each, inclusive of (i) entering into, amending and terminating the related contracts, (ii) defining the most suitable clauses, such as the arbitration clause, (iii) defining and implementing all required procedures and formalities;*

*9. deciding, executing and performing intra-group transactions or transactions with other related parties (i) under standard conditions, up to Euro 5,000,000.00 each, or (ii) under unusual or atypical conditions, up to Euro 2,000,000.00 each, in both cases in compliance with the relevant laws and the internal regulations governing intra-group transactions and transactions with other related parties;*

*10. collecting any amount due to the Company from any body, enterprise or person and issuing the relevant receipt;*

*11. executing all documents related to the Italian vehicle licensing office (Pubblico Registro Automobilistico);*

*12. taking part in tender, bid, competition proceedings of any kind in Italy organized by public and/or private entities for the supply of goods or services and/or aimed at obtaining concessions and/or licences of any kind, including entering into consortia and/or temporary partnerships, executing the related contracts and regulations, signing and presenting bids up to Euro 10,000,000.00 each on single signature, or exceeding Euro 10,000,000.00 each if signed jointly with the Chairman or the other Managing Director, signing and presenting price adjustments to the competent commission, taking part in ballots, if any, signing declarations and, in the event of an award, entering into the related contracts, executing them and signing all related documents;*

13. *performing all acts and formalities required to obtain licences, concessions and authorisations in general from government bodies and offices;*
14. *settling any dispute up to Euro 5,000,000.00, appointing arbitrators and signing the relevant documentation binding upon the Company;*
15. *making payments up to Euro 20,000,000.00 each and debiting each of the Company's bank accounts for the relevant amount;*
16. *collecting letters, packets and parcels received by ordinary, registered and insured mail at post and telegraph offices, shipping companies and airlines and all other transport companies, cashing postal and telegraphic orders, payment orders and cheques of any type and value; requesting and receiving sums, securities, valuables, goods and documents, signing receipts, discharges and disclaimers vis-à-vis any administration and any public or private treasury department; performing any other act and operating at the above-mentioned offices and administrations;*
17. *demanding and endorsing cheques, drafts and bills exclusively for encashment, discounting and depositing in the Company's accounts and protesting them;*
18. *receiving, opening and paying back deposits, including guarantee deposits, allowing all types of such deposits to be entailed or released up to Euro 10,000,000.00 each;*
19. *performing all financial and banking credit and debit transactions necessary for the ordinary management of the Company within the assigned thresholds;*
20. *accepting collaterals and/or guarantees, including accepting, setting up, registering and renewing mortgages and liens to the charge of debtors and third parties and to the benefit of the Company, assenting to cancellations and registrations of mortgages to the charge of debtors and third parties and to the benefit of the Company in order to discharge or reduce obligations;*
21. *waiving, upon prior authorisation of the Board of Directors, mortgages and mortgage subrogation, including legal mortgages or constructive subrogation, to the charge of debtors or third parties and to the benefit of the Company, and therefore relating to credit items, holding the competent Land Registrars free from all and any liability;*
22. *representing the Company in all relations with all trade unions, both employer and employee, and executing agreements with such organizations in the name and on behalf of the Company, negotiating and agreeing settlements and signing the minutes of settlement agreements;*
23. *allocating responsibility among the Italian Operational Units as well as among the Staff Units of the Company and of the relevant Italian based subsidiaries, deciding on the relevant organizational structure underlying the general structure laid down by the Company's Board of Directors;*
24. *consistently with the guidelines set forth by the Board of Directors:*
  - a. *preparing, in coordination with the Chief Executive Officer, staff recruitment as well as management and salary policies for the personnel devoted to the Italian activities, in compliance with long term plans and annual budgets of the Company*

and its Group;

b. *engaging, appointing, allocating and dismissing non executive staff devoted to the Italian business activities;*

c. *determining salary conditions for all staff devoted to the Italian business activities pursuant to applicable collective labour agreements or in accordance with the staff recruitment as well as management and salary policies, e.g. with respect to occasional or project or interim employment or to training agreements, in compliance with the relevant Company's plans and policies;*

25. *representing the Company vis-à-vis health insurance and social security organizations;*

26. *signing periodic returns for care insurance and social security institutions and bodies connected with the payments due for employees' contributions;*

27. *issuing staff pay-roll extracts and certificates for public and private bodies, ensuring that obligations on the Company as withholding agent be duly fulfilled, signing for such purposes returns, declarations and any other document and certificate whatsoever, referred to in Sections 1 and 7 of Presidential Decree no. 600 of September 29, 1973, and subsequent amendments; issuing declarations to the banks which grant loans to Company personnel, whereby the Company is bound to deduct repayment instalments and/or residual debt from the salaries of such personnel;*

28. *granting advances on the Staff Severance Fund and loans to employees up to a sum not exceeding the amount that has been set aside by way of Staff Severance Fund in relation to the concerned beneficiary;*

29. *attempting to settle labour disputes in the Company's interest at both union and personal level at conciliation commissions set up in local employment offices, with the power to reach agreements and signing the relevant minutes, pursuant to Sections 410, 411 and 412 of Law no. 533 of August 11, 1973, and subsequent amendments and/or additions;*

30. *performing, vis-à-vis government entities, institutions, bodies and private offices, all the acts and transactions in compliance with current laws, regulations and provisions governing environment protection and health and safety at work;*

31. *formalizing all acts necessary for or anyway connected with inspections and audits on the part of any public Authority as regards health and safety in the workplace, pursuant to Legislative Decree no. 626/1994 and subsequent amendments and/or additions;*

32. *representing the Company vis-à-vis patent and trademark offices, filing and submitting applications to register trademarks, industrial inventions, models and designs at the Italian patent office, the corresponding offices in all foreign countries and in the European Union and in any international bodies, institutions and organizations responsible for industrial property;*

33. *representing the Company in legal proceedings before any Court, including Corte di Cassazione, Corte dei Conti, Consiglio di Stato at all levels of jurisdiction, being fully empowered to appoint lawyers and grant proxies;*

34. *appearing before any civil, administrative and criminal judicial or tax authority in connection with actions and/or litigation and disputes, involving both individual and collective labour matters, or in connection with matters involving compulsory social security and care insurance, complying with all the requirements referred to in Laws No. 300 of May 20, 1970, and No. 533 of August 11, 1973, and subsequent amendments and additions;*

35. *suing and appearing as a civil party, filing petitions and complaints;*

36. *making declarations in the capacity of garnishee;*

37. *executing, signing and submitting all documents, certificates and returns to be addressed to the relevant public bodies, such as tax and VAT returns, also on a consolidated basis;*

38. *implementing the resolutions of the Superior Bodies of the Company.*

*The amount limits set forth under no. 6), 8), 9) and 18) may be doubled where the relevant powers are exercised jointly with the General Manager – Chief Executive Officer or with the Chairman.*

*Within the powers granted to him by the Board of Directors, the General Manager and Managing Director for the Italian activities Mr. Marco Sala may delegate certain acts or groups of acts, and take all other actions that may be necessary for the proper conduct of the Company's business, and grant powers and proxies to the Company's executives or managers."*

During the Board meetings held on August 29 and October 18, 2006, W. Bruce Turner was granted the following powers as Managing Director – General Manager – Chief Executive Officer of the Company:

