



Lottomatica S.p.A.

(incorporated in the Republic of Italy as a joint stock company)

€750,000,000 Subordinated Interest-Deferrable Capital Securities due 2066

Issue price: 100%

The €750,000,000 subordinated interest-deferrable capital securities (the "**Securities**") of Lottomatica S.p.A. (the "**Issuer**") represent subordinated obligations of the Issuer, ranking on a liquidation, dissolution or winding-up of the Issuer senior only to the share capital and other equity interests in the Issuer, as described under "Terms and Conditions of the Securities–Status" herein. Interest on the Securities will accrue from (and including) May 17, 2006 (the "**Issue Date**") to (but excluding) March 31, 2016 (the "**Reset Date**") at a fixed rate of 8.25% per annum, and will be payable (subject as described under "Terms and Conditions of the Securities–Deferrals of Interest" herein) annually in arrear on March 31 in each year (each, a "**Fixed Rate Payment Date**") commencing on March 31, 2007 and ending on (and including) the Reset Date, except that the first payment of interest to be made on March 31, 2007 shall be in respect of the period from (and including) the Issue Date to (but excluding) March 31, 2007. Thereafter, interest will accrue from (and including) the Reset Date to (but excluding) the Floating Rate Payment Date (as defined below) falling in March, 2066 (the "**Maturity Date**") at a floating rate of interest equal to six-month EURIBOR (as defined herein) plus a margin of 5.05% per annum, and will be payable (subject as aforesaid) semi-annually in arrear in March and September in each year (subject to adjustment as described herein) (each, a "**Floating Rate Payment Date**" and, together with the Fixed Rate Payment Dates, the "**Interest Payment Dates**") commencing on the Floating Rate Payment Date falling in September, 2016 and ending on (and including) the Maturity Date, all as described under "Terms and Conditions of the Securities–Interest" herein. Interest on the Securities will accrue at a higher rate in the event that a Change of Control Event (as defined herein) occurs and the Issuer does not elect to redeem the Securities, as described under "Terms and Conditions of the Securities–Redemption and Purchase–Change of Control Call Event".

The Issuer may, at its option, elect to redeem all but not some only of the Securities in cash (i) at their principal amount, on the Reset Date or any Floating Rate Payment Date thereafter, or on any date prior to the Reset Date upon the occurrence of certain withholding tax events, or (ii) at the Make-Whole Price (as defined herein), on any date prior to the Reset Date upon the occurrence of certain other tax events or a Change of Control Event, in each case together with all accrued but unpaid interest (including any deferred interest), all as described under "Terms and Conditions of the Securities–Redemption and Purchase". The Securities will be mandatorily redeemed in cash by the Issuer at 101% of their aggregate principal amount together with all accrued but unpaid interest on the earlier of the termination of the Merger Agreement (as defined herein) in accordance with its terms or October 10, 2006, if the Acquisition (as defined herein) is not completed. See "Terms and Conditions of the Securities–Redemption and Purchase–Mandatory Redemption Event".

Investing in the Securities involves risks. See "Risk Factors" beginning on page 29.

Application has been made for the Securities to be admitted to the official list and to be traded on the regulated market of the Luxembourg Stock Exchange, a regulated market for the purposes of Directive 2004/39/EC. This offering circular constitutes a prospectus within the meaning of Directive 2003/71/EC.

The Securities are expected to be assigned on issue a rating of Ba3 by Moody's Investors Service Limited and BB + by Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies Inc. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time and without notice by the assigning rating agency. Each rating should be evaluated independently of any other rating.

The Securities have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended, (the "**Securities Act**") or any state securities laws, and may be offered or sold only (i) outside the United States to certain institutional investors in offshore transactions in reliance on Regulation S under the Securities Act ("**Regulation S**") or (ii) within the United States, or to or for the account or benefit of U.S. persons, to qualified institutional buyers ("**QIBs**") (as defined in Rule 144A under the Securities Act ("**Rule 144A**")) in transactions exempt from the registration requirements of the Securities Act. For a description of restrictions on transfer and resale, see "Transfer Restrictions".

Securities which are initially offered and sold in reliance on Regulation S will be evidenced by a global certificate in registered form without interest coupons (the "**Unrestricted Global Certificate**"). Securities which are initially offered and sold in reliance on Rule 144A will be evidenced by a separate global certificate in registered form without interest coupons (the "**Restricted Global Certificate**") and, together with the Unrestricted Global Certificate, the "**Global Certificates**"). The Global Certificates will be deposited with a nominee of a common depositary of Euroclear Bank, S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") and registered in the name of a nominee of such common depositary. Beneficial interests in the Global Securities shall be shown on, and transfers thereof shall be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective direct or indirect participants.

Sole Bookrunner and Structuring Advisor
Credit Suisse

Joint Lead Managers

Credit Suisse

Goldman Sachs International

The date of this Offering Circular is May 10, 2006.

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Prospective investors should rely only on the information contained in this offering circular (the “Offering Circular”). The Issuer has not authorised anyone to provide prospective investors with information that is different. This Offering Circular may only be used where it is legal to sell these Securities.

IN CONNECTION WITH THE OFFERING, CREDIT SUISSE SECURITIES (EUROPE) LIMITED AS STABILISING MANAGER (OR ANY PERSON ACTING FOR IT) MAY OVER-ALLOT (PROVIDED THAT THE AGGREGATE PRINCIPAL AMOUNT OF SECURITIES ALLOTTED DOES NOT EXCEED 105% OF THE AGGREGATE PRINCIPAL AMOUNT OF THE SECURITIES) OR EFFECT TRANSACTIONS WITH THE VIEW TO SUPPORTING THE MARKET PRICE OF THE SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE CAN BE NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSON ACTING ON ITS BEHALF) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE SECURITIES IS MADE AND, IF BEGUN, MAY BE DISCONTINUED AT ANY TIME, BUT MUST END NO LATER THAN 30 DAYS AFTER THE ISSUE DATE AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE SECURITIES. SUCH STABILISING SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES, INCLUDING REGULATION M UNDER THE SECURITIES ACT.

The Issuer, having made all reasonable enquiries, confirms that the Offering Circular contains all information with respect to the Issuer which is material in the context of the issue and offering of the Securities, that the information relating thereto contained herein is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed by the Issuer herein and relating thereto are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts relating to the Issuer the omission of which would, in the context of the issue and offering of the Securities, make this Offering Circular as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect and that all reasonable enquiries have been made by the Issuer to verify the accuracy of such information.

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of its knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Securities have not been, and will not be, registered under the Securities Act or the securities laws of any state of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as such terms are used in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Securities are being offered or sold only (i) outside the United States to certain institutional investors in offshore transactions in reliance on Regulation S or (ii) within the United States, or to or for the account or benefit of U.S. persons, to QIBs in reliance on an exemption from registration under the Securities Act (including Rule 144A). Prospective investors are hereby notified that the sellers of the Securities may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain other restrictions on offers, sales and transfers of Securities and the distribution of this Offering Circular, see “Plan of Distribution” and “Transfer Restrictions”.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Issuer or the Joint Lead Managers (as defined herein) or the Trustee (as defined herein) to subscribe for, or purchase, any of the Securities in any jurisdiction in which such offer or invitation is not authorised or would be unlawful. The distribution of this Offering Circular and the offer and sale of Securities may be

restricted by law in some jurisdictions. Persons into whose possession this Offering Circular or any of the Securities comes are required by the Issuer and the Joint Lead Managers to inform themselves about, and to observe, any restrictions. See “Plan of Distribution” and “Transfer Restrictions”.

By purchasing the Securities, investors will be deemed to have made the acknowledgments, representations, warranties and agreements set out under “Transfer Restrictions”. These Securities are subject to restrictions on transferability and resale and may not be transferred or resold in the United States or to U.S. persons except as permitted under applicable U.S. federal and state securities laws pursuant to a registration statement or an exemption from registration. Prospective investors should understand that they may have to bear the financial risks of their investment for an indefinite period of time.

Neither of the Joint Lead Managers or the Trustee makes any representation or warranty, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or either of the Joint Lead Managers or the Trustee that any recipient of this Offering Circular should purchase the Securities. In making an investment decision, prospective investors must rely on their own examination of the Issuer’s business and the terms of this offering. Prospective investors should not consider any information contained in this Offering Circular to be investment, legal, business or tax advice. Each prospective investor should consult its own counsel, business adviser, accountant, tax adviser and other advisers for legal, financial, business, tax and related advice regarding an investment in the Securities.

In connection with this offering of Securities, the Joint Lead Managers are acting for the Issuer and no one else and will not be responsible to anyone other than the Issuer for providing the protections offered to their clients nor for providing advice in relation to the offering of Securities.

The information set out in the sections of this Offering Circular describing clearing arrangements is subject to any change or reinterpretation of the rules, regulations and procedures of Euroclear and Clearstream, Luxembourg, in each case as currently in effect. The information in such sections concerning these clearing systems has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy of such information. If prospective investors wish to use the facilities of any of the clearing systems, they should confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. The Issuer will not be responsible or liable for any aspect of the records relating to, or payments made on account of, book-entry interests held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such book-entry interests.

No person is authorised in connection with any offering made by this Offering Circular to give any information to or to make any representation not contained in this Offering Circular and, if given or made, any other information or representation must not be relied upon as having been authorised by the Issuer or the Joint Lead Managers. The information contained in this Offering Circular is correct as of the date hereof and subject to change without notice, and nothing contained herein is or shall be relied upon as a promise or representation, whether as to the past or the future. Neither the delivery of this Offering Circular at any time nor any subsequent commitment to enter into any financing shall, in any circumstances, create any implication that there has been no change in the information set forth in this Offering Circular or in the Issuer’s affairs since the date of this Offering Circular.

Investors should rely only on the information set forth in this Offering Circular when making a decision to invest in the Securities. Neither the Issuer nor the Joint Lead Managers have authorised anyone to provide investors with any different, supplemental or other information. Although the Issuer has applied, through J.P. Morgan Bank Luxembourg S.A., the listing agent, to list the Securities on the official list of the Luxembourg Stock Exchange, it cannot guarantee that the application to the Luxembourg Stock Exchange will be approved as of the settlement date for the Securities or at any time thereafter.

The Issuer reserves the right to withdraw this offering of Securities at any time and it reserves the right to reject any commitment to subscribe for the Securities in whole or in part and to allot to potential investors less than the full amount of Securities subscribed by them.

It is expected that the delivery of the Securities will be made against payment therefor in U.S. dollars in same-day funds on or about the Issue Date. The Securities offered and sold outside the United States to non-U.S. persons in reliance on Regulation S (the “*Unrestricted Securities*”) will be represented initially by the Unrestricted Global Certificate. The Securities offered and resold within the United States to QIBs in reliance on Rule 144A (the “*Restricted Securities*”) will be represented initially by the Restricted Global Certificate. Except in the limited circumstances described herein, definitive certificates with respect to individual holdings of Securities will not be issued in exchange for interests in the Unrestricted Global Certificate or the Restricted Global Certificate.

The Global Certificates will be deposited with a common depository of Euroclear and Clearstream, Luxembourg and registered in the name of a nominee of such common depository. Beneficial interests in the Global Securities shall be shown on, and transfers thereof shall be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective direct or indirect participants.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT ANY EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO ITALIAN INVESTORS

No application has been made by the Joint Lead Managers to obtain an authorisation from the *Commissione Nazionale per le Società e la Borsa* (“*CONSOB*”) for the public offering of the Securities in the Republic of Italy.

This Offering Circular has not been submitted to the clearance procedures of CONSOB and may not be used in connection with any offering of the Securities in the Republic of Italy other than (i) to “professional investors” (*investitori professionali*), within the meaning set forth under Article 100, paragraph 1, Section (a) and Article 30, paragraph 2 of Legislative Decree No. 58 of February 24, 1998 (the “*Italian Finance Act*”), as defined in Article 31, paragraph 2, of CONSOB Regulation No. 11522 of July 1, 1998, as subsequently amended or supplemented (the “*Regulation on Intermediaries*”), or (ii) pursuant to Article 100 of the Italian Finance Act and Article 33, paragraph 1 of CONSOB Regulation No. 11971 of May 14, 1999 (the “*Regulation on Issuers*”), as amended or supplemented and, in any event, in each case, in compliance with applicable Italian laws and regulations and with any requirements or limitations which may be imposed by CONSOB or the Bank of Italy.

Any offer or delivery of Securities or any distribution of a preliminary Offering Circular or of the final Offering Circular within the Republic of Italy in connection with this offering must be conducted either by banks, investment firms (as defined in the Italian Finance Act) or financial companies enrolled in the special register provided for by Article 107 of Legislative Decree No. 385 of September 1, 1993, as amended (the “*Italian Banking Act*”), to the extent such entities are authorised to engage in the placement and/or purchase of financial instruments in the Republic of Italy in accordance with the relevant provisions of the Italian Finance Act, the Regulation on Intermediaries and/or any other applicable laws and regulations. Any such offer must be effected in compliance with Article 129 of the Italian Banking Act and the implementing instructions of the Bank of Italy, as well as in accordance with any other securities, tax and exchange control laws and regulations and other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Each Joint Lead Manager understands that the Securities cannot be offered or sold to any individual in the Republic of Italy either in the primary market or the secondary market.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes forward-looking statements. These forward-looking statements include, but are not limited to, all statements other than statements of historical fact contained in this Offering Circular including, without limitation, those regarding Lottomatica’s future financial position and results of operations, Lottomatica’s strategy, plans, objectives, goals and targets, future developments in the markets in which it participates or is seeking to participate or anticipated regulatory changes in the markets in which it operates or intends to operate. In some cases, prospective investors can identify forward-looking statements by terminology such as “aim”, “anticipate”, “believe”, “continue”, “could”, “estimate”, “expect”, “forecast”, “guidance”, “intend”, “may”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “trend”, or “will” or the negative of such terms or other comparable terminology.

By their nature, forward-looking statements involve risks, uncertainties and assumptions because they relate to events and depend on circumstances that may or may not occur in the future. Lottomatica cautions prospective investors that forward-looking statements are not guarantees of future performance, are based on numerous assumptions and that Lottomatica’s actual results of operations, including Lottomatica’s financial condition and liquidity and the development of the industry in which Lottomatica operates, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this Offering Circular. In addition, even if Lottomatica’s results of operations, including Lottomatica’s financial condition and liquidity and the development of the industry in which it operates, are consistent with the forward-looking statements contained in this Offering Circular, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to:

- risks related to the nature of Lottomatica’s business and Lottomatica’s dependence upon the Lotto concession (as described below) and Lottomatica’s other concessions;
- Lottomatica’s obligations to return assets upon any termination of the Lotto and other concessions, including (if the acquisition of GTECH Holdings Corporation (“*GTECH*”) (the “*Acquisition*”, as described below) is consummated) certain of GTECH’s concessions;
- risks associated with the substantial indebtedness of the combined group after the Acquisition;
- risks associated with the requirement to post performance bonds or to pay substantial monetary damages for default under Lottomatica’s concessions and service contracts;
- the status and outlook of pending litigation and other legal and regulatory actions or proceedings;
- disruptions of Lottomatica’s business operations due to network interruptions;

- Lottomatica's ability to carry out its growth strategy through internal growth as well as through selective acquisitions;
- risks associated with Lottomatica's international expansion strategy;
- the success of the operation and expansion of Lottomatica's services business;
- certain restrictions on the ability of third parties to acquire control of Lottomatica;
- interests of Lottomatica's principal shareholder;
- risks relating to conducting business in a highly regulated industry;
- risks deriving from illegal betting;
- Lottomatica's ability to consummate the Acquisition;
- if the Acquisition is consummated, risks relating to GTECH's business;
- if the Acquisition is consummated, the integration of Lottomatica's operations with GTECH's operations;
- early termination of Lottomatica's or, if the Acquisition is consummated, GTECH's lottery contracts;
- expenses or restructuring charges associated with the Acquisition, if consummated;
- risks associated with the terms of the Securities;
- risks associated with market demand for the Securities; and
- other factors discussed in this Offering Circular.

Lottomatica urges prospective investors to read the sections of this Offering Circular entitled "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations—Lottomatica", "Management's Discussion and Analysis of Financial Condition and Results of Operations—GTECH", "Business—Lottomatica", "Business—GTECH", and "Market Overview" for a more complete discussion of the factors that could affect Lottomatica's future performance and the markets in which it operates. In light of these risks, uncertainties and assumptions, the forward-looking events described in this Offering Circular may not occur. Lottomatica undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information or future events or developments.

PRESENTATION OF FINANCIAL INFORMATION

Lottomatica's financial statements as of and for the year ended December 31, 2005 included in this Offering Circular were prepared in accordance with International Financial Reporting Standards ("**IFRS**") and its financial statements as of and for the years ended December 31, 2004 and 2003 were prepared in accordance with generally accepted accounting principles in the Republic of Italy ("**Italian GAAP**"). In addition, Lottomatica's audited consolidated financial statements as of and for the year ended December 31, 2004 prepared in accordance with Italian GAAP have been reconciled to IFRS for purposes of comparison with 2005. The audited reconciliation of the financial statements as of and for the year ended December 31, 2004 from Italian GAAP to IFRS is included elsewhere in this Offering Circular. GTECH's financial statements for the fiscal years ended February 25, 2006, February 26, 2005 and February 28, 2004 included in this Offering Circular were prepared in accordance with generally accepted accounting principles in the United States ("**U.S. GAAP**"). GTECH's financial statements for the period ended December 31, 2005 included in this Offering Circular were prepared in accordance with IFRS. References herein to the fiscal year of Lottomatica are to the year ended December 31, and references to the fiscal year of GTECH are to the applicable 52- or 53-week period ended in February.

The audited consolidated financial statements of Lottomatica and GTECH included in this Offering Circular are the historical consolidated financial statements of Lottomatica as of and for the years ended December 31, 2005, 2004 and 2003 and of GTECH as of and for the years ended February 25, 2006, February 26, 2005 and February 28, 2004. The audit reports covering the consolidated financial statements of (i) Lottomatica as of and for the years ended December 31, 2005; 2004 restated in accordance with IFRS as adopted by the EU; 2004 and 2003 and of (ii) GTECH as of and for the years ended February 25, 2006, February 26, 2005 and February 28, 2004 are included in this Offering Circular beginning on pages A-1, A-64, A-89, and C-1, respectively. The audit report covering the consolidated financial statements of GTECH prepared in accordance with IFRS as of and for the period ended December 31, 2005 is included in this Offering Circular beginning on page D-8. The unaudited consolidated financial statements of Lottomatica as of, and for the period ended, March 31, 2006 are included in this Offering Circular beginning on page B-1.

The consolidated *pro forma* financial information as of and for the year ended December 31, 2005 presented in this Offering Circular is based on available information and certain assumptions that Lottomatica believes are reasonable. The financial information of GTECH included therein is derived from audited consolidated financial statements of GTECH as of and for the period ended December 31, 2005, which were specially prepared in accordance with IFRS for the purposes of such *pro forma* financial information; such financial statements are included in this Offering Circular. The consolidated *pro forma* financial information is presented for illustrative purposes only and does not purport to represent what the actual results of operations would have been if the events for which *pro forma* adjustments were made had occurred on the dates assumed, nor does it purport to project Lottomatica's results of operations for any future period or Lottomatica's financial condition at any future date. Lottomatica's future operating results may differ materially from the *pro forma* amounts set out in this Offering Circular due to various factors, including changes in operating results.

Italian GAAP, IFRS and U.S. GAAP differ from each other, see "Appendix E—Lottomatica—Summary of Certain Significant Differences Among Italian GAAP, IFRS and U.S. GAAP".

IFRS differ in certain respects from U.S. GAAP. For a discussion of the difference between IFRS as compared to U.S. GAAP relating to the financial information of GTECH, see "Appendix F—GTECH—Summary of Significant Differences Between U.S. GAAP and IFRS".

Certain numerical figures set out in this Offering Circular, including financial data presented in millions or thousands and percentages, have been subject to rounding adjustments and, as a result, the totals of the data in this Offering Circular may vary slightly from the actual arithmetic totals of such information.

MARKET SHARE INFORMATION AND STATISTICS

Unless otherwise indicated, estimates and statements regarding the size of certain markets, the competitive position of Lottomatica or GTECH and other statistics included in this Offering Circular regarding market trends or Lottomatica's or GTECH's market position relative to competitors are either derived from or based on, publicly available data, or Lottomatica's internal data collection and analysis. Although Lottomatica believes that such external sources are reliable, it has not independently verified such information.

EXCHANGE RATES

The following table sets forth, for the periods indicated, high, low, average and period end noon buying rates in the City of New York for cable transfers between the euro and U.S. dollar, as certified for customs purposes by the Federal Reserve Bank of New York, expressed in U.S. dollars per €1.00. The rates may differ from the actual rates used in the preparation of the consolidated financial statements and other financial information appearing in this Offering Circular. Lottomatica makes no representation that the

euro or U.S. dollar amounts referred to in this Offering Circular have been, could have been or could, in the future, be converted to euro or U.S. dollars, as the case may be, at any particular rate, if at all. On May 10, 2006, the noon buying rate in the City of New York for cable transfers between euro and U.S. dollars as certified for customs purposes by the Federal Reserve Bank of New York was U.S.\$1.2799 to €1.00.

<u>Year</u>	<u>U.S. dollars per €1.00</u>			
	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>Period End</u>
2001	0.95	0.84	0.90 ⁽¹⁾	0.89
2002	1.05	0.86	0.95 ⁽¹⁾	1.05
2003	1.26	1.04	1.13 ⁽¹⁾	1.26
2004	1.36	1.18	1.24 ⁽¹⁾	1.35
2005	1.35	1.17	1.24 ⁽¹⁾	1.18
 <u>Month</u>				
November 2005	1.21	1.17	1.18 ⁽²⁾	1.18
December 2005	1.21	1.17	1.19 ⁽²⁾	1.18
January 2006	1.23	1.20	1.21 ⁽²⁾	1.22
February 2006	1.21	1.19	1.19 ⁽²⁾	1.19
March 2006	1.22	1.19	1.20 ⁽²⁾	1.21
April 2006	1.26	1.21	1.22 ⁽²⁾	1.26
May 2006 (through May 10, 2006)	1.28	1.26	1.27 ⁽²⁾	1.28

(1) The average of the noon buying rates on the last business day of each month during the relevant period.

(2) The average of the daily noon buying rates for each business day during the relevant period.

As used in this offering circular, “*U.S.\$*”, “*dollar*” or “*U.S. dollar*” refers to the lawful currency of the United States of America, and “*€*” or “*euro*” refers to the lawful currency of those countries participating in the Third Stage of European Economic Monetary Union of the Treaty Establishing the European Community, as amended from time to time.

SUMMARY

This summary highlights selected information about Lottomatica and the offering of the Securities contained in this Offering Circular. This summary does not contain all the information prospective investors should consider before investing in the Securities. The following summary should be read in conjunction with, and is qualified in its entirety by, the more detailed information included in this Offering Circular, including the financial statements of Lottomatica and GTECH and the related notes thereto. Prospective investors should read carefully the entire Offering Circular to understand Lottomatica's businesses, the nature and terms of the Securities and the tax and other considerations which are important to a prospective investor's decision to invest in the Securities, including the risks discussed under the caption "Risk Factors". Unless the context otherwise requires, the terms "Issuer" and "Lottomatica" refer to Lottomatica S.p.A. and its subsidiaries, and the term "GTECH" refers to GTECH Holdings Corporation.

Overview

Lottomatica is one of the largest lottery operators in the world, based on total wagers, and a leader in the Italian gaming industry. Lottomatica has built an extensive real-time, on-line distribution network, with approximately 133,000 terminals in approximately 77,000 points of sale throughout the Republic of Italy (including approximately 17,000 points of sale where Lottomatica provides only processing services for third parties), comprised of tobacconists, bars, petrol stations, newspaper stands and motorway restaurants. Lottomatica has leveraged its distribution and transaction processing competence to expand its activities beyond Lotteries and also provides commercial, payment and other processing services through its network. Lottomatica currently operates three businesses in two segments: (i) Lotteries and Gaming, comprising Lotto, Instant and Traditional Lotteries and Sports Pools and Other Pari-Mutuel Betting, and its Gaming Machines business and (ii) Services, consisting of its commercial, payment and other processing services businesses. For the year ended December 31, 2005, Lottomatica generated Total Revenues of €582.7 million, EBITDA of €266.0 million and Operating Profit of €212.3 million. See "Presentation of Financial Information" and "—Summary Consolidated Historical and *Pro Forma* Financial Data".

Since 1993, Lottomatica has been the sole concessionaire for the Italian Lotto game, which is the largest on-line lottery in the world in terms of wagers, according to La Fleur's 2005 World Lottery Almanac. Lotto is a traditional game that was played off-line for centuries. Lottomatica commenced operating Lotto in 1994. Since Lottomatica established the on-line infrastructure for Lotto, wagers have grown significantly, stabilising in recent years in the region of €7 billion–€8 billion per year, from €2.8 billion in 1995. Managing Lotto has provided Lottomatica with substantial experience in managing all the activities along the lottery value chain, such as collecting wagers through its network, paying out prizes, managing all accounting and other back-office functions, running advertising and promotion, operating data transmission networks and processing centers, training staff, providing retailers with assistance and supplying materials for the game. For the year ended December 31, 2005, Lottomatica generated Revenues from Lotto of €432.3 million or approximately 74.2% of its Total Revenues.

In addition to Lotto, Lottomatica operates the following lotteries and games:

- *Instant and Traditional Lotteries:* Instant Lotteries are off-line lotteries consisting of scratch-off tickets with hidden numbers, letters and/or symbols that participants scratch off and immediately know whether they have won, and Traditional Lotteries are off-line lotteries in which players purchase tickets with the winning ticket(s) being drawn on a later date.
- *Sports Pools and Other Pari-Mutuel Betting:* Sports Pools and Other Pari-Mutuel Betting include pari-mutuel games in which players bet on the outcome of, and number of goals scored in, sporting events, usually soccer matches (e.g., Totocalcio, "9" and Totogol) and other pari-mutuel games in which players wager on other sports events, horse racing, motor sports, cultural events and current affairs.

- *Gaming Machines*: Lottomatica provides information technology services for Gaming Machines. Gaming Machines are electronic machines involving elements of skill or entertainment and risk, and having random winnings. In the coming years, Lottomatica intends to seek to expand the contribution of its Gaming Machines business through growth in video-lottery terminals, for which all current Gaming Machine concessionaires in the Republic of Italy are permitted to provide information technology services commencing in 2006.

For the year ended December 31, 2005, Lottomatica generated Revenues of €512.2 million from its Lotteries and Gaming segment, equal to approximately 87.9% of its Total Revenues.

Lottomatica also offers the following automated payment and distribution services:

- *Commercial Services*: Lottomatica distributes services for commercial operators (*i.e.*, electronic top-up services distributed by Lottomatica for pre-paid mobile and fixed-line telephone accounts, and ticketing for sporting and musical events) and collects payments from end-users.
- *Payment Services*: Lottomatica collects payments from consumers for both private sector enterprises (*i.e.*, for the payment of utility bills) and public sector entities (*i.e.*, fines, local taxes and television license fees).
- *Processing Services*: Lottomatica provides technology infrastructures to third parties for the processing of transactions (*i.e.*, car road taxes, third party electronic top-ups for pre-paid mobile telephones, some minor taxes and loyalty programs and stamp duties printing).

For the year ended December 31, 2005, Lottomatica generated Revenues of €64.7 million from its Services segment, equal to approximately 11.1% of its Total Revenues.

In addition, in 2006 Lottomatica expects to launch stored value services, which consist of issuing and acquiring services related to pre-paid debit cards.

A critical component of Lottomatica's operations is its distribution network. Lottomatica originally developed its network to provide on-line terminals for Lotto. Lottomatica's various networks now comprise an extensive real-time, on-line network, comprised of tobacconists, bars, petrol stations, newspaper stands and motorway restaurants. Lottomatica uses its networks to distribute lotteries and other games, provide information technology services for Gaming Machines and offer commercial, payment and other processing services. Lottomatica maintains four separate networks for Lotto, Sports Pools and other Pari-Mutuel Betting, Gaming Machines, and Services. The Lotto, Sports Pools and other Pari-Mutuel Betting and Services networks and terminals also support Instant and Traditional Lotteries.

Lottomatica's Proposed Acquisition of GTECH

On January 10, 2006, Lottomatica, Gold Holding Co., a newly formed subsidiary of Lottomatica (known as "**Holdings**"), Gold Acquisition Corp., another newly formed indirect subsidiary of Lottomatica (known as the "**Acquisition Subsidiary**") and GTECH entered into an agreement and plan of merger (the "**Merger Agreement**") pursuant to which Holdings will acquire GTECH by way of a merger between the Acquisition Subsidiary and GTECH (the "**Merger**"), for U.S.\$35.00 in cash per outstanding share of GTECH, for a total transaction value of approximately €4.0 billion, including the assumption of GTECH's existing indebtedness. GTECH is a leading provider of gaming technology and services worldwide. Based on data published in La Fleur's 2005 World Lottery Almanac, Lottomatica believes the combined group resulting from the Acquisition (the "**Combined Group**") will be one of the world's largest lottery services companies and will either operate or provide equipment or services to on-line lotteries representing approximately 60% of the worldwide on-line lottery market based on total wagers. The Combined Group will have operations in over 50 countries worldwide and approximately 6,300 employees. On a *pro forma* basis after giving effect to the Acquisition, 2005 revenues for the Combined Group would have been approximately €1.6 billion and adjusted EBITDA for the Combined Group would have been €682 million.

Completion of the Acquisition is subject to receipt of financing, approval by GTECH shareholders, regulatory approvals, receipt of contract assignment assurance from certain significant lottery customers, Lottomatica maintaining a *pro forma* investment grade corporate credit rating, and other customary conditions.

GTECH

GTECH is a leading provider of gaming and technology solutions worldwide with U.S.\$1.3 billion in revenues in its fiscal year ended February 25, 2006 and approximately 5,300 employees on six continents. GTECH leverages its global lottery experience and capabilities to offer a full range of game content and solutions and financial transaction processing services. GTECH is the world's leading operator of highly-secure on-line lottery transaction processing systems, doing business in 51 countries worldwide, and GTECH has a growing presence in commercial gaming technology and financial services transaction processing. GTECH's core market is the lottery industry, for which it designs, sells and operates a complete suite of lottery-enabled point-of-sale terminals that are electronically linked with a centralised transaction processing system which mediates lottery funds between the retailer, where a transaction is enabled, and the lottery authority. GTECH currently operates, provides equipment and services to, or has entered into contracts to operate or provide equipment and services in the future to, 26 of the 43 on-line lottery authorities in the United States, and 60 of the 122 non-U.S. on-line lottery authorities. In its fiscal year ending February 25, 2006, which is referred to as its fiscal 2006, GTECH had revenues of U.S.\$1.3 billion, operating income of U.S.\$340.7 million and net cash provided by operating activities of U.S.\$429.6 million.

GTECH provides integrated on-line lottery transaction processing solutions, services and products to governmental lottery authorities and governmental licensees worldwide. GTECH offers its customers a full range of lottery technology services, including the design, assembly, installation, operation, maintenance and marketing of on-line lottery systems and instant-ticket support systems. GTECH's lottery systems consist of numerous lottery terminals located in retail outlets, central computer systems, systems software and game software, and communications equipment which connects the terminals and the central computer systems. In its fiscal 2006, approximately 84% of GTECH's revenues were related to its on-line lottery services and products. In its fiscal 2004, GTECH further enhanced its product offering and leadership position when it acquired Interlott Technologies, Inc., a leading provider of instant ticket vending machines for the worldwide lottery industry.

In recent years, GTECH has taken steps to broaden its offerings of services outside of its core market of providing on-line lottery services into the gaming technology and commercial services markets. During its fiscal 2005, GTECH entered into an agreement with the owners of the privately-held Gauselmann Group ("**Gauselmann**") to acquire a 50% controlling equity interest in the Atronic group of companies ("**Atronic**") owned by Gauselmann. Atronic, the leading video gaming machine provider in Europe, Russia and Latin America, has a growing presence in the United States and is licensed in 209 worldwide gaming jurisdictions. Subject to obtaining required regulatory and gaming license approvals and to the satisfaction of other closing conditions, the agreement, as amended, provides for this acquisition to close not later than December 2007. In addition, during its fiscal 2005, GTECH's majority-owned commercial services subsidiary, PolCard S.A. ("**PolCard**"), completed the acquisition of BillBird S.A., the leading provider of electronic bill payment services in Poland. In appropriate circumstances, GTECH has extended its on-line and video lottery product offerings through acquisitions. During its fiscal 2005, GTECH completed the acquisition of Spielo Manufacturing, Inc. ("**Spielo**"), a leading provider of video lottery terminals and related products and services to the global gaming industry.

Competitive Strengths of the Combined Group

Lottomatica believes that the combination of GTECH and Lottomatica will create one of the world's leading gaming solutions providers that will be well positioned to capture growth opportunities in global

gaming markets. In addition, Lottomatica also believes that the combination will create a full service global gaming company with strong international brands, which will benefit from the following key strengths:

Leading Market Position in the Global Lotteries Market. Based on data published in La Fleur's 2005 World Lottery Almanac, Lottomatica believes the Combined Group will be one of the world's largest on-line lottery services companies and will either operate or provide equipment or services to on-line lotteries representing approximately 60% of the worldwide on-line lottery market based on total wagers. By leveraging the economies of scale provided by GTECH's international reach and drawing on Lottomatica's and GTECH's experience in the lottery, gaming and processing services businesses, Lottomatica believes the Combined Group will have the ability to offer its services and products more competitively, while maintaining the ability to generate returns with stable and predictable margins. In addition, Lottomatica believes that GTECH, as the existing technology provider, benefits from the general unwillingness of its customers to run the risk of service failures that a change in technology provider upon the expiration of an existing contract may produce. These factors, Lottomatica believes, will provide the Combined Group with a competitive advantage over existing competitors and any potential new entrants in the lotteries, gaming and processing services markets.

Integrated Technology and Operating Expertise. Lottomatica believes its combined businesses will benefit from a unique set of complementary expertise in technology and operations. By leveraging GTECH's strong market recognition as one of the leading providers of technology platforms and systems to the lottery industry and Lottomatica's expertise achieved from operating for over twelve years the Italian Lotto, the world's largest on-line lottery in 2005 according to La Fleur's 2005 World Lottery Almanac, Lottomatica believes the Combined Group will be able to provide a unique offering of services and gaming products. In addition, Lottomatica believes that GTECH's most recent lottery technology platform, GTECH Enterprise Series™, has become the industry standard.

