



LOTTOMATICA GROUP S.p.A.

Viale del Campo Boario, 56/d – 00154 Rome

Share capital Euro 152,286,837.00 entirely paid in

VAT Code, tax code and registration with the Companies Register of Rome no. 08028081001

Subject to direction and coordination by De Agostini S.p.A.

**EXPLANATORY REPORT BY THE BOARD OF DIRECTORS ON THE
FIRST ITEM ON THE AGENDA, FOR THE EXTRAORDINARY PORTION,
OF THE SHAREHOLDERS' MEETING CALLED ON 20 AND 23 2009, FIRST
AND SECOND SESSIONS, RESPECTIVELY**

First item on the agenda, for the extraordinary portion – “Proposal to a paid, divisible capital increase, excluding the option right pursuant to art. 2441, paragraph 5, of the Italian Civil Code, for a maximum amount (including the share premium) of Euro 350,000,000.00 (three hundred fifty million euros), through the issue of new ordinary shares to be offered to Mediobanca – Banca di Credito Finanziario S.p.A. (or to another banking or financial entity designated by it) in the context of a broader transaction involving the issue by UBI Banca International S.A. of mandatory exchangeable bonds into Lottomatica’s ordinary shares falling due in 2012. Amendment of art. 5 of the By-laws; related and consequent deliberations.”

Dear Shareholders,

The board of directors has called you to participate in an extraordinary shareholders’ meeting, in order to submit to your attention a proposal for a paid, divisible, capital increase, excluding the option right pursuant to art. 2441, paragraph 5, of the Italian Civil Code, for a total amount (including share premium) of Euro 350,000,000.00 (three hundred fifty million euros), through the issue of up to no. 19,728,536 ordinary shares to be offered to Mediobanca – Banca di Credito Finanziario S.p.A. (“Mediobanca”) (or to another banking or financial entity designated by it) as part of a broader transaction involving the issue by UBI Banca International S.A. of mandatory exchangeable bonds into Lottomatica’s ordinary shares falling due in 2012 (the “Mandatory Exchangeable Bonds”).

The purpose of this report is to illustrate the proposal for a capital increase, pursuant to art. 2441, paragraph 6, of the Italian Civil Code, arts. 72 and 92 of the Regulation adopted by Consob through resolution no. 11971/99, as subsequently amended, as well as art. 3 of Ministerial Decree no. 437/98.

1. REASONS AND PURPOSE OF THE CAPITAL INCREASE

This proposal for a capital increase is aimed at providing the Company with financial resources to be applied toward the pursuit of its objectives of promoting growth and maintaining the group’s leadership position in the gaming market.

In particular, the share capital increase will contribute to finance – within the context of the tender commenced on August 15, 2009 by the Italian Ministry of Economy and Finance–Monopolies Autonomous Administration for the selection of the concessionary

for the exercise of public gaming called “national lotteries” with instantaneous extraction (so-called “scratch and win” games) – the renewal of the concession of scratch and win.

Lottomatica, which has submitted a request to participate to the tender through the Consorzio Lotterie Nazionali (in which Lottomatica owns a 63% stake), shall pay to the Treasury in November 2009 up to a maximum of Euro 315 million, equal to its share of the license-fee for the new nine-year concession of scratch and win. Further, should the Consorzio Lotterie Nazionali be the only concessionary of the scratch and win license, Lottomatica’s *una tantum* share, to be paid in November 2010, shall be equal to Euro 189 million. The Company intends to fund this investment in a manner consistent with maintaining investment-grade credit ratings.

The share capital increase will also contribute to the financing of investments in the video-lotteries sector. In particular, Lottomatica group shall pay, by October 31, 2009, for its 50% contribution to acquire video-lotteries rights in Italy, for an amount of approximately Euro 81 million.

The share capital increase is hence aimed at meeting the Company’s upcoming commitments and pursue the objectives of a balanced financial structure, among which, as a priority, the maintenance of the current investment-grade credit rating.