1. *"preparing the Company's financial statements and the budget and the operational plans to be submitted to the Board of Directors for approval;*
2. *submitting proposals to the competent corporate Bodies;*
3. *preparing for the Board of Directors proposals, within the previously agreed budget thresholds, regarding the acquisition or disposal of equity investments and going concerns, the entering into consortia and partnerships, as well as the purchase, sale or exchange of real estate assets;*
4. *appointing and removing representatives, agents or commission agents and establishing and modifying their rights and duties;*
5. *engaging consultants and advisors for specific tasks connected with the corporate business up to Euro 1,000,000 fee per each engagement, subject to reporting duties vis-a-vis the Board of Directors on the first occasion;*
6. *negotiating and entering into contracts for the day-to-day management of the Company, including contracts for the sale and purchase of products, goods and equipment related to the Company's scope, as well as agreements with government bodies, in any case up to Euro 10,000,000.00 each, and agreeing on all the relevant terms and conditions;*

7. *negotiating contracts with government bodies over Euro 20,000,000 worth to be then submitted to the Board of Directors for approval;*
8. *organizing and awarding prize events or competitions, tenders for the supply of goods, services and works up to a maximum of Euro 10,000,000.00 each, inclusive of (i) entering into, amending and terminating the relevant contracts, (ii) defining the most suitable clauses, such as the arbitration clause, (iii) defining and implementing all required procedures and formalities;*
9. *deciding, executing and performing intra-group transactions or transactions with other related parties (i) at standard conditions, up to Euro 5,000,000.00 each, or (ii) at unusual or atypical conditions, up to Euro 2,000,000.00 each, in both cases in compliance with the relevant laws and the internal regulations governing intra-group transactions and transactions with other related parties;*
10. *collecting any amount due to the Company from any body, enterprise or person and issuing the relevant receipt;*
11. *executing all documents related to the Italian vehicle licensing office (Pubblico Registro Automobilistico);*
12. *taking part in tender, bid, competition proceedings of any kind, both in Italy and abroad, organized by public and/or private entities for the supply of goods or services and/or aimed at obtaining concessions and/or licences of any kind, including entering into consortia and/or temporary partnerships, executing the related contracts and regulations, signing and presenting bids up to Euro 10,000,000.00 each with single signature, or exceeding Euro 10,00,000.00 each if signed jointly with the Chairman or the other Managing Director, signing and presenting price adjustments to the competent commission, taking part in ballots, if any, signing declarations and, in the event of an award, entering into the related contracts, executing them and signing all related documents;*
13. *performing all acts and formalities required to obtain licences, concessions and authorisations in general from government bodies and offices;*
14. *settling any dispute up to Euro 5,000,000.00, appointing arbitrators and signing the relevant documentation binding upon the Company;*
15. *making payments up to Euro 20,000,000.00 each and debiting each of the Company's bank accounts for the relevant amount ;*
16. *collecting letters, packets and parcels received by ordinary, registered and insured mail at post and telegraph offices, shipping companies and airlines and all other transport companies, cashing postal and telegraphic orders, payment orders and cheques of any type and value; requesting and receiving sums, securities, valuables, goods and documents, signing receipts, discharges and disclaimers vis-à-vis any administration and any public or private treasury department; performing any other act and operating at the above-mentioned offices and administrations;*
17. *demanding and endorsing cheques, drafts and bills exclusively for*

- encashment, discounting and depositing in the Company's accounts and protesting them;*
- 18. receiving, opening and paying back deposits, including guarantee deposits, allowing all types of such deposits to be entailed or released up to Euro 10,000,000.00 each;*
  - 19. performing all financial and banking credit and debit transactions necessary for the ordinary management of the Company within the assigned thresholds;*
  - 20. accepting collaterals and/or guarantees, including accepting, setting up, registering and renewing mortgages and liens to the charge of debtors and third parties and to the benefit of the Company, assenting to cancellations and registrations of mortgages to the charge of debtors and third parties and to the benefit of the Company in order to discharge or reduce obligations;*
  - 21. waiving, upon prior authorisation of the Board of Directors, mortgages and mortgage subrogation, including legal mortgages or constructive subrogation, to the charge of debtors or third parties and to the benefit of the Company, and therefore relating to credit items, holding the competent Land Registrars free from all and any liability;*
  - 22. representing the Company in all relations with all trade unions, both employer and employee, and executing agreements with such organizations in the name and on behalf of the Company, negotiating and agreeing settlements and signing the minutes of settlement agreements;*
  - 23. allocating responsibility among the Operational Units as well as among the Staff Units of the Company's subsidiaries and deciding on the relevant organizational structure underlying the general structure laid down by the Company's Board of Directors;*
  - 24. consistently with the guidelines set forth by the Board of Directors:*
    - a. preparing staff recruitment as well as management and salary policies, in compliance with long term plans and annual budgets;*
    - b. engaging, appointing, allocating and dismissing non executive staff;*
    - c. determining salary conditions for all staff pursuant to applicable collective labour agreements or in accordance with the staff recruitment as well as management and salary policies, e.g. with respect to occasional or project or interim employment or to training agreements, in compliance with the relevant Company's plans and policies;*
  - 25. representing the Company vis-à-vis health insurance and social security organizations;*
  - 26. signing periodic returns for care insurance and social security institutions and bodies connected with the payments due for employee contributions;*
  - 27. issuing staff pay-roll extracts and certificates for public and private bodies, ensuring that obligations on the Company as withholding agent be duly fulfilled, signing for such purposes returns, declarations and any other*

- document and certificate whatsoever, referred to in Articles 1 and 7 of Presidential Decree no. 600 of September 29, 1973, and subsequent amendments; issuing declarations to the banks which grant loans to Company personnel, whereby the Company is bound to deduct repayment instalments and/or residual debt from the salaries of such personnel;*
- 28. granting advances on the Staff Severance Fund and loans to employees up to a sum not exceeding the amount that has been set aside by way of Staff Severance Fund in relation to the concerned beneficiary;*
  - 29. attempting to settle labour disputes in the Company's interest at both union and personal level at conciliation commissions set up in local employment offices, with the power to reach agreements and signing the relevant minutes, pursuant to Articles 410, 411 and 412 of Law no. 533 of August 11, 1973, and subsequent amendments and/or additions;*
  - 30. performing, vis-à-vis government entities, institutions, bodies and private offices, all the acts and transactions in compliance with current laws, regulations and provisions governing environment protection and health and safety at work;*
  - 31. formalizing all acts necessary for or anyway connected with inspections and audits on the part of any public Authority as regards health and safety in the workplace, pursuant to Legislative Decree no. 626/1994 and subsequent amendments and/or additions;*
  - 32. representing the Company vis-à-vis patent and trademark offices, filing and submitting applications to register trademarks, industrial inventions, models and designs at the Italian patent office, the corresponding offices in all foreign countries and in the European Union and in any international bodies, institutions and organizations responsible for industrial property;*
  - 33. representing the Company in legal proceedings before any Court, including Corte di Cassazione, Corte dei Conti, Consiglio di Stato at all levels of jurisdiction, being fully empowered to appoint lawyers and grant proxies;*
  - 34. appearing before any civil, administrative and criminal judicial or tax authority in connection with actions and/or litigation and disputes, involving both individual and collective labour matters, or in connection with matters involving compulsory social security and care insurance, complying with all the requirements referred to in Laws No. 300 of May 20, 1970, and No. 533 of August 11, 1973, and subsequent amendments and additions;*
  - 35. suing and appearing as a civil party, filing petitions and complaints;*
  - 36. making declarations in the capacity of garnishee;*
  - 37. executing, signing and submitting all documents, certificates and returns to be addressed to the relevant public bodies, such as tax and VAT returns, also on a consolidated basis;*
  - 38. managing the Company's stock participations referred to companies non operating in Italy, exercising all the related powers and assuming the related decisions, representing the Company in the shareholders meetings*