Track Record of Maintaining High Margins. Over the past several years, Lottomatica has achieved significant cost savings and improved the efficiency of its operations. In particular, Lottomatica's EBITDA margin increased to 46% in 2005, from 39% in 2001 (EBITDA margin for 2005 is determined based on IFRS, while EBITDA margin for 2001 is determined based on Italian GAAP, which affects the comparability of the two metrics. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Lottomatica—Transition to IFRS" and "Appendix E—Lottomatica—Summary of Certain Significant Differences Among Italian GAAP, IFRS and U.S. GAAP"). Lottomatica believes that the Acquisition and GTECH's successful integration into Lottomatica will create further cost efficiencies and reduce Lottomatica's combined operating costs by combining selected European facilities of GTECH and Lottomatica, consolidating global information technology systems, optimising selected global management functions, leveraging worldwide purchasing power and consolidating selected common regulatory compliance costs, including the de-listing of the GTECH common stock following the Acquisition. Lottomatica believes that these actions, combined with each company's historic focus on business optimisation, will permit Lottomatica to further improve Lottomatica's ability to sustain high margins.

Diversified Portfolio of Products and Services. Lottomatica believes that the combination of the GTECH and Lottomatica businesses will provide the opportunity to expand the portfolio of products and services the Combined Group will be able to provide:

- as a designer, developer and operator of lottery systems and equipment Lottomatica believes the Combined Group will be in a position to provide a more integrated solution to existing and prospective lottery customers;
- by leveraging GTECH's experience as a provider of content for Gaming Machines and its recently acquired capability to design and manufacture Video Lottery Terminals, and Lottomatica's operating expertise, Lottomatica expects to be able to expand its market share in the gaming

business and take advantage of the vertical integration that Lottomatica expects the Combined Group to achieve in these businesses;

- Lottomatica believes that GTECH's technology capability together with Lottomatica's operating expertise should allow Lottomatica to take advantage of any expansion in the interactive gaming and lottery businesses; and
- Lottomatica believes that its combined experience in the payment processing services market and the international reach of GTECH's technology networks will allow Lottomatica to study and develop new payment services and allow Lottomatica to expand in the payments processing industry.

Historically Stable and Recurring Revenues and Cash-flows. Lottomatica's and GTECH's businesses have historically produced consistent revenues and cash-flows. For example, wagers on the Lotto have been generally in the range of €7 billion–€8 billion over the period from 2000 through 2005 (except for 2004, for which wagers were unusually high) and Lottomatica's Revenues from Lotto were in the range of between approximately €400 million and €430 million over the same period (other than the unusually high Revenues in 2004). In addition, lottery contracts tend to be long-term in nature. Historically, a majority of GTECH's contracts have been for terms of at least five to seven years in duration.

Strong Management Team. The senior management team for the Combined Group has significant collective industry experience. Lottomatica believes that the combination of a team which has long experience in the lottery and gaming service industry, particularly in the management of international operations, with a team that has more than a decade of experience in the management and operation of the lottery and gaming business, will provide the Combined Group with a unique combination of skills. Mr. W. Bruce Turner, GTECH's current President and Chief Executive Officer, is expected to assume the role of Lottomatica's Chief Executive Officer and General Manager and Mr. Jaymin Patel, GTECH's current Chief Financial Officer, is expected to assume the role of Lottomatica's Chief Financial Officer. Mr. Marco Sala, the current General Manager of Lottomatica, is expected to assume the role of Lottomatica's Managing Director and General Manager for the Republic of Italy. Lottomatica's senior management team is expected to invest a significant amount of money in Lottomatica's ordinary shares which Lottomatica believes will provide high performance incentivisation and accountability. It is currently expected that Messrs. Turner and Patel and Mr. Walter DeSocio (who is expected to assume the role of Lottomatica's Chief Administrative Officer) as well as other GTECH executive officers will each have the opportunity to purchase newly issued ordinary shares of Lottomatica after completion of the proposed Acquisition at the price to be established in the Rights Offering and that they will invest a significant amount of the net after-tax payments received as Merger consideration in this manner. Subject to negotiation of the definitive terms of such investments, Messrs. Turner, Patel, DeSocio and other GTECH executive officers currently expect to invest approximately 50% of the net after-tax consideration they each expect to receive in the proposed Merger on this basis.

Strategy

Through the Acquisition, Lottomatica's aim is to become one of the world's largest regulated gaming and services company, providing innovation in technology, content and integrated services delivering and maintaining the highest standards. Following the Acquisition, in Lottomatica's three businesses, namely its

Lotteries business, its Gaming Machines business and its Services business, the Combined Group will pursue the following strategies designed to achieve this stated aim:

Lotteries Business

- Seek to maintain Lottomatica and GTECH's leading position as an operator and integrator respectively, of open, standards-based transaction processing serving the global lottery and gaming industries through:
 - operating new games when introduced in the Republic of Italy;
 - continuously developing the Combined Group's technology in order to preserve what Lottomatica believes is the competitive advantage of superior technical solutions such as GTECH's Enterprise Series™;
 - expanding the Combined Group's network, in terms of increasing both the number of terminals and the number of points of sale, with particular focus on new self-service technology initiatives worldwide;
 - extending the Combined Group's product price range to capture different player segments;
 - expanding in new markets by both bidding for concessions up for renewal (for example Greece, West Virginia, Connecticut, Pennsylvania and Indiana) and exploring greenfield opportunities (such as the privatisation of the Turkish lottery and in China, Russia, Nicaragua and Vietnam); and
 - leveraging the Combined Group's marketing skills to improve game visibility and enhance game appeal and its comprehension.

Gaming Machines Business

- Seek to become a leading provider of technology solutions to the global gaming industry through:
 - leveraging Lottomatica's existing amusement with prize machine network and Lottomatica's processing systems to introduce video lottery terminals in the Republic of Italy;
 - leveraging GTECH's Gaming Machine technology to expand across the value chain in the Italian Gaming Machine business, from the concessionaire to the machine operations segment;
 - investing in Lottomatica's technology platform for central processing and monitoring of Gaming Machines in network configurations, while accelerating Lottomatica's focus on the development of creative game content;
 - exploring opportunities for consolidation in the fragmented Italian Gaming Machines market;
 - maximising the value of recent strategic alliances (Hasbro Properties Group and Harrah's Entertainment, Inc.); and
 - expanding into the global commercial gaming market through Atronic.

Services Business

- Seek to become a leading processor of commercial transactions at retail locations through:
 - expanding Lottomatica's commercial services portfolio in current markets by cross-fertilising Lottomatica's and GTECH's expertise;
 - leveraging Lottomatica's existing points of sale network and increasing the number of direct and indirect points of sale;

- capitalising on opportunities to expand in emerging markets through strategic partnerships and joint ventures;
- introducing new products and services such as money transfer; and
- leveraging Lottomatica’s brands to improve visibility and network recognition.

The Transactions

The Acquisition will be effected by means of the Merger of the Acquisition Subsidiary into GTECH. GTECH expects to have approximately 132.8 million shares of common stock outstanding on a fully diluted basis (applying the treasury method), including options and shares issuable upon conversion of convertible debt at the effective time of the Merger. The total value of the Acquisition is approximately €4.0 billion, including the assumption of GTECH’s existing indebtedness. Completion of the Acquisition, which is expected to occur in mid-2006, is subject to approval by GTECH’s shareholders, receipt of financing, regulatory approvals, receipt of contract assignment assurance from certain significant lottery customers, Lottomatica maintaining a *pro forma* investment grade corporate credit rating, and other customary conditions. See “The Transactions—The Acquisition”.

The Acquisition (including the refinancing of GTECH indebtedness as described below) will be funded through:

- the proceeds of this offering;
- available cash of GTECH and Lottomatica of approximately U.S.\$525.0 million (approximately €434 million);
- the proceeds of a €1.4 billion rights issue by Lottomatica (the “*Rights Offering*”); and
- approximately U.S.\$2.260 billion of senior term loans (the “*Term Facilities*”) under the U.S.\$2.760 billion of senior credit facilities (the “*Senior Credit Facilities*”) extended to the Acquisition Subsidiary; the borrowings under the Senior Credit Facilities will be guaranteed by Lottomatica, Holdings and certain U.S. operating subsidiaries of GTECH.

De Agostini S.p.A. (“*De Agostini*”), the majority shareholder of Lottomatica, has agreed, subject to certain conditions, to subscribe for its full, direct and indirect, *pro rata* share of the Rights Offering (amounting to approximately €0.8 billion). See “Certain Relationships and Related Party Transactions—The De Agostini Undertakings”. Credit Suisse Securities (Europe) Limited and Goldman Sachs International have (i) as joint lead underwriters agreed, severally and not jointly, subject to certain conditions, to enter into an underwriting agreement with respect to the Rights Offering (net of shares to be acquired by De Agostini and any shares which Mediobanca—Banca di Credito Finanziario S.p.A. (“*Mediobanca*”), as beneficiary of a swap agreement covering 6,198,733 ordinary shares of Lottomatica, may undertake to subscribe for and, (ii) entered into a subscription agreement with respect to this offering of Securities pursuant to which they have agreed, severally and not jointly, subject to certain conditions, to procure subscribers for, and failing which to subscribe for, these Securities. Credit Suisse International, Credit Suisse, London Branch, Goldman Sachs Credit Partners L.P. and certain other lenders have committed to provide the financing pursuant to the Senior Credit Facilities. The financings and related commitments are subject to the Combined Group maintaining an investment grade corporate credit rating, the absence of a material adverse effect (which is defined in a manner substantially consistent with that contained in the Merger Agreement) and other customary conditions. See “The Transactions—The Financing”. The Securities will be mandatorily redeemed in cash by the Issuer at 101% of their aggregate principal amount together with all accrued but unpaid interest on the earlier to occur of the termination of the Merger Agreement in accordance with its terms and October 10, 2006, if the Acquisition is not completed (See “Terms and Conditions of the Securities—Redemption and Purchase—Mandatory Redemption Event”). Furthermore, De Agostini and Lottomatica have agreed to enter into lock-up

undertakings consistent with those provided for in similar market transactions. See “Plan of Distribution”. It is expected that the Combined Group will maintain an investment-grade corporate credit rating and that the new capital structure will have the flexibility to pay a dividend to shareholders and make investments in growth opportunities.

As of February 25, 2006, GTECH had three series of senior notes outstanding:

- approximately U.S.\$148.8 million in aggregate principal amount of 5.25% senior notes due December 2014;
- approximately U.S.\$249.7 million in aggregate principal amount of 4.75% senior notes due October 2010; and
- approximately U.S.\$149.7 million in aggregate principal amount of 4.50% senior notes due December 2009.

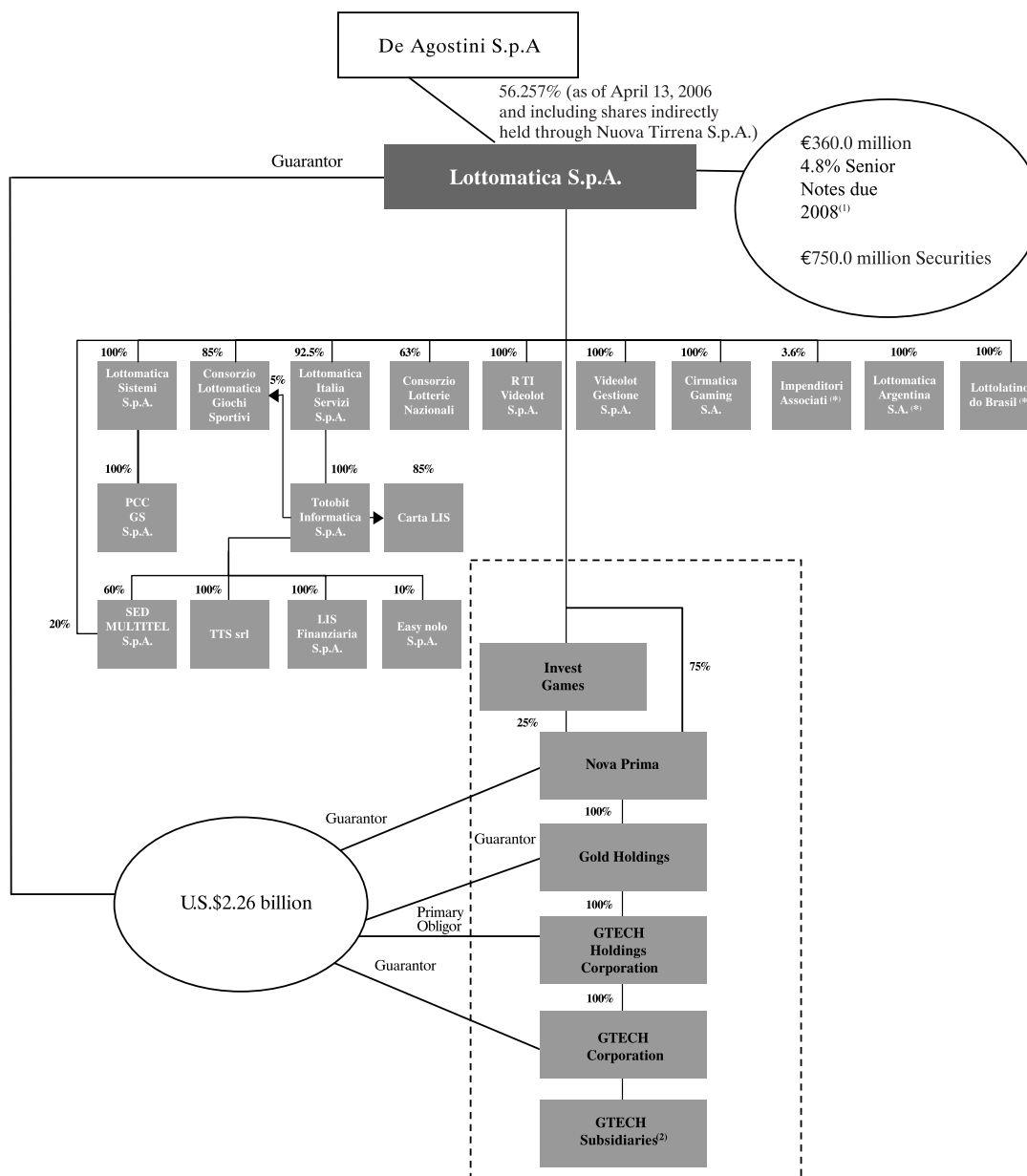
The terms of the Senior Credit Facilities require that GTECH exercise (or cause the exercise of) the call options under the terms of these senior notes within five business days after completion of the Acquisition described above.

Generally, GTECH may redeem these senior notes at a redemption price equal to the greater of (i) 100% of the principal amount of the senior notes being redeemed and (ii) the sum of the present values of the principal amount of the senior notes being redeemed and the remaining scheduled payments of interest on the senior notes, discounted from their respective scheduled payment dates to the scheduled redemption date on a semi-annual basis at the treasury rate (as defined in the respective indentures) plus 20 basis points, in the case of the 5.25% notes, 20 basis points, in the case of the 4.75% notes, and 15 basis points, in the case of the 4.50% notes, plus, in each case, accrued interest to the scheduled redemption date. Lottomatica anticipates costs of approximately U.S.\$10.0 million in connection with the refinancing of such indebtedness.

As of April 25, 2006, there were approximately U.S.\$6.0 million in aggregate principal amount of GTECH's 1.75% convertible debentures due 2021 (the “*Convertible Debentures*”) outstanding. Such Convertible Debentures are convertible into shares of GTECH common stock and, if still outstanding following completion of the Acquisition, will be convertible into cash. In addition, GTECH has a U.S.\$500 million credit facility which is undrawn as of March 31, 2006, excluding U.S.\$2.5 million of letters of credit. This existing credit facility will be terminated upon, or prior to, completion of the Acquisition.

Corporate Structure

The following diagram presents the corporate structure of Lottomatica as of the date hereof and the Combined Group's corporate structure after giving effect to this offering of Securities, the Acquisition, the Rights Offering, borrowings under the Term Facilities and the anticipated application of the net proceeds therefrom as described in "Use of Proceeds". For a summary of the debt obligations identified in this diagram, please refer to the sections entitled "The Transactions" and "Description of Certain Indebtedness". Percentages shown in the diagram below refer to the percentage ownership.



(1) Lottomatica's €360.0 million 4.80% Senior Notes due 2008 will be guaranteed by the same guarantors (other than Lottomatica) that guarantee the Senior Credit Facilities.

(2) One of GTECH's subsidiaries, GTECH Rhode Island Corporation, is a guarantor of the Senior Credit Facilities.

— = Corporate entities arising or acquired in connection with the Acquisition.

Summary of the Offering

The following is a summary of certain terms of this offering. It may not contain all the information that is important to prospective investors. Any defined terms used in this summary of the offering have the meanings given to them in “Terms and Conditions of the Securities”. For additional information regarding the Securities, see “Terms and Conditions of the Securities”.

Description	€750,000,000 Subordinated Interest-Deferrable Capital Securities due 2066.
Issuer	Lottomatica S.p.A.
Issue Price	100%
Issue Date	May 17, 2006.
Maturity Date	Unless previously redeemed or purchased and cancelled, the Issuer will redeem the Securities on the Floating Rate Payment Date falling in March, 2066 (the “ Maturity Date ”) at their aggregate principal amount together with any accrued and unpaid Scheduled Interest Amount, any unpaid Optionally Deferred Interest and Equity Funded Deferred Interest (which Equity Funded Deferred Interest may only be settled from the proceeds of the issue or contribution of Issuer Equity as described in “Equity Funding of Deferred Interest” below) and any unpaid Additional Amounts thereon (the “ Redemption Price ”).
Call Options	<p>The Issuer may, at its option, redeem all, but not some only, of the outstanding Securities in cash prior to the Maturity Date:</p> <ul style="list-style-type: none"> (a) at the Redemption Price (i) on the Reset Date or on any Floating Rate Payment Date thereafter, (ii) on any date prior to the Reset Date upon the occurrence of a Withholding Tax Event, or (b) at the Make-whole Price, together with any accrued and unpaid Scheduled Interest Amount, any unpaid Optionally Deferred Interest and Equity Funded Deferred Interest (which Equity Funded Deferred Interest may only be settled from the proceeds of the issue and sale or contribution of Issuer Equity as described in “Equity Funding of Deferred Interest” below) and any Additional Amounts thereon, at any time prior to the Reset Date, upon a Tax Event or a Change of Control Event.
Replacement	The Issuer’s intention is (other than upon a Mandatory Redemption Event) only to redeem, repurchase or otherwise acquire the Securities for cash consideration prior to the Maturity Date if the Issuer has received from parties that are not members of the Issuer Group cash proceeds at least amounting to such consideration within a period of six months prior to such redemption, repurchase or other acquisition from the issue, offer and sale or contribution of

(a) Issuer Equity or (b) other securities which contain terms that are substantially the same as the Securities in respect of (i) enforcement rights and remedies of holders thereof, (ii) subordination of such holders' claims in the event of a liquidation, dissolution or winding up or Insolvency Proceedings in respect of the Issuer, (iii) initial maturity and any early redemption provisions, (iv) the payment, deferral or non-payment of scheduled distributions, (v) scheduled step-up in distribution rate, if any, and (vi) replacement conditions pertaining to early redemption, repurchase or acquisition of such other securities.

Mandatory Redemption Event The Securities will be mandatorily redeemed at 101% of their aggregate principal amount together with any accrued and unpaid Scheduled Interest Amount and any Additional Amounts thereon on the twentieth business day following the earliest to occur of (i) the termination of the Merger Agreement in accordance with its terms and (ii) October 10, 2006 if the Acquisition is not completed by that date. Any such redemption shall be in compliance with mandatory provisions of applicable Italian law.

Status The Securities constitute *obbligazioni* pursuant to Articles 2410 *et seq.* of the Italian Civil Code. The obligations of the Issuer under the Securities constitute direct, unsecured and subordinated obligations of the Issuer.

In the event of the commencement of (i) a voluntary or involuntary liquidation, dissolution or winding-up of the Issuer due to corporate action or an administrative and/or court order, or (ii) the occurrence of any Insolvency Proceedings, subject to applicable bankruptcy law, the rights of the Securityholders to payments of principal, accrued but unpaid Scheduled Interest Amounts, Optionally Deferred Interest and Additional Amounts thereon, if any, payable in respect of the Securities (regardless of whether such amounts have become payable before, or as a result of, such event) will rank:

- (a) *pari passu* and without any preference among themselves;
- (b) *pari passu* with any other present or future obligations of the Issuer under any Liquidation Parity Securities;
- (c) junior to the claims of all other unsubordinated and subordinated creditors (including any claims pursuant to Article 2411, first paragraph, of the Italian Civil Code) of the Issuer, other than holders of Liquidation Parity Securities; and
- (d) in priority to (i) the claims of holders of ordinary shares of the Issuer, (ii) the claims of holders of any financial instruments (*strumenti finanziari*) issued by the Issuer pursuant to Article 2349 of the Italian Civil Code, (iii)

any claims in respect of any savings shares and any preference shares of the Issuer and any other equity interest in the Issuer and (iv) any claims against the Issuer which, by their terms or by operation of law, rank *pari passu* with the claims described in (i), (ii) or (iii) above (together, such instruments being “**Junior Obligations**”).

In the event of the commencement of (i) a voluntary or involuntary liquidation, dissolution or winding-up of the Issuer due to corporate action or an administrative and/or court order, or (ii) the occurrence of any Insolvency Proceedings, subject to applicable bankruptcy law, the rights of the Securityholders to payment of unpaid Equity Funded Deferred Interest and Additional Amounts thereon, if any, payable in respect of the Securities (regardless of whether such amounts have become payable before, or as a result of, such event) will rank:

- (a) *pari passu* and without any preference among themselves;
- (b) in priority to (i) the claims of holders of ordinary shares of the Issuer, (ii) the claims of holders of any financial instruments (*strumenti finanziari*) issued by the Issuer pursuant to Article 2349 of the Italian Civil Code, (iii) any claims in respect of any savings shares and any preference shares of the Issuer and any other equity interest in the Issuer to the extent that such claims relate to the nominal capital thereof and (iv) any claims against the Issuer which, by their terms or by operation of law, rank *pari passu* with the claims described in (i), (ii) or (iii) above; and
- (c) junior to the claims of all unsubordinated and subordinated creditors (including any claims pursuant to Article 2411, first paragraph, of the Italian Civil Code) of the Issuer, including holders of Liquidation Parity Securities and the holders of any preference shares and any savings shares of the Issuer and any other equity interest (other than ordinary shares) in the Issuer (to the extent that such claims thereunder do not relate to the nominal capital thereof).

A Securityholder may not, subject to mandatory provisions of applicable law, set off any claims arising under the Securities against any claims that the Issuer may have against it.

See “Terms and Conditions of the Securities—Status” and “Description of Certain Indebtedness—Intercreditor Deed”.

Interest Rate	From (and including) the Issue Date to (but excluding) the Reset Date, interest on the Securities will accrue at the fixed rate of 8.25% per annum, and will be payable annually in arrear on March 31 in each year, commencing on March 31,
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2007 and ending on (and including) the Reset Date, except that the first payment of interest to be made on March 31, 2007 shall be in respect of the period from (and including) May 17, 2006 to (but excluding) March 31, 2007.

From (and including) the Reset Date to (but excluding) the Maturity Date, interest on the Securities will accrue at a floating rate and will be payable semi-annually in arrear in March and September in each year, commencing on the Floating Rate Payment Date falling in September, 2016, and ending on (and including) the Maturity Date. From (and including) the Reset Date, the rate of interest applicable to each semi-annual Interest Period shall be six-month EURIBOR plus a margin of 5.05%, but in any case will be no greater than the maximum rate permitted by then applicable Italian law. See “Terms and Conditions of the Securities—Interest”.

The amount of interest payable in respect of each Interest Period (as defined herein) or part thereof, is called a “Scheduled Interest Amount”.

If a Change of Control Event occurs and the Issuer does not elect to redeem the Securities pursuant to their terms, then the Securities shall bear interest on their aggregate principal amount at a rate which is the interest rate then prevailing on the Securities plus an additional margin of 5% per annum, but in any case no greater than the maximum rate permitted by then applicable Italian law, in each case with effect from (and including) the date on which the Change of Control Event occurred. See “Terms and Conditions of the Securities—Redemption and Purchase—Change of Control Call Event”.

Reset Date March 31, 2016.

Optional Interest Deferral The Issuer may, at its sole discretion, elect to defer payment of any Scheduled Interest Amount on the Securities. Such Optionally Deferred Interest shall not itself accrue interest, may be paid by the Issuer at its discretion in cash at any time on or before the fifth anniversary of the Interest Payment Date on which payment thereof was first deferred, but during such period will become immediately payable in cash on the date which is the earliest to occur of:

- (a) the date on which the Issuer next pays any interest amount in respect of the Securities or any interest amount is payable in respect of the Securities (unless payment thereof is deferred);
- (b) the date on which a Capital Payment is next made;
- (c) the due date for redemption of the Securities, whether at their Maturity Date, or any Early Redemption Date, or the date on which the Securities become immediately

due and repayable on the occurrence of an Enforcement Event;

- (d) the date which is 180 days after any petition is filed by any third party in connection with any Insolvency Proceedings in respect of the Issuer, where such petition has not been dismissed by such 180th day; and
- (e) the date on which an order is made or a resolution is passed for the voluntary or involuntary liquidation, dissolution or winding up of, or an administrative and/or court order is made for any Insolvency Proceedings in respect of, the Issuer, or the date on which the Issuer takes any corporate action for the purposes of opening, or initiates or consents to, Insolvency Proceedings in respect of it.

Any Optionally Deferred Interest that has not been paid in full in cash on or before the fifth anniversary of the Interest Payment Date on which payment thereof was first deferred shall, from such fifth anniversary, be referred to as “Old Optionally Deferred Interest”, and may only be settled as described below under “Equity Funding of Deferred Interest”.

See “Terms and Conditions of the Securities—Deferrals of Interest—Optional deferral of interest”.

Mandatory Interest Deferral If, 10 business days prior to any Interest Payment Date, the Coverage Ratio is less than 1.35 (a “**Mandatory Deferral Event**”), the Issuer shall defer payment of any Scheduled Interest Amount in respect of the Securities on such Interest Payment Date unless and to the extent that the Issuer has available cash proceeds raised from the issue or contribution of Issuer Equity during the six-month period ending on such Interest Payment Date and specified at the time of such issue or contribution to be for the purpose of enabling the payment of all or part of such Scheduled Interest Amount.

Any Scheduled Interest Amount (or part thereof) not paid by the Issuer due to the occurrence of a Mandatory Deferral Event shall be referred to as “Mandatorily Deferred Interest”. Mandatorily Deferred Interest shall not itself accrue interest.

Mandatorily Deferred Interest shall become payable in the circumstances and in accordance with the provisions set out under “Equity Funding of Deferred Interest” below.

See “Terms and Conditions of the Securities—Deferrals of Interest—Mandatory deferral of interest”.

Equity Funding of Deferred Interest . . . For as long as any Old Optionally Deferred Interest or Mandatorily Deferred Interest (together, “**Equity Funded Deferred Interest**”) remains unpaid, the Issuer must, after obtaining all shareholder authorisations for the issue or

creation of Issuer Equity, in compliance with applicable law and provided that a Market Disruption Event is not occurring, promptly fund the full payment in cash of such Equity Funded Deferred Interest, using the proceeds of the issue or contribution of Issuer Equity.

For so long as any Securities are outstanding, the Issuer undertakes to take all steps necessary (in compliance with applicable law) to keep available, as of the date of each Annual General Meeting, an amount of ordinary shares authorised for issue that would enable the Issuer to pay in full an amount of Equity Funded Deferred Interest equal to the aggregate of the Scheduled Interest Amounts scheduled to be paid on the Securities during the two years following the date of such Annual General Meeting. See “Terms and Conditions of the Securities—Equity Funding of Equity Funded Deferred Interest”.

Equity Funded Deferred Interest will become immediately payable in cash on the date which is the earlier to occur of:

- (a) 7 business days following the settlement of an issue or contribution of Issuer Equity for the purpose of payment of Equity Funded Deferred Interest, to the extent of the proceeds received by the Issuer;
- (b) the tenth anniversary of the Interest Payment Date on which payment of the relevant Scheduled Interest Amount was first deferred in accordance with the conditions;
- (c) the due date for the redemption of the Securities, whether at the Maturity Date, or any Early Redemption Date, or the date on which the Securities become immediately due and repayable on the occurrence of an Enforcement Event;
- (d) the date which is 180 days after the date on which any petition is filed by any third party in connection with any Insolvency Proceedings in respect of the Issuer, where such petition has not been dismissed by such 180th day; and
- (e) the date on which an order is made or a resolution is passed for the voluntary or involuntary liquidation, dissolution or winding up of, or an administrative and/or court order is made for any Insolvency Proceedings in respect of, the Issuer, or the date on which the Issuer takes any corporate action for the purposes of opening, or initiates or consents to, Insolvency Proceedings in respect of it.

Capital Restriction Until all unpaid Equity Funded Deferred Interest has been paid in full in cash (and, in the case of paragraph (c) below, for a period of one year thereafter) the Issuer:

- (a) shall not declare or make a payment of, or resolve, a distribution or any other similar payment with respect to any Junior Obligations (other than ordinary share capital) or Distribution Parity Securities, other than a payment in the form of Issuer Equity;
- (b) subject to (c) below, shall not redeem, repurchase or acquire any Junior Obligations or Parity Securities for any consideration, other than the purchase of fractional interests in Junior Obligations or Parity Securities pursuant to any conversion or exchange provisions of such Junior Obligations or Parity Securities; and
- (c) shall not redeem, repurchase or acquire any Issuer Equity for any consideration, other than (i) in connection with any existing or future employee benefit plan, directors' and senior management's stock based compensation, directors' stock option plan or similar arrangement; or (ii) a reclassification of Issuer Equity or exchange or conversion of one class or series of Issuer Equity into another class or series of Issuer Equity; or (iii) the purchase of fractional interests in Issuer Equity pursuant to any conversion or exchange provisions of such Issuer Equity.

The restrictions set forth above are referred to as the "Capital Restriction".

Enforcement Events An Enforcement Event shall have occurred if:

- (a) the Issuer fails to pay any Optionally Deferred Interest in respect of the Securities within 15 business days of the due date for payment thereof;
- (b) the Issuer fails to pay in full any Equity Funded Deferred Interest in the manner described herein by the tenth anniversary of the Interest Payment Date on which payment of the relevant Scheduled Interest Amount was first deferred in accordance with the Conditions, or the Issuer breaches the Capital Restriction;
- (c) the Issuer defaults in the performance or observance of any of its other obligations in respect of the Securities (other than any of its obligations under the Trust Deed) and such default (i) is, in the reasonable opinion of the Trustee, incapable of remedy or (ii) being a default which is, in the reasonable opinion of the Trustee, capable of remedy, remains unremedied for 60 days or such longer period as the Trustee may agree after the Trustee has given notice thereof to the Issuer;

- (d) any petition is filed by any third party in connection with any Insolvency Proceedings in respect of the Issuer, and such petition is not dismissed within 180 days of such filing; or
- (e) an order is made or a resolution is passed for the voluntary or involuntary liquidation, dissolution or winding up of, or an administrative and/or a court order is made for any Insolvency Proceedings in respect of, the Issuer, or the date on which the Issuer takes any corporate action for the purposes of opening, or initiates or consents to, Insolvency Proceedings in respect of it.

The Securities may only be declared due and repayable upon the occurrence of an Enforcement Event described in paragraphs (b), (d) and (e) above. The enforcement rights of Securityholders in the other circumstances described above are more limited. See “Terms and Conditions of the Securities—Enforcement Events”.

Taxation	All payments in respect of the Securities shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Republic of Italy or the United States of America or any political subdivision thereof or therein that has power to tax, unless such withholding or deduction is required by law. In such event, the Issuer shall pay such additional amounts as will result in the receipt by Securityholders of the same amounts as would have been received by them had no such withholding or deduction been required, subject to certain exceptions and requirements. See “Terms and Conditions of the Securities—Taxation”. For a summary of certain material Italian and U.S. federal income tax considerations of the purchase, ownership and disposition of the Securities, see “Tax Considerations”. See, also, “Risk Factors—U.S. federal income tax classification of Securities, taxable income recognition” regarding the uncertainty with respect to the proper classification of the Securities for U.S. federal income tax purposes and the potential recognition of taxable income for U.S. federal income tax purposes in advance of the receipt of cash payments from the Issuer.
Governing Law	English law (except for the provisions of the Securities and the Trust Deed relating to subordination which shall be construed in accordance with Italian law, and subject to applicable mandatory provisions of Italian law).
Selling Restrictions	See “Plan of Distribution” and “Transfer Restrictions” for information on certain restrictions on the offer, sale and transfer of the Securities in certain jurisdictions.

Issue Ratings	The Securities are expected to be assigned, on issue, a rating of Ba3 by Moody's and a rating of BB+ by S&P. These ratings reflect the views of the rating agencies and do not represent the views of the Issuer. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Trustee	J.P. Morgan Corporate Trustee Services Limited.
Principal Paying Agent	JPMorgan Chase Bank, N.A.
Agent Bank	JPMorgan Chase Bank, N.A., as calculation agent in respect of the Securities.
Form	<p>The Securities will be in registered form in the minimum denomination of €50,000 and integral multiples of €1,000 above such amount.</p> <p>Securities sold in reliance on Regulation S will be evidenced by an Unrestricted Global Certificate in registered form without interest coupons, which will be deposited with Euroclear and Clearstream, Luxembourg, on or about the Issue Date.</p> <p>Securities sold in reliance on Rule 144A will be evidenced by a Restricted Global Certificate in registered form without interest coupons, which will be deposited with the common depository of Euroclear and Clearstream, Luxembourg, on or about the Issue Date. The Restricted Global Certificate will be subject to certain restrictions on transfer set forth therein and in the Paying Agency Agreement and will bear a legend regarding such restrictions.</p> <p>Except in the limited circumstances set out therein, the Global Certificates shall not be exchangeable for definitive certificates.</p>
Clearing	The Securities will be accepted for clearing through the facilities of Euroclear and Clearstream, Luxembourg.
Listing and Admission to Trading	Application has been made for the Securities to be listed on the official list of the Luxembourg Stock Exchange and to be admitted to trading on its regulated market, which is a regulated market for the purposes of Directive 2004/39/EC.
Risk Factors	Investing in the Securities involves substantial risks. Please see the "Risk Factors" section for a description of certain of the risks prospective investors should carefully consider before investing in the Securities.
Use of Proceeds	Lottomatica intends to use the net proceeds of this offering, together with the proceeds from the Rights Offering, borrowings by Acquisition Subsidiary under the Senior Term Facilities and cash on hand of GTECH and Lottomatica, to finance the Acquisition and repay related indebtedness. See "Use of Proceeds".