The subscription of the newly issued shares will be reserved to Mediobanca or to another banking or financial entity designated by it (the “Depositary Bank”) as part of a broader transaction involving the issue of Mandatory Exchangeable Bonds issued by a third party, UBI Banca International S.A. (the “Issuer”).

2. EXCLUSION OF THE OPTION RIGHT

The capital increase will be reserved to the Depositary Bank, to support the issue of the Mandatory Exchangeable Bonds to be converted into Lottomatica’s shares deriving from the capital increase.

The transaction proposed allows the Company to take advantage of the international market of institutional investors in equity-linked instruments, through the subscription of shares on the part of the Depositary Bank which will pay for such subscription using the

proceeds to be paid to it by the Issuer in the context of a swap agreement. The Issuer will pay such amounts using the resources collected through the issuance of the Mandatory Exchangeable Bonds.

We are therefore of the view that:

- There exists a precise interest on the part of the Company to garner financial resources to be used to pursue its development plans and, in particular, the renewal of the scratch and win concession and the investments in the video-lotteries sector above-mentioned through a transaction directed at the equity-linked products market;
- As compared with a direct issuance by the Company of convertible bonds that are convertible into newly issued shares, the transaction being proposed has the advantage of constituting an actual paid capital increase which allows for a capital increase in the Company as of the issue date and not as the result of the conversion of instruments offered on the market.

3. Description of the transaction

The Company granted to Mediobanca a mandate to act as Global Coordinator and Bookrunner for the transaction and Bayerische Hypo und Vereinsbank AG – Milan Branch (“UBM”) will act as Co-Lead Manager.

The shares deriving from the capital increase with exclusion of the option right pursuant to art. 2441, paragraph 5, of the Italian Civil Code, will be reserved to the Depositary Bank in the context of a broader transaction involving the issue by UBI Banca International S.A., as Issuer, of Mandatory Exchangeable Bonds. The Depositary Bank has undertaken to subscribe the shares deriving from the share capital increase.

The Depositary Bank will pay the subscription price of the new shares to the Company using the proceeds received from the Issuer under a special swap agreement entered into between the Depositary Bank and the Issuer. The Issuer will pay the above amounts to the Depositary Bank using the proceeds deriving from the issue of the Mandatory Exchangeable Bonds.

More specifically, the subscription price of said Mandatory Exchangeable Bonds will be determined, in accordance with standard practice for this type of transaction, by increasing the market value of Lottomatica's shares at the time of the launch of the transaction by a conversion premium, to be established by the placement banks taking into account market demand during the placement. When it subscribes the newly issued shares, the Depositary Bank will pay to the Company an amount ranging between the market value of the shares and the proceeds from the issuance of the convertible bond issue (which, as already mentioned, would include the conversion premium).

In the context of a swap agreement with Mediobanca (or other entity of the group), upon payment by the Company to Mediobanca (or other entity of the group) of periodic payments in an amount corresponding to the amounts due under the coupons of the bonds, the Company will receive from the latter a portion of the amounts received from the Issuer, plus the amount already received upon the subscription of the shares.

Through the foregoing transactions, and thanks to the swap, the Company may benefit from proceeds corresponding to the conversion premium paid by investors as part of the subscription price of the Mandatory Exchangeable Bonds (or to the portion of the premium not paid as subscription price of the capital increase).

In conclusion, the capital increase transaction through an issue of shares which will later become the conversion shares related to the financial instruments issued by the Issuer will allow the Company:

- to gain access to the market of investors in equity-linked instruments, thus obtaining resources to be used to pursue the Company's development plans and, in particular, the renewal of the scratch and win concession and the investments in the video-lotteries sector;
- to realize, in a short time frame, an increase in the company's share capital as of the time of issue;
- to benefit from the conversion premium paid by investors as part of the subscription price of the Mandatory Exchangeable Bonds.