*and exercising all related powers and voting rights, subject to the prior resolutions of the Company's Superior Bodies for all corporate appointments;*

*39. implementing the resolutions of the Superior Bodies of the Company.*

*The amount limits set forth under no. 6), 8), 9) and 18) above may be doubled where the relevant powers are exercised jointly with the General Manager for the Italian activities or the Chairman.*

*Within the powers granted to him by the Board of Directors, the General Manager – CEO and Managing Director Bruce Turner may delegate certain acts or groups of acts, and take all other actions that may be necessary for the proper conduct of the Company's business, and grant powers and proxies to the Company's executives or managers.*

#### Other powers granted

Limited powers of attorney were also granted on several occasions by the Board of Directors to the following managers of the Company currently in charge:

Renato Ascoli, Manager of Games and Lotteries Division;  
Gianluca Ballocci, Manager of Sports Games Business Unit;  
Mario Bondone, Manager of Resources and Shared Services Department;  
Stefano Bortoli, Chief Financial Officer Italy;  
Emanuela Chiti, Manager of Audit, Quality and Security Department;  
Giorgio Degli Abbati, Manager for Supplies Business Unit;  
Gabriella Fabotti, Manager of Planning, Administration and Control Department;  
Andrea Faelli, Manager of Sales Department;  
Fabrizio Feliziani, Manager of International Relations & Development Department;  
Giuliano Frosini, Manager of Public Relations and Corporate Image;  
Antonio Izzo, Manager of Administration Business Unit;  
Claudia Ricchetti, Manager of Legal Department;  
Maurizio Santacroce, Manager of Lotteries Business Unit.

### **3) Independent Directors**

Pursuant to the Code, an adequate number of Directors of listed companies must be evaluated as independent by the Managing Body on the basis of a non-exhaustive number of examples and hypothesis of relationships between a Director and the Company or any other individual or entity connected to the Company, that would impair the independence and the opinions of the same Director.

The independence of the Directors is periodically assessed and disclosed by Lottomatica. On August 29, 2006, the Board of Directors verified that (i) the newly

co-opted Directors of the Company (Robert Dewey Jr., James F. McCann, Anthony Ruys and Gianmario Tondato Da Ruos, all currently in charge) were eligible as independent Directors, with Gianmario Tondato Da Ruos appointed as Lead Independent Director, and (ii) Paolo Ainio and Severino Salvemini (both also currently in charge) continued to be eligible as independent Directors. All such evaluations were made on the basis of the independence criteria provided for by the 2002 Italian Stock Exchange code.

The last assessment of the independence of the above said Directors was made by the Board of Directors with positive results on March 9, 2007, for the first time on the basis of the more restrictive independence criteria provided for by the Code.

The number and the experience of the independent Directors is deemed adequate to the size of the Board and to the activities of the Company, and ensures the establishment and effective working of the Remuneration as well as the Internal Audit and Compliance Committees, as well as the autonomous management of the Company.

With specific reference to the participation of the independent Directors to the Remuneration as well as Internal Audit and Compliance Committees, the Company believes that their additional remuneration for such tasks does not jeopardize nor affect their independence, also keeping into account that the resulting overall remuneration of the independent Directors is in line with that of similar sized companies.

The correct application of the assessment criteria and procedures adopted by the Board of Directors for evaluating the independence of its members was ascertained by the Board of Statutory Auditors, within the framework of the duties attributed to it by the law.

#### *Lead Independent Director*

The Lead Independent Director represents a point of reference and coordination for the requests and contributions of non-executive and independent Directors.

In particular, the Lead Independent Director has never convened meetings of independent Directors to date, mostly in consideration that, within Lottomatica, this particular office is seen as a chance to contribute to the activity and to the operations of the Board which may be pursued even without formally convening separate meetings of independent Directors.

Moreover, considered the recent introduction of the office of Lead Independent Director, a consolidated experience on the actual role played by him is currently being acquired by the Company.

#### **4) Handling of information**

##### Investor relations

On December 22, 2005 the Board of Directors appointed a new Investor Relator as the reference contact for shareholders, particularly for institutional investors, who further concurs to ensure that press releases concerning the Company and/or its most relevant subsidiaries are disseminated in a correct, continuous and complete manner, in compliance with the policy described below for the processing of the so called “privileged information” (i.e. specific information which might significantly affect the price of Company’s shares, if made public).

Following the Gtech Acquisition, the Investor Relation structure at Gtech Corp. has been increasingly integrated with that of the Company, in order to ensure a prompt centralised internal circulation of world wide information.

##### Management of privileged and non privileged information

In order to ensure a high degree of protection to the information regarding the Company and its subsidiaries, particularly of the privileged information, the Company is equipped with a charter governing the management of privileged and non-privileged information, that has been amended twice in 2006 as well as on March 9, 2007 by the Board of Directors of the Company, in compliance with a number of new law provisions.

According to the charter, privileged information is disseminated through press releases the contents of which are prepared by:

- a) the Company’s Investor Relator, possibly by mutual agreement with other corporate officers, should the privileged information concern the Company; and
- b) the Investor Relator or the equivalent officer of the concerned controlled entity, when available, or its legal representative, should the privileged information concern a controlled entity, in any case by mutual agreement with the Company’s Investor Relator and, possibly, with other corporate officers of the same controlled entity and of the Company.

The draft press releases, prior to their dissemination, are approved by the Company’s competent Managing Director, who is also responsible for prior assessment (i) of whether or not any privileged information actually occurs, and

(ii) of the possible convenience to defer disclosure of the press release itself. Press releases containing privileged information that arouse or were shared during meetings of the Board of Directors or of the Executive Committee are, when possible, shared within said bodies prior to disclosure.

The approved press releases are issued and disseminated without delay under the responsibility of the Company's Investor Relator, and are promptly published on the Company's website. For the above purposes, the Company's Investor Relator may avail itself of third parties trusted by the Company.

Directors and Statutory Auditors are bound by specific internal policies (and by the law) to keep confidential any privileged and non privileged information gained in the course of their activities. Advisors and employees of the Company and its most relevant subsidiaries are also bound by similar provisions, particularly with respect to privileged information acknowledged within the more limited scope of their activities, including information whose nature as privileged information may not be ascertained, and must immediately report any such information to (i) the Investor Relator of the Company, or (ii) the Investor Relator or equivalent officer (if available) or legal representative of the controlled entity they belong to.

In compliance with the above mentioned confidentiality duties, the above persons are strictly forbidden to give interviews to the press or, in general, issue statements or documents containing privileged information, even if on a merely potential basis, unless prior authorization is given by the Company's competent Managing Director, in any case in accordance with the applicable laws and regulations.

Pursuant to the same charter and to recent law provisions, on April 1, 2006, a register of individuals and entities with access to privileged information has been set up by the Company. Such register (i) is kept and updated by the Corporate Affairs department, (ii) contains for at least five years following the expiry of the reasons for their enrollment or update, the full name of individuals (and of at least one reference individual of entities) having access to Company's privileged information, whether on a continuous or occasional basis, for working reasons, as well as the date and reasons of the enrolment of said data and of any relevant update.