Additional Information

The Issuer's name is Lottomatica S.p.A. Lottomatica S.p.A. and its subsidiaries operate a Lotteries and Gaming business comprising Lotto, Instant and Traditional Lotteries, Sports Pools and other Pari-Mutuel Betting operations, a Gaming Machines business and a Service Business comprising Commercial, Payment and other Processing Services.

Lottomatica's registered head office is located at Viale del Campo Boario 56/D, 00153 Rome, Italy, telephone number +39-06-518991. Lottomatica is registered with the Companies Register of Rome with registration number 08028081001. Lottomatica was incorporated in the Republic of Italy as a joint stock company on May 25, 2004 under the name Triplet S.p.A. and changed its name to NewGames S.p.A. before subsequently changing its name to Lottomatica S.p.A. Lottomatica's corporate existence is currently scheduled to expire on December 31, 2070.

Summary Consolidated Historical and *Pro Forma* Financial Data

Lottomatica Historical

The following summary consolidated financial data for Lottomatica and its subsidiaries should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Lottomatica”, the consolidated financial statements of Lottomatica and the other financial information of Lottomatica included in this Offering Circular. The following table sets forth summary historical consolidated financial information of Lottomatica prepared in accordance with IFRS as of and for the three months ended March 31, 2006 as well as for the year ended December 31, 2005, and prepared in accordance with Italian GAAP as of and for the years ended December 31, 2004 and 2003. In addition, Lottomatica’s audited consolidated financial statements as of and for the year ended December 31, 2004 prepared in accordance with Italian GAAP have been reconciled to IFRS for purposes of comparison with 2005. The audited reconciliation of the financial statements as of and for the year ended December 31, 2004 from Italian GAAP to IFRS are included in this Offering Circular. The summary consolidated historical financial data set forth below as of and for the fiscal years ended December 31, 2003, 2004 and 2005 were derived from the audited consolidated financial statements of Lottomatica, included in this Offering Circular. The selected consolidated historical financial data for the three months ended March 31, 2006 and 2005 set forth below are derived from the unaudited consolidated financial statements of Lottomatica, included elsewhere in this Offering Circular.

For a discussion of certain differences among Italian GAAP, IFRS and U.S. GAAP, see “Appendix E—Lottomatica—Summary of Certain Significant Differences Among Italian GAAP, IFRS and U.S. GAAP”.

	Three Months Ended March 31,		Year Ended December 31,			
	IFRS	IFRS	IFRS	IFRS	ITA	ITA
	2006	2005	2005	2004	2004	2003
(in thousands of euro)						
Operating Data:						
Total Revenues	190,306	189,135	582,674	585,774	1,234,246	961,142
Raw materials	(11,951)	(8,209)	(31,065)	(29,308)	(365,073)	(33,456)
Services and personnel costs	(62,342)	(63,713)	(260,769)	(284,924)	(573,833)	(710,729)
Other provisions	—	—	—	—	(8,207)	(1,105)
Other operating costs	(4,125)	(511)	(24,854)	(39,662)	(23,162)	(17,341)
Amortisation, depreciation and write-downs	(18,079)	(10,407)	(53,643)	(62,622)	(120,724)	(126,636)
Operating income (EBIT)	93,809	106,295	212,343	169,258	143,247	71,875
Financial income (expense) ^(a)	(17,800)	(2,887)	(16,064)	(16,957)	(13,445)	23,513
Equity investments income (expense)	—	—	(34)	812	—	—
Foreign exchange gains/losses	—	—	—	—	166	883
Revaluation	—	—	—	—	(243)	(3,402)
Extraordinary income (charges)	—	—	—	—	(19,227)	(90,576)
Profit (loss) before income taxes	76,009	103,408	196,245	153,113	110,498	2,293
Income taxes	(34,582)	(41,749)	(82,013)	(68,236)	(49,300)	7,388
Results from discontinued operations	—	—	—	731	—	—
Net income	41,426	61,659	114,232	85,608	61,198	9,681
Minority interests	(2,977)	(443)	(1,841)	426	(479)	(531)
Group net income	38,449	61,216	112,391	86,034	60,719	9,150

	Three Months Ended March 31,		Year Ended December 31,			
	IFRS		IFRS	IFRS	ITA	ITA
	2006		2005	2004	2004	2003
(in thousands of euro)						
Balance Sheet Data (at end of period):						
Net fixed assets ^(b)	828,040		833,522	577,799	545,183	681,557
Operating working capital ^(c)	(180,105)		(223,970)	(202,002)	(196,141)	(102,404)
Severance indemnities	(7,751)		(7,619)	(7,105)	(6,813)	(5,666)
Net invested capital ^(d)	640,184		601,933	368,692	342,229	573,487
Shareholders' equity	579,897		504,694	312,576	286,163	400,995
Minority interest	11,871		7,561	4,770	7,631	3,818
Long-term loans, incl. current portion ^(e)	364,394		360,126	358,505	360,599	361,909
Short-term loans ^(f)	2,404		7,260	3,322	3,443	20,288
Total debt ^(g)	366,798		367,386	361,827	364,042	382,197
Cash and cash equivalents ^(h)	(319,834)		(246,163)	(241,661)	(241,595)	(199,109)
Net debt ⁽ⁱ⁾	46,964		121,223	120,166	122,447	183,088
Liquid investments ⁽ⁱ⁾	—		(29,357)	(64,529)	(64,129)	—
Adjusted net debt ^(k)	46,964		91,866	55,637	58,318	183,088
Total capitalisation ^(l)	956,162		872,381	675,851	654,393	766,722
Cash-flow Data:						
Cash and cash equivalents—beginning of period	246,163		242,184	197,147	199,109	120,588
—Cash-flow from operating activities	17,546		190,741	250,495	274,225	304,199
—Cash-flow from investing activities	(13,871)		(91,298)	24,436	8,830	(146,865)
—Cash-flow from financing activities	69,995		(95,464)	(230,417)	(240,569)	(78,813)
Cash-flow for the period	73,671		3,979	44,514	42,486	78,521
Cash and cash equivalents—ending of period	319,834		246,163	241,661	241,595	199,109
	Three Months Ended March 31,		Year Ended December 31,			
	IFRS	IFRS	IFRS	IFRS	ITA	ITA
	2006	2005	2005	2004	2004	2003
(in thousands of euro)						
Other Data:						
Revenues ^(m)	190,306	189,135	582,674	585,774	587,534	499,400
EBITDA ⁽ⁿ⁾	111,888	116,702	265,986	231,880	272,178	199,616
EBITDA margin ^(o)	58.8%	61.7%	45.6%	39.6%	46.3%	40.0%
Capital expenditures	14,525	(**)	93,854	40,104	55,710	147,591
Interest expense ^(p)	5,124	4,556	19,209	17,544	17,544	17,777
Total debt/EBITDA ratio ^(q)	(*)	(**)	1.38x	1.56x	1.34x	1.91x
EBITDA/interest expense ratio ^(r)	21.84x	25.62x	13.85x	13.22x	15.51x	11.23x

(a) Financial income (expense) is defined as interest income plus other financial income minus interest expense minus other financial expense.

(b) Net fixed assets are defined as the sum of property, plant and equipment, intangible fixed assets, financial assets and goodwill.

(c) Operating working capital is defined as the difference between operating current assets and operating current liabilities.

(d) Net invested capital is defined as net fixed assets minus operating working capital minus severance indemnities.

(e) Long-term loans, including current portion consist of the outstanding on Lottomatica's 4.80% fixed rate notes due 2008, amounted to €359.6 million (long-term portion) plus €0.5 million (current portion), as of December 31, 2005. "Long-term" means indebtedness having a maturity of over twelve months.

(f) Short-term loans consist of prizes won but not yet paid and the short-term portion of leasing expenses. "Short-term" means indebtedness having a maturity of twelve months or less.

(g) Total debt is defined as long-term loans including current portion plus short-term loans.

(h) Cash and cash equivalents are defined as cash on hand plus bank and post account.

(i) Net debt is defined as total debt minus cash and cash equivalents.

- (j) Liquid investments are defined as marketable securities available for sale, characterised by high liquidity and highly stable value.
- (k) Adjusted net debt is defined as net debt minus liquid investments.
- (l) Total capitalisation is defined as Lottomatica's consolidated shareholders' equity plus long-term loans, including current portion.
- (m) Italian GAAP revenues are adjusted for costs related to the provision of electronic top-up services for pre-paid mobile and fixed line telephones (related to the LIS and Totobit businesses) and, only for 2003, for prizes and government commissions related to Global Bingo Corporation (the Spanish bingo business) ("**GBC**"). Under IFRS revenues are recognized net of such costs.
- (n) EBITDA is defined as results before amortisation, depreciation and write-downs, net financial charges and taxes. EBITDA is applied by Lottomatica to check and analyse Lottomatica's operative trends and it is not an accounting measurement under Italian GAAP nor IFRS. For these reasons EBITDA should not be considered an alternative measurement of Lottomatica's operating income and cash-flow. As EBITDA is not defined in the above mentioned accounting principles, such index as applied by Lottomatica may be different in other companies and may not be comparable. In the Italian GAAP EBITDA calculation "Other provisions" are not taken into account.

The table below reconciles EBITDA to Group net income:

	Three Months Ended March 31,		Year Ended December 31,			
	IFRS	IFRS	IFRS	IFRS	ITA	ITA
	2006	2005	2005	2004	2004	2003
(in thousands of euro)						
Reconciliation from EBITDA to Group net income:						
EBITDA	111,888	116,702	265,986	231,880	272,178	199,616
Other provisions	—	—	—	—	(8,207)	(1,105)
Amortisation, depreciation and write-downs	(18,079)	(10,407)	(53,643)	(62,622)	(120,724)	(126,636)
Operating income (EBIT)	93,809	106,295	212,343	169,258	143,247	71,875
Financial income (expense)	(17,800)	(2,887)	(16,064)	(16,957)	(13,445)	23,513
Equity investments income (expense)	—	—	(34)	812	—	—
Profit (loss) before extraordinary items	76,009	103,408	196,245	153,113	129,802	95,388
Extraordinary items	—	—	—	—	(19,304)	(93,095)
Profit (loss) before income taxes	76,009	103,408	196,245	153,113	110,498	2,293
Income taxes	(34,582)	(41,749)	(82,013)	(68,236)	(49,300)	7,388
Results from discontinued operations	—	—	—	731	—	—
Net income	41,426	61,659	114,232	85,608	61,198	9,681
Minority interests	(2,977)	(443)	(1,841)	426	(479)	(531)
Group net income	38,449	61,216	112,391	86,034	60,719	9,150

- (o) EBITDA margin represents EBITDA for the year divided by revenues for the year.
- (p) Interest expense includes the interest matured on the 4.80% fixed rate notes due 2008 as well as bank and postal interest expenses.
- (q) Total debt/EBITDA ratio represents total debt at the end of the year divided by EBITDA for the year.
- (r) EBITDA/interest expense ratio represents EBITDA for the year divided by interest expense for the year.
- (*) Not meaningful.
- (**) Not provided.

GTECH Historical

The following summary consolidated financial data for GTECH and its subsidiaries should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations—GTECH”, the consolidated financial statements of GTECH and the other financial information of GTECH included or incorporated by reference in this Offering Circular. With the exception of number of lottery customers at end of period, the data in the table is derived from GTECH’s audited consolidated financial statements. The selected consolidated income statement data for the fiscal years ended February 25, 2006, February 26, 2005 and February 28, 2004, and the selected consolidated balance sheet data as of February 25, 2006 and February 26, 2005, are derived from GTECH’s audited consolidated financial statements included in this Offering Circular. The selected consolidated balance sheet data as of February 28, 2004 is derived from GTECH’s audited consolidated financial statements not included in this Offering Circular.

GTECH’s historical consolidated financial statements and the historical financial information presented below were prepared on the basis of U.S. GAAP, which differs in certain respects from IFRS. For a discussion of certain differences between U.S. GAAP as compared to IFRS, relating to the financial information of GTECH, see “Appendix F—GTECH—Summary of Significant Differences between U.S. GAAP and IFRS”.

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004 ^(a)
	(in thousands of U.S. dollars, except per share amounts)		
Operating Data:			
Revenue:			
Services	\$1,122,668	\$1,017,683	\$ 957,471
Sales of products	182,138	239,552	93,859
Total	1,304,806	1,257,235	1,051,330
Gross Profit:			
Services	448,140	401,050	419,632
Sales of products	78,101	81,578	34,633
Total	526,241	482,628	454,265
Operating income	340,657	312,816	287,855
Net income	211,045	196,394	183,200
Per Share Data:^(b)			
Basic	\$ 1.73	\$ 1.68	\$ 1.57
Diluted ^(c)	\$ 1.63	\$ 1.50	\$ 1.40
Cash dividends declared per common share	\$ 0.34	\$ 0.34	\$ 0.255
Dividends paid	\$ 41,672	\$ 39,830	\$ 29,977
Balance Sheet Data (at End of Period):			
Cash and cash equivalents	\$ 235,191	\$ 94,446	\$ 129,339
Investment securities available-for-sale	260,725	196,825	221,850
Total assets	2,099,902	1,855,141	1,559,131
Short-term borrowings	\$ —	\$ 334	\$ —
Current portion of long-term debt	9,148	2,476	106,319
Long-term debt, less current portion	542,259	726,329	463,215
Total Debt	\$ 551,407	729,139	569,534
Shareholders’ equity	\$1,005,372	\$ 655,768	\$ 562,289
Cash-flow Data:			
Net cash provided by operating activities	\$ 429,624	\$ 375,209	\$ 415,067
Net cash used for investing activities	(221,114)	(429,582)	(612,459)
Net purchases (maturities) of available-for-sale investment securities	63,900	(25,025)	221,850
Free cash-flow ^(d)	\$ 272,410	\$ (79,398)	\$ 24,458
Net cash provided by (used for) financing activities	\$ (70,991)	\$ 17,505	\$ 206,206

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004 ^(a)
	(in thousands of U.S. dollars, except per share amounts)		
Other Data:			
Income before income taxes	\$ 318,376	\$ 306,386	\$ 290,794
Interest expense	30,793	19,213	10,919
Depreciation, amortisation and other	183,014	158,615	119,059
EBITDA ^(e)	<u>\$ 532,183</u>	<u>\$ 484,214</u>	<u>\$ 420,772</u>
Ratio of earning to fixed charges ^(f)	11.00x	15.45x	22.30x
EBITDA margin ^(g)	40.8x	38.5%	40.0%
Debt/EBITDA ratio ^(h)	1.04x	1.51x	1.35x
EBITDA/interest expense ratio ⁽ⁱ⁾	17.28x	25.20x	38.54x
Number of lottery customers at end of period ^(j)	95	99	93

(a) 53-week year.

(b) Per share data has been restated to reflect GTECH's 2-for-1 common stock split that occurred in July 2004.

(c) GTECH adopted EITF 04-8 in December 2004, which requires that all 12.7 million shares underlying its 1.75% Convertible Debentures be included in diluted earnings per share computations, if dilutive, regardless of whether the conversion requirements have been met. The adoption of EITF 04-8 resulted in a decrease to diluted earnings per share of U.S.\$0.02 in fiscal 2004.

(d) Free cash-flow (net cash provided by operating activities less net cash used for investing activities, excluding the net purchases or maturities of available-for-sale investment securities), represents the excess cash-flows generated over and above the investment of capital required to both maintain and grow GTECH's ongoing revenue streams. Based upon the long-term contractual cycles in its business, GTECH believes free cash-flow trends represent a useful guide to help determine the amount of internally generated capital available for enhancing long-term shareholder value, through a balance of investing in new growth opportunities, the tax efficient return of capital to its shareholders and repayment of debt obligations. As GTECH defines it, free cash-flow may not be comparable to other similarly titled measures used by other companies.

(e) GTECH believes that earnings before interest, taxes, depreciation, amortisation and other, or EBITDA, assists in explaining trends in GTECH's operating performance, provides useful information about GTECH's ability to incur and service indebtedness and is a commonly used measure of performance by securities analysts and investors in the gaming industry. EBITDA should not be considered as an alternative to operating income as an indicator of GTECH's performance or to cash-flows as a measure of GTECH's liquidity. As GTECH defines it, EBITDA may not be comparable to other similarly titled measures used by other companies including Lottomatica. Fiscal 2006 EBITDA includes impairment charges of \$5.5 million which are included within depreciation, amortisation and other. There were no such charges in fiscal 2005 or 2004. EBITDA as shown above reflects GTECH's historical EBITDA computation which includes interest income of U.S.\$10.9 million, U.S.\$4.6 million and U.S.\$5.7 million in fiscal 2006, 2005 and 2004, respectively.

The table below reconciles EBITDA to Net Income for the periods presented:

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004
	(in thousands of U.S. dollars, except per share amounts)		
EBITDA	\$532,183	\$484,214	\$420,772
Depreciation, amortisation and other	(183,014)	(158,615)	(119,059)
Interest expense	(30,793)	(19,213)	(10,919)
Income before income taxes	318,376	306,386	290,794
Income taxes	(107,331)	(109,992)	(107,594)
Net Income	<u>\$211,045</u>	<u>\$196,394</u>	<u>\$183,200</u>

EBITDA as shown above reflects GTECH's historical EBITDA computation which includes:

- interest income of U.S.\$10.9 million, U.S.\$4.6 million and U.S.\$5.7 million in fiscal 2006, 2005 and 2004, respectively;
- equity in earnings of unconsolidated affiliates of U.S.\$1.9 million, U.S.\$2.8 million and U.S.\$6.2 million in fiscal 2006, 2005 and 2004 respectively; and
- other income (expense) of U.S.\$(4.3) million, U.S.\$5.4 million and U.S.\$1.9 million in fiscal 2006, 2005 and 2004 respectively.

- (f) In computing the ratio of earnings to fixed charges, “earnings” consist of income before income taxes, equity income, net of distributions, minority losses, amortisation of capitalised interest and fixed charges excluding capitalised interest. “Fixed charges” consist of interest expense, an estimate of interest within rental expense and capitalised interest.
- (g) EBITDA margin represents EBITDA for the year divided by total revenues for the year.
- (h) Debt/EBITDA ratio represents total debt at the end of the year divided by EBITDA for the year.
- (i) EBITDA/interest expense ratio represents EBITDA for the year divided by interest expense for the year.
- (j) A lottery customer is defined as a jurisdiction utilising GTECH’s systems or products for traditional lottery services.

Pro Forma

The accompanying *pro forma* consolidated financial information contains the *pro forma* consolidated reclassified financial data of Lottomatica as of and for the year ended December 31, 2005, which give retroactive effect to the proposed Acquisition and the related financial transactions envisaged to complete the proposed Acquisition.

The *pro forma* consolidated reclassified financial data have been obtained on the basis of:

- the historical consolidated financial data of Lottomatica;
- the historical consolidated financial data of GTECH derived from GTECH's special purpose IFRS Financial Statements for the period ended December 31, 2005; and
- the *pro forma* adjustments reflecting the proposed Acquisition and the related financial transactions envisaged to complete the proposed Acquisition.

In accordance with CONSOB Communication No. DEM/1052803 of July 5, 2001, the effects of the Acquisition have been shown retroactively in the *pro forma* consolidated balance sheet as if the Acquisition had taken place on December 31, 2005 and in the *pro forma* consolidated income statement as if it had taken place on January 1, 2005.

The *pro forma* adjustments made to the consolidated historical financial statements and the scope and assumptions upon which they are based are described in detail in the explanatory notes to the "Unaudited Consolidated *Pro Forma* Financial Information" included in this Offering Circular, in paragraphs 1, 2 and 3.

With respect to the accounting policies adopted by Lottomatica and GTECH in preparing their respective historical consolidated financial statements, reference is made to the notes to their respective consolidated financial statements as of and for the year ended December 31, 2005 prepared in accordance with IFRS, included in this Offering Circular.

In order to interpret the *pro forma* data correctly, it is necessary to bear in mind the following:

- since the *pro forma* data are prepared based on assumptions, if the Acquisition had taken place at the dates referred to for the purpose of preparing the *pro forma* consolidated financial data, instead of the date at which it will actually take place, the results presented in the *pro forma* data would not be necessarily obtained; and
- the *pro forma* data do not reflect forecast data since they are prepared to represent only the effects of the Acquisition that can be identified and measured, without considering the potential impact of changes in management policies and operational decisions made as a consequence of the Acquisition.

Further, in view of the difference between the scopes of *pro forma* and historical financial statements and the fact that the effects of the Acquisition are calculated differently for the balance sheet and the income statement, the two *pro forma* statements need to be read and examined separately, without attempting to establish any accounting relationship between them.

	<i>Pro forma</i> December 31, 2005 (in thousands of euro)
Pro forma information:	
Total debt ^(a)	€2,994,037
Cash and cash equivalents	—
Liquid investments ^(b)	250,367
Net debt ^(c)	2,743,670
Total assets	6,563,815
Total revenues	1,623,183
Operating income	316,574
Net income	67,243
Group net income	66,673
EBITDA	644,840
Adjusted EBITDA ^(d)	681,699
Adjusted EBITDA margin	42.0%
Net debt/Adjusted EBITDA ratio	4.0x
Adjusted EBITDA/net interest expense ratio	3.5x

(a) Total debt is defined as long-term debt of €2,964,144 thousand plus short-term debt of €29,893 thousand.

(b) Liquid investments are defined as marketable securities available for sale, characterised by high liquidity and highly stable value.

(c) Net debt is defined as total debt minus cash and cash equivalents minus liquid investments.

(d) A reconciliation for Adjusted EBITDA is set forth below.

Pro forma EBITDA Adjustments:	Lottomatica	GTECH	Step Up Adjustments	Pro forma Consolidated
		(in thousands of euro)		
Revenues	582,674	1,040,508	—	1,623,182
Raw materials and other costs	(244,412)	(429,897)	(15,937)	(690,246)
Personnel costs	(72,276)	(279,327)	—	(351,603)
Capitalisation of internal construction costs	—	63,507	—	63,507
EBITDA	265,986	394,791	(15,937)	644,840
Adjustments:		U.S.\$	Euro	Euro
GTECH				
Inventory step-up—non cash ⁽¹⁾		(*)	15,937	15,937
Transaction costs ⁽²⁾		1,950	(*)	(*)
Vehicle rent expense (in lieu of depreciation) ⁽³⁾		4,953	(*)	(*)
		6,903	5,549	5,549
Lottomatica non-recurring ⁽⁴⁾		(*)	(*)	15,373
Adjusted EBITDA		(*)	(*)	681,699

(1) A non-cash purchase price allocation *pro forma* adjustment.

(2) Non-recurring transaction related fees and expenses payable to legal and financial advisors, accountants and other parties as per accounting records.

(3) Under IFRS, GTECH's vehicle leases would be treated as capital lease obligations. Consequently, the cost of these vehicles would be treated as capital expenditures which would be depreciated over the lease term. Furthermore, each lease payment

would include an interest expense and a principal reduction component. As the difference between capital and operating lease treatment does not have a material impact on operating income, no adjustment to the December 31, 2005 financial statements was considered necessary. However, for purposes of computing *pro forma* EBITDA, the lease expense associated with these leased vehicles has been eliminated since, if these leases were in fact capitalised, no rent expense would have been recorded and the resulting depreciation and interest expense would not have impacted EBITDA.

- (4) Lottomatica's non-recurring costs include the amount recognised to the AAMS linked to the malfunction of the Lotto connection network that occurred on June 18, 2005 (€7,588,000), the cost connected to the merger of FinEuroGames S.p.A. and Lottomatica in NewGames S.p.A. (€3,038,000), the cost connected to the arbitration proceedings involving the AAMS with the purpose of defining the duration of the Lotto concession (€4,605,000), the devaluation of short-term credits to third parties (€1,500,000), net of some minor extraordinary income (€1,358,000).

(*) Not applicable.

RISK FACTORS

Investing in the Securities involves risks. Prospective investors should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below and elsewhere in this Offering Circular are not the only ones facing Lottomatica. Additional risks and uncertainties not presently known to Lottomatica or that Lottomatica currently deems immaterial may also impair its business operations. In addition to the risks relating to Lottomatica, if the Acquisition is consummated Lottomatica's and GTECH's combined businesses will be subject to risk factors affecting the GTECH business as well as risks relating to the Acquisition. If any of the following risks actually occur, Lottomatica's business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of the Securities could decline substantially. Capitalised terms used under the caption "—Risk Factors relating to this Offering and the Securities" but not previously defined have the meanings assigned to them in "Terms and Conditions of the Securities".

Risk Factors Relating to Lottomatica

Lottomatica's business is dependent upon the Lotto concession.

A substantial portion of Lottomatica's revenues is derived from its operation of the Lotto game. As of December 31, 2005, approximately 74.2% of Lottomatica's Total Revenues was derived from the Lotto concession. Lottomatica believes that in the future a large amount of the business and profitability of Lottomatica will continue to depend upon the Lotto concession. On a *pro forma* basis after giving effect to the Acquisition, approximately 26.6% of Lottomatica's Revenues for the period ended December 31, 2005 would have been derived from the Lotto concession. Therefore, any reduction in Lottomatica's revenues from the operation of the Lotto game could have a material adverse impact on Lottomatica's business.

For further information about the Lotto concession, see "Regulatory Framework—Lotto—The Ministerial Decrees of Concession".

Revocation or termination of the Lotto concession would have a material adverse impact on Lottomatica's revenues.

Lottomatica believes that the Lotto concession will expire on June 8, 2016 as was determined by an arbitral ruling in favour of Lottomatica on August 1, 2005. The *Amministrazione Autonoma dei Monopoli di Stato*, the governmental authority responsible for regulating and supervising gaming in the Republic of Italy (the "AAMS"), filed an appeal against this arbitral ruling on December 15, 2005 before the Court of Appeal of Rome. The AAMS contends that the Lotto concession will expire on April 17, 2012. As of the date of this Offering Circular the duration and outcome of the appeal cannot be predicted.

Upon expiration of the Lotto concession, the AAMS may award a new concession through a competitive bidding process open to parties other than Lottomatica. In addition, the AAMS may revoke the Lotto concession prior to its expiration upon the occurrence of certain events of default affecting Lottomatica or if its continuation is determined to be against the public interest, as determined by principles of law generally applicable to all concessions granted by the Italian Government.

The revocation of the Lotto concession, or the award of the Lotto concession to an entity other than Lottomatica upon its expiration, would have a material adverse impact on Lottomatica's revenues, EBITDA and earnings and on its ability to repay its indebtedness, including the Securities.

For further information about the Lotto concession, see "Regulatory Framework—Lotto—The Ministerial Decrees of Concession".

The limited duration of, or the early revocation or termination of, Lottomatica's other existing concessions could have a material adverse impact on Lottomatica's business.

In addition to Lotto, Lottomatica operates other games and businesses that represent a significant of Lottomatica's business pursuant to public authorisations and/or concessions. Such authorisations and concessions are of limited duration and are subject to revocation upon the occurrence of certain events, or if the authorisation or concession is determined to be against the public interest. For example:

- the Totocalcio concession expires in July 2007, unless it is extended for an additional year at the discretion of the AAMS;
- the National Lotteries concession expires in March 2010, with respect to Traditional Lotteries, and in May 2010, with respect to Instant Lotteries; and
- the Gaming Machines concession expires in October 2010, unless it is extended for an additional year at the discretion of the AAMS.

Total revenues arising from the Totocalcio concession, the national lotteries concession and gaming machines concession represent respectively 1.02%, 9.42% and 1.10% of the total revenues of Lottomatica for fiscal year ended December 31, 2005. The *pro forma* revenues generated by such concessions in the same fiscal year are respectively equal to 0.37%, 3.38% and 0.39%. Any revocation and/or lack of renewal upon expiration of one or more of these authorisations and/or concessions could negatively affect Lottomatica's prospects for growth and development and could have a material adverse impact on its revenues and earnings.

For further information about Lottomatica's other existing concessions, see "Business—Lottomatica—Other Existing Concessions".

Lottomatica's obligation to transfer assets upon the termination of the Lotto and other concessions could have a material adverse effect on its financial position and results of operations.

Upon the termination of the Lotto concession, Lottomatica will be required at the request of the AAMS to transfer to the AAMS, free of charge, ownership of assets that are part of the automated system used to operate the Lotto, such as equipment including terminals at the points of sale, facilities, software, data files, and any other related assets that may be necessary for the full functioning, operation, and operability of the system itself.

Approximately 70% of Lottomatica's goodwill is allocated to its gaming segment. Loss of the Lotto concession would result in a one-time write-down of depreciation remaining on the Lotto assets and the goodwill allocated to Lotto.

The obligation to transfer the property pertaining to the operation of Lotto may have detrimental effects on certain other businesses operated by Lottomatica because Lottomatica uses terminals, central hardware and software used in the operation of Lotto in connection with certain of its other businesses. Lottomatica is also subject to similar obligations to transfer assets associated with its other concessions, except for the Totocalcio concession. Upon termination by the AAMS of any of the other concessions (other than Totocalcio), Lottomatica will be required at the request of the AAMS to transfer to the AAMS, free of charge, the entire system or network relating to such terminated concession, with similar results. For further information, see "Regulatory Framework".

Lottomatica is subject to substantial penalties for failure to perform under its concessions and contracts.

Lottomatica's concessions and other service contracts often require substantial performance bonds and require Lottomatica to pay substantial monetary liquidated damages in the event of a default by Lottomatica. As of December 31, 2005, Lottomatica had outstanding performance bonds in an aggregate amount of approximately €292,523,000. These bonds and penalties present an ongoing potential for

substantial expense and diversion of resources from productive uses. The forfeiture of performance bonds and/or payment of liquidated damages could have a material adverse effect on Lottomatica's business, financial condition, results and prospects. For example, delays in activating the Gaming Machines Network resulted in a claim by the AAMS in November 2004 for liquidated damages under the Gaming Machine concession. In light of the claims made by the AAMS, Lottomatica has, as a precaution, posted on its balance sheet provisions in the amount of €2,400,000, consisting of €1,220,000 for the damages claimed for the period from November 5, 2004 to December 31, 2004, and €1,180,000 for the liquidated damages claimed for the period from January 1, 2005 to February 28, 2005. For further information, see "Business—Lottomatica—Legal Proceedings—Gaming Machines Activation Delay".

The Combined Group's substantial indebtedness could materially adversely affect its business, financial condition and results of operations, and its ability to fulfil its obligations under the Securities.

Following consummation of the Acquisition, and the incurrences of indebtedness and other transactions described in this Offering Circular, the Combined Group will have a substantial amount of indebtedness, including Lottomatica's guarantee of the Senior Credit Facilities. As of December 31, 2005, on a *pro forma* basis after giving effect to this offering and the borrowings under the Senior Credit Facilities, the Combined Group would have approximately €2,994 million⁽ⁱ⁾ of indebtedness outstanding. In addition, as of such date, GTECH would have had availability of €1,421 million⁽ⁱⁱ⁾ under the Senior Credit Facilities.

The Combined Group's substantial indebtedness following the Acquisition could have negative consequences, including:

- making it more difficult for the Combined Group to satisfy its obligations;
- increasing the Combined Group's vulnerability to adverse economic and industry conditions;
- requiring the Combined Group to dedicate a substantial portion of its cash-flow from operations to payments on its indebtedness, thereby reducing funds available for the implementation of its growth strategy (including business opportunities and other acquisitions), or to fund working capital, capital expenditures and other general corporate purposes;
- limiting the Combined Group's flexibility in planning for, or reacting to, changes in its business and the industry in which it operates;
- resulting in higher interest expense in the event of increases in interest rates as a substantial portion of the Combined Group's debt is, and will continue to be, at variable rates of interest;
- placing the Combined Group at a competitive disadvantage compared to its competitors that have relatively less indebtedness;
- limiting the Combined Group's ability to borrow additional funds, or to dispose of assets to raise funds, if necessary, for working capital, capital expenditures, business opportunities and other general corporate purposes; and
- making it more difficult for the Combined Group to pursue strategic acquisitions, alliances and partnerships.

The Combined Group may incur substantial additional indebtedness and anticipates having substantial indebtedness for the foreseeable future. Incurring additional debt could further increase the risks described above.

(i) Total debt is defined as long-term debt of €2,964,144 thousand (excluding current portion) plus short-term debt of €29,893 thousand (including current portion of long-term debt).

(ii) Amount of the Term Facilities (€1,895,655,000) net of related costs estimated at €16,004,000 and after the early repayment of GTECH indebtedness, which totals €458,364,000.

Servicing the Combined Group's indebtedness, including the Securities, will require a significant amount of cash. The Combined Group's ability to generate sufficient cash depends upon a number of factors, many of which are beyond its control.

The Combined Group's ability to make payments with respect to its obligations under the Securities and its other outstanding indebtedness depends on its future operating performance, its ability to generate sufficient cash-flow from operations, or future debt or equity financing. The Combined Group's ability to generate sufficient cash-flow is dependent on many factors, including:

- its ability to successfully integrate the GTECH business (if the Acquisition is consummated);
- its operating performance;
- industry trends;
- worldwide, regional or country-specific economic conditions;
- competition; and
- the term and exclusivity of its Lotto and other concessions.

Many of these factors are beyond the Combined Group's control. If the Combined Group is unable to generate sufficient cash-flow, it may not be able to pay its indebtedness. If its cash-flow and capital resources are insufficient to fund its debt service requirements and its other obligations, the Combined Group may be forced to:

- reduce or delay scheduled capital expenditures;
- forgo other business opportunities, including the possibility of future opportunistic acquisitions;
- sell material assets or operations it may otherwise desire to retain; or
- obtain additional capital or restructure or refinance a portion of its indebtedness.

The Combined Group's inability to generate sufficient cash-flow from its operations could result in an event of default under its indebtedness. If an event of default occurs under the Senior Credit Facilities or any other indebtedness of Lottomatica, including the Securities, the lenders thereunder could declare all amounts to be immediately due and payable. Borrowings under other indebtedness that contain cross-acceleration or cross-default provisions may in turn be accelerated or repayable on demand. If the Combined Group is unable to repay the amounts owed, the lenders could proceed against any collateral granted to them by the Combined Group to ensure repayment and pursue other remedies. In such event, there can be no assurance that the Combined Group will be able to repay all its indebtedness, and the amount recoverable by holders of the Securities upon the insolvency, bankruptcy or winding-up of Lottomatica may be reduced. This level of indebtedness could have a negative impact on the business, cash-flow and growth of Lottomatica.

Lottomatica's ability to service the Securities may depend on its ability to obtain cash from its subsidiaries.