Therefore, the transaction being proposed allows for the exclusion of the option right pursuant to art. 2441, paragraph 5, of the Italian Civil Code, since it allows the Company to realize in an optimal manner its interest in obtaining new risk capital on the market, reinforcing its assets and diversifying its financial structure.

4. COMPOSITION OF FINANCIAL INDEBTEDNESS

The share capital increase is aimed at implementing development projects of the Company, with particular reference to the Italian market. As such, the proceeds deriving from the share capital increase will not be applied toward reducing or changing the Company's financial indebtedness.

5. GENERAL INDICATIONS ON THE TREND IN THE COMPANY'S BUSINESS DURING THE FINANCIAL YEAR IN PROGRESS

The six month financial report as of June 30, 2009 of the Lottomatica group was approved on July 30, 2009 and is available at the Company's registered office, at Borsa Italiana and on the Company's website www.lottomaticagroup.com.

The Company will approve the interim financial statements as of 30 September 2009 by the deadline provided by law, 14 November 2009. The approval of the interim financial statements and public access to the same will be announced to the market in the manner provided for by laws and regulations.

Expected trend in business

The financial crisis has caused considerable changes in consumer behavior at worldwide level. The considerable measures taken by the governments of various countries have sustained the real economy during 2009, with the first signs of inversion of the trend in some industrial sectors. The expectations on the performance of the financial market, which has continued positively in the third semester, remain any way characterized by some volatility.

The gaming market continues in a positive trend. Therefore the Group has succeeded in confirming the performance anticipated, also as a consequence of the corporate strategy

focusing on highly select investments implemented over recent years; and it has registered a steady progression in revenues and earnings. Many of the Group's clients, that are mainly, directly or indirectly, governments or governmental institutions, are in search of new opportunities to facilitate growth in government revenues arising from the gaming market, at a historical time in which revenues have fallen substantially, causing increasing financial requirements. In the gaming market in Italy, some relevant opportunities for the Group are expected to occur over the course of the last quarter of 2009; some of them have already been indicated at the time of the preparation of the Company's consolidated financial statements as of June 30, 2009, with particular reference to the Italian market.

In this very delicate context, the Group expects to generate increases in revenues and in EBITDA in all of its business segments, confirming the growth rate indicated in April 2009, and confirmed in the press release issued on 20 October 2009.

6. EXISTENCE OF UNDERWRITING AND/OR PLACEMENT SYNDICATES, COMPOSITION OF THE SAME, AND TERMS AND CONDITIONS OF THEIR MANDATES

Mediobanca has undertaken to guarantee the subscription of the Mandatory Exchangeable Bonds up to a maximum amount of EUR 250 million and UBM has undertaken to guarantee the subscription of the Mandatory Exchangeable Bonds up to a maximum amount of EUR 50 million. Therefore, the issue is guaranteed up to an overall maximum amount of EUR 300 million. Further, the Depositary Bank has undertaken to subscribe the shares deriving from the share capital increase.

7. OTHER PLACEMENT METHODS

No other placement methods are envisaged.

8. CRITERIA FOR THE DETERMINATION OF THE ISSUE PRICE OF THE NEW SHARES

For purposes of setting the issue price of the shares reserved for subscription on the part of the Depositary Bank, it must be taken into account that the Depositary Bank will pay the subscription price to the Company using the proceeds that it will have received from the

Issuer under the above-mentioned swap agreement, while the Issuer will use the funds collected through the issue of the Mandatory Exchangeable Bonds.

Therefore, the price at which the Depository Bank will subscribe the new shares will be determined in accordance with the issue price of the Mandatory Exchangeable Bonds.

As already stated, the price of the Mandatory Exchangeable Bonds will be determined, as usual market practice for these transactions, increasing the market value of Lottomatica's shares at the moment of the launch of the transaction of a conversion premium determined by the placement banks taking into account market conditions.