During 2006, other registers have been similarly established under the supervision of the Company's Corporate Affairs department, for a selected number of subsidiaries of the Company.

Finally, the charter provides for a series of sanctions as a result of non-compliance with the obligations provided therein, in particular: (i) disciplinary sanctions in case of non-compliance by employees of the Company or controlled

entities, removal from office for members of the managing and supervisory bodies of the Company or of controlled entities, and termination of the engagement for collaborators.

### Internal dealing

During the Board meeting of March 9, 2006 a new version of the code of conduct on internal dealing was also adopted, effective from April 1, 2006, pursuant to new provisions of law and regulations.

Such code provides for:

- the definition of “relevant persons” (and of persons strictly related to them) belonging to or otherwise connected with the Company and its subsidiaries, parent and sister companies, to whom the internal dealing duties are applicable;
- the relevance of transactions carried out by any such person on Company’s shares or share-alike financial instruments in excess of Euro 5,000 per year;
- terms and conditions for the execution of communication and public disclosure duties in the event of any such relevant transaction;
- “black out periods” already identified in the charter (e.g., those days preceding and following the approval of the reports of the Company or of its main subsidiaries), or to be from time to time identified by the Board of Directors, when any relevant person (and persons strictly related to it) shall refrain from executing any transaction on Company’s shares or share-alike financial instruments unless specific exceptions are established by the Board of Directors;
- Company’s Corporate Affairs Department as the competent body to implement the code of conduct on internal dealing;
- penalties against “relevant persons” who fail to comply with the provisions of the code of conduct on internal dealing.

### **5) Internal Committees of the Board of Directors**

The Board of Directors has established among its members two committees with proposing and consultative functions, in addition to the Executive Committee already referred to under Paragraph no. 1 above.

The two Committees (Remuneration Committee and Internal Audit and Compliance Committee) are made up by three Directors each and have been attributed those functions provided for in the Code as well as particular other functions made necessary by the enlargement of the Group following the Gtech Acquisition in 2006.

Each of the above said Committees meets periodically, and the minutes of each meeting are timely prepared and recorded. Some of the top managers of the Company attend the meetings of the Committees with the purpose of actively contributing to the respective activities and in order to assist in drafting the relevant minutes.

In carrying out their duties, the Committees have the right to access the necessary Company's information and departments, according to the procedures set by the Board of Directors, as well as to avail themselves of external consultants, whether on a permanent or occasional basis, within the fee amount established by the Board of Directors.

The Remuneration Committee and the Internal Audit and Compliance Committee are thoroughly described respectively in Paragraphs no. 7 and no. 8 hereinbelow.

## **6) Appointment of Directors**

Section 13 of the By-laws of the Company provides that the members of the Board of Directors are appointed by means of a voting list system in compliance with the provisions of the Savings Protection Law. Section 13 expressly (i) allows shareholders owning at least one fortieth of the share capital, or any other minimum percentage provided for by the law (inclusive of different thresholds Consob may determine pursuant to the law), to submit lists of candidates to the office as Director, (ii) disregards those lists with less than the minimum number of votes provided for by the law and the By-laws (i.e. representing less than one eightieth of the share capital), (iii) requires that the minimum number of Directors provided for by the law (i.e. one) is taken from the list of minority shareholders with the largest number of votes and unrelated with the list ranked first,<sup>1</sup> (iv) requires that in order to be vested as Director, a person must possess the individual requisites provided for by the law, and that an appropriate number of Directors (at least 2) must possess the independence requisites provided by the law.

Each list, which must include – among the others – the *curriculum vitae* of each candidate and clearly identify those candidates deemed eligible as independent

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<sup>1</sup> Such provision is expected to be amended by the next Shareholders' meeting so as to make it clear that the most voted list of minority shareholders must be unrelated with those shareholders who have submitted or voted the list ranked first, rather than with such list.

Directors, must be deposited at the headquarters of the Company within 15 days before the date of the Shareholders' Meeting convened for the appointment of new Directors, and must be published on the website of the Company at the earliest opportunity.

As provided for by the By-laws of the Company, Directors are appointed for a maximum of three financial years, following which they may be available for re-election. Their offices expire on the date of the Shareholders Meeting called to approve the accounts on the last financial year of their appointment. The Directors are replaced in accordance with the provisions of Article 2386 of the Italian Civil Code.

No Committee for the appointment of Directors has been provided to date, given that:

- the appointment of Directors is already thoroughly regulated by the By-laws in compliance with the provisions of the Code;
- pursuant to the provisions governing the Company's public concessions, the appointment, amongst others, of the Chairman and of the Managing Directors must be previously agreed upon by the *Amministrazione Autonoma dei Monopoli di Stato*, which makes the entire process already complicated;
- the parent company of Lottomatica systematically applies best practice criteria to select candidates to the office of Director, with specific reference to the independent Directors.

## **7) Remuneration of Directors**

The Directors are remunerated for their activities upon resolution of the Shareholders' Meeting and, for any special offices attributed to them, upon resolution of the Board of Directors. Particular attention is given by the controlling Shareholder and by the Board of Directors so as to make sure that the overall amount of the remuneration may attract and motivate Directors with the professional skills required for the excellent execution of their offices.

In particular, the remuneration of the executive Directors other than the Managing Directors is determined on a fixed basis and is not linked to the economic results nor to any specific objectives achieved by the Company, since said Directors – especially if considered individually – do not adopt any strategic decision. The remuneration of said Directors is proportional to the commitment requested from them, taking into account their membership of one or more Committees and/or the number of other offices held in the Company.

The remuneration of the Managing Directors and of the top management of the Company, on the other side, is significantly connected to corporate results achieved and/or to the achievement of specific objectives – so as to align their interests to the priority objective of creating value for the Shareholders – and is not necessarily based on the average market remuneration of similar positions. To this end, in addition to MBOs the Company normally adopts stock based plans (stock granting and/or stock option plans) with a three year average vesting period in favour of employees of Lottomatica and/or its subsidiaries, including those employees serving as Directors.

### Stock based plans

In particular, on March 9, 2007 the Board of Directors – upon the proposal of the Remuneration Committee – resolved to propose to the Shareholders’ meeting called for April 23 and 24, next a new stock granting plan and the relevant share capital increase serving also similar plans previously approved, pursuant to Section 2349 of the Italian Civil Code, as well as a new stock option plan to be served through the delegation of powers to increase the share capital granted by the Shareholders’ Meeting on October 18, 2006.

Moreover, during the meeting held on October 18, 2006 the Board of Directors had approved – again upon the proposal of the Remuneration Committee – the terms and conditions of two stock granting plans, pursuant to section 2349 of the Italian Civil Code, and of one stock option plan together with the relevant share capital increase delegated by the Shareholders’ meeting on the same date, in all cases in accordance with the general guidelines set by the Shareholders’ meeting on the same date.

Finally, a so called “roll-over plan” had been approved by the Board of Directors on August 29, 2006, always upon proposal of the Remuneration Committee, in connection with the undertaking of the Managing Directors and of a number of foreign subsidiaries’ top managers to subscribe and make unavailable up to the earliest of (i) 3 years or (ii) termination of their employment relationship within the group a number of Lottomatica shares corresponding to 50% of the net proceeds of their stock based plans as at the time of the closing of the Gtech Acquisition.