Lottomatica may rely on cash obtained from its subsidiaries to fund its obligations. These subsidiaries have no obligation, contingent or otherwise, to pay any amounts due under the Securities or to make funds available to Lottomatica to enable it to do so. The Senior Credit Facilities, the Intercreditor Deed (as defined herein) and other future debt may not permit Lottomatica's subsidiaries to distribute sufficient funds to Lottomatica to enable it to make any payments on the Securities. In the event of the bankruptcy, liquidation, winding-up or insolvency of any of Lottomatica's subsidiaries, creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are available for distribution to their shareholders, including Lottomatica.

The Combined Group's interest rate expense could increase in the event of increases in prevailing interest rates.

A substantial portion of the Combined Group's indebtedness will bear interest at rates that fluctuate with prevailing interest rates. As of December 31, 2005, on a pro forma basis after giving effect to this offering and the borrowings under the Senior Credit Facilities, approximately 63.8% of the Combined Group's indebtedness was floating rate indebtedness. Changes in interest rates generally will not impact the fair market value of such indebtedness, but could have a material adverse effect on the Combined Group's cash-flow, its financial condition and results of operations.

Lottomatica may be subject to an unfavourable outcome with respect to pending litigation, which could result in substantial monetary damages or harm to Lottomatica.

Lottomatica operates in a market with a high level of litigation. At present, Lottomatica is party to several administrative and civil proceedings, including proceedings brought by competing businesses. A negative outcome in one or more of these proceedings could require Lottomatica to pay substantial monetary damages or penalties and/or limit its ability to operate its business. In addition, proceedings against regulatory authorities challenging tender procedures or the award of any contract, license, concession, permit or approval to Lottomatica could result in the denial, termination or revocation of such contract, license, concession, permit or approval, which could have a material adverse effect on Lottomatica's operations. In addition, such proceedings may divert senior management's time and attention. For a description of certain legal proceedings to which Lottomatica is a party, see "Business—Lottomatica—Legal Proceedings".

Lottomatica's systems are subject to network interruption risks which could have a negative impact on the quality of the services offered by Lottomatica and, as a result, on demand from consumers and consequently volume of sales.

Lottomatica's ability to effectively operate Lotto and its other games and services depends to a great extent on the reliability and security of the information technology systems and networks it uses. Information technology systems and networks used by Lottomatica are potentially subject to damage and interruption caused by human error, problems relating to the telecommunications network, natural disasters, sabotage, viruses, and similar events. Interruptions in the system could have a negative impact on the quality of the services offered and, as a result, on demand from consumers and consequently on the volume of sales. In addition, interruptions in the system could result in the revocation of certain of Lottomatica's concessions or require it to pay substantial penalties or damages. Cases of interruptions have occurred in the past, mostly as a result of problems with the telecommunications network. In particular, one such interruption which occurred on June 18, 2005 involved a large number of terminals connected to the telecommunications network operated by B.N.L. Multiservizi S.p.A. ("***B.N.L. Multiservizi***") through British Telecom Albacom S.p.A., which caused the terminals to slow down and/or block intermittently during the day on which Lotto numbers were drawn. As a result of this interruption, Lottomatica paid €7.5 million in liquidated damages to the AAMS, while contesting the AAMS's claim, reserving its right to appeal and seeking restitution from B.N.L. Multiservizi. Lottomatica believes that it has implemented all measures necessary to prevent situations similar to those that have arisen in the past, but the possibility remains that situations with similar effects may recur. Any such service outages could result in the payment of penalties or damages and have a negative impact on Lottomatica's financial condition and results of operations.

Lottomatica's acquisition strategy may not succeed.

Lottomatica intends to continue to carry out a strategy of internal growth as well as to pursue growth through the selective acquisitions of companies or businesses in the Republic of Italy and abroad. The success of Lottomatica's acquisition strategy is conditioned to a great extent upon the existence of

companies or businesses whose characteristics match the objectives that Lottomatica seeks, upon Lottomatica's ability to finalise such transactions and to efficiently integrate the companies or businesses acquired into Lottomatica, and upon obtaining authorisations from the appropriate authorities. The potential difficulties associated with such acquisitions, such as delays in finalising the procedures or unexpected liabilities and costs, as well as any inability to obtain operational benefits or synergies from the transactions carried out, could have a detrimental effect on Lottomatica's future results. In addition, Lottomatica may be required by governmental authorities, in order to consummate possible future acquisitions, to divest part of its existing operations. Further, Lottomatica may voluntarily dispose of newly acquired businesses or operations.

Because of these factors, Lottomatica's acquisition strategy involves a high degree of risk and it is not certain that Lottomatica will succeed in this strategy, nor that any such acquisitions will provide the results expected. The materialisation of such risks could have a negative impact on Lottomatica's future results and growth.

Lottomatica faces risks in connection with its strategy of international expansion.

Lottomatica believes that the international diversification of its operations will become increasingly important to its results upon the expiration of the Lotto concession. The Acquisition is a key component of Lottomatica's development strategy to expand its activities into international markets. As of the date of this Offering Circular, Lottomatica's activities are conducted solely in the Republic of Italy, while GTECH conducts business worldwide.

International expansion, including by acquisitions such as the Acquisition, will require Lottomatica to confront new highly competitive markets. In addition, Lottomatica will be exposed to a number of risks related to general economic, social and political conditions in several foreign countries, which could include, among others, fluctuations in foreign currency exchange rates, foreign exchange restrictions, unstable capital markets, restrictions on foreign investment, cultural differences, political instability, war, terrorism, corruption, diverse tax, legal and regulatory regimes and additional expenses and risks inherent in conducting operations in geographically distant locations.

The gaming and betting industry, in most countries where it has developed, is heavily regulated by governmental authorities. Although laws and regulations vary by jurisdiction and are subject to amendment from time to time, Lottomatica will be required, following the Acquisition, to obtain licenses, concessions, permits or approvals to conduct gaming and betting activities in virtually all jurisdictions in which GTECH operates and to comply with certain requirements with respect to its financial stability and integrity. In many jurisdictions, extensive investigations and ongoing reporting involving financial disclosure by lottery operators and background checks of their employees and significant shareholders are common. Any failure by one of Lottomatica's significant shareholders or key managers to submit to such background checks or provide the required disclosure could prevent Lottomatica from being awarded a required license, concession, permit or approval, or result in the termination of any of the foregoing.

Because of these factors, the strategy of international expansion involves a high degree of risk and it is not certain that Lottomatica will succeed in this strategy nor that expansion into international markets will provide the results expected. The materialisation of such risks could have a negative impact on Lottomatica's future results and growth.

Lottomatica's strategy to expand its services business may fail.

Lottomatica's business, prospects and future success depend, in part, upon its ability to continue to run and expand the services part of its business strategy. In addition to running lottery and gaming concessions, Lottomatica offers various commercial, payment and processing services. These businesses are subject to risks that are different risks from those affecting the gaming business and, in some cases, Lottomatica is a new entrant in an existing market with more established competitors while in other cases,

Lottomatica is the first entrant into an undeveloped market. Lottomatica's strategy to develop its businesses and gain market share in some of these markets is untested and may not succeed. Some of Lottomatica's competitors are large companies and banks that are more established in these markets or may have greater financial resources than Lottomatica. Lottomatica also competes with governmental agencies who may have unique advantages, including in terms of business resources. In some markets, Lottomatica's success will depend on continuing business relationships that may be terminated on short notice. For example, FIT the Italian Tobacconists' Association, has appointed Lottomatica as the provider of technology services to tobacconists with respect to payment services for TV license fees, car road taxes and stamp duties; however, they may choose to use another provider, either alongside or in replacement of Lottomatica. If Lottomatica's strategies in the various services markets are not successful or if Lottomatica underestimates the risk of participating in these markets, then Lottomatica's results of operations could be adversely affected.

Restrictions on the acquisition of control of Lottomatica and on the appointment of its chairman, managing director/general manager, and the chairman of its board of statutory auditors.

The ability of third parties to acquire control of Lottomatica is limited by the following circumstances:

- pursuant to the *Decreto Direttoriale* (Decree of the Managing Director of the AAMS) of November 15, 2000, the acquisition of control (however achieved) of Lottomatica by third parties other than the shareholders of Lottomatica, as of the date of the above *Decreto Direttoriale*, requires the authorisation of the Ministry of Economy and Finances (upon 30 days prior notice);
- the *Decreto Direttoriale* of November 15, 2000 also provides for the prior written approval of the Ministry of Economy and Finances for the appointment of the Chairman, CEO, General Manager and Chairman of the Board of Statutory Auditors of Lottomatica; and
- as of April 13, 2006, De Agostini, holds directly approximately 53.365% of the outstanding share capital of Lottomatica, in addition to approximately 2.892% of the outstanding share capital of Lottomatica held by Nuova Tirrena S.p.A., an indirect subsidiary of De Agostini ("*Nuova Tirrena*").

See "Related Party Transactions" for additional information.

The interests of Lottomatica's controlling shareholder may conflict with the interests of Securityholders.

The interests of Lottomatica's shareholders, including its controlling shareholder, De Agostini, in certain circumstances, may conflict with the interests of holders of the Securities. As of April 13, 2006, De Agostini owns, directly or indirectly, approximately 56.257% of the outstanding ordinary shares of Lottomatica. As a result, De Agostini is able to, and will continue to be able to, exercise significant control over all matters to be voted on by Lottomatica's shareholders, including, without limitations, the election and removal of directors and any capital increases or amendments to Lottomatica's by-laws.

Risks relating to statements of pre-eminence and to information on the evolution of the basic market.

This Offering Circular contains statements of pre-eminence and estimates on the position of Lottomatica, GTECH and the Combined Group as formulated by them on the basis of specific knowledge of the sector, the data available, and their own experience. This Offering Circular also contains information on the evolution of the basic market in which Lottomatica and GTECH operate. It is impossible to guarantee that this information can be confirmed. The results of Lottomatica and GTECH and trends in the aforementioned sectors could be different than the results expected in these statements, because of the known and unknown risks, uncertainties and other factors including those indicated herein.

Lottomatica's accounts prepared in accordance with IFRS may not be comparable with its previous audited financial statements prepared in accordance with Italian GAAP.

Pursuant to European Community Regulation EC No. 1606/2002, all companies listed on stock exchanges in the European Union, including Lottomatica, are required to prepare their consolidated financial statements in accordance with IFRS, beginning with the accounts for the first financial year ended after January 1, 2005. Included in this Offering Circular are consolidated financial statements of Lottomatica for the fiscal year ended December 31, 2005 which were prepared in accordance with IFRS and fiscal years ended December 31, 2004 and 2003 which were prepared in accordance with Italian GAAP. The 2004 financial statements prepared in accordance with Italian GAAP have been reconciled to IFRS for purposes of comparison to the 2005 financial statements. The audited reconciliation of the 2004 financial statements from Italian GAAP to IFRS is included elsewhere in this Offering Circular. In addition, all of Lottomatica's IFRS data has been prepared on the basis of the IFRS as in effect as of December 31, 2005; therefore it is subject to any adjustments that may be necessary, should revised versions or interpretations of IFRS be issued, including with retroactive effect.

These financial statements have also been prepared in compliance with disclosure requirements currently in force in the Republic of Italy as established by CONSOB. These disclosure requirements may not be equivalent to those currently in force in other jurisdictions that apply IFRS, and the application to Lottomatica of the financial information disclosure requirements of other jurisdictions might result in the disclosure of financial information or data materially different from that contained in this Offering Circular.

Lottomatica's adoption of IFRS for preparation of its audited consolidated results for 2005, means that these results and the IFRS results for 2004 are not directly comparable with its financial statements for 2003 prepared in accordance with Italian GAAP. For a discussion of the differences among Italian GAAP, IFRS and U.S. GAAP see "Appendix E—Lottomatica—Summary of Certain Significant Differences Among Italian GAAP, IFRS and U.S. GAAP".

Lottomatica's corporate disclosure practices and accounting standards differ from those of U.S. companies.

A principal objective of the securities laws of the United States, the Republic of Italy and other countries is to promote full and fair disclosure of all material corporate information. However, there may be less publicly available information about issuers of securities traded on the MTA than is regularly published by or about companies listed in the United States, or such information may be available only in Italian. Also, since Italian GAAP and IFRS differ in certain significant respects from U.S. GAAP, financial statements prepared in accordance with Italian GAAP or IFRS and reported earnings and losses may differ in certain respects from those of companies in the United States. For a discussion of the differences among Italian GAAP, IFRS and U.S. GAAP see "Appendix E—Lottomatica—Summary of Certain Significant Differences Among Italian GAAP, IFRS and U.S. GAAP". In addition, certain items included in this Offering Circular, including in particular the unaudited *pro forma* financial information, does not include all of the data that would be required under U.S. securities laws in a prospectus for an offering registered with the U.S. Securities and Exchange Commission.

Lottomatica's business may be adversely affected by competition from other operators.

Currently Lottomatica operates principally in the lottery sector and also in the gaming sector. The lottery and gaming business is competitive. Lottomatica faces competition in these sectors from a number of operators in the Republic of Italy. Although Lottomatica is making investments in infrastructure intended to position it to exploit the opportunities that the new interactive gaming markets present, it expects significant competition in these markets from other concessionaires. In the Gaming Machine business, Lottomatica competes with nine concessionaires that provide information technology services to Gaming Machines. If Lottomatica expands its Gaming Machines operation business, it will face

competition from numerous operators. Furthermore, Lottomatica faces competition from illegal betting. See “—Risks deriving from illegal betting” below.

With respect to the commercial, payment and processing services that Lottomatica provides, it faces competition from Poste Italiane S.p.A. (the Italian post office) and banks, which are more established in these markets or may have greater financial resources than Lottomatica.

These sources of competition, as well as other sources of competition, could cause Lottomatica to lose players or customers and could adversely affect Lottomatica’s business, financial condition and results of operations.

The gaming and betting industry is highly regulated.

The gaming and betting industry in the Republic of Italy is heavily regulated by the AAMS, which determines (i) games that may be operated and amounts that may be charged by operators, (ii) the prizes to be awarded, (iii) the compensation paid to concessionaires, including Lottomatica and (iv) the points of sale. Renewing existing, and applying for new, licenses, concessions, permits and approvals can be costly and time consuming and there is no assurance of success. Any failure to renew or obtain any such license, concession, permit or approval could have a material adverse effect on Lottomatica’s business. Any changes in the legal or regulatory framework or other changes, such as increases in the taxation of gaming or betting, changes in the compensation paid to concessionaires or increases in the number of licenses, authorisations or concessions awarded by the AAMS to competitors of Lottomatica could seriously affect its profitability.

The European Commission has recently sent out letters to seven member states, including to Italy, requesting information regarding exclusivity in relation to the organisation and offering of betting services and to the restrictions against those who undertake collection activity or gaming activity without authorisation from the government. The member states have two months in which to present their observations, at the end of which, the European Commission may issue its judgment. In the event that the state under observation does not conform to such judgments within the terms set out by the commission, it may be referred to the court of justice. The results of this process are not, at this time, foreseeable and it is not possible to exclude that a partial liberalisation of the gaming market could result, with a consequential increase in the number of competing operators. This could have a material adverse effect on the profitability of Lottomatica.

Risks deriving from illegal betting.

A significant threat for the entire gaming and betting industry arises from illegal activities such as secret betting and, more generally, all forms of betting that circumvent public regulation, including off-shore gaming, web-based gaming and, potentially, interactive gaming channels. Such illegal activities may drain significant portions of betting volumes away from the regulated industry. In particular, illegal betting could take away a portion of the present players that are the focus of Lottomatica’s business, particularly Lotto. The loss of such players could have an adverse effect on Lottomatica’s results of operations.

Pro forma data.

This Offering Circular contains the consolidated *pro forma* data of the Issuer and of GTECH comprising the income statement, the consolidated balance sheet, and the explanatory notes of *pro forma* adjustments included in the *pro forma* financial information and based on the consolidated balance sheet of Lottomatica of December 31, 2005 and on the consolidated balance sheet of GTECH of December 31, 2005, both prepared in accordance with the IFRS adopted by the European Union for the purposes of the preparation of the *pro forma* consolidated financial information on December 31, 2005 and for the period from January 1, 2005 to December 31, 2005.

The *pro forma* data were prepared for the purpose of providing an assumption of the net worth, and financial situation of the Issuer as a result of the Acquisition as if it had occurred for net worth purposes on December 31, 2005 and for the income statement on January 1, 2005.

The *pro forma* data are based on the following assumptions:

- in the event that the Acquisition had actually taken place on the dates taken in consideration for the preparation of the *pro forma* data, instead of the actual date, the historical data might not necessarily be equal to the *pro forma* data; and
- in addition, the *pro forma* data do not reflect the actual results because they are prepared in such a way as to represent solely the isolated effects which can be objectively measured concerning the Acquisition, without taking into account the potential effects due to variation in management policies and operational decisions resulting from the transaction itself.

Risk Factors Relating to GTECH

Government regulations and other actions affecting the on-line lottery industry could have a negative effect on GTECH's business, results of operations or prospects.

In the United States and in many international jurisdictions where GTECH currently operates or seeks to do business, on-line lotteries are not permitted unless expressly authorised by law. The successful implementation of GTECH's growth strategy and its business could be materially adversely affected if jurisdictions that do not currently authorise lotteries do not approve on-line lotteries or if those jurisdictions that currently authorise lotteries do not continue to permit such activities.

Once authorised, the ongoing operations of lotteries and lottery operators are typically subject to extensive and evolving regulation. Lottery authorities generally conduct an intensive investigation of the winning vendor and its employees prior to and after the award of a lottery contract. Lottery authorities with which GTECH does business may require the removal of any of its employees deemed to be unsuitable and are generally empowered to disqualify GTECH from receiving a lottery contract or operating a lottery system as a result of any such investigation. Some jurisdictions also require extensive personal and financial disclosure and background checks from persons and entities beneficially owning a specified percentage (typically 5% or more) of GTECH's securities. The failure of these beneficial owners to submit to such background checks and provide required disclosure could jeopardise the award of a lottery contract to GTECH or provide grounds for termination of an existing lottery contract. Additional restrictions are often imposed by international jurisdictions upon foreign corporations, such as GTECH, seeking to do business there.

Further, there have been, are currently and may in the future continue to be investigations of various types, conducted by governmental authorities into possible improprieties and wrongdoing in connection with efforts to obtain and/or the awarding of lottery contracts and related matters. In light of the fact that such investigations frequently are conducted in secret, GTECH may not necessarily know of the existence of an investigation in which it might be involved. Because GTECH's reputation for integrity is an important factor in its business dealings with lottery and other governmental agencies, a governmental allegation or a finding of improper conduct by or attributable to GTECH in any manner or the prolonged investigation of these matters by governmental or regulatory authorities could have a material adverse effect on GTECH's results of operations, business or prospects, including its ability to retain existing contracts or to obtain new or renewal contracts. In addition, adverse publicity resulting from any such proceedings could have a material adverse effect on GTECH's reputation and business. See "Business—GTECH—Legal Proceedings".

Finally, sales generated by on-line lottery games are dependent upon decisions over which GTECH has no control made by lottery authorities with respect to the operation of these games, such as matters

relating to the marketing and prize payout features of on-line lottery games. Because GTECH is typically compensated in whole or in part based on a jurisdiction's gross on-line lottery sales, lower than anticipated sales due to these factors could have a material adverse effect on its revenues.

GTECH may be subject to adverse determinations in legal proceedings in Brazil which could result in substantial monetary judgments, significant reputational damage and the non-extension of GTECH's contract with the Caixa Economica Federal, the Brazilian bank and operator of Brazil's National Lottery ("CEF").

GTECH is presently involved in a civil action that was initiated by federal attorneys with Brazil's Public Ministry against GTECH Brasil Ltda., GTECH's Brazilian subsidiary ("***GTECH Brazil***"), and two of its former employees, among others, a criminal action recommended in a preliminary report of a special investigating panel of the Brazilian congress against one of GTECH's current and three of its former employees, among others, a public class action lawsuit in Brazil against, among others, the Brazilian Federal government, CEF and GTECH Brazil, and related investigations by the Brazilian Federal Police and the United States Securities and Exchange Commission ("***SEC***") and other legal proceedings and investigations involving GTECH's contractual relationship with CEF.

The civil action, initiated in April 2004, alleges that the defendants acted illegally in entering into, amending and performing, certain contracts between GTECH Brazil and CEF. This lawsuit also seeks to impose damages equal to the sum of all amounts paid to GTECH under these CEF contracts, and certain other permitted amounts, minus GTECH's proven investment costs. The applicable statute also permits the assessment of interest and, in the discretion of the court, penalties of up to three times the amount of the damages imposed. GTECH estimates that through the date of the lawsuit it received a total of approximately 1.5 billion Brazilian reais (or approximately U.S.\$702 million at currency exchange rates in effect as of February 25, 2006) under these contracts. In addition, although it is unclear how investment costs would be determined for purposes of this lawsuit, and any determination would be subject to court approval, GTECH estimates that its investment costs through the date of the lawsuit were approximately between 1.2 billion and 1.4 billion Brazilian reais (or approximately between U.S.\$562 million and U.S.\$656 million) at these currency exchange rates.

On June 25, 2004 the judge hearing the civil action initiated by the Public Ministry Attorneys in the Federal Court of Brasilia against GTECH Brazil and two of GTECH's former employees, among others, granted a procedural injunction ordering that 30% of payments to be paid to GTECH Brazil from CEF after the date of the injunction be withheld and deposited into an account maintained by the court. The court also ordered that assets of GTECH Brazil, with certain exceptions, be identified to the court so as to prevent their transfer or disposition. GTECH filed an appeal of this procedural injunction, and on March 22, 2005, a panel of judges of the Brazilian Federal Court of Appeals issued an order discontinuing the withholding of payments due to GTECH Brazil from CEF, removing the restrictions on the transfer or sale of GTECH's Brazilian assets, and requiring the return to GTECH of amounts in excess of 40 million Brazilian reais that had been held in escrow pursuant to the procedural injunction, thereby permitting the return to GTECH of approximately U.S.\$11 million of the approximately U.S.\$26 million held in escrow as of February 26, 2005, the last day of GTECH's fiscal 2005. GTECH has appealed the Court of Appeals decision with respect to the continued withholding of 40 million Brazilian *reais* in a court account, and the deadline for the Public Ministry Attorneys to appeal this decision of the Court of Appeals has expired. See "Business—GTECH—Legal Proceedings—The CEF Contract Proceedings".

A preliminary report issued in January 2006 by a special investigating panel of the Brazilian congress recommended that the Public Ministry Attorneys indict more than 30 people, including one current and three former employees of GTECH Brazil, alleging that these individuals helped GTECH to illegally obtain an extension of its contract with CEF in 2003. The Brazilian Federal Police are conducting a related investigation in connection with the award of, and performance under, certain of GTECH Brazil's contracts with CEF.

The preliminary report also recommended that GTECH's contract with CEF not be extended past the termination of its current contract term in May 2006. Additionally, CEF has announced its intention to develop a central in-house system to replace the services provided by GTECH. Therefore, GTECH does not anticipate that its contract with CEF will be extended on a long-term basis, if at all. Revenue under GTECH's contract with CEF attributable to the National Lottery of Brazil accounted for approximately 11.1% of its revenues in fiscal 2006. If GTECH determines that, upon the expiration of this contract, a substantial liquidation of its investment in Brazil results, then accumulated foreign currency translation losses related to GTECH's operations in Brazil of U.S.\$48.4 million (which are recorded in Accumulated Other Comprehensive Loss in GTECH's consolidated balance sheet at February 25, 2006) would be recorded as a charge to GTECH's consolidated income statement upon the contract's expiration. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—GTECH". The anticipated loss of this contract could have a material adverse effect on GTECH's results of operations, business or prospects.

In June 2003, the Brazilian Federal Court of Accounts ("**TCU**") issued a summons to GTECH based on allegations in a May 2003 audit report in respect of an audit conducted by the TCU of GTECH's 1997 CEF contract. The central allegation of the 2003 report was that GTECH was accorded certain payment increases with respect to lottery services and that it contracted to supply to CEF certain lottery services that were not contemplated by the procurement process for the 1997 contract and that are not otherwise permitted under Brazilian law. As a result, the TCU is alleging that GTECH should be required to repay an amount, still to be approved by TCU judges, equivalent to approximately U.S.\$14 million, based on the currency exchange rates in effect on February 25, 2006. In June 2005, the TCU issued a second preliminary report with respect to GTECH's contracts with CEF. Although GTECH has not been formally served with this report, GTECH understands that it alleges improper transfer of the 1997 contract to GTECH, payment increases inconsistent with the procurement process for the 1997 contract and in violation of Brazilian law and that the 2003 contract extension was entered into in a manner inconsistent with the procurement process and Brazilian law. As a result, the 2005 report seeks repayment by GTECH of an amount equivalent to approximately U.S.\$140 million, based on the currency exchange rates in effect on February 25, 2006.

GTECH may not prevail in any of these legal proceedings. If GTECH is not successful in defending these legal proceedings, it could incur substantial monetary judgments or penalties. A finding of improper conduct by GTECH or any of its current or former employees attributable to GTECH in any manner or the prolonged investigation of these matters by governmental or regulatory authorities could have a material adverse effect on its results of operations, business or prospects, including its ability to retain existing contracts or to obtain new or renewal contracts. In addition, continuing adverse publicity resulting from these investigations and related matters could have a material adverse effect on GTECH's reputation and business. In addition, whether or not GTECH is successful in defending these legal proceedings, the proceedings may occupy substantial time and attention of its senior management.

See "Business—GTECH—Legal Proceedings—The CEF Contract Proceedings" for more detailed information regarding these legal proceedings and investigations and related matters.

GTECH's lottery operations are dependent upon its continued ability to retain and extend its existing contracts and win new contracts.

GTECH derives the majority of its revenues and cash-flow from its portfolio of long-term facilities management contracts. Upon the expiration of a contract, lottery authorities may award new contracts through a competitive procurement process. In addition, GTECH's lottery contracts typically permit a lottery authority to terminate the contract at any time for failure to perform and for other specified reasons, and many of GTECH's contracts permit the lottery authority to terminate the contract at will with limited notice and do not specify the compensation, if any, to which GTECH would be entitled were such termination to occur.

In addition, in the event that GTECH is unable or unwilling to perform, some of its lottery contracts permit the lottery authority to acquire title to its system-related equipment and software during the term of the contract or upon the expiration or earlier termination of the contract, in some cases without paying GTECH any compensation related to the transfer of that equipment and software to the lottery authority.

The termination of or failure to renew or extend one or more lottery contracts, the renewal or extension of one or more lottery contracts on materially altered terms or the loss of its assets without compensation could, depending upon the circumstances, have a material adverse effect on GTECH's results of operations, business and prospects.

Slow growth or declines in sales of on-line lottery goods and services could lead to lower revenues and cash-flows for GTECH.

In recent years, as the United States lottery industry has matured, the rate of lottery sales growth has moderated and certain of GTECH's customers have from time-to-time experienced a downward trend in sales. These developments may in part reflect increased competition that the lottery industry has experienced in recent years for the consumers' entertainment dollar, including by virtue of a proliferation of destination gaming venues, and an increased availability of internet gaming opportunities, as well as the relative difficulty of attracting younger consumers to playing on-line lottery games. GTECH's future success will depend, in part, on the success of the lottery industry, as a whole, in attracting and retaining players in the face of such increased competition for the consumers' entertainment dollar (which competition may well increase further in the future), as well as its own success in developing innovative products and systems to achieve this goal. GTECH's future success also will depend, in part, on its ability to develop innovative products and services to permit it to successfully market transaction processing goods and services outside of the lottery industry. A failure by GTECH to achieve these goals could have a material adverse effect on its results of operations, business and prospects.

GTECH derives approximately half of its revenues from jurisdictions outside the United States and is subject to the economic, political and social instability risks of doing business in these jurisdictions.

GTECH is a global business and derives a substantial portion of its revenue from operations outside the United States. In particular, in fiscal 2006, GTECH derived approximately 48.9% of its revenues from its operations outside of the United States and approximately 11.4% of its revenues from its Brazilian operations alone. Risks associated with GTECH's international operations include increased governmental regulation of the on-line lottery industry in the markets where it operates; exchange controls or other currency restrictions; and significant political instability. Other economic risks that GTECH's international activity subjects it to might include inflation, foreign exchange risks (both depreciation and devaluation), illiquid foreign exchange markets, high interest rates, debt default, unstable capital markets and foreign direct investment restrictions. Political risks include change of leadership, change of governmental policies, new foreign exchange controls regulating the flow of money into or out of a country, failure of a government to honor existing contracts, changes in tax laws and corruption, as well as global risk aversion driven by political unrest, war and terrorism. Finally, social instability risks include high crime in the countries in which GTECH operates due to poor economic and political conditions, riots, unemployment and poor health conditions. These factors may affect GTECH's work force as well as the general business environment in a country. In addition, a substantial portion of GTECH's assets are held outside of the United States and could be prevented by another country from leaving the country in which they are held. See Note 26 to the Notes to GTECH's Consolidated Financial Statements included in this Offering Circular for additional financial information respecting geographic areas where it conducts business.

The occurrence of any of these events in the markets where GTECH operates could jeopardise or limit its ability to transact business in those markets in the manner it expects and could have a material adverse effect on its results of operations, business and prospects.

GTECH's results of operations are exposed to non-United States currency exchange rate fluctuations which could result in lower revenues, net income and cash-flows when such results are translated into U.S. dollar accounts.

GTECH's financial statements are currently reported in United States dollars, and GTECH's consolidated financial results are significantly affected by non-United States currency exchange rate fluctuations. Currency exchange rate exposures arise from current transactions and anticipated transactions denominated in currencies other than United States dollars and from the translation of non-United States currency balance sheet accounts into United States dollar balance sheet accounts. GTECH is exposed to currency exchange rate fluctuations because a significant portion of its revenues is denominated in currencies other than the United States dollar. These exchange rate fluctuations have in the past adversely affected GTECH's operating results and may continue to adversely affect its results of operations and the value of its assets outside the United States. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—GTECH" below.

GTECH has a concentrated customer base and the loss of any of its larger customers (or lower sales from any of these customers) could lead to significantly lower revenue.

Revenue from GTECH's top ten customers accounted for approximately 49.3% of its total revenues in fiscal 2006. In fiscal 2006, 11.1% of its revenues were from CEF, GTECH's largest customer in fiscal 2006 based on annual revenues. If GTECH were to lose any of these larger customers, or if these larger customers experience slow lottery ticket sales and consequently reduced lottery revenue, GTECH's results of operations, business and prospects could be materially adversely affected. See "—GTECH may be subject to adverse determinations in legal proceedings in Brazil which could result in substantial monetary judgments, significant reputational damage and the non-extension of GTECH's contract with the Caixa Economica Federal, the Brazilian bank and operator of Brazil's National Lottery ("CEF")".

GTECH's quarterly operating results may fluctuate significantly.

GTECH has experienced and may continue to experience significant fluctuations in its operating results from quarter to quarter due to such factors as the amount and timing of product sales, the occurrence of large jackpots in lotteries (which increase the amount wagered and GTECH's revenue) and expenses incurred in connection with lottery start-ups. Fluctuations in GTECH's operating results from quarter to quarter may cause its operating results to be below the expectations of securities analysts and investors.

GTECH operates in a highly competitive environment and increased competition may cause it to experience lower net cash-flows or to lose contracts.

The on-line lottery industry has faced increased competition in recent years for the consumers' entertainment dollar, including from a proliferation of destination gaming venues, and an increased availability of internet gaming opportunities. In addition, in recent years there has been increased competition among domestic and international participants in the on-line lottery industry, which could adversely affect GTECH's ability to win renewals of contracts from its existing customers or to win contract awards from other lottery authorities. In addition, awards of contracts to GTECH are, from time to time, challenged by its competitors. Increased competition also may have a material adverse effect on the profitability of contracts which GTECH does obtain. Over the past several fiscal years, GTECH has experienced and may continue to experience a reduction in the percentage of lottery ticket sales that it receives from certain customers resulting from contract rebids, extensions and renewals due to a number of factors, including the substantial growth of lottery sales, reductions in the cost of technology and telecommunications services and general and competitive dynamics. GTECH is unable to determine at this time the likely effect of this trend on its business. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—GTECH" below.

GTECH is subject to substantial penalties for failure to perform under its contracts.

GTECH's lottery contracts typically permit termination of the contract at any time for failure by GTECH to perform and for other specified reasons and generally contain demanding implementation and performance schedules. Failure to perform under these contracts may result in substantial monetary liquidated damages, as well as contract termination. These provisions in GTECH's lottery contracts present an ongoing potential for substantial expense.

Lottery contracts also generally require GTECH to post a performance bond, which in some cases may be substantial, to secure its performance under such contracts. GTECH paid or incurred liquidated damages with respect to its contracts in an amount equal to 0.61%, 0.18%, 0.50%, 0.47% and 0.14% of its annual revenues in fiscal 2006, 2005, 2004, 2003 and 2002, respectively. If GTECH incurs substantial liquidated damages in the future, it could significantly reduce the amount of funds that GTECH has available for other uses in its business and may delay or prevent GTECH from pursuing and achieving its growth strategy. This could have a material adverse effect on GTECH's results of operations, business and prospects.

GTECH may not be able to respond to technological changes or to satisfy future technology demands of its customers, in which case it could fall behind its competitors.

Many of GTECH's software and hardware products are based on proprietary technologies. While GTECH believes that certain of its technologies, such as its GTECH Enterprise Series™ open-architecture software platform, provide an industry standard, if GTECH were to fail to develop its product and service offerings to take advantage of technological developments, it may fall behind its competitors and its business, financial condition, results and prospects could suffer.

If GTECH is unable to manage potential risks related to acquisitions, its business and growth prospects could suffer.

Part of GTECH's growth strategy historically has involved acquisitions designed to extend its product offerings and customer base. During fiscal 2004, GTECH acquired Interlott Technologies, Inc., a leading provider of instant ticket vending machines for the worldwide lottery industry, and a controlling equity position in PolCard S.A., a leading debit and credit card merchant transaction acquirer and processor in Poland ("***PolCard***"). During fiscal 2005, GTECH acquired Spielo, a leading provider of video lottery terminals and related products and services to the global gaming industry, and Leeward Islands Lottery Holding Company, Inc., a lottery holding company headquartered on the Caribbean islands of Antigua and St. Croix. In September 2004, GTECH acquired privately-held BillBird S.A., the leading provider of electronic bill payment services in Poland. Finally, in December 2004 GTECH announced that it had signed an agreement to acquire a 50% controlling equity position in Atronic, a video gaming machine manufacturer, from the owners of the Gauselmann, in a transaction which GTECH expects to close by December 31, 2007.

GTECH's ability to continue to expand successfully through acquisitions depends on many factors, including its ability to identify acquisition prospects and negotiate and close transactions. Even if GTECH completes an acquisition, the integration of an acquired business into its operations involves numerous risks, including difficulties in integrating an acquired company's hardware and software products and services with its own; the diversion of its resources and management's attention from other business concerns; the potential loss of key employees; risks associated with entering markets in which it may have little experience; and the day-to-day management of a substantially larger and more geographically diverse combined company.