The conversion premium or a part of it will be paid by the Company to the Depository Bank (or other entity of the Group) in the context of a swap agreement (the "Company Swap Agreement"). Therefore, the issue price of the new shares will be equal to the issue price of the instruments decreased of the premium or of the part of it which is the object of a payment obligation in favor of the Company pursuant to the Company Swap Agreement.

More specifically, the market value of Lottomatica's shares at the moment of the launch of the transaction (and, hence, the issue price of the new shares) will be equal to the volume weighted average price of Lottomatica's shares on four consecutive trading days following the launching day.

The value so determined (the "Reference Price") is the first component of the issue price of the Mandatory Exchangeable Bonds. Regarding such price, the conversion premium will be equal to 15% (the "Premium"). The sum of the Reference Price and the Premium represents the maximum amount that the Depository Bank may pay for the subscription of the new shares.

In determining the price that the Depository Bank will pay in the share capital increase reserved to it, it is necessary to take into consideration the criteria used for the determination of the issue price of shares in the context of share capital increases with the exclusion of option rights pursuant to Article 2441, paragraph 5, of the Italian Civil Code.

Pursuant to art. 2441, paragraph 6 of the Italian Civil Code, in the context of a capital increase with exclusion of the option right pursuant to paragraph 5 of art. 2441 of the Italian Civil Code, the issue price of the shares reserved for subscription on the part of the Depository Bank must be determined on the basis of the value of net shareholders' equity, also taking into account the trend in the share market price over the last six months.

Consistently with market practice for this kind of transactions, the six-month period average taken into account for determining the criteria for establishing the issue price is the one preceding the date in which the board of directors has approved the share capital increase proposal. In the event that the six-month period would also take into account a period following the board of directors meeting, the trend in the share market price would be impacted by the disclosure of the transaction to the market and therefore could be subject to fluctuations with respect to the ordinary course of the share price in the market place.

Taking all the above into account, the issue price of the new shares will be determined on the basis of the data related to the amount of the Reference Price and of the Premium, to be communicated by the placement banks of the Mandatory Exchangeable Bonds upon conclusion of the period applicable to survey the prices of Lottomatica's shares for such purpose.

Once such data is garnered, the issue price of Lottomatica's new shares may be fixed taking into account the performance of the share market price in the six-month period preceding the resolution of the board of directors (the "Six-month Average"), with a margin of deviation of 10%, which is considered an ordinary deviation both with respect to the equity market in general and to the performance of Lottomatica's share price in the last three years, on the basis of the following criteria:

- where the Reference Price will be lower than the Six-month Average, the issue price of the Lottomatica's new shares will be equal to the Reference Price increased of a portion of the Premium determined in function of the difference between the Six-month Average and the Reference Price;
- where the Reference Price will be higher than the Six-month Average, the issue price of the Lottomatica's new shares will be equal to the Reference Price.

It being understood that the issue price cannot be lower than the value of the shareholders' equity.

9. SHAREHOLDERS WHO HAVE EXPRESSED THEIR WILLINGNESS TO SUBSCRIBE THE SHARES, ON A PRO-RATA BASIS IN LINE WITH THEIR RESPECTIVE SHAREHOLDINGS, AND ANY UNEXERCISED OPTION RIGHTS

Not applicable since the capital increase will be carried out with exclusion of the option right pursuant to art. 2441, paragraph 5 of the Italian Civil Code.

10. ENVISAGED TIMETABLE FOR THE COMPLETION OF THE TRANSACTION

Depending upon market conditions, it is expected that the newly issued shares will be offered for subscription to the Depositary Bank by the end of this year.

11. ENTITLEMENT TO THE SHARES

The shares to be issued will grant to their holders ordinary entitlement and hence rights that are the same as those attached to the shares already outstanding at the time of issue.