### Remuneration Committee

The Board of Directors has established a Remuneration Committee amongst its members, mainly composed of non executive Directors responsible for submitting proposals to the Board of Directors for the remuneration of the Managing Directors and of Board members holding special offices as well as, also at either Managing Director’s proposal, remuneration criteria for the Company’s top

management. Supervision over the implementation of the Board's final decisions, as well as preparation of and supervision over stock based plans – with specific reference to the definition and measurement of the goals – are included within the competences of the Committee.

Following the resignation as member of the Committee of Lorenzo Pellicoli and Paolo Ainio on August 29, 2006, and of Pier Luigi Celli also as a Director on April 12, 2006, the Board of Directors during the meeting held on August 29, 2006 appointed the new members of the Remuneration Committee among those individuals co-opted on the same date. The same Directors were then confirmed members of the Committee during the October 18, 2006 Board meeting.

As of today the Committee results therefore composed of the following members, who are designed to remain in charge up to the date of approval of the financial statements as of December 31, 2007:

Gianmario Tondato Da Ruos                      supervisor;  
Robert Dewey Jr.;  
James F. McCann.

The working of the Remuneration Committee is governed by a charter that was amended by the Board of Directors on March 9, 2007 upon the proposal of the same Committee. Pursuant to a strict internal provision, remuneration proposals are made without the attendance during the meeting of the concerned persons.

During 2006 there were 3 Committee meetings with 100% attendance. As at March 9, 2007, the Committee has met once in 2007.

## **8) Internal control system**

### Overview

The internal control system comprises the Internal Audit and Compliance Committee, the Internal Audit Department and the relevant Head who is also the manager in charge of the internal control system (hereinafter referred to as the "**Audit Manager**"), the Board of Statutory Auditors, the supervisory body provided for by Legislative Decree no. 231 of June 8, 2001, as subsequently amended and integrated (so called "**Surveillance Body**").

As described in Sub-Paragraph (E) hereinbelow, a manager in charge of drawing up the corporate reports and the financial statements (hereinafter referred to as, the "**Accounting Manager**"), as provided for by the By-laws pursuant to the Savings Protection Law, will be included in the above said system as well.

Although the Board of Directors believes that the internal control system is adequate to the size, the structure and the activities of the Company, Lottomatica is constantly striving to improve such system within the Group, also in order to avoid any overlapping of existing internal control activities, particularly following the Gtech Acquisition, and to better and better protect the Company's assets and efficiency, the effectiveness of business transactions, the reliability of financial information, as well as the compliance with laws and regulations.

The internal control system is expected to be reviewed in 2007, also to improve the coordination between the Company and Gtech Corp. and take into due consideration the *best practices* in those most relevant countries where Gtech Corp. operates.

The internal control system normally works in co-ordination with the external Auditor, currently Reconta Ernst & Young S.p.A. engaged by the Shareholders' Meeting in 2005 up to the approval of the financial statements as at December 31, 2007, unless the engagement is extended up to the approval of the financial statements as at December 31, 2013 by the Shareholders' Meeting that has been convened on April 23 and 24, next, pursuant to Article 8 of Legislative Decree no. 303 of December 29, 2006.

#### *The Internal Audit and Compliance Committee*

The Internal Audit and Compliance Committee is an internal body of the Board, mainly composed of independent Directors. In particular, the Committee is responsible for, as provided by the relevant charter lately amended by the Board of Directors on March 9, 2007 upon proposal of the same Committee:

- evaluating, together with the Accounting Manager and with the auditors, the correct utilization of the accounting principles and their consistency for the purpose of the preparation of the financial statements;
- upon request of the executive Director charged of the supervision of the internal control system (hereinafter referred to as the "**Executive Director**"<sup>2</sup>), expressing opinions on specific aspects relating to the identification of the principal risks for the Company as well as on the design, implementation and management of the internal control system;
- reviewing the work plan prepared by the Audit Manager as well as the periodic reports prepared by it;

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<sup>2</sup> The Chairman of the Board of Directors has been appointed as the Executive Director by the Board of Directors on August 29, 2006, coherently with the powers granted to him on the same date (please refer to Paragraph 2 hereof).

- evaluating the proposals submitted by the auditing firm for obtaining the relevant appointment, as well as the work plan prepared for the audit and the results described in the report and the letter of suggestions, if any;
- supervising the validity of the accounting audit process;
- performing any additional duties that are assigned to it by the Board of Directors;
- reporting to the Board at least on a six-month basis, usually upon the approval of the financial statement and of the half yearly report, on its activity as well as on the adequacy of the internal control system.

In 2006 the Internal Audit and Compliance Committee has worked on a continuative basis, as shown by the number of meetings held (4), the attendance of its members (100%), and the reports periodically submitted by its Supervisor to the Board of Directors.

The Board of Directors during the meeting held on December 22, 2005 appointed the following members of the Internal Audit and Compliance Committee, currently in charge:

Severino Salvemini            Supervisor;  
Paolo Ainio;  
Paolo Ceretti,

with Paolo Ceretti contributing with his specific expertise in accounting and finance matters.

In addition to the above tasks, the Internal Audit and Compliance Committee has always been assisting the Board of Directors in defining the guidelines of the internal control system and evaluating, on a six-month basis, the adequacy, effectiveness and actual working of said system.

In 2006 there were 4 Committee meetings with a 100% attendance. Pursuant to the Code, the Chairman of the Board of Statutory Auditors has attended or has delegated an effective Statutory Auditor to attend on his behalf all of the meetings of the Committee held in 2006.

The Internal Audit and Compliance Committee during its 2006 meetings examined the progress made by the internal control system, with specific reference to:

- Savings Protection Law – implementation project: scope, timing and resources;

- presentation of the internal control system and processes of the Lottomatica group, with specific regard to Gtech Corp.;
- integration of the internal audit and compliance systems of Lottomatica and Gtech Corp.;
- final report on the audit activities carried out by the Committee in 2006.

*Manager in charge of the internal control system (Audit Manager) - Executive Director in charge of supervising the internal control system (Executive Director)*

The current Audit Manager (as defined above) was appointed by the Board of Directors during the meeting of 22 December 2005 in person of the Head of the Internal Audit department of the Company, and charged with checking the adequacy, efficiency and actual working of the internal control system and – in the event that anomalies are found – suggesting solutions to the Internal Audit and Compliance Committee or, if serious reasons occur, directly to the competent Managing Director or to the Board of Directors.

The Audit Manager avails itself of the resources of the Internal Audit department of the Company, and coordinates itself with the heads of Internal Audit departments of the main subsidiaries, while external advisors are engaged in the event of particularly relevant matters, such as the implementation project of the Savings Protection Law in 2006, within the budget threshold set by the Board of Directors.

The Audit Manager makes a quarterly report on its activities to the Internal Audit and Compliance Committee and to the Board of Statutory Auditors, with specific reference to the way the internal audit plan is being conducted and to its opinion as to the overall risk profile of the Company.

Moreover, the Audit Manager is not responsible for any operating activity and does not report hierarchically to any other manager of operating departments, including the Administration and Finance departments, and has direct access to all useful information and departments for the performance of its duties. The Audit Manager reports to the Chairman of the Board of Directors in its capacity as the Executive Director (as defined above).