GTECH may not realise the synergies, operating efficiencies, market position or revenue growth it anticipates from acquisitions and its failure to effectively manage the above risks and other problems associated with acquisitions could have a material adverse effect on GTECH's business, growth prospects

and financial performance. These risks may only be heightened in light of the challenges management will face while integrating the operations of GTECH and Lottomatica. See “—Risks Relating to the Acquisition—Lottomatica may be unable to successfully or efficiently integrate its operations and realise the full cost savings it anticipates to result from the Acquisition”.

Acquisitions outside of GTECH’s core lottery market may subject it to enhanced competition. For example, with the completion of its acquisition of Spielo and its announced acquisition of a 50% controlling equity interest in Atronic, GTECH has entered the broader gaming technology and services industry, where it expects to encounter significant competition.

Acquisitions also pose the risk that GTECH may be exposed to successor liability relating to actions by an acquired company and its management before the acquisition. The due diligence GTECH conducts in connection with an acquisition, and any contractual indemnities it may receive from sellers of acquired companies, may not be sufficient to protect GTECH from, or compensate it for, actual liabilities. A material liability associated with an acquisition could also adversely affect GTECH’s results of operations, business and prospects, and reduce the anticipated benefits of the acquisition.

Expansion of on-line lottery and other forms of gaming face opposition which could limit GTECH’s access to some markets.

Gaming opponents continue to persist in efforts to curtail the expansion of on-line lottery and other forms of legalised gaming. GTECH can give no assurance that this opposition will not be successful in preventing the legalisation of gaming in jurisdictions where these activities are presently prohibited or prohibiting or limiting the expansion of on-line lottery and other forms of these activities where currently permitted, in either case to the detriment of its results of operations, business and prospects.

GTECH’s business prospects and future success depend upon its ability to attract and retain qualified employees.

GTECH’s business prospects and future success depend, in part, upon its ability to attract and to retain qualified managerial, marketing and technical employees. Competition for such employees is sometimes intense, and GTECH may not succeed in hiring and retaining the executives and other employees that it needs. GTECH’s loss of or inability to hire key employees could have a material adverse effect on its results of operations, business and prospects.

GTECH’s business prospects and future success rely heavily upon the integrity of its employees and executives and the security of its systems.

The real and perceived integrity and security of a lottery is critical to its ability to attract players. GTECH strives to set exacting standards of personal integrity for its employees and system security for the systems that it provides to its customers, and its reputation in this regard is an important factor in its business dealings with lottery and other governmental agencies. For this reason, an allegation or a finding of improper conduct on GTECH’s part, or on the part of one or more of its current or former employees that is attributable to GTECH, or an actual or alleged system security defect or failure attributable to GTECH, could have a material adverse effect upon GTECH’s results of operations, or prospects, including its ability to retain existing contracts or obtain new or renewal contracts or to receive or to renew gaming contracts. See “—GTECH may be subject to adverse determinations in legal proceedings in Brazil which could result in substantial monetary judgments, significant reputational damage and the non-extension of GTECH’s contract with the Caixa Economica Federal, the Brazilian bank and operator of Brazil’s National Lottery (“CEF”)”.

GTECH's dependence on certain suppliers creates a risk of implementation delays if the supply contract is terminated or breached, and any delays may result in substantial penalties.

GTECH purchases most of the parts, components and subassemblies necessary for its terminals from outside sources. It assembles these parts, components and subassemblies into finished products in its manufacturing facility. While most of the parts, components and subassemblies can be purchased through more than one supplier, GTECH currently has approximately three material sole source vendors. GTECH believes that if a supply contract with one of these vendors were to be terminated or breached, it would be able to replace the vendor. However, it may take time to replace the vendor under some circumstances and any replacement parts, components or subassemblies may be more expensive, which could reduce GTECH's margins. Depending on a number of factors, including the level of the related part, component or subassembly in GTECH's inventory, the time it takes to replace a vendor may result in a delay in its implementation of a lottery system for a customer. Generally, if GTECH fails to meet its performance schedules under its contracts, it may be subject to substantial penalties or liquidated damages, or even contract termination.

GTECH's non-lottery ventures, which are an increasingly important aspect of its business, may fail including by reason of GTECH's relative lack of experience in markets outside its core lottery market and, in the case of ventures into the non-lottery gaming market, the difficulty in obtaining necessary licenses.

GTECH's business prospects and future success depend, in part, upon its ability to expand its transaction processing services into complementary and parallel markets outside of its core lottery market. In fiscal 2006, commercial services transaction processing represented approximately 9% of GTECH's total revenues and non-lottery gaming represented approximately 7% of its total revenues. By way of comparison, in fiscal 2003 approximately 5% of GTECH's total revenues were derived from commercial services transaction processing, and approximately 2% of its total revenues were derived from non-lottery gaming. With GTECH's acquisition in May 2003 of a controlling equity interest in PolCard; the acquisition in September 2004 of BillBird S.A., the leading provider of electronic bill payment services in Poland; and GTECH's December 2004 agreement to acquire a 50% controlling equity position in Atronic, a video slot manufacturer, GTECH expects non-lottery ventures to become increasingly significant to its overall financial performance. Because GTECH has less experience in non-lottery markets than it has in its core lottery market, GTECH's non-lottery ventures present an enhanced element of risk for it. GTECH's non-lottery ventures outside the United States are particularly sensitive to the economic and political risks of doing business in these countries, including non-United States currency exchange risks. In addition, GTECH's ability to complete the acquisition of a 50% controlling equity interest in Atronic, and otherwise to expand into non-lottery gaming markets, is dependent upon its success in obtaining required non-lottery gaming licenses in numerous jurisdictions. Obtaining such licenses is in many cases difficult, and there can be no assurance that GTECH will be granted all non-lottery gaming licenses for which it applies or, if granted, that such licenses will be granted in a time frame necessary to insure the success of its non-lottery ventures. As non-lottery services start to represent a more significant portion of GTECH's operations, the failure of one or more of its non-lottery ventures could have a material effect on its results of operations, business and prospects.

If GTECH is unable to protect its intellectual property or prevent its use by third parties, its ability to compete in the market may be harmed.

GTECH relies upon its ability to develop and protect its proprietary technology and intellectual property rights to ensure that its competitors do not obtain technology from GTECH that could allow them to compete more effectively with GTECH. However, intellectual property laws in the United States and in non-U.S. jurisdictions may afford differing and limited protection, may not permit GTECH to gain or maintain a competitive advantage, and may not prevent GTECH's competitors from duplicating its

products, designing around its patented products, or gaining access to its proprietary information and technology.

Although GTECH takes measures intended to prevent disclosure of its trade secrets through nondisclosure and confidentiality agreements and other contractual restrictions, GTECH may not be able to prevent the unauthorised disclosure or use of its technical knowledge or trade secrets. For example, there can be no assurance that consultants, vendors, former employees or current employees will not breach their obligations regarding non-disclosure and restrictions on use. In addition, anyone could seek to challenge, invalidate, circumvent or render unenforceable any GTECH patent(s). GTECH cannot provide assurance that any pending or future patent applications it holds will result in an issued patent, or that, if patents issue, they would necessarily provide meaningful protection against competitors and competitive technologies and/or adequately protect GTECH's then-current products and technologies. GTECH may not be able to detect the unauthorised use of its intellectual property or take appropriate steps to enforce its intellectual property rights effectively, and certain contractual provisions, including restrictions on use, copying, transfer and disclosure of licensed programs, may be unenforceable under the laws of certain jurisdictions.

GTECH licenses intellectual property rights from third parties. If such third parties do not properly maintain or enforce the intellectual property rights underlying such licenses, or if such licenses are terminated or expire without being renewed, GTECH could lose the right to use the licensed intellectual property, which could adversely affect its competitive position or its ability to commercialise certain of its technologies, products or services.

GTECH intends to enforce its intellectual property rights, and from time to time it may initiate claims against third parties that it believes are infringing its intellectual property rights if it is unable to resolve matters satisfactorily through negotiation. Litigation brought to protect and enforce GTECH's intellectual property rights could be costly, time-consuming and distracting to management and could fail to obtain the results sought.

Third-party infringement claims against GTECH could limit or affect its ability to compete effectively.

GTECH cannot provide assurance that its products or methods do not infringe the patents or other intellectual property rights of third parties. Infringement and other intellectual property claims and proceedings brought against GTECH, whether successful or not, are costly, time-consuming and distracting to management, and could harm GTECH's reputation. In addition, intellectual property litigation or claims could result in GTECH having to do one or more of the following: (i) cease selling or using any of its products that allegedly incorporate the infringed intellectual property, (ii) pay substantial damages, (iii) obtain a license from the third-party owner, which license may not be available on reasonable terms, if at all, (iv) rebrand or rename its products, and (v) redesign its products to avoid infringing the intellectual property rights of third parties, which may not be possible and, if possible, could be costly and time-consuming. The loss of proprietary technology or a successful claim against GTECH could have a material adverse effect on GTECH's results of operations, business and prospects.

GTECH's systems are subject to network interruption risks which could have a negative impact on the quality of the services offered by GTECH, which could, in turn, negatively impact consumer demand and result in a decrease in the volume of its customers' sales and consequently its own revenues.

GTECH's ability to provide goods and services to its customers depends to a great extent on the reliability and security of the information technology systems and networks it uses. Information technology systems and networks used by GTECH are potentially subject to damage and interruption caused by human error, problems relating to telecommunications networks, natural disasters, sabotage, viruses, vandalism, fire, water damage, power loss, and similar unexpected adverse events. Interruptions in these systems could significantly impair GTECH's operations and reduce the effectiveness and quality of

GTECH's services. In such a situation, demand for the services of GTECH's customers could decrease resulting in decreased sales by such customers and consequently a decrease in the volume of GTECH's revenues. In addition, interruptions in GTECH's systems could result in the imposition of substantial penalties under its lottery contracts and/or contract termination. See "Risk Factors Relating to GTECH—GTECH is subject to substantial penalties for failure to perform under its contracts", above. Network interruptions could have a material adverse effect on GTECH's results of operations, business and prospects.

Risks Relating to the Acquisition

Lottomatica may not be able to consummate its proposed Acquisition, and if the Acquisition is not consummated, then the Securities will be subject to Mandatory Redemption.

Lottomatica's proposed Acquisition is subject to a number of conditions that must be satisfied before it can complete the transaction. While Lottomatica anticipates closing the Acquisition during the summer of 2006, it cannot guarantee when, or whether, the Acquisition will be completed. The completion of the Acquisition is subject to a number of conditions, including, among other things:

- the approval of the transaction by GTECH's shareholders (the shareholder meeting is scheduled for June 7, 2006);
- the receipt and availability of financing required to consummate the Acquisition;
- the expiration or termination of any applicable waiting period under the European Community Merger Regulation;
- the receipt of required confirmations, consents, approvals, orders and authorisations with respect to a minimum percentage of specified GTECH lottery contracts;
- the absence of termination of, or notices of commencement of termination procedures with respect to, a minimum percentage of specified GTECH lottery contracts; and
- Lottomatica having obtained and maintained a corporate and senior loan credit rating of at least Baa3/BBB-by, respectively, Moody's Investors Services and Standard & Poor's on a *pro forma* post-merger basis.

In addition, the financing necessary to fund the Acquisition is also subject to certain conditions. See "The Transactions".

The Securities will be mandatorily redeemed in cash by the Issuer on the date that is twenty business days following the earlier to occur of (i) the termination of the Merger Agreement in accordance with its terms and (ii) October 10, 2006, if the Acquisition is not completed by that date, at 101% of their aggregate principal amount together with any accrued and unpaid interest thereon. Any such redemption shall be in compliance with mandatory provisions of applicable law. For further information, see "Terms and Conditions of the Securities—Mandatory Redemption Event".

Lottomatica may be unable to successfully or efficiently integrate its operations and realise the full cost savings it anticipates to result from the Acquisition.

In order to realise the anticipated benefits of the Acquisition, Lottomatica will need to integrate certain operations, procedures, personnel and information systems of two geographically disparate organisations that have previously operated independently of each other in many different jurisdictions around the world.

In addition to being complex and time consuming, the process of integration may also cause an interruption of, or loss of momentum in, the activities of one or more of Lottomatica's pre-existing

businesses and those to be acquired in the Acquisition as a result of a number of potential challenges, including:

- the loss of key personnel, customers or contractual relationships;
- the diversion of management's attention from day-to-day operations;
- difficulties in integrating accounting, management information, human resources and other administrative systems; and
- the need to coordinate organisations with significant geographical diversity and complex operations.

Delays or difficulties encountered in connection with the Acquisition and the integration of the two companies' operations could have an adverse effect on Lottomatica's business, results of operations, financial condition or prospects.

Many of the lottery contracts entered into by GTECH are terminable at will.

The majority of the revenues derived by the business being acquired from GTECH are from lottery contracts, many of which permit the relevant lottery authority to terminate the contract at will with limited notice and do not specify the compensation, if any, to be paid by the lottery authority in the event of such termination. In addition, some of these lottery contracts permit the lottery authority to acquire title to GTECH's system-related equipment and software during the term of the contract or upon the expiration or earlier termination of the contract, in some cases, without paying any compensation related to the transfer of that equipment and software to the lottery authority.

Following the Acquisition, the termination of one or more of these lottery contracts or the loss of related assets without compensation could, depending upon the circumstances, seriously undermine the benefits of the Acquisition for Lottomatica and have a material adverse effect on Lottomatica's business, financial condition, results and prospects.

Lottomatica will incur significant expenses in connection with the Acquisition.

Lottomatica expects to incur significant expenses, currently estimated to be approximately €133.9 million, reflecting costs associated with combining the operations of GTECH and Lottomatica, including approximately €124.9 million of capitalised costs consisting of transaction fees and additional costs related to the Acquisition. The majority of these fees and costs will be recorded after the consummation of the Acquisition, although, many fees will be incurred whether or not the Acquisition is completed. Additional unanticipated costs may be incurred in the integration of GTECH's businesses with Lottomatica's. If the benefits of the Acquisition do not exceed the costs associated with the Acquisition, or if the Acquisition is not completed, Lottomatica's financial results would be adversely affected. See "Unaudited Consolidated *Pro Forma* Financial Information" for more detail on the expenses Lottomatica expects to incur in connection with the Acquisition.

Lottomatica has agreed to guarantee the payment of a break-up fee from Holdings to GTECH in certain circumstances if the financing condition is not satisfied.

If the Merger Agreement is terminated for failure of the financing condition to be satisfied as a result of (i) Lottomatica not obtaining or maintaining a corporate and senior loan credit rating of at least Baa3/BBB- by Moody's and S&P, respectively, assuming completion of the proposed Acquisition, or (ii) Lottomatica's Rights Offering not being completed (provided that the failure of such condition was not, in either case, primarily the result of any breach of the Merger Agreement by GTECH), then upon demand by GTECH, GTECH is entitled to receive a termination fee of U.S.\$50,000,000 from Holdings. Lottomatica has guaranteed the direct or indirect payment of such fee.

Risk Factors Relating to this Offering and the Securities

The Securities are long-term instruments, and Securityholders have only limited rights to receive repayment of principal prior to the Maturity Date.

The Securities will be redeemed on the Maturity Date and Lottomatica is under no obligation to redeem the Securities at any time prior to this date, except pursuant to the mandatory redemption provisions described herein. The Securityholders have no right to call for the redemption of the Securities prior to their maturity and may only call for an acceleration of the Securities in very limited circumstances, on the occurrence of certain Enforcement Events. Securityholders should be aware that they may be required to bear the financial risks of an investment in the Securities for a long period of time.

Lottomatica may redeem the Securities, at its option, upon certain events and on certain dates.

Lottomatica may, at its option, redeem all but not some only of the Securities:

- at their principal amount together with any accrued and unpaid Scheduled Interest Amounts, any unpaid Optionally Deferred Interest and Equity Funded Deferred Interest, and any Additional Amounts thereon (i) on the Reset Date or any Floating Rate Payment Date thereafter for any reason, or (ii) on any date prior to the Reset Date, upon the occurrence of certain withholding tax events; and
- at the Make-Whole Price upon the occurrence of certain other tax events or a Change of Control Event, on any date prior to the Reset Date.

There is no guarantee that Lottomatica may choose to exercise such early redemption options, and Securityholders should be aware that they may be required to bear the risks of their investment in the Securities until their maturity. Following any such redemption, Securityholders may not be able to reinvest their funds in instruments with a comparable yield.

Early redemption may adversely affect the Securityholders' return on the Securities.

The Securities are subject to mandatory early redemption in the event that (i) the Merger Agreement is terminated in accordance with its terms or (ii) the Acquisition is not completed by October 10, 2006. The Securities may, therefore, be redeemed at a time when prevailing interest rates are relatively low. As a result, Securityholders may not be able to re-invest the redemption proceeds in a comparable security with an effective rate equal to that of the Securities.

Securityholders may incur a loss if Lottomatica is required to, or elects to, defer interest payments under the Securities.

Lottomatica may at its discretion elect to defer payment of scheduled interest at any time. In addition, Lottomatica may be required to exercise its discretion to elect to defer payments of interest pursuant to its obligations under the Senior Credit Facilities. Any interest so deferred is referred to as "Optionally Deferred Interest". Optionally Deferred Interest may be paid by Lottomatica at its discretion in cash at any time, but there is no assurance that Lottomatica will elect to settle such amounts in the future. Optionally Deferred Interest will not itself accrue interest and will only become payable after a period of 10 years, or earlier upon the occurrence of certain limited events.

Furthermore, if, on the tenth business day prior to any Interest Payment Date, a Mandatory Deferral Event occurs, Lottomatica must defer payments of scheduled interest on the Securities, except in certain limited circumstances. A Mandatory Deferral Event is deemed to occur when the Coverage Ratio is less than 1.35. Any interest so deferred is referred to as "Mandatorily Deferred Interest". Mandatorily Deferred Interest will not itself accrue interest and will only become payable after a period of 10 years, or earlier upon the occurrence of certain limited events. See "Terms and Conditions of the Securities—

Deferrals of Interest—Optional deferral of interest” and “—Mandatory deferral of interest”. Optionally Deferred Interest after remaining unpaid for a period of five years, and Mandatorily Deferred Interest are together referred to herein as “Equity Funded Deferred Interest”.

Securityholders have limited rights to enforce payment or the performance of Lottomatica’s obligations, under the Securities and may only accelerate the Securities upon limited Enforcement Events.

Securityholders have limited rights to enforce payment or the performance of Lottomatica’s obligations, under the Securities on the occurrence of Enforcement Events. The Securities may only be declared due and repayable by Securityholders holding not less than 25% in aggregate principal amount of the outstanding Securities in the event that (i) Lottomatica does not settle any Equity Funded Deferred Interest on or before the tenth anniversary of the Interest Payment Date on which it was first deferred, (ii) Lottomatica breaches the Capital Restriction, or (iii) on the occurrence of certain insolvency events relating to Lottomatica.

Securityholders may not accelerate the Securities in the event that Lottomatica does not pay any unpaid Optionally Deferred Interest by 15 days after the due date for payment thereof, but may only sue for such unpaid amounts. The rights of Securityholders in other circumstances are limited to initiating proceedings to compel the performance of Lottomatica’s obligations and, in certain circumstances, such action may only be taken if Lottomatica has defaulted in the performance or observance of such obligations for at least 60 days.

Risks Relating to Italian Usury Laws.

Italian Law No. 108 of March 7, 1996 introduced legislation preventing lenders from applying interest rates higher than certain rates (the “*Usury Rates*”) set by the Italian Treasury on a quarterly basis and published in a decree. If the interest rate applicable to the Securities from time to time is higher than the Usury Rates, such interest may be deemed void and unenforceable by the court, and thus such interest may not be due. Applicable Usury Rates may vary depending upon certain characteristics of the recipient of the relevant payment.

In addition, even where the applicable Usury Rates are not exceeded, the interest rate applicable to the Securities may be held to be usurious if: (i) it is considered to be disproportionate to the amount lent (taking into account the specific circumstances of the transaction and the average rate applicable to similar transactions in the market) and (ii) Lottomatica is deemed to have been in financial and economic difficulties at the time the Securities were issued.

There can be no assurance that a judge would give effect to the provisions governing the rate of interest on the Securities, or that the contractual provisions relating to such interest would not be deemed void and unenforceable.

Lottomatica may not be able to issue sufficient ordinary shares to settle unpaid Equity Funded Deferred Interest. Accordingly, Lottomatica may not be able to promptly settle Equity Funded Deferred Interest.

Lottomatica’s ability to settle Equity Funded Deferred Interest is constrained by a requirement to fund such payments out of the proceeds of the issuance and sale of ordinary shares to third parties, or irrevocable capital contributions made by its shareholders. See “Terms and Conditions of the Securities—Deferrals of Interest—Equity Funding of Equity Funded Deferred Interest”. There can be no assurance that Lottomatica will be able to consummate the issue and sale of such ordinary shares nor even be authorised by its shareholders to issue and sell ordinary shares for such purpose or to obtain any such capital contributions.

Despite these constraints, Lottomatica is not prohibited from paying dividends on its ordinary shares while such deferred interest amounts remain unpaid.

For as long as any Equity Funded Deferred Interest (or part thereof) remains unpaid, Lottomatica must, after obtaining all shareholder authorisations for the issue or creation of Issuer Equity, in compliance with applicable law, promptly fund the full payment in cash of all unpaid Equity Funded Deferred Interest, using the proceeds of the issue, offer, sale or contribution of Issuer Equity. However, Lottomatica is not required so to fund Equity Funded Deferred Interest during pendency of any Market Disruption Event. Lottomatica has undertaken to take all steps necessary (in compliance with applicable law) to keep available, as of the date of each Annual General Meeting, an amount of ordinary shares that would enable it to settle in full an amount of Equity Funded Deferred Interest equal to the aggregate of the scheduled interest expected to accrue on the Securities during at least the two years following the date of such Annual General Meeting.

Lottomatica cannot give any assurance that it will be able to maintain a sufficient amount of ordinary shares authorised for issuance to fund any unpaid Equity Funded Deferred Interest, or that its shareholders will vote in favour of any increases in the amount of ordinary shares authorised for issuance. In addition, there can be no assurance that market conditions will permit it to issue ordinary shares for such purposes. If Lottomatica does not issue such ordinary shares or cannot place such ordinary shares on the market, it will not be able to fund the full payment in cash of outstanding Equity Funded Deferred Interest.

Lottomatica's payment obligations under the Securities are subordinated.

Lottomatica's payment obligations under or in connection with the Securities constitute subordinated obligations. In the event of (i) the commencement of a voluntary or involuntary liquidation, dissolution or winding-up of Lottomatica due to corporate action or an administrative and/or court order, or (ii) the occurrence of any Insolvency Proceedings, subject to applicable bankruptcy law, payments on the Securities will be subordinated to the full prior payment of all existing and future indebtedness of Lottomatica arising from any unsubordinated obligations or from subordinated obligations that rank ahead of the Securities.

Accordingly, in an insolvency of Lottomatica, claims in respect of principal, premium, accrued and unpaid scheduled interest and Optionally Deferred Interest will, in general terms, rank junior to the claims of all other unsubordinated and subordinated creditors of Lottomatica (other than holders of claims which rank *pari passu* in relation to principal), and senior only to the claims of shareholders and other equity interests. Claims in respect of Equity Funded Deferred Interest will, in general terms, rank junior to the claims in respect of principal, premium, accrued and unpaid scheduled interest and Optionally Deferred Interest. See "Terms and Conditions of the Securities—Status".

In addition, the Intercreditor Deed to be entered into by the Trustee with, among others, the lenders under the Senior Credit Facilities, reinforces the ranking of the claims of Securityholders by contractually subordinating the Securities in right of payment to the Senior Credit Facilities on the occurrence of the above insolvency events in relation to Lottomatica. These subordination and other provisions will:

- provide that upon the occurrence of such insolvency events, claims of Securityholders in respect of the Securities will be subordinated in right of payment to claims in respect of the Senior Credit Facilities; and
- include customary turnover provisions by the Trustee for the benefit of the holders of claims in respect of the Senior Credit Facilities.

A Securityholder by accepting any Security will be deemed to have agreed to the restrictions that will be contained in the Intercreditor Deed. In addition, the Intercreditor Deed will provide that the parties thereto, including the Trustee, will enter into any future intercreditor arrangements in the event of any refinancing, replacement, extension, supplement or restructuring of the Senior Credit Facilities.

The terms of the Trust Deed and the Securities do not prevent Lottomatica from incurring further and additional subordinated or unsubordinated liabilities which may rank senior to the claims of Securityholders.

In an insolvency of Lottomatica, therefore, Securityholders may recover significantly less than the holders of unsubordinated and other subordinated indebtedness of Lottomatica.

Insolvency laws applicable to Lottomatica may not be as favourable to the Securityholders as bankruptcy laws in other jurisdictions.

Lottomatica is incorporated in the Republic of Italy. Lottomatica and its Italian subsidiaries (as well as any of its subsidiaries whose center of interests is deemed to be the Republic of Italy) will be subject to Italian insolvency laws. The following is a brief description of certain aspects of insolvency law in the Republic of Italy as such law might affect the Securityholders. For a detailed description of the Italian insolvency proceedings, please refer to “Regulatory Framework”. The insolvency laws of the Republic of Italy may not be as favourable to Securityholders’ interests as creditors as the laws of other jurisdictions with which the Securityholders may be familiar.

Under Italian law, the insolvency (*insolvenza*) of Lottomatica must be determined and declared by a court. Insolvency occurs when Lottomatica is no longer able to regularly meet its obligations as they fall due. Lottomatica, if in financial difficulties, may be subject to one or more of the following types of proceedings under Italian insolvency laws:

- (i) court-supervised pre-bankruptcy composition with creditors (*concordato preventivo*) (the “**Pre-Bankruptcy Composition**”), pursuant to Royal Decree No. 267 of March 16, 1942, as amended (the “**Bankruptcy Law**”);
- (ii) new extraordinary administration proceedings applicable to large insolvent companies (*amministrazione straordinaria delle grandi imprese in crisi*) pursuant to Law No. 39 of February 18, 2004, as amended (the “**New Extraordinary Administration**”);
- (iii) extraordinary administration proceedings (*amministrazione straordinaria*) pursuant to Legislative Decree No. 270 of July 8, 1999 (the “**Prodi-bis Extraordinary Administration**”);
- (iv) court-supervised temporary controlled administration (*amministrazione controllata*), which will be superseded following the enactment of Legislative Decree No. 5 of January 9, 2006 (the “**Bankruptcy Law Reform**”), which is expected to come into force shortly;
- (v) bankruptcy proceedings (*fallimento*) pursuant to the Bankruptcy Law (the “**Bankruptcy Proceeding**”); or
- (vi) court-supervised post-bankruptcy composition with creditors (*concordato fallimentare*) pursuant to the Bankruptcy Law.

Proposals for composition with creditors. Any composition proposal with Lottomatica’s unsecured creditors arising in connection with any of the above proceedings and involving a reduction in Lottomatica’s overall indebtedness must be approved by certain majorities of such unsecured creditors depending on the proceedings. It is uncertain whether subordinated creditors, such as the Securityholders, would have the right to vote in relation to such proposals. However, any proposal approved by the relevant majority of unsecured creditors, as required by law, will be binding on all creditors of Lottomatica, including the Securityholders, regardless of whether the Securityholders were permitted to vote in relation to such proposal.

Enforcement Action. During the course of any of the above proceedings, the actions of creditors (including the Securityholders, or the Trustee on their behalf) are stayed (except in certain cases as

permitted by law) until the relevant proceedings are concluded, and Lottomatica would be managed by or subject to the supervision of, a court-appointed official or an extraordinary trustee, as the case may be.

Creditors' Committee. The Bankruptcy Law Reform will increase the powers granted to the creditors' committee which supervises the actions of the trustee in bankruptcy. In particular, the creditors' committee may pass resolutions which are binding on the trustee in bankruptcy, and in certain circumstances may be required to authorise certain actions taken by the trustee in bankruptcy. There can be no assurance that decisions or resolutions taken by the creditors' committee would be in line with the interests of the Securityholders.

Avoidance of transactions. If Lottomatica becomes subject to a Bankruptcy Proceeding, New Extraordinary Administration or, in certain circumstances, Prodi-bis Extraordinary Administration, payments made by Lottomatica in favour of the Securityholders or the Trustee on their behalf, prior to the commencement of the relevant proceeding, may be liable to claw-back by the relevant trustee. In particular:

- any amounts paid by Lottomatica in respect of principal or interest on, or otherwise in respect of, the Securities to a Securityholder or the Trustee on its behalf within a period of six months before the commencement of any of the abovementioned proceedings may be set aside if the trustee of such proceedings can prove that such Securityholder or the Trustee, as the case may be, in whose favour such payment was made, was aware or should have been aware that Lottomatica was insolvent at the time such payment was made. In the event of a set off pursuant to mandatory provisions of Italian law, any amounts set-off during a one-year period before the commencement of the proceedings may be requalified and set aside. Pursuant to the Bankruptcy Law Reform, no claw-back action may be brought (i) after a period of three years from the declaration of Lottomatica's bankruptcy, or (ii) in any event after five years from the date on which the relevant payment was made; and
- any payments of principal, premium or interest by Lottomatica in favour of a Securityholder or the Trustee on its behalf upon early redemption of the Securities pursuant to any early redemption option set out in the Securities may be declared ineffective, if made within a period of two years before the commencement of such proceedings.

Pending Agreements. Pursuant to the Bankruptcy Law Reform, while Lottomatica is subject to any Bankruptcy Proceeding, its trustee in bankruptcy may decide to continue the performance of outstanding contracts. The general rule in relation to the New Extraordinary Administration and the Prodi-bis Extraordinary Administration is that outstanding contracts will continue to be performed, without any election being required on the part of the trustee of such proceedings. As a result, it may be possible for Lottomatica to continue to incur new indebtedness during the course of such proceedings. Such indebtedness may rank senior to claims in respect of the Securities, and holders of such indebtedness may be entitled to payment of their claims from the assets of Lottomatica before any assets are made available for distribution to Securityholders.

Admission. In the context of a Bankruptcy Proceeding or Pre-Bankruptcy Composition, interest would cease to accrue on the Securities upon the declaration of bankruptcy and the filing with the court of the composition proposal, respectively. Claims arising from the Securities would be admitted to the applicable insolvency proceedings at their outstanding principal amount. Securityholders may, however, claim for any interest actually accrued to the date of such declaration or filing, as the case may be.

No prior market for the Securities.

Application has been made to list the Securities on the Luxembourg Stock Exchange. However, there can be no assurance that the Securities will be accepted for listing or, if listed, will remain listed. The Securities are new securities for which there is currently no market. There can be no assurance as to the

liquidity of any market that may develop for the Securities, the ability of Securityholders to sell such Securities or the price at which the Securities may be sold. The liquidity of any market for the Securities will depend on the number of holders of the Securities, prevailing interest rates, the market for similar securities and other factors, including general economic conditions, and Lottomatica's financial condition, performance and prospects. In an illiquid market, the Securityholders might not be able to sell their Securities at any time at fair market prices.

The Joint Lead Managers have informed Lottomatica that they currently intend to make a market in the Securities, but they are not, however, obligated to do so, and they may discontinue such market-making efforts at any time. As a result, there can be no assurance that an active trading market for the Securities will develop, or if one does develop, that it will be maintained. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and trading prices for the Securities.

Transfers of the Securities may be restricted, which may adversely affect the secondary market liquidity and/or trading prices of the Securities.

The ability to transfer the Securities may also be restricted by securities laws or regulations of certain countries or regulatory bodies. See "Transfer Restrictions".

The Securities have not been, and will not be, registered under the U.S. Securities Act or any state securities laws or the securities laws of any other jurisdiction. Lottomatica is relying on an exemption from registration under the U.S. Securities Act and applicable state securities laws to offer the Securities in the United States. Holders of Securities may not offer the Securities in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable states securities laws. It is the obligation of each holder to ensure that offers and sales of Securities within the United States and other jurisdictions comply with applicable securities laws. In addition, transfers to certain persons in certain other jurisdictions may be limited by law, or may result in the imposition of penalties or liability. For a description of restrictions which may be applicable to transfers of the Securities, see "Transfer Restrictions" and "Plan of Distribution".

No voting rights.

Holders of the Securities do not have any right to vote at any shareholders' meetings of Lottomatica. Consequently, Securityholders cannot influence, *inter alia*, any decisions by the Board of Directors of Lottomatica to defer payments of interest, or any other decisions by shareholders concerning Lottomatica's capital structure, including the declaration of dividends in respect of Lottomatica's ordinary shares. Securityholders also have no ability to propose or vote on the authorisation by Lottomatica's shareholders of Authorised Equity in connection with the funding of Equity Funded Deferred Interest.

Shareholders' withdrawal rights.

The shareholders of Lottomatica are entitled to withdraw from Lottomatica on the occurrence of certain specified events, such as, *inter alia*:

- an amendment to the by-laws of Lottomatica which affects voting or participation rights;
- a change in Lottomatica's corporate purposes resulting in a material change in its activities; or
- a transfer of Lottomatica's registered office or headquarters outside the Republic of Italy.

In such circumstances, the shares of the withdrawing shareholders are offered to other shareholders on a pre-emptive basis, *pro rata* to their existing shareholding, and, if not taken up by the shareholders, such shares are offered to the market. Any shares of a withdrawing shareholder which are not purchased

by other shareholders or by the market must be purchased by Lottomatica using its net profits and distributable reserves.

If there are no net profits or distributable reserves available for this purpose or if Lottomatica is otherwise prevented from purchasing the shares, the directors of Lottomatica are required by the Italian Civil Code to call a shareholders' meeting to resolve on a reduction of share capital in relation to such shares or, alternatively, the winding-up and liquidation of Lottomatica.

If Lottomatica purchases such shares while any Equity Funded Deferred Interest (as defined herein) remains unpaid, an Enforcement Event (as defined herein) may be triggered under the Securities, which may allow Securityholders to declare the Securities due and repayable and to institute steps to obtain a judgment against Lottomatica for all amounts due.

However, in the event of the commencement of a voluntary or involuntary liquidation, dissolution or winding-up of Lottomatica or the occurrence of any Insolvency Proceedings following the exercise of such withdrawal rights by its shareholders, but prior to the repurchase or liquidation of their shares and the payment therefor being received, there may be a risk that in such proceedings a court may treat the amounts owed to the withdrawing shareholders in respect of the shares to be repurchased as indebtedness of Lottomatica, rather than as an equity claim. In such circumstances there is a risk that holders of ordinary shares may recover amounts due to them in respect of such ordinary shares prior to amounts being paid to the Securityholders.