12. PRO-FORM ECONOMIC AND FINANCIAL EFFECTS

The impact of the subscription of the entire share capital increase on the shareholders' equity and on the financial position of the Lottomatica's group, taking into consideration the consolidated balance sheet as of June 30, 2009, should be the following:

| <i>(thousands of Euros)</i> | <u>June 30,</u> <u>2009</u> | <u>Pro-forma</u> <u>adjustments</u> | <u>June 30, 2009</u> <u>Pro-forma</u> |
|--|--------------------------------|--|--|
| Shareholders' Equity | | | |
| Share capital | 152,287 | 19,728 | 172,015 |
| Share Premium Reserve | 1,139,071 | 284,620 | 1,423,691 |
| - Ancillary costs to the share capital | | (12,000) | (12,000) |
| - Tax effects | | 3,878 | 3,878 |
| Treasury shares | (65,964) | | (65,964) |
| Retained earnings | 87,842 | | 87,842 |
| Other reserves | <u>263,920</u> | <u>-</u> | <u>263,920</u> |

| | | | |
|-----------------------------------|------------------|----------------|------------------|
| | 1,577,156 | 296,226 | 1,873,382 |
| Minority interest | <u>40,059</u> | <u>-</u> | <u>40,059</u> |
| Total Shareholders' Equity | <u>1,617,215</u> | <u>296,226</u> | <u>1,913,441</u> |

| <i>(thousands of Euros)</i> | June 30, 2009 | Pro-forma adjustments | June 30, 2009 Pro- forma |
|---------------------------------|-------------------------|--------------------------|--------------------------------|
| Cash and cash equivalents | 66,063 | 304,348 | 370,411 |
| Short term financial credits | 9,800 | 3,878 | 13,678 |
| Current financial debt | 91,180 | 12,000 | 103,180 |
| Net short-term debt (liquidity) | 15,317 | (296,226) | (280,909) |
| Long-term debt | 2,677,428 | | 2,677,428 |
| Net financial position | <u>2,692,745</u> | <u>(296,226)</u> | <u>2,396,519</u> |

The following is a description of the impact of the pro-forma adjustment on the single items of the shareholders' equity and balance sheet of the Group:

a: the adjustment makes reference to the issue of No. 19,728,536 shares of Lottomatica with a par value of Euro 1,00;

b: the increase of the share premium reserve results from the difference between the subscription price net of:

- The estimate of the incidental expenses connected to the overall transaction;
- The deferred taxes related to the incidental expenses of the share capital increase:

c: the amount refers to the overall liquidity resulting from the share capital increase.

13. POSSIBLE DILUTION OF THE VALUE PER SHARE AND IMPACT OF THE SHARE CAPITAL INCREASE ON THE CURRENT SHAREHOLDING STRUCTURE

The issue price of the shares will be determined on the basis of the criteria indicated in the preceding paragraph 8; therefore, the information regarding the possible dilution of the value of the shares per unit is not available as of the date of this report.

Assuming the full subscription of the maximum No. 19,728,536 shares resulting from the share capital increase by the Depository Bank, the impact on the holdings of the shareholders that have shares in excess of 2% of the share capital would be the following:

| Shareholders | No. Shares before the share capital increase | % | No. Shares after the share capital increase | % |
|---|--|------------|--|------------|
| Assicurazioni Generali S.p.A. | 4,989,596 | 3.276 | 4,989,596 | 2.901 |
| B&D Holding di Marco Drago e C. Sapa | 90,980,318 | 59.743 | 90,980,318 | 52.891 |
| Lottomatica S.p.A. | 3,346,190 | 2.197 | 3,346,190 | 1.945 |
| Mediobanca S.p.A. | 11,321,779 | 7.435 | 11,321,779 | 6.582 |
| The Royal Bank of Scotland Group Plc | 3,500,000 | 2.298 | 3,500,000 | 2.035 |
| Depository Bank Market | - | - | 19,728,536 | 11.469 |
| | 38,148,954 | 25.051 | 38,148,954 | 22.177 |
| Total | 152,286,837 | 100 | 172,015,373 | 100 |