The Executive Director ensures that the main business risks are (i) identified and continuously monitored, taking into account the activities carried out by the Company and its subsidiaries, and (ii) periodically reported to the Board of Directors, normally at the initiative of the Supervisor of the Internal Audit and Compliance Committee.



ascertained that no violations of the compliance program occurred during 2006, which in such respect resulted therefore compliant with the adequacy standards provided for by the law.

Moreover, the compliance program has been reviewed during 2006 so as to take into account recent law provisions concerning, among the others, market abuse behaviours. The new version of the program has been adopted by the Board of Directors on March 9, 2007, and is expected to be extended to the other Italian companies and consortia of the Group by the end of 2007, taking into account any specific characteristic of such companies and consortia.

*Manager in charge of drawing up corporate reports and financial statements (Accounting Manager)*

In compliance with the Savings Protection Law, the extraordinary Shareholders' Meeting of the Company held on October 18, 2006 resolved to amend the Company's By-laws so as to provide, among the others, the mandatory appointment of an Accounting Manager (as defined above).

Pursuant to the revised By-laws, the Accounting Manager:

- shall be appointed and revoked by the Board of Directors, subject to the mandatory opinion of the Board of Statutory Auditors;
- shall be appointed among those executives having a minimum of three years experience as executives with appropriate responsibilities at the Accounting and/or Financial departments of the Company or of similarly sized or organized companies;
- shall be entrusted with adequate authority and instruments to perform the duties assigned to it in accordance with the provisions of law;
- shall set appropriate managing and accounting procedures for the preparation of the annual even consolidated financial statements, and of every other disclosure of financial nature (such procedures are still being finalised);
- shall attest, in a report attached to the annual financial statements and semi-annual reports, the appropriateness and effective application of such procedures, their conformity with the accounting records and their attitude to fairly represent the assets as well as the economic and financial conditions of the Company and its group for the relevant financial period.

Due to the recent and still evolving<sup>3</sup> regulatory framework, the recent introduction of the Accounting Manager by the Italian legislator and the general lack of experience on its responsibilities and activities, as well as to the need to deeply review the administrative and accounting procedures of the Company following the Gtech Acquisition, the Accounting Manager is not expected to take charge prior to mid 2007.

## **9) Directors' interests and related party transactions**

The Board of Directors during the meeting held on December 22, 2005 approved a new version of the internal charter governing intra-group transactions and transactions with other related parties. The charter and/or similar provisions from other sources anyway applicable to the Company generally provide for:

- the definition of intra-group transactions, transactions with other related parties, unusual and atypical transactions and transactions at standard conditions;
- the reservation of the above transactions to the Board of Directors, with limited faculty to delegate them to single Board members who shall in such case report to the Board on the first useful meeting;
- the adoption by the Board of the relevant resolutions (if not delegated to single Board members), after proper examination and on the basis of sufficient information on the way the transaction is to be implemented, the conditions, including the financial terms, the assessment procedure, the reasons for the transaction, the underlying interests and any significant risks for the Company;
- the obligation of each Director having an interest to any transaction, even on behalf of third parties, to report thereon to the Board of Directors and to the Board of Statutory Auditors, where possible also in writing, at least 5 calendar days before the Board meeting convened to resolve on that transaction, specifying the nature, origin, scope and terms of such interest (see paragraph 1 hereinabove for certain other duties of the Directors, also pursuant to Article 2391 of the Italian Civil Code). At the meeting the Director involved, after having answered any questions and provided all necessary explanation, is required to abandon the meeting;
- the collection and despatch to the Legal and Regulatory Affairs department of the aggregate data regarding intra-group transactions and transactions with other related parties on a quarterly basis;

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<sup>3</sup> No Consob enforcing provisions have been issued in such respect so far.

- quarterly reports by the Board of Directors to the Board of Statutory Auditors regarding intra-group transactions and transactions with other related parties.

Finally, in order to ensure that related party transactions are carried out at fair conditions, the Board of Directors normally reverts to independent experts and/or to the Internal Audit and Compliance Committee. Such fairness opinions – that may also concern non related party transactions, when having a particular strategic or economic impact – are aimed at supporting the Board to determine the price and the main terms and conditions of the concerned transactions.

Independent Directors are expressly involved in supervising the execution of related party transactions.

A new version of the charter governing related party transactions might be issued by the Board of Directors once that Article 2391-*bis* of the Italian Civil Code (transactions with related parties) will have been enforced by Consob, with specific reference to the transparency and fairness principles listed companies have to comply with when entering related party transactions.

## **10) Board of Statutory Auditors**

The Board of Statutory Auditors is composed of three effective and two alternate members, all appointed by the Shareholders' Meeting. Statutory Auditors remain in office for three financial years up to the date of the Shareholders' meeting called for the approval of the financial statements relating to the third financial year of their mandate, and may then be renewed.

As provided for by Section 20 of the By-laws, amended in 2006 and expected to be further amended – if the relevant proposals of the Board of Directors will be approved – by the Shareholders' meeting called for April 23 and 24, in both cases in order to implement the Savings Protection Law (new amendments will probably be necessary to reflect Consob enforcing provisions still to be issued), Statutory Auditors are appointed by the Shareholders' ordinary Meeting on the basis of voting lists submitted by Shareholders owning the minimum share capital required by the law, where each list is accompanied by:

- the *curriculum vitae* of the proposed candidates;
- a declaration by which each candidate shall accept the nomination, state the absence of any cause of ineligibility and confirm the possession of all the requirements provided for by the applicable laws and regulations;

- a certificate issued by authorized intermediaries to certify the ownership of the minimum number of shares required to submit the lists.

The above documentation must be deposited by the submitting shareholders at the headquarters of the Company and published in a national daily newspaper at least 15 days before the date the meeting has been convened on first call. The same lists shall be posted on the website of the Company at the earliest opportunity.

Furthermore, as provided by Article 2400 of the Italian Civil Code, prior to accepting their offices the Statutory Auditors shall inform the Shareholders' Meeting on their positions as Directors or Statutory Auditors held in other companies, if any.

The appointment of the Chairman of the Board of Statutory Auditors, if not reserved by the law to the candidates proposed by minority shareholders, is entrusted by means of a resolution of the Shareholders' Meeting to one of the effective Statutory Auditors.

The By-laws provide that in the event that the Chairman or an effective Statutory Auditor taken from a list may not accept the office or, once accepted, ceases its office, such Statutory Auditor shall be replaced by the alternate Auditor taken from the same list, who shall in turn be replaced, as alternate member, by the candidate belonging to the same list and expressly indicated to do so or, alternatively, ranking immediately after him on the list.

Up to the date of approval of the financial statements as of December 31, 2007, the Board of Statutory Auditors appointed in 2005 is composed as follows:

- . Francesco Martinelli, Chairman;
- . Paolo Andrea Colombo;
- . Angelo Gaviani;
- . Giulio Gasloli, alternate member;
- . Marco Sguazzini Viscontini, alternate member.

The Statutory Auditors currently in charge have been appointed pursuant to the criteria provided for by the law and the By-laws, as well as by the 2002 version of the Italian Stock Exchange self-regulatory code. No self-evaluation results to have been conducted by the Statutory Auditors so far as to their compliance with the new independence requirements provided for by the Code, since such requirements have been introduced following the appointment of the Statutory Auditors, and are therefore expected to be applied upon renewal of the Board of Statutory Auditors in 2008.