U.S. federal income tax classification of Securities, taxable income recognition.

There is substantial uncertainty regarding the appropriate classification of the Securities for U.S. federal income tax purposes, and no rulings have been or will be sought from the Internal Revenue Service (the “*IRS*”) with respect to this classification. In addition, it is possible that U.S. Holders (as defined in “Certain United States Federal Income Tax Considerations for U.S. Holders” below) of Securities may recognise taxable income with respect to the Securities in excess of cash payments actually made with respect to the Securities in a given year. U.S. holders should consult their tax advisors as to the proper classification of the Securities for U.S. federal income tax purposes and the risk of taxation without the receipt of corresponding cash payments.

USE OF PROCEEDS

The net proceeds from the issuance of the Securities in this offering are expected to be approximately €725.0 million, after deducting the Joint Lead Managers' fees and commissions and estimated offering expenses. Lottomatica intends to use such proceeds, together with the proceeds from the Rights Offering, the borrowings incurred by Acquisition Subsidiary under the Term Facilities, together with available cash on hand of GTECH and Lottomatica, to finance the Acquisition and repay GTECH indebtedness. See "The Transactions" for a description of the sources and uses of funds relating thereto. This offering is not conditional upon the Rights Offering or consummation of the Acquisition. If (i) the Merger Agreement relating to the Acquisition is terminated in accordance with its terms or (ii) the Acquisition is not completed by October 10, 2006, the Securities will be redeemed at 101% of their aggregate principal amount together with any accrued and unpaid interest thereon. Any such redemption shall be in compliance with mandatory provisions of applicable Italian law. For further information, see "Terms and Conditions of the Securities—Redemption and Purchase—Mandatory Redemption Event". Pending the Acquisition, the Issuer intends to invest the net proceeds in short-term, interest-bearing investment grade securities.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the cash and cash equivalents, liquid investments, short-term debt and the capitalisation of Lottomatica as of December 31, 2005 as follows:

- (i) on an actual basis; and
- (ii) on a *pro forma* basis after giving effect to this offering of Securities, the Acquisition, the Rights Offering, the Senior Credit Facilities and the refinancing of the GTECH indebtedness.

The information in this table has been derived from the audited consolidated financial statements of Lottomatica as of and for the year ended December 31, 2005 and the *pro forma* information set forth in “Unaudited Consolidated *Pro Forma* Financial Information” appearing elsewhere in this Offering Circular and should be read in conjunction with “The Transactions”, “Use of Proceeds”, “Unaudited Consolidated *Pro Forma* Financial Information”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Lottomatica”, “Description of Certain Indebtedness”, and the consolidated financial statements and the accompanying notes appearing elsewhere in this Offering Circular. Except as set forth below, there have been no other material changes to Lottomatica’s capitalisation since December 31, 2005.

	As of December 31, 2005	
	(actual)	<i>pro forma</i> ⁽⁵⁾
	(in thousands of euro)	
Cash and cash equivalents	246,163	—
Liquid investments ⁽¹⁾	29,357	250,367
	<u>7,260</u>	<u>29,420</u>
Total short-term debt ⁽²⁾		
Long-term debt:		
Payable to banks	1,210	1,880,861
Securities	—	724,840
4.80% Notes	358,916	358,916
Total long-term Debt ⁽³⁾⁽⁴⁾ (a)	360,126	2,964,617
Shareholders’ equity:		
Share capital	89,009	1,489,009
Total shareholders’ equity before minority interest	504,694	1,894,746
Minority interest	7,561	12,222
Total shareholders’ equity (b)	<u>512,255</u>	<u>1,906,968</u>
Total capitalisation (a+b)	<u>872,381</u>	<u>4,871,585</u>

(1) Liquid investments are defined as marketable securities available for sale, characterised by high liquidity and highly stable value.

(2) Excludes current portion of long-term debt of €473,000.

(3) Long-term debt does not include GTECH’s outstanding senior notes at February 25, 2006, comprising: approximately U.S.\$148.8 million in aggregate principal amount of 5.25% senior notes due December 2014; approximately U.S.\$249.7 million in aggregate principal amount of 4.75% senior notes due October 2010; and approximately U.S.\$149.7 million in aggregate principal amount of 4.50% senior notes due December 2009. The terms of the Senior Credit Facilities require that GTECH exercise (or cause the exercise of) the call options under the terms of these senior notes within five business days after completion of the Acquisition. Approximately €458.0 million of the amount shown above as “Payable to banks” on a *pro forma* basis represents the portion of the Term Facility B Loans expected to be drawn to repay such senior notes and related expenses.

(4) Includes current portion of long-term debt of €473,000.

(5) For more information about the *pro forma* adjustments, please see “Unaudited Consolidated *Pro Forma* Financial Information” included in this Offering Circular.

THE TRANSACTIONS

The following is a summary of the structure of, and the conditions to the completion of, the Transactions. This summary is not complete. For more information on the terms of the Transactions, prospective investors should read the Merger Agreement, a copy of which is available upon request from Lottomatica. The closing of this offering is not conditional on the completion of the Acquisition.

The Acquisition

On January 10, 2006, Lottomatica, Holdings, Acquisition Subsidiary and GTECH entered into an agreement and plan of merger (the “**Merger Agreement**”) whereby Acquisition Subsidiary will merge with and into GTECH, with GTECH remaining as the surviving corporation and thereby becoming a direct wholly-owned subsidiary of Holdings and an indirect wholly-owned subsidiary of Lottomatica. At the effective time of the Merger, each outstanding share of GTECH common stock (other than shares owned by Lottomatica, GTECH or their respective subsidiaries that will be cancelled and by holders who vote against the Merger and properly elect to exercise appraisal rights under Delaware law) will be converted into the right to receive U.S.\$35.00 in cash. GTECH expects to have approximately 132.8 million shares of common stock outstanding on a fully diluted basis (applying the treasury method), including options and shares issuable upon conversion of convertible debt, at the effective time of the Merger. The total value of the Acquisition is approximately €4.0 billion, including the assumption of GTECH’s existing debt.

The Acquisition is expected to be completed by mid-2006. In the event that the Acquisition is not consummated on or before October 10, 2006, either Lottomatica or GTECH may terminate the Merger Agreement; provided that such termination right is not available to any party whose action or failure to act was a principal cause of or resulted in the failure of the Acquisition to occur on or before such date and such action or failure to act constitutes a breach of the Merger Agreement.

The Merger Agreement includes customary representations, warranties and covenants by the respective parties. Consummation of the Acquisition is subject to the affirmative vote of holders of a majority of the outstanding shares of GTECH common stock, receipt of financing to fund the Acquisition, the merger control regulations of the European Union and other closing conditions, including:

- the absence of a material adverse effect (as defined therein);
- the percentage of GTECH’s common stock for which holders have properly demanded appraisal of such shares under Section 262 of the Delaware General Corporation Law shall not be greater than 10%;
- GTECH shall not be in breach of, to the extent such breach would, nor shall there have occurred any other event that would be reasonably likely to, permit the counterparties to terminate the agreement pursuant to which GTECH is to acquire a 50% controlling equity position in the Atronic group of companies (a producer of entertaining games and products, including dynamic casino management and linked gaming solutions), and a related amendment thereto shall be in full force and effect;
- GTECH shall have unencumbered cash and marketable securities on hand of U.S.\$370.0 million;
- Lottomatica shall have obtained and maintained a corporate and senior loan credit rating of at least Baa3/BBB- by Moody’s and S&P, respectively, on a *pro forma* post-merger basis; and
- the absence of any temporary restraining order, preliminary or permanent injunction or other judgment or order issued by any court or agency of competent jurisdiction or other applicable law preventing the consummation of the transaction.

In addition, consummation of the Acquisition is subject to:

- (i) receipt of consents expressly required for a change in control under GTECH's Georgia, Illinois, New York and Rhode Island lottery contracts;
- (ii) receipt of reasonably satisfactory oral or written confirmation that the consummation of the Acquisition will not result in the termination of, or the commencement of formal termination procedures in respect of, specified material lottery contracts representing at least 87.5% of the aggregate revenues pursuant to all such specified lottery contracts over the 12-month period ending November 30, 2005. The specified lottery contracts are: Texas, California, Florida, Michigan, Missouri, New Jersey, Ohio, Wisconsin and the United Kingdom. The failure to receive confirmation with respect to any of the Texas, California and United Kingdom contracts will cause this condition not to be satisfied; and
- (iii) no termination of, and no commencement or receipt of written notice of commencement of formal termination procedures (except to the extent withdrawn or terminated) in respect of (a) any of the lottery contracts specified in paragraph (i) above and (b) lottery contracts specified in paragraph (ii) above representing at least 90% of the aggregate revenues pursuant to all such lottery contracts over the 12-month period ending November 30, 2005. The termination of, or commencement or receipt of written notice of commencement of formal termination procedures (except to the extent withdrawn or terminated) in respect of, any of the Texas, California, United Kingdom and Michigan contracts (as well as any of the contracts specified in the first bullet above) will cause this condition not to be satisfied.

The Merger Agreement contains certain termination rights for Holdings and GTECH and further provides that, upon termination of the Merger Agreement under specified circumstances, either party may be required to pay a termination fee. In the event a termination fee is payable by Holdings to GTECH, it will equal U.S.\$50,000,000. Lottomatica has guaranteed this payment. In the event a termination fee is payable by GTECH to Holdings, it will equal U.S.\$163,000,000. See "Risk Factors—Risks Relating to the Acquisition—Lottomatica has agreed to guarantee the payment of a break-up fee from Holdings to GTECH in certain circumstances if the financing condition is not satisfied".

The Financing

The Acquisition (including the refinancing of certain GTECH indebtedness) will be funded through:

- the proceeds of this offering;
- available cash of GTECH and Lottomatica of approximately U.S.\$525.0 million (approximately €434 million);
- the proceeds of the €1.4 billion Rights Offering; and
- approximately U.S.\$2.26 billion of borrowings under the Term Facilities to be extended to Acquisition Subsidiary under the Senior Credit Facilities; the borrowings under the Senior Credit Facilities will be guaranteed by Lottomatica, Holdings and certain U.S. operating subsidiaries of GTECH.

De Agostini, the majority shareholder of Lottomatica, has agreed, subject to certain conditions, to subscribe for its full, direct and indirect, *pro rata* share of the Rights Offering (amounting to approximately €0.8 billion). For further information, see "Certain Relationships and Related Party Transactions—The De Agostini Undertakings". Credit Suisse Securities (Europe) Limited and Goldman Sachs International have (i) as joint lead underwriters agreed, severally and not jointly, subject to certain conditions, to enter into an underwriting agreement with respect to the Rights Offering (net of shares to be acquired by De Agostini and any shares which Mediobanca, as beneficiary of a swap agreement covering 6,198,733 ordinary shares of Lottomatica, may undertake to subscribe for). Credit Suisse International, Credit Suisse, London

Branch, Goldman Sachs Credit Partners L.P. and certain other lenders have committed to provide the financing under the Senior Credit Facilities. In addition, the Joint Lead Managers have agreed, severally and not jointly, subject to certain conditions, to procure subscribers for, and failing which to subscribe, the Securities (see “Plan of Distribution”). The financings and related commitments are subject to Lottomatica maintaining a *pro forma* investment grade corporate credit rating and other customary conditions. Furthermore, De Agostini and Lottomatica have agreed to enter into lock-up undertakings consistent with those provided for in similar market transactions. Lottomatica expects that the Combined Group will maintain an investment grade corporate credit rating and that the new capital structure will have the flexibility to pay a dividend to shareholders and make investments in growth opportunities.

The Rights Offering

The commitments of Credit Suisse Securities (Europe) Limited and Goldman Sachs International to underwrite the Rights Offering will be subject to specified conditions, including, among others:

- the validity, enforceability and effectiveness of approval of the Rights Offering by Lottomatica’s board of directors and its shareholders and related corporate formalities;
- the validity, binding effect and enforceability of the agreements entered into with Lottomatica and/or De Agostini in respect of the Rights Offering and the Merger Agreement;
- the absence of conflicts with or violations of Lottomatica’s constitutional documents, contracts and other instruments to which it is a party or applicable laws or regulations, as a result of the execution or performance of the terms of the underwriting agreement and the Merger Agreement, that could result in a material adverse effect (which is defined in a manner substantially consistent with that contained in the Merger Agreement) to the proposed Acquisition or Rights Offering;
- the absence of any breach by Lottomatica or De Agostini of any material obligations under the underwriting agreement and the Merger Agreement;
- the absence of any circumstances which would make the completion of the proposed Acquisition or the Rights Offering unlawful, impossible, or reasonably impractical;
- no change in Moody’s and S&P’s public communications as of January 10, 2006, which commit Moody’s and S&P, respectively, to corporate and indebtedness credit ratings with respect to the Combined Group of at least Baa3 and BBB– on completion of the Acquisition;
- the absence of a suspension or revocation of trading in respect of Lottomatica’s ordinary shares on the Borsa Italiana S.p.A. on or prior to the closing of the Rights Offering, subject to specified exceptions;
- the grant, validity and enforceability of all necessary permits, consents, approvals and authorisations, and the making of all filings or registrations necessary to consummate the Rights Offering;
- the absence of any event in relation to the proposed merger or the Rights Offering that could result in the underwriters acting contrary to any order of any court, arbitral body, administrative body or any law, regulation, treaty or official directive or request applicable to it;
- the absence of a material adverse effect on Lottomatica, GTECH and their respective subsidiaries, taken as a whole;
- the absence of a “market mac” (subject to certain specific exceptions), which generally relates to adverse changes, developments or events in generally prevailing national or international monetary, financial or economic market conditions or currency exchange rates that, in the reasonable opinion of the underwriters are material and adverse and likely to prejudice materially the success of the Rights Offering, as well as any general moratorium on Italian, U.K. or U.S. commercial banking

activities or the escalation or outbreak of hostilities and/or acts of terrorism, in each case that, in the reasonable opinion of the underwriters, are material and adverse and likely to prejudice the success of the Rights Offering;

- the truth and correctness in all material respects of Lottomatica's and De Agostini's representations contained in the underwriting agreement and the Merger Agreement, and the performance of all Lottomatica's and De Agostini's undertakings in the underwriting agreement and the Merger Agreement in all material respects;
- the per share Merger consideration not exceeding U.S.\$35.00;
- De Agostini's subscribing for, and procuring its indirect subsidiary Nuova Tirrena's subscription for, the shares issuable pursuant to De Agostini's and Nuova Tirrena's subscription rights;
- De Agostini must have not terminated its undertaking to take the actions described in the above bullet; and
- receipt by the underwriters of customary legal opinions and comfort letters.

The Senior Credit Facilities

The commitments of the affiliates of Credit Suisse Securities (Europe) Limited and Goldman Sachs International and the other lenders to lend under the Senior Credit Facilities are subject to specified conditions, including, among others:

- negotiation, execution and delivery of definitive financing documentation;
- the absence of a material adverse effect (which is defined in a manner substantially consistent with that contained in the Merger Agreement) on Lottomatica and GTECH and their respective subsidiaries, taken as a whole;
- no change in Moody's and S&P's public communications as of January 10, 2006, which commits Moody's and S&P, respectively, to corporate credit ratings with respect to the Combined Group of at least Baa3 and BBB- on completion of the Acquisition;
- the capitalisation of the Acquisition Subsidiary and Holdings on specified terms;
- receipt by Lottomatica of proceeds of approximately €1.4 billion from the Rights Offering and approximately €750.0 million from the offering of the Securities;
- receipt of required consents and approvals in connection with the Senior Credit Facilities and those expressly required by the terms of the Merger Agreement;
- receipt of satisfactory lien and judgment searches in respect of each obligor under the Senior Credit Facilities;
- receipt of legal opinions and confirmation that required insurance is in full force and effect;
- payment of fees and expenses incurred pursuant to the senior finance documents have been paid or will be paid by the first utilisation date;
- receipt of evidence that GTECH's indebtedness, other than specified debt to remain outstanding, has been repaid (or will be repaid at completion of the Acquisition);
- the accuracy of specified representations relating to each obligor under the Senior Credit Facilities;
- there being no event of default or potential event of default in respect of the Senior Credit Facilities;
- confirmation that U.S.\$370.0 million is available in cash at GTECH; and

- receipt of customary corporate documentation.

The Securities Offering

The Joint Lead Managers have entered into a subscription agreement pursuant to which they will agree to procure subscribers for, and failing which, to subscribe, for the Securities. The obligations of the Joint Lead Managers are subject to specified conditions including, among others:

- negotiation, execution and delivery of definitive financing documentation;
- the absence of any material adverse effect (which is defined in a manner substantially consistent with that contained in the Merger Agreement) affecting Lottomatica, GTECH and their respective subsidiaries, taken as a whole;
- no change in Moody's and S&P's public communications as of January 10, 2006, which commits Moody's and S&P, respectively, to issue corporate and indebtedness credit ratings with respect to the Combined Group of at least Baa3 and BBB- on completion of the Acquisition;
- receipt of required consents and approvals in connection with the issue of the Securities;
- validity and enforceability of the definitive financing documents and merger documents, which shall not be in conflict with the constitutional documents of Lottomatica, applicable law, or any contract or other agreement or instrument to which Lottomatica is a party;
- the accuracy of specified representations relating to GTECH and Lottomatica;
- receipt of legal opinions and comfort letters;
- payment of fees and expenses incurred in connection with the issue of the Securities; and
- receipt of customary corporate certificates and related deliverables.

As of May 2, 2006 S&P has provisionally attributed a BBB corporate credit rating to the Issuer and a BB+ rating to the Securities; and Moody's has newly attributed a provisional Baa3 corporate family rating to the Issuer, and a Ba3 provisional rating to the Securities.

Repayment of GTECH's existing indebtedness

As of February 25, 2006, GTECH had three series of senior notes outstanding:

- approximately U.S.\$148.8 million in aggregate principal amount of 5.25% senior notes due December 2014;
- approximately U.S.\$249.7 million in aggregate principal amount of 4.75% senior notes due October 2010; and
- approximately U.S.\$149.7 million in aggregate principal amount of 4.50% senior notes due December 2009.

The terms of the Senior Credit Facilities require that GTECH exercise (or cause the exercise of) the call options under the terms of these senior notes within five business days after completion of the Acquisition.

Generally, under the terms of the indentures applicable to these senior notes, GTECH may redeem all or part of the senior notes prior to their maturity at any time on at least 30 days' notice, at a redemption price equal to the greater of (i) 100% of the principal amount of the senior notes being redeemed and (ii) the sum of the present values of the principal amount of the senior notes being redeemed and the remaining scheduled payments of interest on such senior notes, discounted from their respective scheduled payment dates to the redemption date on a semi-annual basis at the treasury rate (as defined in the

relevant indentures) plus 20 basis points, in the case of the 5.25% notes, 20 basis points, in the case of the 4.75% notes, and 15 basis points, in the case of the 4.50% notes, plus, in each case, accrued interest to the redemption date. Lottomatica anticipates costs of approximately U.S.\$10.0 million in connection with the refinancing of such indebtedness.

As of April 25, 2006, there was approximately U.S.\$6.0 million in aggregate principal amount of GTECH's Convertible Debentures outstanding and, if still outstanding following completion of the Acquisition, will become convertible into cash. Such Convertible Debentures are currently convertible into shares of GTECH common stock.

In addition, GTECH has a U.S.\$500 million credit facility which is undrawn as of March 31, 2006, excluding U.S.\$2.5 million of letters of credit. This existing credit facility will be terminated upon, or prior to, the effectiveness of the Merger.

Sources and Uses

The table below represents a summary of the sources and uses of funds required to (a) acquire 100% of the share capital of GTECH, (b) refinance certain specified indebtedness ((a) and (b) together, the “*Transaction*”) and (c) pay related Transaction fees and expenses.

Sources and Uses of Funds⁽¹⁾

Sources of Funds	(in millions of U.S. dollars)	(in millions of euro)	Uses of Funds	(in millions of U.S. dollars)	(in millions of euro)
Senior Term Facilities	2,260	—	Transaction fees . . .	44	111
Securities offered hereby	—	750	Purchase price	4,648 ⁽²⁾	
Cash—Lottomatica .	135	—	Refinancing of Indebtedness	560 ⁽³⁾	—
Cash—GTECH	390	—			
Rights Offering	—	1,400			
Total Sources	2,785	2,150	Total Uses	5,252	111
Total Sources at assumed exchange rate:		€4,452	Total Uses at assumed exchange rate:		€4,452

(1) For purposes of this Table, an exchange rate of €1.00=U.S.\$1.21 has been assumed. This assumption may differ from the current spot rate of exchange because in January 2006, after the announcement of the Transaction, Lottomatica entered into hedging agreements for an aggregate notional amount of €2,050 million securing a weighted average exchange rate of U.S.\$1.2116 per €1.00. The cost incurred or to be incurred for such hedging agreements is included in the estimate of Transaction fees and expenses set forth above.

(2) Computed based on 132.8 million shares of GTECH common stock expected to be outstanding on a fully diluted basis (applying the treasury method), including options and shares issuable upon conversion of the Convertible Debentures (assuming 100% conversion), at the effective time of the Acquisition. Assumes that none of the GTECH shareholders has elected to exercise appraisal rights under Delaware law.

(3) Includes approximately U.S.\$10 million of costs in connection with the repayment of the GTECH indebtedness.

SELECTED HISTORICAL FINANCIAL DATA

Lottomatica

The following selected consolidated financial data for Lottomatica and its subsidiaries should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Lottomatica”, the consolidated financial statements of Lottomatica and the other financial information of Lottomatica included in this Offering Circular. The following table sets forth selected historical consolidated financial information of Lottomatica prepared in accordance with IFRS as of and for the three months ended March 31, 2006 as well as for the year ended December 31, 2005, and in accordance with Italian GAAP as of and for the years ended December 31, 2004 and 2003. The audited consolidated financial statements as of and for the year ended December 31, 2004 prepared in accordance with Italian GAAP have been reconciled to IFRS for purposes of comparison with 2005. The audited reconciliation of the financial statements as of and for the year ended December 31, 2004 from Italian GAAP to IFRS is included elsewhere in this Offering Circular. The selected consolidated historical financial data set forth below as of and for the fiscal year ended December 31, 2003, 2004 and 2005 were derived from the audited consolidated financial statements of Lottomatica, included elsewhere in this Offering Circular. The selected consolidated historical financial data for the three months ended March 31, 2006 and 2005 set forth below are derived from the unaudited consolidated financial statements of Lottomatica, included elsewhere in this Offering Circular.

For a discussion of certain differences among Italian GAAP, IFRS and U.S. GAAP, see “Appendix E—Lottomatica—Summary of Certain Significant Differences Among Italian GAAP, IFRS and U.S. GAAP”.

	Three Months Ended March 31,		Year Ended December 31,			
	IFRS	IFRS	IFRS	IFRS	ITA	ITA
	2006	2005	2005	2004	2004	2003
(in thousands of euro)						
Operating Data:						
Total Revenues	190,306	189,135	582,674	585,774	1,234,246	961,142
Raw materials	(11,951)	(8,209)	(31,065)	(29,308)	(365,073)	(33,456)
Services and personnel costs	(62,342)	(63,713)	(260,769)	(284,924)	(573,833)	(710,729)
Other provisions	—	—	—	—	(8,207)	(1,105)
Other operating costs	(4,125)	(511)	(24,854)	(39,662)	(23,162)	(17,341)
Amortisation, depreciation and write-downs	(18,079)	(10,407)	(53,643)	(62,622)	(120,724)	(126,636)
Operating income (EBIT)	93,809	106,295	212,343	169,258	143,247	71,875
Financial income (expense) ^(a)	(17,800)	(2,887)	(16,064)	(16,957)	(13,445)	23,513
Equity investments income (expense)	—	—	(34)	812	—	—
Foreign exchange gains/losses	—	—	—	—	166	883
Revaluation	—	—	—	—	(243)	(3,402)
Extraordinary income (charges)	—	—	—	—	(19,227)	(90,576)
Profit (loss) before income taxes	76,009	103,408	196,245	153,113	110,498	2,293
Income taxes	(34,582)	(41,749)	(82,013)	(68,236)	(49,300)	7,388
Results from discontinued operations	—	—	—	731	—	—
Net income	41,426	61,659	114,232	85,608	61,198	9,681
Minority interests	(2,977)	(443)	(1,841)	426	(479)	(531)
Group net income	38,449	61,216	112,391	86,034	60,719	9,150

	Three Months Ended March 31,		Year Ended December 31,			
	IFRS		IFRS	IFRS	ITA	ITA
	2006		2005	2004	2004	2003
(in thousands of euro)						
Balance Sheet Data (at End of Period):						
Net fixed assets ^(b)	828,040		833,522	577,799	545,183	681,557
Operating working capital ^(c)	(180,105)		(223,970)	(202,002)	(196,141)	(102,404)
Severance indemnities	(7,751)		(7,619)	(7,105)	(6,813)	(5,666)
Net invested capital ^(d)	640,184		601,933	368,692	342,229	573,487
Shareholders' equity	579,897		504,694	312,576	286,163	400,995
Minority interest	11,871		7,561	4,770	7,631	3,818
Long-term loans, incl. current portion ^(e)	364,394		360,126	358,505	360,599	361,909
Short-term loans ^(f)	2,404		7,260	3,322	3,443	20,288
Total debt ^(g)	366,798		367,386	361,827	364,042	382,197
Cash and cash equivalents ^(h)	(319,834)		(246,163)	(241,661)	(241,595)	(199,109)
Net debt ⁽ⁱ⁾	46,964		121,223	120,166	122,447	183,088
Liquid investments ^(j)	—		(29,357)	(64,529)	(64,129)	—
Adjusted net debt ^(k)	46,964		91,866	55,637	58,318	183,088
Total capitalisation ^(l)	956,162		872,381	675,851	654,393	766,722
Cash-flow Data:						
Cash and cash equivalents—beginning of period	246,163		242,184	197,147	199,109	120,588
—Cash-flows from operating activities	17,546		190,741	250,495	274,225	304,199
—Cash-flows from investing activities	(13,871)		(91,298)	24,436	8,830	(146,865)
—Cash-flows from financing activities	69,995		(95,464)	(230,417)	(240,569)	(78,813)
Cash-flow for the period	73,671		3,979	44,514	42,486	78,521
Cash and cash equivalents—ending of period	319,834		246,163	241,661	241,595	199,109

	Three Months Ended March 31,		Year Ended December 31,			
	IFRS	IFRS	IFRS	IFRS	ITA	ITA
	2006	2005	2005	2004	2004	2003
(in thousands of euro)						
Other Data:						
Revenues ^(m)	190,306	189,135	582,674	585,774	587,534	499,400
EBITDA ⁽ⁿ⁾	111,888	116,702	265,986	231,880	272,178	199,616
EBITDA margin ^(o)	58.8%	61.7%	45.6%	39.6%	46.3%	40.0%
Capital expenditures	14,525	(**)	93,854	40,104	55,710	147,591
Interest expense ^(p)	5,124	4,556	19,209	17,544	17,544	17,777
Total debt/EBITDA ratio ^(q)	(*)	(**)	1.38x	1.56x	1.34x	1.91x
EBITDA/interest expense ratio ^(r)	21.84x	25.62x	13.85x	13.22x	15.51x	11.23x

(a) Financial income (expense) is defined as interest income plus other financial income minus interest expense minus other financial expense.

(b) Net fixed assets are defined as the sum of property, plant and equipment, intangible fixed assets, financial assets and goodwill.

(c) Operating working capital is defined as the difference between operating current assets and operating current liabilities.

(d) Net invested capital is defined as net fixed assets minus operating working capital minus severance indemnities.

(e) Long-term loans, including current portion consist of the outstanding on Lottomatica's 4.80% fixed rate notes due 2008, amounted to €359.6 million (long-term portion) plus €0.5 million (current portion), as of December 31, 2005. "Long-term" means indebtedness having a maturity of over twelve months.

(f) Short-term loans consist of prizes won but not yet paid and the short-term portion of leasing expenses. "Short-term" means indebtedness having a maturity of twelve months or less.

(g) Total debt is defined as long-term loans including current portion plus short-term loans.

(h) Cash and cash equivalents are defined as cash on hand plus bank and post account.

(i) Net debt is defined as total debt minus cash and cash equivalents.

- (j) Liquid investments are defined as marketable securities available for sale, characterised by high liquidity and highly stable value.
- (k) Adjusted net debt is defined as net debt minus liquid investments.
- (l) Total capitalisation is defined as Lottomatica's consolidated shareholders' equity plus long-term loans, including current portion.
- (m) Italian GAAP revenues are adjusted for costs related to the provision of electronic top-up services for pre-paid mobile and fixed line telephones (related to the LIS and Totobit businesses) and, only for 2003, for prizes and government commissions related to GBC. Under IFRS revenues are recognized net of such costs.
- (n) EBITDA is defined as results before amortisation, depreciation and write-downs, net financial charges and taxes. EBITDA is applied by Lottomatica to check and analyse Lottomatica's operative trends and it is not an accounting measurement under Italian GAAP nor IFRS. For these reasons EBITDA should not be considered an alternative measurement of Lottomatica's operating income and cash-flow. As EBITDA is not defined in the above mentioned accounting principles, such index as applied by Lottomatica may be different in other companies and may not be comparable. In the Italian GAAP EBITDA calculation "Other provisions" are not taken into account.

The table below reconciles EBITDA to Group net Income:

	Three Months Ended March 31,		Year Ended December 31,			
	IFRS	IFRS	IFRS	IFRS	ITA	ITA
	2006	2005	2005	2004	2004	2003
	(in thousands of euro)					
Reconciliation from EBITDA to Group net income:						
EBITDA	111,888	116,702	265,986	231,880	272,178	199,616
Other provisions	—	—	—	—	(8,207)	(1,105)
Amortisation, depreciation and write-downs	(18,079)	(10,407)	(53,643)	(62,622)	(120,724)	(126,636)
Operating income (EBIT)	93,809	106,295	212,343	169,258	143,247	71,875
Financial income (expense)	(17,800)	(2,887)	(16,064)	(16,957)	(13,445)	23,513
Equity investments income (expense)	—	—	(34)	812	—	—
Profit (loss) before extraordinary items	76,009	103,408	196,245	153,113	129,802	95,388
Extraordinary items	—	—	—	—	(19,304)	(93,095)
Profit (loss) before income taxes	76,009	103,408	196,245	153,113	110,498	2,293
Income taxes	(34,582)	(41,749)	(82,013)	(68,236)	(49,300)	7,388
Results from discontinued operations	—	—	—	731	—	—
Net income	41,426	61,659	114,232	85,608	61,198	9,681
Minority interests	2,977	(443)	(1,841)	426	(479)	(531)
Group net income	38,449	61,216	112,391	86,034	60,719	9,150

- (o) EBITDA margin represents EBITDA for the year divided by revenues for the year.
- (p) Interest expense includes the interest matured on the 4.80% fixed rate notes due 2008 as well as bank and postal interest expenses.
- (q) Total debt/EBITDA ratio represents total debt at the end of the year divided by EBITDA for the year.
- (r) EBITDA/interest expense ratio represents EBITDA for the year divided by interest expense for the year.
- (*) Not meaningful.
- (**) Not provided.

GTECH

The following selected consolidated financial data for GTECH and its subsidiaries should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations—GTECH”, the consolidated financial statements of GTECH and the other financial information of GTECH included or incorporated by reference into this Offering Circular. With the exception of number of lottery customers at end of period, the data in the table is derived from GTECH’s audited consolidated financial statements. The selected consolidated income statement data for the fiscal years ended February 25, 2006, February 26, 2005 and February 28, 2004, and the selected consolidated balance sheet data as of February 25, 2006 and February 26, 2005, are derived from GTECH’s audited consolidated financial statements included in this Offering Circular. The selected consolidated balance sheet data as of February 28, 2004 is derived from GTECH’s audited consolidated financial statements not included in this Offering Circular.

GTECH’s historical consolidated financial statements and the historical financial information presented below were prepared on the basis of U.S. GAAP, which differs in certain respects from IFRS. For a discussion of certain differences between U.S. GAAP as compared to IFRS relating to the financial information of GTECH, see “Appendix F—GTECH—Summary of Significant Differences between U.S. GAAP and IFRS”.

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004(a)
	(in thousands of U.S. dollars, except per share amounts)		
Operating Data:			
Revenue:			
Services	\$1,122,668	\$1,017,683	\$ 957,471
Sales of products	182,138	239,552	93,859
Total	1,304,806	1,257,235	1,051,330
Gross Profit:			
Services	448,140	401,050	419,632
Sales of products	78,101	81,578	34,633
Total	526,241	482,628	454,265
Operating income	340,657	312,816	287,855
Net income	211,045	196,394	183,200
Per Share Data: ^(b)			
Basic	\$ 1.73	\$ 1.68	\$ 1.57
Diluted ^(c)	\$ 1.63	\$ 1.50	\$ 1.40
Cash dividends declared per common share	\$ 0.34	\$ 0.34	\$ 0.255
Dividends paid	\$ 41,672	\$ 39,830	\$ 29,977
Balance Sheet Data (at End of Period):			
Cash and cash equivalents	\$ 235,191	\$ 94,446	\$ 129,339
Investment securities available-for-sale	260,725	196,825	221,850
Total assets	2,099,902	1,855,141	1,559,131
Short-term borrowings	\$ —	\$ 334	\$ —
Current portion of long-term debt	9,148	2,476	106,319
Long-term debt, less current portion	542,259	726,329	463,215
Total Debt	<u>\$ 551,407</u>	<u>\$ 729,139</u>	<u>\$ 569,534</u>
Shareholders’ equity	\$1,005,372	\$ 655,768	\$ 562,289

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004(a)
	(in thousands of U.S. dollars, except per share amounts)		
Cash-flow Data:			
Net cash provided by operating activities	\$ 429,624	\$ 375,209	\$ 415,067
Net cash used for investing activities	(221,114)	(429,582)	(612,459)
Net purchases (maturities) of available-for-sale investment securities	63,900	(25,025)	221,850
Free cash-flow ^(d)	<u>\$ 272,410</u>	<u>\$ (79,398)</u>	<u>\$ 24,458</u>
Net cash provided by (used for) financing activities	\$ (70,991)	\$ 17,505	\$ 206,206
Other Data:			
Income before income taxes	\$ 318,376	\$ 306,386	\$ 290,794
Interest expense	30,793	19,213	10,919
Depreciation, amortisation and other	183,014	158,615	119,059
EBITDA ^(e)	<u>\$ 532,183</u>	<u>\$ 484,214</u>	<u>\$ 420,772</u>
Ratio of earnings to fixed charges ^(f)	11.00x	15.45x	22.30x
EBITDA margin ^(g)	40.8x	38.5%	40.0%
Debt/EBITDA ratio ^(h)	1.04x	1.51x	1.35x
EBITDA/interest expense ratio ⁽ⁱ⁾	17.28x	25.20x	38.54x
Number of lottery customers at end of period ^(j) . .	95	99	93

(a) 53-week year.