* * *

Dear Shareholders,

In consideration of the foregoing, we ask that you approve the following proposal:

“The shareholders’ meeting of Lottomatica Group S.p.A., in extraordinary session,

- Having reviewed the proposals formulated by the board of directors;
- Having taken into account the declaration by the Chairman of the Board of Statutory Auditors attesting that the share capital is fully paid;
- Having taken into account the congruity opinion issued by the auditing firm Reconta Ernst & Young S.p.A. pursuant to art. 2441, paragraph 6, of the Italian Civil Code

RESOLVES

- a) To effect a paid, divisible increase in the share capital with exclusion of the option right pursuant to art. 2441, paragraph 5, of the Italian Civil Code, for a maximum amount (including the share premium) of Euro 304,348,179.165 (three hundred four million three hundred forty-eight thousand and one-hundred and seventy nine Euro and one-hundred and sixty-five cents), through the issuance of up to 19,728,536 ordinary shares having a nominal value of Euro 1.00 each, with ordinary entitlement, to be reserved for

subscription on the part of Mediobanca – Banca di Credito Finanziario S.p.A. (or to another banking or financial entity designated by it), as part of a broader transaction involving the issuance by UBI Banca International S.A., of mandatory exchangeable bonds to be converted into Lottomatica's ordinary shares (Mandatory Exchangeable Bonds), falling due in 2012, at an issue price of Euro 15.4268 per share, Euro 14.4268 of which represents the share premium, to be calculated on the basis of the criteria approved by the Board of Directors and indicated in the explanatory report;

- b) To set the final deadline for subscription of the newly issued share on the part of the Depository Bank as 1 February 2010, it being agreed that if the capital increase has not been subscribed in full as of such date, the capital shall be deemed increased by the amount of the subscriptions attained;
- c) to amend consequently art. 5 of the Company's By-laws, inserting in paragraph 5.1 the amount of the share capital resolved as a consequence of the foregoing resolution: *“The share capital was agreed to be a total of Euro 180,857,821, the underwritten and paid up portion of which amounts to Euro 152,286,837, divided into 152,286,837 ordinary shares each with a nominal value of Euro 1.00 all with equal rights. The share capital can also be increased through contributions in kind or of receivables”* and adding the following new paragraph 5.7: *“The extraordinary shareholders' meeting of 20 November 2009 has resolved to increase the share capital with exclusion of the option right pursuant to art. 2441, paragraph 5, of the Italian Civil Code, for a maximum amount (including the share premium) of Euro 304,348,179.165 (three hundred four million three hundred forty-eight thousand and one-hundred and seventy nine Euro and one-hundred and sixty-five cents), through the issuance of up to 19,728,536 ordinary shares having a nominal value of Euro 1.00 each, with entitlement ordinary, to be reserved for subscription on the part of Mediobanca – Banca di Credito Finanziario S.p.A. (or to another banking or financial entity designated by it), as part of a broader transaction involving the issuance by UBI Banca International S.A., of mandatory exchangeable bonds to be converted into Lottomatica's ordinary shares (Mandatory Exchangeable Bonds), falling due in 2012,, at an issue price of Euro 15.4268 per share, Euro 14.4268 of which represents the share premium”*;
- d) To grant to the Chairman of the board of directors and to each Managing Director in office *pro tempore*, each on a several basis with the possibility of sub-delegation of powers within the limits provided by law, all powers, in the broadest sense, to take all actions necessary for the implementation of the resolutions adopted, and to fulfill all formalities

and take all actions that may be required by law, including the filing of such resolutions, with a right to make any amendments or supplements thereto that may be requested by the competent authorities or on the occasion of registration and, in general, anything that may be necessary to ensure the complete execution of the resolutions, with all powers that may be necessary or opportune to such end, without any exclusion or exception.

Rome, 18 October 2009

Lottomatica Group S.p.A.

On behalf of the Board of Directors

Chairman