However, during 2006 and up to date, it has never occurred to learn that a Statutory Auditor had an interest, either directly or on behalf of third parties, in any transaction of the Company. Should this occur, each Statutory Auditor is aware that it shall timely and exhaustively inform the other Statutory Auditors and the Chairman of the Board of Directors about the nature, the terms, origin and extent of its interest, pursuant to the Code.

The By-laws provide that those Statutory Auditors that already hold the position of effective Statutory Auditor in more than five companies listed on regulated markets, excluding parent companies, subsidiaries and companies belonging to the same group as Lottomatica, cannot be appointed as Statutory Auditors of the Company. Such provision is as well expected to be reviewed by the Shareholders' Meeting called for April 23 and 24 in order to ensure the full compliance with the more restrictive cap that is expected to be set by Consob, pursuant to the Savings Protection Law, to the number of management or control offices that Statutory Auditors of listed companies may hold.

Below are the most relevant management and control offices currently held by the effective members in other companies or entities:

Francesco Martinelli      Chairman of the Board of Statutory Auditors or effective Statutory Auditor of the following companies:

Aviofin S.p.A.;  
Actalis;  
Almaviva Consulting S.r.l.;  
Banca Impresa Lazio;  
BNL Edizioni S.r.l.;  
BNL Gestioni S.p.A.;  
BNL Direct Services S.p.A.;  
Cheminova Agro Italia S.r.l.;  
Cooperleasing S.p.A.;  
Alma Viva S.p.A.;  
Alma Viva Technologies S.r.l.;  
Alma Viva - cnr S.C.a.R.l.;  
Alma Viva Finance S.p.A.;  
Alicos S.p.A.;  
Italsiel S.p.A.;  
Servizi in Rete 2001 S.r.l.;  
Arianna 2001 S.p.A.;  
Press & Image S.p.A.;  
Krenesiel S.p.A.;  
Generale Prefabbricati S.p.A.;  
Melior Trust S.p.A.;

Serfactoring S.p.A.;  
Istituto Commercio Estero (ICE);  
Ali Insurance;  
Aviofin;  
CartaLis Imel S.p.A.;  
Consorzio Lotterie Nazionali;  
Consorzio Lottomatica Giochi Sportivi;  
LIS S.p.A.;  
Lottomatica Scommesse S.r.l.;  
Lottomatica Sistemi S.p.A.;  
PCC GS S.p.A.;  
Proteo;  
Lottomatica Videolot Rete S.p.A.;  
Sicos;  
Lottomatica Videolot Gestione S.p.A.;

Paolo Andrea Colombo Chairman of the Board of Statutory Auditors of Ansaldo STS S.p.A.;  
Statutory Auditor of A. Moratti S.a.p.A.;  
Chairman of the Board of Statutory Auditors of ENI S.p.A.;  
Chairman of the Board of Statutory Auditors of Saipem S.p.A.;  
Statutory Auditor of Sirti S.p.A.;  
Statutory Auditor of Angelo Moratti S.a.p.a. Di G. Moratti e M. Moratti;  
Chairman of the Board of Statutory Auditors of Aviva Vita S.p.A.;  
Chairman of the Board of Statutory Auditors of Efibanca Palladio Finanziaria SGR S.p.A.;  
Statutory Auditor of Eigenmann & Veronelli S.p.A.;  
Statutory Auditor of Finanziaria BTB S.p.A.;  
Statutory Auditor of Humanitas Mirasole S.p.A.;  
Statutory Auditor of Intesa Trade SIM S.p.A.;  
Statutory Auditor of Investimenti Infrastrutture S.p.A.;  
Statutory Auditor of CAAM Alternative Investments SGR S.p.A.;  
Statutory Auditor of Quadrante Riqualficazione Quadrante Orientale S.p.A.;  
Statutory Auditor of Sogemi S.p.A.;  
Chairman of the Board of Statutory Auditors of Techint Cimimontubi S.p.A.;  
Director of Mediaset S.p.A.;

Chairman of the Board of Directors of Partecipazioni Italiane S.p.A.;  
Director of SIAS S.p.A.;  
Director of Binda S.p.A.;  
Chairman of the Board of Directors of Forumnet Holding S.p.A.;  
Chairman of the Board of Directors of Open Care S.p.A.;  
Director of GIVI Holding S.p.A.;  
Director of Gianni Versace S.p.A.;  
Director of Interbanca S.p.A.;  
Director of Interbanca Gestione Investimenti SGR S.p.A.;  
Chairman of the Board of Directors of RCS Investimenti S.p.A.;  
Director of RCS Quotidiani S.p.A.;  
Director of Sintesi S.p.A.;

Angelo Gaviani

Statutory Auditor of Augusta Assicurazioni S.p.A.;  
Statutory Auditor of Augusta Vita S.p.A.;  
Statutory Auditor of Banzai S.p.A.  
Statutory Auditor of B&D Holding di Marco Drago e C. S.A.p.A.  
Statutory Auditor of Centro Servizi Toro - CST S.p.A.;  
Statutory Auditor of De Agostini S.p.A.;  
Chairman of the Board of Statutory Auditors of De Agostini Diffusione del Libro S.p.A.;  
Statutory Auditor of De Agostini Editore S.p.A.;  
Statutory Auditor of De Agostini Edizioni Scolastiche S.p.A.;  
Chairman of the Board of Statutory Auditors of Dea Capital S.p.A.;  
Chairman of the Board of Statutory Auditors of Dea Factor S.p.A.;  
Statutory Auditor of De Agostini Partworks Licensing S.p.A.;  
Statutory Auditor of Diffusione Scolastica S.r.l.;  
Statutory Auditor of Fineditor S.r.l.;  
Auditor of Fondazione De Agostini  
Chairman of the Board of Statutory Auditors of Istituto Geografico De Agostini S.p.A.;  
Statutory Auditor of Lottomatica S.p.A.;  
Statutory Auditor of Lottomatica Italia Servizi S.p.A.;

Chairman of the Board of Statutory Auditors of Lottomatica Scommesse S.r.l.;

Statutory Auditor of Lottomatica Sistemi S.p.A.;

Chairman of the Board of Statutory Auditors of Nuova Tirrena S.p.A.;

Statutory Auditor of Toro Assicurazioni S.p.A.;

Statutory Auditor of Toro Targa Assicurazioni S.p.A.;

Statutory Auditor of T'Assicura S.p.A.;

Statutory Auditor of Utet S.p.A.;

Chairman of the Board of Statutory Auditors of Autovictor S.r.l.;

Statutory Auditor of Banca Popolare di Novara S.p.A.;

Auditor of Collegio dei Geometri della Provincia di Novara

Chairman of the Board of Statutory Auditors of Domus S.p.A.;

Statutory Auditor of Famab S.r.l.;

Statutory Auditor of Gigi Molina S.p.A.;

Statutory Auditor of Gruppo Minerali S.p.A.;

Statutory Auditor of Imos S.p.A.;

Statutory Auditor of Liner S.r.l.;

Chairman of the Board of Statutory Auditors of MA.PI. S.r.l.;

Statutory Auditor of M.Dis Distribuzione Media S.p.A.;

Statutory Auditor of Michele Letizia S.p.A.;

Chairman of the Board of Statutory Auditors of Milano Press S.r.l.;

Chairman of the Board of Statutory Auditors of Mineral Resources S.r.l.;

Chairman of the Board of Statutory Auditors of Officine Grafiche Novara 1901 S.p.A.;

Statutory Auditor of Righi S.p.A.;

Statutory Auditor of Saronni S.p.A.;

Statutory Auditor of Sipi S.p.A.;

Statutory Auditor of Spig S.p.A.;

Chairman of the Board of Statutory Auditors of Stoppa Antonio e Figli S.p.A.;

Statutory Auditor of To-Dis S.p.A.