(b) Per share data has been restated to reflect GTECH's 2-for-1 common stock split that occurred in July 2004.

(c) GTECH adopted EITF 04-8 in December 2004, which requires that all 12.7 million shares underlying its 1.75% Convertible Debentures be included in diluted earnings per share computations, if dilutive, regardless of whether the conversion requirements have been met. The adoption of EITF 04-8 resulted in a decrease to diluted earnings per share of U.S.\$0.02 in fiscal 2004.

(d) Free cash-flow (net cash provided by operating activities less net cash used for investing activities, excluding the net purchases or maturities of available-for-sale investment securities), represents the excess cash-flows generated over and above the investment of capital required to both maintain and grow GTECH's ongoing revenue streams. Based upon the long-term contractual cycles in its business, GTECH believes free cash-flow trends represent a useful guide to help determine the amount of internally generated capital available for enhancing long-term shareholder value, through a balance of investing in new growth opportunities, the tax efficient return of capital to its shareholders and repayment of debt obligations. As GTECH defines it, free cash-flow may not be comparable to other similarly titled measures used by other companies.

(e) GTECH believes that earnings before interest, taxes, depreciation, amortisation and other, or EBITDA, assists in explaining trends in GTECH's operating performance, provides useful information about GTECH's ability to incur and service indebtedness and is a commonly used measure of performance by securities analysts and investors in the gaming industry. EBITDA should not be considered as an alternative to operating income as an indicator of GTECH's performance or to cash-flows as a measure of GTECH's liquidity. As GTECH defines it, EBITDA may not be comparable to other similarly titled measures used by other companies including Lottamatica. Fiscal 2006 EBITDA includes impairment charges of \$5.5 million which are included within depreciation, amortisation and other. There were no such charges in fiscal 2005 or 2004. EBITDA as shown above reflects GTECH's historical EBITDA computation which includes interest income of U.S.\$10.9 million, U.S.\$4.6 million and U.S.\$5.7 million in fiscal 2006, 2005 and 2004 respectively.

The table below reconciles EBITDA to Net Income for the periods presented:

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004 ^(a)
	(in thousands of U.S. dollars, except per share amounts)		
EBITDA	\$532,183	\$484,214	\$420,772
Depreciation, amortisation and other	(183,014)	(158,615)	(119,059)
Interest expense	(30,793)	(19,213)	(10,919)
Income before income taxes	318,376	306,386	290,794
Income taxes	(107,331)	(109,992)	(107,594)
Net Income	<u>\$211,045</u>	<u>\$196,394</u>	<u>\$183,200</u>

EBITDA as shown above reflects GTECH's historical EBITDA computation which includes:

- interest income of U.S.\$10.9 million, U.S.\$4.6 million and U.S.\$5.7 million in fiscal 2006, 2005 and 2004, respectively;
 - equity in earnings of unconsolidated affiliates of U.S.\$1.9 million, U.S.\$2.8 million and U.S.\$6.2 million in fiscal 2006, 2005 and 2004, respectively; and
 - other income (expense) of U.S.(\$4.3) million, U.S.\$5.4 million and U.S.\$1.9 million in fiscal 2006, 2005 and 2004, respectively.
- (f) In computing the ratio of earnings to fixed charges, "earnings" consist of income before income taxes, equity income, net of distributions, minority losses, amortisation of capitalised interest and fixed charges excluding capitalised interest. "Fixed charges" consist of interest expense, an estimate of interest within rental expense and capitalised interest.
- (g) EBITDA margin represents EBITDA for the year divided by total revenues for the year.
- (h) Debt/EBITDA ratio represents total debt at the end of the year divided by EBITDA for the year.
- (i) EBITDA/interest expense ratio represents EBITDA for the year divided by interest expense for the year.
- (j) A lottery customer is defined as a jurisdiction utilising GTECH's systems or products for traditional lottery services.

UNAUDITED CONSOLIDATED *PRO FORMA* FINANCIAL INFORMATION

The accompanying *pro forma* consolidated financial information contains the *pro forma* consolidated financial data as of and for the year ended December 31, 2005 of Lottomatica, which give retroactive effect to the proposed Acquisition and the related financing transactions.

The *pro forma* consolidated financial data as of and for the year ended December 31, 2005 were prepared by making appropriate *pro forma* adjustments to the historical consolidated financial statements of Lottomatica in order to give effect to the proposed Acquisition, as described below. The *pro forma* consolidated financial data follow the schemes adopted by Lottomatica and GTECH for the presentations of their historical IFRS consolidated financial data.

The consolidated financial statements of Lottomatica as of December 31, 2005 and for the year then ended prepared in accordance with IFRS as adopted by the EU were audited by Reconta Ernst & Young S.p.A., which issued its report on March 20, 2006.

The consolidated balance sheet of GTECH as of December 31, 2005 and the related consolidated income statement for the period from January 2, 2005 to December 31, 2005, prepared in accordance with IFRS as adopted by the EU (which were used for the preparation of the first complete IFRS financial statements of GTECH on the effective date of the Acquisition), prepared for the sole purpose of inclusion herein, were audited by Ernst & Young LLP, which issued its own report on March 14, 2006.

The *pro forma* consolidated reclassified financial data have been obtained on the basis of:

- the historical consolidated financial data of Lottomatica prepared in accordance with IFRS as adopted by the EU as of and for the year ended December 31, 2005;
- the historical consolidated financial data of GTECH prepared in accordance with IFRS as adopted by the EU (which were used for the preparation of the first complete IFRS consolidated balance sheet of GTECH on the effective date of the Acquisition as of December 31, 2005 and for the period ended December 31, 2005); and
- the *pro forma* adjustments reflecting the proposed Acquisition and the related financing transactions envisaged to complete the proposed Acquisition.

In accordance with CONSOB Communication No. DEM/1052803 of July 5, 2001, the effects of the Acquisition have been shown retroactively in the *pro forma* consolidated balance sheet as if the Acquisition and the related financing transactions had taken place on December 31, 2005 and in the *pro forma* consolidated income statement as if they had taken place on January 1, 2005.

The *pro forma* adjustments made to the consolidated historical financial statements and the scope and assumptions upon which they are based are described in detail, in paragraphs 1, 2 and 3 of the explanatory notes below.

With respect to the accounting policies adopted by Lottomatica and GTECH in preparing their respective historical consolidated financial statements, reference is made to the notes to their respective consolidated financial statements as of and for the year ended December 31, 2005 prepared in accordance with IFRS as adopted by the EU, included elsewhere in this Offering Circular.

In order to interpret the *pro forma* data correctly, it is necessary to bear in mind the following:

- since the *pro forma* data are prepared based on assumptions, if the Acquisition had taken place at the dates referred to for the purpose of preparing the *pro forma* consolidated financial data, instead of the date at which it is actually expected to take place, the results that are presented therein would not be necessarily obtained;
- the *pro forma* data are not a forecast since they are prepared to represent only the effects of the Acquisition that can be identified and measured, without considering the potential impact of

changes in management policies and operational decisions made as a consequence of the Acquisition.

Further, in view of the difference between the scopes of *pro forma* and historical financial statements and the fact that the effects of the Acquisition are calculated differently for purposes of the balance sheet and the income statement, the two *pro forma* statements need to be read and examined separately, without attempting to establish any accounting relationship between them.

Pro Forma Consolidated Balance Sheet as of December 31, 2005

	December 31, 2005 IFRS— Lottomatica	December 31, 2005 IFRS— GTECH	Pro Forma Adjustments	Note	December 31, 2005 IFRS Pro Forma
	(in thousands of euro)				
ASSETS					
A) Non current assets					
Property, plant and equipment	158,248	647,112	241,990	(A)	1,047,350
Goodwill	663,613	280,718	2,289,307	(B)	3,233,638
Intangible assets	10,774	52,509	1,143,601	(C)	1,206,884
Other assets	1,022	42,838	—		43,860
Deferred taxes	55,009	77,610	4,725	(D)	137,344
Total non-current assets	888,666	1,100,787	3,679,623		5,669,076
B) Current assets					
Inventory	14,436	91,197	22,060	(E)	127,693
Accounts receivable trade and other receivables	116,263	164,217	—		280,480
Current financial assets	31,791	221,010	—		252,801
Other assets	193,178	39,406	1,181	(F)	233,765
Cash and cash equivalents	246,163	151,321	(397,484)	(G)	—
Total current assets	601,831	667,151	(374,243)		894,739
Total assets	1,490,497	1,767,938	3,305,380		6,563,815
Liabilities and Net shareholders' equity					
Shareholders' equity	504,694	762,888	627,164	(H)	1,894,746
Minority interest	7,561	4,661	—		12,222
C) Non current liabilities					
Long term debt	359,653	458,364	2,146,127	(I)	2,964,144
Termination indemnities	7,618	—	—		7,618
Deferred taxes	44,233	125,857	524,350	(J)	694,440
Long term provision	8,587	92,505	(3,187)	(K)	97,905
Total non current liabilities	420,091	676,726	2,667,290		3,764,107
D) Current liabilities					
Accounts payable trade and other payables	305,006	225,394	—		530,400
Current portion of long-term debt and short-term borrowings	7,996	15,944	5,953	(L)	29,893
Other liabilities	234,129	33,325	4,973	(M)	272,427
Taxes payable	11,020	49,000	—		60,020
Total current liabilities	558,151	323,663	10,926		892,740
Total liabilities and shareholders' equity .	1,490,497	1,767,938	3,305,380		6,563,815

Pro Forma Consolidated Income Statement for the Year Ended December 31, 2005

	<u>2005 IFRS— Lottomatica</u>	<u>2005 IFRS— GTECH</u>	<i>Pro Forma</i> <u>Adjustments</u>	<u>Note</u>	<u>2005 IFRS Pro Forma</u>
		(in thousands of euro)			
Total revenue from sales and services	582,674	1,040,508	—		1,623,182
Raw materials, services, and other operating costs	244,412	429,897	15,937	(N)	690,246
Personnel cost	72,276	279,327	—		351,603
Capitalised costs	—	(63,507)	—		(63,507)
Depreciation, amortisation and write-downs . .	53,643	146,112	128,511	(O)	328,266
Total operating costs	370,331	791,829	144,448		1,306,608
Operating income	212,343	248,679	(144,448)		316,574
Financial income (expenses)	(16,064)	(18,224)	(161,121)	(P)	(195,409)
Equity investees' income (expenses)	(34)	2,007	—		1,973
Other income (expenses)	—	(4,984)	—		(4,984)
Income before taxes	196,245	227,478	(305,569)		118,154
Taxes for the year	82,013	79,903	(111,005)	(Q)	50,911
Net income for the year	114,232	147,575	(194,564)		67,243
Minority interest	1,841	(1,271)	—		570
Group results	112,391	148,846	(194,564)		66,673

1. Description of the *pro forma* adjustments to the historical consolidated data as of December 31, 2005 and for the year ended December 31, 2005

The following is a description of the effects of the pro forma adjustments of the individual line items in the consolidated balance sheet.

- A. The adjustment represents the effects of the allocation of the excess purchase price to property, plant and equipment of GTECH for a total of €241,990,000, as described below in the section “Assumptions—Purchase Price Allocation”.
- B. The adjustment represents the effects of the allocation of the excess purchase price equity not allocated to net identifiable assets of GTECH, and recognised as goodwill, for a total of €2,289,307,000, as described below in the section “Assumptions—Purchase Price Allocation”.
- C. The adjustment represents the effects of the allocation of the excess purchase price to intangible assets acquired of GTECH, for a total of €1,143,601,000, as described below in the section “Assumptions—Purchase Price Allocation”.
- D. The adjustment represents the recognition, in the amount of €4,725,000 of the non-current portion of deferred taxes paid on the incidental costs related to the Rights Offering.
- E. The adjustment represents the effects of the allocation of the excess purchase price to inventory of GTECH, for a total of €22,060,000, as described below in the section “Assumptions—Purchase Price Allocation”.
- F. The adjustment represents the recognition, in the amount of €1,181,000 of the credit for current taxes on the additional costs estimated in relation to the Rights Offering.
- G. The adjustment represents the use of the available cash of Lottomatica and GTECH for a total of €397,484,000 used for the Acquisition.
- H. This includes the effects on the equity of the adjustments relating to: (i) the payment of the increase in share capital in the amount of €1,400 million, net of the related incidental costs estimated at €15,854,000, and net of the related deferred tax effect, equal to €5,906,000, (ii) the fees for the early payment of GTECH indebtedness in the amount of €9,018,000 and the write-off of the residual amounts relating to the issuance costs of such debt, totaling €4,642,000, (iii) the conversion of the remaining convertible debentures of GTECH still in existence, for a total of €13,651,000, (iv) the conversion of all stock options still in existence on the basis of the existing share based plans, for a total amount of €95,562,000 (corresponding to U.S.\$114 million), and (v) the elimination, for the purposes of consolidation, of the consolidated net equity of GTECH for a total of €858,441,000.
- I. This includes the effects on the long-term portion of long-term debt of the adjustments relating to: (i) the issue of the Securities in the amount of €750.0 million at an assumed interest rate of 8%, net of the related additional costs, estimated to be €25,160,000, and (ii) the use of the Term Facilities in the amount of U.S.\$2,260 million (€1,895,655,000) net of incidental costs estimated at €16,004,000, to finance a portion of the purchase price of GTECH and for the early repayment of GTECH indebtedness in the amount of €458,364,000.
- J. The adjustment represents the effects of the recognition of deferred tax liabilities deriving from the allocation of the excess purchase cost paid for the net assets of GTECH for a total of €524,350,000, as described in the section “Assumptions—Purchase Price Allocation”.
- K. The adjustment represents the effects of the elimination of its liabilities of €3,187,000 deriving from the “fair value” valuation of GTECH indebtedness, as a result of its early repayment.
- L. Includes the effects on the current portion of long-term debt and on short-term borrowings of the adjustments related to: (i) the early repayment of GTECH indebtedness and the conversion of the

remaining shares of the outstanding GTECH Convertible Debentures, for a total of €15,944,000, and (ii) the use of short term loans for a total of €21,897,000 to cover the remaining portion of the proposed Acquisition exceeding existing available liquidity and the new financing obtained.

- M. The adjustment represents the effects of the differences between the exchange rate on December 31, 2005 and the exchange rate used for the preparation of the *pro forma* financial information on the early repayment of GTECH indebtedness, which totals €4,973,000.

The following is a description of the effects of the pro forma adjustments on the individual line items of the consolidated income statement:

- N. The adjustment represents the effect on operating costs of the greater value of the inventory of GTECH, which during the allocation of the price paid for the Acquisition was valued at market value of €15,937,000, as described below in the section “Assumptions—Purchase Price Allocation”.
- O. The adjustment represents the effects of the increased depreciation for a total of €128,511,000 on the values allocated to fixed assets for capitalised internal work (€46,117,000) and to intangible fixed assets (€82,394,000) of GTECH, as described below in the section “Assumptions—Purchase Price Allocation”.
- P. Represents the effects of the adjustments relating to: (i) finance expense relating to the Securities and on the Senior Credit Facilities, which totals approximately €171,844,000, (ii) the depreciation of additional expense, calculated on a term of 60 years for the Securities and on a term of 6 years for the Senior Credit Facilities, for a total of €3,086,000, (iii) the elimination of finance expense incurred during the course of fiscal 2005 on the portion of GTECH’s existing indebtedness to be repaid on the date of Acquisition, for a total of €21,384,000, net the additional costs to be incurred for the early repayment equal to €9,018,000, and (iv) the elimination of finance expense incurred during the course of fiscal 2005 by GTECH for the convertible debentures to be converted on the date of Acquisition, equal to €1,443,000.
- Q. It represents the tax effects of the adjustments illustrated above, for a total of €111,005,000.

2. Purpose of the presentation of the pro forma consolidated financial data

The purpose of the presentation of the consolidated *pro forma* data is to retroactively reflect the significant effects of the proposed Acquisition and the related financing transactions by making appropriate *pro forma* adjustments to the historical consolidated financial data. As reported above, the effects of the proposed Acquisition and the related financing transactions are reflected retroactively in the balance sheet as if the Acquisition and the related financing transactions had occurred on December 31, 2005 and in the consolidated *pro forma* statement of income as if they had occurred on January 1, 2005.

3. Assumptions for the preparation of the pro forma consolidated data

Lottomatica is conducting the proposed Acquisition through a wholly owned Acquisition Subsidiary. The proposed Acquisition will be financed by equity and debt as listed below.

The Financing Structure of the Transaction

The proposed Acquisition (including the refinancing of GTECH indebtedness) will be financed by:

- the proceeds of the Rights Offering;
- the proceeds of this offering of Securities;
- certain of the proceeds of the Senior Credit Facilities; and
- existing cash of Lottomatica and GTECH.

The Rights Offering is expected to provide for proceeds of approximately €1.4 billion.

In connection with the proposed Acquisition, Lottomatica will issue the Securities, to be placed with institutional investors. The Securities will be listed on the Luxembourg Stock Exchange and will have a term of 60 years.

In addition, the Acquisition Subsidiary has entered into the Senior Credit Facilities Agreement which provides for, among other facilities, the Term Facilities. At the time of the Acquisition, GTECH will use a portion of the Term Facilities in the amount of U.S.\$1,710 million (€1,449 million) to finance a portion of the purchase price of the Acquisition and the remaining U.S.\$550 million (€466 million) to finance the related indebtedness of GTECH. The Senior Credit Facilities are unsecured, and guaranteed by Lottomatica, Holdings and by several U.S. subsidiaries of GTECH. The repayment of the Senior Credit Facilities and the payment of interest thereon will be funded through the cash-flow generated by GTECH. This cash-flow will be generated from available operating proceeds and the receipts from controlled companies, via both dividends and generated from inter-company loans, or through centralised liquidity transactions.

The proposed Acquisition

The proposed Acquisition will be effected by means of a cash merger of the Acquisition Subsidiary with and into GTECH, and holders of GTECH common stock will receive cash consideration of U.S.\$35.00 per share of GTECH common stock. Upon completion of the Merger, which is expected to be completed by mid-2006, Lottomatica will acquire, through Holdings, all of the approximately 136,133,000 shares of GTECH shares of common stock, for an estimated total purchase price totaling approximately U.S.\$4,765 million, (corresponding to €3,963,152,000) determined as follows:

Assumptions—Purchase Price Allocation

A preliminary assumption for the allocation of the purchase price, based on the preliminary valuation of the certain designated assets conducted by an independent expert, is set forth below:

	in thousands of U.S.\$	in thousands of euro
Purchase price		
Portion of the purchase price with a euro-U.S. dollar coverage contract (average coverage exchange rate €1.00=U.S.\$1.2117), inclusive of €48,356,000 relating to the coverage contract	2,483,795	2,098,356
Portion of the purchase price without a euro-U.S. dollar coverage contract (rate €1.00=U.S.\$1.1922 on March 13, 2006) ⁽ⁱ⁾ . . .	2,280,860	1,913,152
Purchase price	4,764,655	4,011,508
Additional transaction costs	*	19,541
Total purchase price	*	4,031,049
Net equity acquired (book value)	*	(858,441)
Excess cost	*	3,172,608

			Useful life— years	Pro forma income statement for 2005
Allocation:				
Business contracts				
—Domestic	748,000	627,412	14.6	42,831
—International	429,000	359,839	11.4	31,637
GTECH Trademark	87,000	72,974	Not defined	—
Proprietary Software	95,000	79,685	13.0	6,130
Portfolio of sales orders (backlog)	4,200	3,523	2.0	1,762
Trademarks for products and games	200	168	5.0	34
Total intangible assets	<u>1,363,400</u>	<u>1,143,601</u>		<u>82,394</u>
Fixed assets from internal work	285,900	239,809	5.2	46,117
Fixed assets—West Greenwich	2,600	2,181	indefinite	—
Total property, plant and equipment	<u>288,500</u>	<u>241,990</u>		<u>46,117</u>
Inventory	26,300	22,060	4.0	15,937
Total allocated to the market value of assets acquired	<u>1,678,200</u>	<u>1,407,651</u>		<u>144,448</u>
Deferred taxes (37.25%)	(625,130)	(524,350)		(53,807)
Net value allocated	<u>1,053,070</u>	<u>883,301</u>		<u>90,641</u>
Remaining amount to goodwill	*	<u>2,289,307</u>		

(i) Date of preparation of the *pro forma* financial data.

(*) Not applicable.

Other Costs Relating to the Acquisition

The non-recurring costs and related financing transactions related to the Acquisition will be recorded in the 2006 income statement in addition to the costs already incurred by GTECH during the year ended December 31, 2005 in the amount of approximately U.S.\$2.0 million (€1.8 million); these costs essentially relate to expenses incurred for consulting, legal opinions, valuations conducted by experts, and travel and transfers, which total approximately €34 million to €36 million.

These costs are additional to the costs directly related to the Acquisition and increase the Acquisition costs (€19,541,000 and €48,356,000 relating to the coverage contract) to those related to the financing transactions for the Rights Offering (€15,854,000), the issue of the Securities (€25,160,000) and the obtaining of the Senior Credit Facilities (€16,004,000) recorded as a direct decrease of the loans and the costs for the early repayment of the GTECH indebtedness, described above, for a total amount of €9,018,000.

Additional Assumptions for the Preparation of the Consolidated Pro Forma Data

The tax rate used for the calculation of the tax effects for the *pro forma* adjustment is 37.25% (33% for IRES tax and 4.25% for IRAP tax) for adjustments to Lottomatica data and 37% for adjustments to GTECH data.

The average interest rate used for the calculation of the finance charges relating to the Securities and the Senior Credit Facilities is 6.50%.

The euro to U.S. dollar exchange rate used for the conversion of the consolidated GTECH data and for the *pro forma* adjustments was:

Exchange rate on December 31, 2005	1.1797
Average exchange rate for fiscal year 2005	1.2441
Exchange rate on March 13, 2006	1.1922
Average exchange rate for the coverage contract for the part of the acquisition cost	1.2117

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS—LOTTOMATICA

Introduction

Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, is intended to help the reader understand the financial results of Lottomatica. This MD&A is provided as a supplement to, and should be read in conjunction with, Lottomatica's financial statements and the accompanying notes and Lottomatica's audited reconciliation statement included elsewhere in this Offering Circular. The following MD&A is a discussion and analysis of the results of operations and financial condition of Lottomatica based on its audited consolidated financial statements as of and for the years ended December 31, 2005, 2004 and 2003. In addition, this MD&A should be read in conjunction with Lottomatica's unaudited interim consolidated financial statements as of and for the three month period ended March 31, 2006, which are included as Appendix B to this Offering Circular.

Lottomatica transitioned to IFRS beginning January 1, 2005. Lottomatica's audited consolidated financial statements as of and for the years ended December 31, 2004 and 2003 were prepared in accordance with Italian GAAP. Lottomatica's audited consolidated financial statements as of and for the year ended December 31, 2005, and its unaudited interim consolidated financial statements as of and for the three-month period ended March 31, 2006, were prepared in accordance with IFRS. The audited consolidated financial statements as of and for the year ended December 31, 2004 prepared in accordance with Italian GAAP have been reconciled to IFRS for purposes of comparison with 2005. The audited reconciliation of the financial statements as of and for the year ended December 31, 2004 from Italian GAAP to IFRS is included elsewhere in this Offering Circular. Lottomatica's 2003 financial statements are available only in Italian GAAP. For a discussion of differences among Italian GAAP, IFRS and U.S. GAAP see "Appendix E—Lottomatica—Summary of Certain Significant Differences Among Italian GAAP, IFRS and U.S. GAAP".

In this MD&A, Lottomatica has provided a discussion and analysis of 2004 as compared to 2003 on the basis of Italian GAAP, and has provided the discussion of 2005 as compared to 2004 on the basis of IFRS.

This overview provides guidance on the individual sections of Lottomatica's MD&A as follows:

- **Forward-Looking Statements**—cautionary information about forward-looking statements.
- **Lottomatica's Business**—a general description of Lottomatica's business and acquisitions, and new accounting pronouncements.
- **Application of Critical Accounting Policies**—a discussion of accounting policies that Lottomatica believes are both most critical to its financial condition and results of operations, and require management's most difficult, subjective or complex judgments and estimates.
- **Operations Review**—an analysis of Lottomatica's consolidated results of operations for the three years presented in its financial statements. During the period covered by this MD&A, Lottomatica operated three businesses in two segments (i) Lotteries and Gaming (comprising its Lotteries and Gaming Machines businesses) and (ii) Services (comprising commercial services, payment services and processing services).
- **Liquidity, Capital Resources and Financial Position**—an analysis of cash-flows, financial position, contractual obligations and commitments.
- **Financial Risk Management and Dividend Policy**—information about financial risk management; interest rate market risk; equity price risk; foreign currency exchange rate risk; and Lottomatica's dividend policy.
- **Subsequent Events**—information about material events that occurred subsequent to December 31, 2005.

Unless specified otherwise, the term “Lottomatica”, is used in this MD&A to refer to Lottomatica S.p.A. and its consolidated subsidiaries included in its consolidated financial statements. It does not include GTECH or any of GTECH’s subsidiaries.

Forward-Looking Statements

This MD&A and other sections of this Offering Circular include forward-looking statements. These forward-looking statements include, but are not limited to, statements other than statements of historical fact contained in this Offering Circular including, without limitation, those regarding Lottomatica’s future financial position and results of operations, Lottomatica’s strategy, plans, objectives, goals and targets, future developments or anticipated regulatory changes in the markets in which it operates or intends to operate. In some cases, prospective Securityholders can identify forward-looking statements by terminology such as “aim”, “anticipate”, “believe”, “continue”, “could”, “estimate”, “expect”, “forecast”, “guidance”, “intend”, “may”, “plan”, “potential”, “predict”, “project”, “seek”, “should”, “trend”, or “will” or the negative of any of these terms or other comparable terminology.

By their nature, forward-looking statements involve risks, uncertainties and assumptions because they relate to events and depend on circumstances that may or may not occur in the future. Lottomatica cautions prospective Securityholders that forward-looking statements are not guarantees of future performance, are based on numerous assumptions, and that its actual results of operations, including its financial condition and liquidity and the development of the industry in which Lottomatica operates, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this Offering Circular. In addition, even if Lottomatica’s results of operations, including its financial condition and liquidity and the development of the industry in which it operates, are consistent with the forward-looking statements contained in this Offering Circular, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to, the matters described above under “Risk Factors”.

Lottomatica’s Business

Overview

During the periods covered by this MD&A, Lottomatica operated three businesses in two segments (i) Lotteries and Gaming, consisting of its Lotteries business (comprising Lotto, Instant and Traditional Lotteries, Sports Pools and Other Pari-Mutuel Betting) and its Gaming Machines business and (ii) Services, consisting of its commercial services, payment services and processing services business.

Lottomatica is one of the largest lottery operators in the world, based on total wagers, and a leader in the Italian gaming industry. Lottomatica has built an extensive real-time, on-line distribution network, with approximately 133,000 terminals in approximately 77,000 points of sale throughout the Republic of Italy (including approximately 17,000 points of sale where Lottomatica provides only Processing Services to third parties), comprising tobacconists, bars, petrol stations, newspaper stands and motorway restaurants.

Since 1993, Lottomatica has been the sole concessionaire for the Italian Lotto game, which is the largest on-line lottery in the world in terms of wagers, according to La Fleur’s 2005 World Lottery Almanac. Lotto is a traditional game that was played off-line for centuries. Since Lottomatica established the on-line infrastructure for Lotto, wagers have grown significantly, stabilising in recent years in the region of €7 billion–€8 billion per year, from €2.8 billion in 1995. Managing Lotto has provided Lottomatica with substantial experience in managing all the activities along the lottery value chain, such as collecting wagers through its network, paying out prizes, managing all accounting and other back office functions, running advertising and promotion, operating data transmission networks and processing centers, training staff, providing retailers with assistance and supplying materials for the game.

Leveraging its proven operational track record and reputation, Lottomatica has enlarged its Italian lotteries portfolio. Since 2003, Lottomatica, through Consorzio Lottomatica Giochi Sportivi, a consortium 90% owned by Lottomatica, has had a non-exclusive concession to collect wagers for the Totocalcio, Totogol and “9” Sports Pool games. Since 2003, Lottomatica, through Consorzio Lotterie Nazionali, a consortium 63% owned by Lottomatica, has had an exclusive concession to operate Instant and Traditional Lotteries in the Republic of Italy. Recently, Lottomatica has diversified in the Republic of Italy into other national games, such as Other Pari-Mutuel Betting and Gaming Machines.

Lotteries and Gaming

Lotteries

Lottomatica operates both on-line lotteries and games, conducted through computerised systems in which lottery or gaming terminals are connected to a central computer system. These are generally games where players select their own numbers, such as Lotto, and off-line lotteries, which are generally games involving pre-printed paper tickets and are not computerised (except for ticket validation purposes).

Lottomatica operates the following lotteries and games:

- *Lotto*: Lotto is an on-line lottery in which players bet on the draw of up to five numbers, or combinations thereof, selected by them.
- *Instant and Traditional Lotteries*: Instant Lotteries are off-line lotteries consisting of scratch cards with numbers, letters and/or symbols hidden by a layer of ink which participants scratch off to discover immediately whether they have won; and Traditional Lotteries are off-line lotteries in which players purchase tickets, without being able to select their own numbers, with the winning ticket(s) being drawn at a later date.
- *Sports Pools and Other Pari-Mutuel Betting*: Sports Pools and Other Pari-Mutuel Betting include pari-mutuel games in which players bet on the outcome of and number of goals scored in sporting events, usually soccer matches (e.g., Totocalcio, “9” and Totogol), and other pari-mutuel games in which players wager on other sports events, horse racing, motor sports, cultural events and current affairs.

Gaming Machines

Lottomatica provides information technology services for Gaming Machines. Gaming Machines are electronic machines involving elements of skill or entertainment and risk, and having random winnings (e.g., amusement with prize or “AWP” machines).

In the coming years, Lottomatica intends to expand the contribution of its Gaming Machines business through growth in video-lottery terminals, which will be introduced in the Republic of Italy in 2006 and will also be operated by the nine other concessionaires.

Services

Lottomatica offers the following automated payment and distribution services:

- *Commercial Services*: Lottomatica distributes services for commercial operators (i.e., electronic top-up services distributed by Lottomatica for pre-paid mobile and fixed-line telephone accounts, and ticketing for sporting and musical events) and collects payments from end users for which it retains a fee, which may be a fixed per transaction amount or a percentage of the value of the services.

- *Payment Services:* Lottomatica collects payments from consumers for both private sector enterprises (*i.e.*, the payment of certain utility bills) and public sector entities (*i.e.*, fines, local taxes and television license fees) for which it receives a fixed fee per transaction.
- *Processing Services:* Lottomatica provides transaction processing services and technology to third parties (*i.e.*, car road taxes, third party electronic top-up transactions for pre-paid mobile telephones, some minor taxes and loyalty programs, and stamp duties printing) for which it receives a fee, which may be a fixed amount per transaction or a percentage of the value of the services.

In addition, Lottomatica expects to launch stored value services, which consist of issuing and acquiring services related to pre-paid debit cards, for which necessary authorisation has been received from Bank of Italy.

Key Business Trends

Lotto

In playing Lotto, wagers can be broken down into two different types: core bets, which indicate all bets which remain structurally stable over time and allow Lottomatica to achieve significant economic results; and late numbers, which indicate bets made on numbers that have not been drawn for more than 100 drawings, where some players concentrate an additional amount of bets, with unit values considerably higher than average (“speculative” bets). Players often bet considerably higher amounts on late numbers compared with the average bet amount. In addition, players often include the late number which is the subject of their speculative bet in a core bet as part of a combination of numbers, which tends to lead to an increase in the average amount of each wager and the total numbers of bets placed. Although the amounts placed on speculative bets have a correlative effect on the amounts placed on core bets, core bets tend to be more stable year on year.

Total wagers on Lotto in 2005 were approximately €7.3 billion, a 37.6% decrease from the unusually high level of wagers of approximately €11.7 billion in 2004. This unusually high level in 2004 was the highest total amount of annual wagers since Lottomatica began operating and was attributable to an increase in speculative bets on certain late numbers, in particular number 53 drawn on the Venice draw wheel in early 2005, following which, the amounts placed on speculative bets returned to historic levels. Amounts placed on speculative bets in 2005 were approximately €1.6 billion compared with approximately €5.6 billion in 2004, a 71.4% decrease. This reduction in speculative bets had a limited effect on amounts placed on core bets which remained more stable. The total number of bets placed also decreased in 2005 to 2.6 billion from 3.0 billion in 2004, a decrease of 10.3%.

Despite the unusually high level of wagers in 2004 and the subsequent return to historic levels in 2005 following the drawing of certain late numbers, in particular number 53 on the Venice draw wheel, the effect on Lottomatica’s revenues generated from Lotto was less volatile. Revenues in 2005 were €432.3 million compared with €494.2 million in 2004, a 12.5% reduction, considerably less than the 37.6% decrease in total wagers. This is because the fee rate payable to Lottomatica for operating Lotto is based on a scale that decreases as wagers increase. See “Business—Lottomatica—Lotteries—Lotto—The Fee”. The fee received by Lottomatica is approximately 6.5% of the total annual wager amount up to €714 million while the rate applied to incremental wagers above €714 million gradually decreases as the total annual wager amount increases. This fee rate mechanism has a stabilising effect on revenues generated by operating Lotto.

Instant and Traditional Lotteries

In October 2003, the Ministry of Economy and Finances granted to Consorzio Lotterie Nazionali, a consortium 63% owned by Lottomatica, the exclusive concession in the Republic of Italy to operate Instant and Traditional Lotteries, which prior to that time had been operated by the AAMS. For the purposes of

its financial results, Lottomatica is required to consolidate the results of Consorzio Lotterie Nazionali on a line-by-line basis. Consorzio Lotterie Nazionali began operating the instant lottery business in June 2004 and the Traditional Lotteries business in March 2004.

Accordingly, revenues in 2005 increased 247.3% to €54.9 million compared with €15.8 million in 2004. Consorzio Lotterie Nazionali sold approximately 810 million tickets in 2005, approximately 793 million of which were Instant Lotteries ticket sales and approximately 16.2 million of which were Traditional Lotteries ticket sales, generating wagers of €1.5 billion, of which €48.5 million were Traditional Lotteries wagers, a decrease from the previous year. This compared to approximately 345 million tickets sold in the prior year, approximately 325 million of which were instant lottery ticket sales and approximately 20 million of which were Traditional Lotteries ticket sales, generating wagers of €0.5 billion, of which €60.0 million being Traditional Lotteries wagers.