In addition to the functions expressly attributed to the Board of Statutory Auditors by the Italian Civil Code, the Legislative Decree no. 58 of February 24, 1998, and by other relevant provisions of law, the Board of Statutory Auditors is entrusted by the Code with other functions and responsibilities, or with functions and responsibilities provided for by the law only in general terms.

In particular, the Board of Statutory Auditors shall periodically monitor the independence of the external auditors, having regard to the relevant law provisions as well as to the nature and extent of services other than the audit provided to the Company and its subsidiaries, if any, by the same auditing firm and the entities belonging to its network. The Board of Statutory Auditors shall also ensure that a continuous flow of information is kept between the Company and the external auditors on all new appointments to key positions, respectively, for purposes of monitoring the non-existence of causes of incompatibility pursuant to the law.

To the above said extents, the external auditors are systematically invited to attend to the meetings of the Board of Statutory Auditors.

The Statutory Auditors normally engage the Internal Audit Department to make assessments on specific operating areas or on specific transactions of the Company. To such an extent, the Head of Internal Audit is systematically invited to attend the meetings of the Board of Statutory Auditors, and the annual audit plan is prepared taking into consideration the requests and suggestions of the Statutory Auditors.

Furthermore, the systematic attendance of the Chairman of the Board of Statutory Auditors, or of any Auditor designated by the Chairman, to the Internal Audit and Compliance Committee meetings ensures an adequate flow of information also between these two bodies.

Other forms of cooperation with the Statutory Auditors are currently being evaluated in the context of a global review of the internal control system following the Gtech Acquisition.

During 2006 there were 4 meetings of the Board of Statutory Auditors with an attendance of 100%. The Company promotes and encourages the attendance by the top management of the Company to the meetings of the Board of Statutory Auditors upon request on either part. Designees of each Managing Director, as well as the CFO for the Italian activities and the responsible for the Legal and Regulatory department have systematically attended the meetings in addition to the responsible of the Internal Audit department.

## **11) Relations with the Shareholders**

### **Protection of minority Shareholders**

The Company, even though subjected to the controlling Shareholder, has always promoted the broadest and aware participation of the Shareholders to the

Shareholders' meetings and, more in general, their participation to the life of the Company through a number of initiatives aimed at easing the exercise of minority Shareholders' rights.

Also to this end, the following Sections of the By-laws were amended by the extraordinary Shareholders meeting of October 18, 2006 immediately after the entry into force of the Savings Protection Law and well before the end of the implementation period initially granted by such Law:

- Section 8, concerning the procedures to call the Shareholders' Meeting, was amended in order to grant to Shareholders representing at least 2.5% of the share capital the right to ask, within 5 days from publication of the call for meeting, the integration of the meeting's agenda;
- Section 13, concerning the appointment of the Board of Directors by voting lists, was amended so as to ensure that the minimum number of Directors reserved to minorities be taken from the minority list that obtained the largest number of votes, but without being anyway linked, even indirectly, with the list that ranked first by number of votes (the Board of Directors has proposed to the Shareholders' meeting called for April 23 and 24, 2007 to further amend this Section so as to make it clear that any such link must rather be avoided with those Shareholders who presented or voted the list ranked first). Furthermore, Section 13 has been amended in order to allow Shareholders representing, alone or together with other Shareholders, at least 1/40 of the share capital, or any other different percentage provided by the law, to submit voting lists;
- Section 20 was amended so as to provide that that the office as Chairman of the Board of Statutory Auditors, if not reserved by the law to the candidates expressed by the minorities, be appointed by the Shareholders' Meeting among the effective Statutory Auditors.

Further amendments will be submitted to the Shareholders in the coming Shareholders' Meeting (April 23 and 24, 2007) in order to promote the role of minorities within the Company; other amendments might also become necessary once that Consob will have issued new enforcing provisions governing, among the other, the appointment of the Statutory Auditors.

Since the amendments made on October 18, 2006, there has been no particular need to provide new minimum percentages to allow minorities to exercise their rights, also in consideration of the continuity in the market capitalization of the Company, of the adequacy of the percentages currently provided for in the By-

laws and of the opportunity to wait for the issue by Consob of the relevant enforcing provisions.<sup>4</sup>

### Shareholders' meetings

Shareholders' meetings are governed by an internal charter first approved by the Shareholders on December 11, 2000 and ultimately amended on September 21, 2005, which is published on the website of the Company and made available to those participating to each Shareholders' meeting.

The Company publishes in a specific section on its website the information concerning the Company that is material to encourage its Shareholders to participate to the meetings and increase their awareness on the items of the agenda (e.g. the notice of call, the reports of the Board of Directors on each item of the agenda and the lists of candidate Directors and Statutory Auditors).

Similar information is made available to all those in attendance and read by the Chairman or the Secretary during the discussion on each item meeting.

At the end of each meeting, the relevant minutes, press releases and notices on the modalities of exercising Shareholders' rights are published on Lottomatica's website.

Always in order to allow the broadest participation it is customary that:

- the Company relies on a congruous number of personnel in order to facilitate the course of each meeting;
- notices of call are usually published on 2 or 3 main national newspapers, whereby Shareholders are reminded to (i) timely deliver the documentation enabling them to participate to the meeting and (ii) attend the meeting with reasonable advance, especially when representing a number of Shareholders;
- resolutions are normally taken by public ballot whose results are simultaneously calculated by electronic devices.

The Shareholders meetings represent a chance for sharing - in compliance with the provisions regulating the processing of corporate information and especially of privileged information - information on future strategies and on the general business trend of the Company. To this end, Directors and Statutory Auditors, as

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<sup>4</sup> In such regard it has to be noted that the Company's By-laws currently provide for a 2% stock participation threshold – compared to the 2.5% minimum threshold provided for by the draft Consob regulations – for the submission of lists of candidates to the office of Statutory Auditor.

well as representatives of the audit firm when the annual financial statements are to be presented, are recommended to attend the Shareholders' Meetings.

Moreover, during the meeting held on April 12, 2006, the then Chairman and Managing Director informed the Shareholders on his intention to resign from the said offices as at the forthcoming closing of the Gtech Acquisition, while during the October 18, 2006 meeting the Chairman offered a few key elements on, among the others, the main guidelines for the integration of Lottomatica and Gtech Corp. following the Gtech Acquisition, and explained the strategic value underlying the stock based plans traditionally adopted by the Company to achieve ambitious corporate goals.

#### Investor relator

The Board of Directors has identified in 2002 and later on December 22, 2005 a person responsible for handling the relationships with the Shareholders, with specific reference to institutional Shareholders.

The Investor Relator attends to the section of the Company's website dedicated to the investor relations and, under the supervision of the CFO for the Italian activities of the Company, attends to the relations with the Italian Stock Exchange, as well as with journalists and analysts.

The Investor Relator is further engaged to select and summarize the corporate information to be addressed to the market, in coordination with the investor relations departments of the main Company's subsidiaries, with specific reference to the management of privileged information in accordance with the charter better described under Paragraph 4 hereinabove.