Consorzio Lotterie Nazionali's strategy since it began operating this business has been to progressively increase the average ticket price of instant lottery games while also increasing the number of tickets sold. This strategy has been implemented by introducing a number of new instant lottery games to the portfolio both to replace existing games at the same price point and to complement and add to the existing range of games in the portfolio at different price points. Consorzio Lotterie Nazionali added €3 games, beginning with "Stella Stellina" at the end of 2004, to the €1 and €2 games launched at the commencement of the operation of the Instant and Traditional Lotteries business. In addition, during 2005, Consorzio Lotterie Nazionali released "Tutti Frutti" and "Fai Scopa!" each of which is a €2 game, "Las Vegas" and "Super Poker", each of which is a €3 game, and "Miliardario" which is a €5 game. The "Tutti Frutti" game is no longer available to players. Sales of the €1, €2 and €3 games gradually increased during the course of 2005, but sales of "Miliardario" were in excess of management's expectations, contributing significantly to the increase in wagers in 2005. As a result of the implementation of this strategy, the weighted average ticket price of instant lottery games increased to €1.88 in 2005 from €1.47 in 2004.

In addition, Consorzio Lotterie Nazionali introduced a new €1 game in April 2006, "Portafortuna" and has developed a new €2 game, "Tuffati nell'oro", which Consorzio Lotterie Nazionali expects to launch later in 2006.

Expansion of the distribution network for lottery games continued, with the launch of sales in the bar and newsstand channel, in addition to growth of the tobacconists channel. Consorzio Lotterie Nazionali has a total of approximately 31,000 points of sale as of the date of this Offering Circular.

Gaming Machines

Revenues generated by Gaming Machines in 2005 were €6.4 million compared with €0.6 million in 2004.

Currently, Italian law permits the operation of devices that involve elements of skill or entertainment together with a factor of risk (which must be activated by inserting a coin). The cost of the game cannot currently exceed €0.50, with winnings capped at €50. Winnings are distributed in cash in coins only, and the minimum duration of the game must be seven seconds. The device must calculate winnings in a random manner on an overall cycle of no more than 14,000 games and winnings must not be less than 75% of the amounts wagered over that cycle.

Pursuant to new laws issued in 2006, once the Ministry of Economy and Finances issues the requisite decree, the maximum cost of the game will be increased to €1, with winnings capped at €100. At that time, the cycle over which the winnings payout of 75% of amounts wagered is calculated will be increased to 140,000 and the minimum duration of the game will be reduced to four seconds. In addition to coins, the machines may also be activated by specific electronic payment devices such as pre-paid debit cards and credit cards. These new laws also introduced a new kind of Gaming Machine: video lottery terminals that are connected to a telecommunications network and activated exclusively when connected to the network's

processing system. These new video lottery terminals will enable the introduction of new games remotely without having to modify the actual Gaming Machine, as is the case with the current generation of AWP machines.

As of March 31, 2006, RTI Videolot S.p.A. ("*RTI Videolot*"), a subsidiary of Lottomatica, held authorisations for installing 12,000 Gaming Machines, 8,500 of which were already in use for AWP machines installed in commercial businesses.

In the Gaming Machine business Lottomatica acts as concessionaire providing technological infrastructure, and is responsible for linking all of the Gaming Machines for which RTI Videolot has authorisations, ensuring compliance with the regulations regarding game content, win frequency and payout, administrative services and collecting and remitting accrued taxes to the Ministry of Economy and Finances. Lottomatica plans to use RTI Videolot's remaining 3,500 authorisations primarily for video lottery terminals.

Lottomatica, through its subsidiary Videolot Gestione S.p.A. ("*Videolot Gestione*"), also owns a small number of Gaming Machines, the authorisations for which are included in the 8,500 authorisations already in use as of March 31, 2006. Lottomatica wished to cease being an owner of Gaming Machines in addition to being the concessionaire providing technological infrastructure and Videolot Gestione began, during 2005, to dispose of the ownership of these machines, with RTI Videolot continuing to retain the relevant authorisations. Lottomatica expects to dispose of the remaining machines by the end of 2006 while continuing to retain the relevant authorisations.

Services

Lottomatica's Services business generated revenues in 2005 of €63.9 million, an increase of approximately 32.7% compared to revenues of €38.2 million in 2004.

Lottomatica's Services business is divided into Commercial Services, Payment Services and Processing Services. In addition, Lottomatica expects to launch stored value services, which consists of issuing and acquiring services related to pre-paid debit cards.

Commercial Services

For the year ended December 31, 2005, Lottomatica generated revenues of approximately €41.1 million from commercial services, an increase of 24.5% compared to revenues of €33.0 million in 2004. The business that has driven this growth and has been the primary factor in the growth of Lottomatica's Services business has been the sale of electronic top-up services for pre-paid mobile and fixed-line telephone accounts.

Electronic Top-up Services. For the year ended December 31, 2005, top-ups were sold through more than 32,000 Lottomatica and Totobit points of sale, generating revenues of approximately €35.8 million in 2005, an increase of 26.2% compared to revenues of €28.4 million for 2004. Lottomatica expects these services to continue to grow in the future and be a significant contributor to Lottomatica's Services business, primarily because of the continuing trend towards top-up services provided electronically to the detriment of the scratch card market.

Ticketing Services. Since 1998, Lottomatica, through its subsidiary Lottomatica Italia Servizi S.p.A. ("*LIS*"), has offered an automated ticketing service for the purchase of tickets and seasonal subscriptions for sports events and cultural and musical events. Approximately 4.1 million tickets were sold through this service during 2005. Revenues from ticketing services for 2005 were €5.3 million compared with €4.6 million for 2004, an increase of approximately 14.1%. This increase was primarily due to an expansion of the distribution channels, for example through Lottomatica's website, and an increase in the number of events for which ticketing services are provided.

Payment and Collection Services

Lottomatica collects payment from consumers for both private sector enterprises (*i.e.*, the payment of utility bills) and public sector entities (*i.e.*, fines, local taxes, television license fees and duties). For the year ended December 31, 2005, Lottomatica's revenues generated from payment services remained stable at €1.4 million compared with 2004.

Italian citizens are allowed to pay local fines and various taxes, court fees and television license fees electronically at certain outlets, such as Lottomatica's network of tobacconists, in addition to post offices and banks.

Processing Services

For the year ended December 31, 2005, Lottomatica generated approximately €15.4 million in revenues from processing services, compared with €10.5 million in 2004, an increase of approximately 47.0%. This increase is primarily due to the commencement of processing stamp duty in 2005 and an increase in the transactions processed for third parties using Lottomatica's technology.

Seasonality

While no significant seasonality exists for Lotto, Instant Lotteries or Gaming Machines, seasonality does affect the following games and services to the extent discussed below:

- *Sports Pools*: the collection for Totocalcio occurs mostly during the soccer season, which is from September to June;
- *Traditional Lotteries*: the distribution and sale of tickets is particularly concentrated in the period of the Lotteria Italia annual draw, which is from September to January;
- *Processing Services*: normally, processing for car road tax experiences peaks corresponding with the four deadlines during the year scheduled by Italian regulations; and
- *Ticketing Services*: the sale of tickets for sports events coincides with the duration of the national soccer championship, while the sale of seasonal subscriptions is concentrated only in the summer months, prior to the beginning of the soccer season.

Regulation and Legal Matters

Lottomatica's business is highly regulated, and the competition to secure new government contracts is often intense. Lottomatica is party to a number of proceedings seeking damages or penalties, or alleging improprieties on the part of Lottomatica. Allegations or findings of improper conduct on Lottomatica's part or attributable to it in any manner could have a material adverse effect on its business, including Lottomatica's ability to retain existing contracts or to obtain new or renewal contracts. In addition, continuing adverse publicity resulting from government proceedings and related matters could have a material adverse effect on Lottomatica's reputation and business. See the following sections of this Offering Circular for further information concerning these matters and other contingencies:

- "Risk Factors—The gaming and betting industry is highly regulated";
- "Business—Lottomatica—Legal Proceedings"; and
- "Judicial Proceedings as at December 31, 2005" in Lottomatica's audited consolidated financial statements for 2005 included elsewhere in this Offering Circular.

Application of Critical Accounting Policies

The preparation of Lottomatica's consolidated financial statements requires the application of accounting policies that often involve a significant degree of estimates and judgment by management. Such estimates and judgment affect the recorded amounts of assets, liabilities, costs and revenues and the disclosure of contingent assets and liabilities. Management reviews estimates and assumptions on an ongoing basis based on historical experience and other factors considered reasonable in the circumstances. Actual results could differ significantly from the estimates, based on the different assumptions or the different operating conditions. The areas described below are deemed to be critical for the application of accounting principles to determine Lottomatica's consolidated financial condition and operating results.

IFRS

Goodwill

For IFRS purposes goodwill is not amortised. The requirements of IAS 36 include that goodwill be tested for impairment at least annually (and between annual tests when certain triggering events occur). Under IFRS, the quoted market price of an asset or other valuation techniques, including discounted cash-flow, comparables and other similar techniques, are acceptable valuation methodologies to assess fair value. The selection of the various assumptions that are necessary to arrive at the fair value of a cash-generating asset, including the assumptions used in the underlying business plans or targets, require substantial management judgment and discretion. If actual results differ from these estimates, operating results could be significantly affected.

Property and Equipment and Intangible Assets—Estimated Useful Life and Recoverability

Under IFRS, property, plant and equipment and intangible assets other than goodwill, are recorded at their acquisition or construction cost. Property, plant and equipment and intangible assets are depreciated or amortised on a straight-line basis over their estimated useful lives. The useful lives of long-lived assets are subject to such variables as technological feasibility, obsolescence, changes in consumer demand and strategic management decisions. When an impairment in the value of an asset occurs, write-downs are made. The impairment of identifiable intangibles and long-lived assets is assessed whenever there is reason to believe that the carrying value may exceed the fair value and where a permanent impairment in value is anticipated. The determination of impairments of long-lived and intangible assets involves the use of estimates, which include but are not limited to the cause, the expected timing and the amount of the impairment. Impairment is based on a broad measure of factors. In evaluating assets for impairment, management typically considers, among other things, technological obsolescence, discontinuance of services, changes in market prices, significant negative industry or economic trends, significant underperformance relative to expected historical or projected future operating results and other changes in circumstances that may indicate impairment. All of these assessments require the application of management judgment to the facts and circumstances existing at the time.

To assess impairment of property, plant and equipment and amortising intangible assets for IFRS purposes, reference is made to IAS 36 (discussed above under “—Goodwill”). Fair value can be calculated by a number of different approaches, including discounted cash-flow, comparables, market valuations or quoted market prices. The process and steps required to assess the possible impairments of assets, (including the identification of possible impairment indicators, assessing discounted cash-flows, selecting the appropriate discount rate, the calculation of the weighted average cost of capital and the discounts or premiums inherent in market prices) require a substantial amount of management discretion and judgment. If actual results differ from these estimates, operating results could be significantly affected.

Accrued Liabilities

Management exercises considerable judgment in recording accrued liabilities and exposure to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement. In case the occurrence of a contingency or potential liability is more likely than not, management accrues an amount for contingent liabilities that represents management's estimate at that date. Because of the inherent uncertainties in the foregoing evaluation process, actual losses may be different from the original estimated amount accrued. The necessary estimates used by management rely on the analysis of internal specialists, attorneys, actuaries or other external specialists as considered necessary. A revision of the original estimates may significantly affect future operating results.

Deferred Taxes

Management is required to estimate income taxes. This process involves an estimation of actual current tax exposure and the assessment of the temporary differences resulting from differing treatment of items such as accruals and amortisation, among others, for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included within Lottomatica's consolidated balance sheet. In the course of the tax planning process management must assess the ability of Lottomatica and its subsidiaries to obtain the benefit of deferred tax assets based on expected future taxable income and available tax planning strategies. If, in management's judgment, the deferred tax assets recorded will not be recovered, a valuation allowance is recorded to reduce the deferred tax asset. Significant management judgment is required in determining the provision for income taxes, deferred tax assets, deferred tax liabilities and valuation allowances to reflect the potential inability to recover deferred tax assets in full. The recoverability of tax assets based on the criteria of recoverability has historically been just over 50%. Assessment of the appropriate amount and classification of income taxes is dependent on several factors, including estimates of the timing and realisation of deferred income tax assets and the timing of income tax payments. Actual collections and payments may differ materially from these estimates as a result of changes in tax laws as well as unanticipated future transactions impacting related income tax balances.

Allowance for Doubtful Accounts

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of the allowance for doubtful accounts, management bases its estimates on the aging of Lottomatica's accounts receivable balances and Lottomatica's historical write-off experience with similar receivables, customer creditworthiness and changes in Lottomatica's customer payment terms. If the financial condition of customers were to deteriorate, the actual write-offs might be higher than expected.

ITALIAN GAAP

The preparation of the consolidated financial statements of Lottomatica in 2003 and 2004 in accordance with Italian GAAP requires the application of accounting policies that often involve a significant degree of estimates and judgment by management. Such estimates and judgment affect the recorded amounts of assets, liabilities, costs and revenues and the disclosure of contingent assets and liabilities. Management reviews estimates and assumptions on an ongoing basis based on historical experience and other factors considered reasonable in the circumstances. Actual results could differ significantly from the estimates, based on the different assumptions or the different operating conditions. The areas described below are deemed to be critical for the application of accounting principles to

determine the consolidated financial condition and operating results of Lottomatica in 2003 and 2004 in accordance with Italian GAAP.

Property and Equipment and Intangible Assets—Estimated Useful Life and Recoverability

Property, plant and equipment and intangible assets, including goodwill, are recorded at their acquisition or revalued cost. Property, plant and equipment and intangible assets are depreciated or amortised on a straight-line basis over their estimated useful lives. The useful lives of long-lived assets are subject to several factors, such as technological feasibility, obsolescence, changes in consumer demand and strategic management decisions. Property, plant and equipment and intangible assets, including goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment to be recognised is measured by the amount by which the carrying amounts of such assets exceed the fair value of the assets. Considerable judgment is required to estimate the fair value of the impaired asset.

Accrued Liabilities

Management exercises considerable judgment in recording accrued liabilities and exposure to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement. In case the occurrence of a contingency or potential liability is more likely than not, management accrues an amount for contingent liabilities that represents management's estimate at that date. Because of the inherent uncertainties in the foregoing evaluation process, actual losses may be different from the original estimated amount accrued. The necessary estimates used by management rely on the analysis of internal specialists, attorneys, actuaries or other external specialists as considered necessary. A revision of the original estimates may significantly affect future operating results.

Deferred Taxes

Management is required to estimate income taxes. This process involves an estimation of actual current tax exposure and the assessment of the temporary differences resulting from differing treatment of financial statement line items. These differences result in deferred tax assets and liabilities, which are reported in the consolidated balance sheet. Management must assess the recoverability of the deferred tax assets and, if not reasonably certain, a valuation allowance is recorded to reduce the amount of the deferred tax asset. Significant management judgment is required in determining the provision for income taxes, deferred tax assets, deferred tax liabilities and valuation allowances to reflect the potential inability to fully recover deferred tax assets. Actual collections and payments may materially differ from these estimates as a result of changes in tax laws as well as unanticipated future transactions impacting related income tax balances.

Allowance for Doubtful Accounts

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. Management bases its estimates on the aging of the accounts receivable balances and the historical write-off experience with similar receivables, customer creditworthiness and changes in the customers' payment terms when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of customers were to deteriorate, the actual write-offs might be higher than expected.

Transition to IFRS

Under European Union Regulation No. 1606 of July 2002, all EU companies with securities listed on a regulated market in the European Union have been required to prepare their consolidated financial statements in accordance with IFRS, beginning with their 2005 financial year. Comparative information for the 2004 financial year must be presented at that time.

Up to December 31, 2004, Lottomatica prepared its audited consolidated financial statements and unaudited interim consolidated financial statements on the basis of Italian GAAP. Beginning in 2005, Lottomatica has prepared its financial statements according to IFRS. The audited consolidated financial statements as of and for the year ended December 31, 2004 prepared in accordance with Italian GAAP have been reconciled to IFRS for purposes of comparison with 2005. See “Risk Factors—Risk Factors Relating to Lottomatica—Lottomatica’s accounts prepared in accordance with IFRS may not be comparable with its previous audited financial statements prepared in accordance with Italian GAAP” and “Appendix E—Lottomatica—Summary of Certain Significant Differences Among Italian GAAP, IFRS and U.S. GAAP”.

The effects of the transition to IFRS arise from the changes to accounting standards. As required by IFRS 1, these effects are reflected in initial shareholders’ equity at the date of transition (which for the reconciliation statement prepared under IFRS is January 1, 2004, although this is not the case for the 2004 financial statements prepared under Italian GAAP). Transition to IFRS has meant that estimates previously made according to Italian GAAP have been maintained, except in those cases where the adoption of IFRS accounting standards has required estimates to be made using different methods.

Changes in the Scope of Consolidation (IAS 27). Under Italian GAAP, Lotto do Brasil, Lottomatica Argentina and LIS Finanziaria S.p.A. (“*LIS Finanziaria*”) were not included in Lottomatica’s consolidated financial reports, as Lotto do Brasil and Lottomatica Argentina were not considered significant, and LIS Finanziaria was determined to be involved in different business activities. In accordance with IAS 27, Lottomatica determined that each of these entities should be included in its consolidated financial reports.

Goodwill (IAS 36). Under Italian GAAP, goodwill relating to the Lotto concession was subject to amortisation over the period until 2012. Goodwill amortisation under Italian GAAP was €54.0 million for 2004. In accordance with IAS 36, goodwill is not subject to amortisation but must be subject to an annual impairment test to determine whether any loss in value has occurred. The most significant items in the determination under IAS 36 for Lottomatica are:

- goodwill associated with the merger of Lottomatica S.p.A. into Tyche S.p.A., a subsidiary of De Agostini in December 2002;
- goodwill on the contribution of PCC Giochi e Servizi S.p.A. (“*PCC GS S.p.A.*”);
- goodwill associated with the acquisition of the games division of EIS S.p.A. and the liquidation of Twin S.p.A.;
- goodwill associated with the merger of Medialan S.p.A. into Totobit Informatica Software e Sistemi S.p.A.; and
- goodwill from the acquisition of Totobit Informatica Software e Sistemi S.p.A. by Lottomatica in August 2003.

As of December 31, 2004, under Italian GAAP, the value of goodwill recorded on Lottomatica’s balance sheet was €392.4 million. Under IFRS, the value of goodwill recorded on Lottomatica’s balance sheet as of December 31, 2004 was €446.6 million. As of December 31, 2005, under IFRS, the value of goodwill recorded on Lottomatica’s balance sheet was €663.6 million.

Intangible Assets (IAS 38). Under Italian GAAP, certain costs, such as advertising expenses associated with the launch of new businesses, research and development expenses, patents and other intellectual property rights, concessions and licenses and trademarks, were not treated as costs and could be capitalised. Under IAS 38 these costs are required to be treated as non-capitalised costs and recognised on the income statement as costs of production. Advertising costs associated with the launch of new businesses, for example, are now required to be treated as costs for services. Development and start-up and expansion costs are now also required to be treated as costs and not capitalised. The effect of this reclassification of these costs is a decrease in intangible assets of approximately €18.8 million as of December 31, 2004.

Staff Severance Fund (IAS 19). Under Italian GAAP, Lottomatica was required to recognise its liability with respect to its mandatory staff severance fund (*trattamento di fine rapporto*), or indemnities for termination of employment, as required by Italian law, on the basis of the nominal payment accrued as of the date to which its financial statements were prepared. Under IAS 19, Lottomatica's staff severance fund is classified as a defined benefit plan post-employment benefit and the accrued liability is valued using actuarial criteria and the "projected unit credit method" projecting future expenditure based on historical statistical analyses, the demographic curve and the discounting-back of required cash-flow based on market interest rates. The effect of this reclassification is an increase of approximately €0.3 million as of December 31, 2004.

Stock Options (IFRS 2). Under Italian GAAP, Lottomatica determined the fair value of the stock options granted by Lottomatica as at the date they became exercisable, and expensed the costs associated with such options at that point. Under IFRS 2, Lottomatica determines the fair value of its group stock option plans by reference to the relevant date of grant, the expense being recorded on that date on an accrual basis as part of Lottomatica's personnel costs, with a corresponding increase in shareholders' equity under "reserves for stock option plans" as part of Lottomatica's Other Reserves.

Revenue Recognition (IAS 18). Under Italian GAAP, revenues for Lottomatica's electronic top-ups for pre-paid mobile and fixed-line telephones were recorded as gross revenues, which included the costs related to the provision of such services. Lottomatica recorded the related costs in its costs of production, partly in costs of raw materials and partly in costs for services. Under IAS 18, revenues for these services are recorded net of the related costs. For the year ended December 31, 2004 the effect of this change has been a decrease in Lottomatica's revenues and a corresponding decrease in costs of raw materials and consumables used, and costs for services, in Lottomatica's Consolidated Income Statement. The effect of this change under IAS 18 has been a decrease in revenues from services of €647.5 million, a decrease in costs of raw materials of €334.7 million and a decrease in costs for services of €312.8 million. Lottomatica has made this determination because, in practice, in these transactions Lottomatica only accrues the margin between the price paid to the point of sale for providing the service and the amount payable to the mobile airtime provider.

Non-current financial liabilities (IAS 32 and IAS 39). Under Italian GAAP, the expenses associated with the issuance by Lottomatica of its €360.0 million 4.80% fixed rate notes due 2008 (primarily underwriting commissions and legal fees) were capitalised. Under IFRS these expenses are recorded as a decrease in non-current financial liabilities. The result of this change is that the relative cost accrued to the period is now recorded as an expense under "Financial income (charges)". Lottomatica also currently has in place a foreign exchange rate derivative instrument designed to mitigate fluctuations in the euro to U.S. dollar exchange rates which affect Lottomatica's purchase of Instant Lottery tickets from Scientific Games Corporation in the United States. Under Italian GAAP, the provisions for adjusting the value of this instrument to market value was recorded under "Provisions for risks". Under IFRS, this provision is recorded under "Financial income (charges)".

Operations Review

Lottomatica derives its revenues primarily from Lotteries, comprising Lotto, Instant and Traditional Lotteries, Sports Pools and Other Pari-Mutuel Betting; Gaming Machines; and Services, comprising commercial services, payment and collection services and processing services. Substantially all of Lottomatica's revenues are derived from operations in the Republic of Italy.

Results of Operations

Comparison of 2005 with 2004

Lottomatica's discussion of 2005 as compared to 2004 is provided on the basis of IFRS.

Total Revenues

Revenues. The table below shows Lottomatica's revenues for the years ended December 31, 2005 and 2004:

<u>Total Revenues</u>	<u>Year Ended December 31, 2005</u>		<u>Year Ended December 31, 2004</u>	
	(in thousands of euro)			
Lotteries and Gaming				
<i>Lotteries:</i>				
Lotto	432,288	74.2%	494,210	84.4%
Instant and Traditional Lotteries	54,901	9.4%	15,808	2.7%
Sports Pools	5,947	1.0%	4,015	0.7%
Betting services	2,258	0.4%	2,150	0.4%
Tris	1,266	0.2%	3,128	0.5%
Total Lotteries	496,660	85.2%	519,311	88.6%
<i>Gaming Machines:</i>				
AWPs	6,398	1.1%	582	0.1%
Total Gaming Machines	6,398	1.1%	582	0.1%
Total Lotteries and Gaming	503,058	86.3%	519,893	88.7%
Services				
<i>Commercial Services:</i>				
Top-ups—(LIS and Totobit networks) . . .	35,832	6.1%	28,384	4.8%
Sport ticket office services	5,261	0.9%	4,612	0.8%
<i>Processing Services:</i>				
Car road tax	7,628	1.3%	7,788	1.3%
Totobit system	7,823	1.3%	2,721	0.5%
<i>Payment and Collection Services:</i>				
Municipal services	223	0.0%	286	0.0%
Unified state taxes	586	0.1%	492	0.1%
RAI television license	606	0.1%	584	0.1%
Other services	5,985	0.0%	3,324	0.6%
Total Services	63,944	11.0%	48,191	8.2%
PCC GS S.p.A.	2,152	0.4%	1,726	0.3%
Other Revenues	13,520	2.3%	15,964	2.7%
Total Revenues	582,674	100.0%	585,774	100.0%

Total revenues were €582.7 million in 2005, compared with €585.8 million in 2004, a decrease of €3.1 million. This decrease was primarily due to a decrease in revenues from Lotto of approximately

€61.9 million or 12.5%. This decrease was partially offset by an increase in revenues from Instant and Traditional Lotteries of €39.1 million or 247.3%, an increase in revenues for services, primarily from electronic top-ups services for pre-paid mobile and fixed-line telephone accounts of €7.4 million or 26.4% and an increase in revenues from Gaming Machines of €5.8 million.

Revenues generated by Lotteries in 2005 were €496.7 million compared with €519.3 million in 2004, a decrease of 4.4%. This was primarily due to a decrease in revenues from Lotto from the unusually high level achieved in 2004, partially offset by an increase in revenues generated by Instant and Traditional Lotteries. The 12.5% decrease in revenues from Lotto reflects the effects of a 37.6% decrease in overall wagers, to approximately €7.3 billion in 2005 from approximately €11.7 billion in 2004. The effects of this decrease in wagers on Lottomatica's revenues are mitigated by the fact that the fee rate payable to Lottomatica for operating Lotto is based on a scale that decreases as total wager amounts increase. The fee rate applied to total wagers up to €714 million is approximately 6.5%, while the rate applied to incremental wagers above €714 million gradually decreases as the total annual wager amount increases. Lottomatica believes that the decrease in overall wagers from the unusually high levels in 2004 is primarily the result of a reduction in speculative bets made on "late numbers" (those numbers that have not been drawn for more than 100 drawings), from approximately €5.6 billion in 2004 to approximately €1.6 billion in 2005 as a result of certain late numbers, in particular number 53 drawn on the Venice draw wheel in early 2005. This reduction in wagers reflected:

- a decrease in the size of the average wager from €3.9 in 2004 to €2.8 in 2005, and
- a decrease in the overall number of bets from 3.0 billion in 2004 to 2.6 billion in 2005,

The 247.3% increase in revenues from Instant and Traditional Lotteries to €54.9 million in 2005 from €15.8 million in 2004, the year in which Consorzio Lotterie Nazionali began operating this business, was primarily due to the increase in the number of tickets sold in 2005 and the increase of the total wagers during the period, taking into account the fact that 2005 was the first full year of the operation of Instant and Traditional Lotteries. In addition, these increases reflected the implementation of the strategy to progressively increase the average price of new games, in particular the introduction of the new €5 "Miliardario" game.

The increase in revenues from Gaming Machines to €6.4 million in 2005 from €0.6 million in 2004 reflects the fact that this business commenced during the last months of 2004. In addition, during 2005 Lottomatica also saw the number of machines to which Lottomatica provided information technology services increase from approximately 7,700 to approximately 8,500 as at December 31, 2005.

Revenues generated by Lottomatica's Services business in 2005 were €63.9 million compared with €48.2 million in 2004, an increase of €15.7 million or 32.7%, which was primarily due to an increase in the revenues generated by commercial services and in processing services.

Revenues generated by commercial services in 2005 were €41.1 million compared with €33.0 million in 2004, an increase of €8.1 million or 24.5%. This increase was primarily due to an increase in revenues from the sale of electronic top-up services for pre-paid mobile and fixed-line telephone accounts. These top-up services revenues increased 26.2% to €35.8 million in 2005 from €28.4 million in 2004, primarily because of an increase in the number of top-ups sold through Lottomatica's LIS and Totobit commercial networks during the period reflecting the continued trend toward electronic top-ups to the detriment of the scratch card top-up market. Revenues from ticketing services increased 14.1% to €5.3 million in 2005 from €4.6 million in 2004. This increase is attributable to ticket services also being offered for cultural and music events as well as for sporting events.

Lottomatica's processing services generated revenues of €15.4 million in 2005 compared with €10.5 million in 2004. This 47.0% increase in revenues is primarily due to an increase in the number of transactions for which processing services and technology was provided to third parties (e.g., for payment of car road taxes and electronic top-ups for pre-paid mobile telephones).

Revenues generated by payment and collection services remained flat in 2005 at €1.4 million.

PCC GS S.p.A. is a wholly-owned subsidiary of Lottomatica that supplies tickets for Lotto and Lottomatica's Sports Pools as well as tickets for third parties. Revenues generated by PCC GS S.p.A. for the supply of these tickets for third parties in 2005 increased by 24.7% to €2.1 million from €1.7 million in 2004. This increase was due to an increase in the number of transactions performed by PCC GS S.p.A. for these third parties in 2005.

Other revenues. Lottomatica's Total Revenues also include Other Revenues. Lottomatica's Other Revenues for 2005 consist primarily of (i) operating contributions to Consorzio Lotterie Nazionali, which operates the Instant and Traditional Lotteries business, by its other members, (ii) the release of provisions taken in 2004, primarily in respect of litigation costs released in 2005 when the actual litigation costs paid were less than the amount of the relevant provision and (iii) management fees received from Sarabet S.r.l. for the management of wagers on Lottomatica betting. Other Revenues were €13.5 million in 2005 compared to €15.9 million in 2004, a decrease of €2.4 million, or 15.3%.

Costs of Production

Costs of production consist of costs of raw materials and consumables, costs for services, personnel costs, amortisation, depreciation and write-downs, and other operating expenses. Costs of Production decreased by €46.2 million in 2005, or 11.1%, to €370.3 million in 2005 from €416.5 million in 2004. This was primarily due to the continued success of Lottomatica's cost savings initiatives focusing on network costs, maintenance costs, raw material costs and improved efficiencies in distribution. The 11.1% decrease was primarily due to decreases in costs of services and in amortisation, depreciation and write-downs and was partially offset by increases in the costs of raw materials and consumables and in personnel costs, each of which is more particularly described below.

Costs of raw materials and consumables. The costs of raw materials and consumables increased in 2005 to €31.1 million from €29.3 million in 2004, or 6.1%. This increase is primarily due to an increase in the volume of lottery tickets purchased for the Instant and Traditional Lotteries business and also, to a lesser extent, an increase in the cost of paper which was partially offset by a decrease in the number of Lotto tickets sold in 2005 as a result of the lower number of bets placed.

Costs for services. Costs for the provision of services were €188.5 million in 2005, compared with €218.7 million in 2004, a decrease of €30.2 million, or 13.8%. The following table sets forth a break-down of the items comprising costs for the provision of services in 2005 and 2004.

<u>Costs for services</u>	<u>Year Ended December 31, 2005</u>	<u>Year Ended December 31, 2004</u>	<u>% Change</u>
	<u>(in thousands of euro)</u>		
Network management	42,460	52,410	(19.0)%
Maintenance	13,354	29,596	(54.9)%
Office costs	7,645	7,774	(1.7)%
Assistance for bet collection points	24,214	22,345	8.4%
Research and advertising	42,257	38,613	9.4%
Services rendered by third parties	29,937	35,792	(16.4)%
Corporate bodies	1,560	1,698	(8.1)%
Banking costs and services	1,695	1,388	22.1%
Non-capitalised IAS costs	739	13,538	(94.5)%
Other costs	11,651	15,555	(25.1)%
Rental costs	12,981	—	—
TOTAL	<u>188,493</u>	<u>218,709</u>	<u>(13.8)%</u>

The €30.2 million decrease in costs for the provision of services was primarily due to:

- the €16.2 million reduction in Maintenance costs following the installation of new Lotto terminals, primarily because these new terminals require less maintenance than the older terminals they replaced, and repairs are covered by the manufacturer's warranty for a period of three years, as to 100% of the cost of repairs carried out in the first two years and as to 50% of the cost of repairs carried out in the third year;
- the €12.8 million decrease in Non-capitalised IAS costs due to the marketing costs associated with the start-up of Instant and Traditional Lotteries in 2004;
- the €9.9 million reduction in Network management costs due to the migration of Lottomatica's data transmission systems from a fixed-line service to the IP (Internet Protocol) system leading to a reduction in line rental costs; and
- the €5.8 million reduction in costs for services rendered by third parties, primarily in respect of the supply of tickets for Lottomatica's sports pools business due to a renegotiation of commercial terms with counterparties and a rationalisation of the frequency and size of deliveries of tickets.

The €30.2 million decrease was partially offset by the €3.6 million increase in research advertising costs in connection with the launch of new Instant and Traditional Lotteries games, new games linked to Totocalcio and the Gaming Machine business and the €1.9 million increase in costs related to assistance for bet collection points. Advertising costs include the amounts to be devoted to advertising the Lotto game in an amount equal to 7% of the net income received in the previous financial year. In addition, rental costs increased in 2005 because these costs were recorded in 2004 under IFRS as "other operating expenses". In 2005, Lottomatica began to record these costs, in accordance with IFRS, as costs.

Personnel costs. Personnel costs were €72.3 million in 2005, compared with €66.2 million in 2004, an increase of €6.1 million or 9.2%. The increase was primarily due to an increase in the number of employees employed by Lottomatica and its subsidiaries and a consequential increase in social security contributions, and an increase in the costs associated with stock options. In addition, Lottomatica made some employees redundant during 2005 as part of its ongoing policy to streamline its operations and the costs of those redundancies are included in personnel costs.

Amortisation, depreciation and write-downs. Amortisation, depreciation and write-downs were €53.6 million in 2005, compared with €62.6 million in 2004, a decrease of €9.0 million or 14.3%. amortisation, depreciation and write-downs includes amortisation of intangible assets, depreciation of tangible assets and write-down of fixed assets and current receivables. The decrease in amortisation, depreciation and write-downs was primarily due to the fact that the depreciation period for certain plant and machinery came to an end in 2004. In addition, the new Lotto terminals designed to replace older terminals were installed at the end of 2005, which resulted in depreciation of plant and machinery only being taken in the last months of 2005.

The following table sets forth a breakdown of the items comprising amortisation, depreciation and write-downs for the years ended December 31, 2005 and 2004:

<u>Amortisation, Depreciation and Write-Downs</u>	<u>2005</u>	<u>2004</u>	<u>% Change</u>
	(in thousands of euro)		
Amortisation of intangible assets:			
Patents	7,366	5,853	25.8%
Concessions, licenses and trademarks	1,061	1,340	(20.8)%
Other intangible assets	104	123	(15.4)%
	8,531	7,316	16.6%
Depreciation of tangible assets:			
Fixed assets	1,651	720	129.3%
Plant and machinery	36,206	44,804	(19.2)%
Industrial and commercial equipment	81	81	0.0%
Other	472	385	22.6%
	38,410	45,990	(16.5)%
Write-downs:			
Write-down of fixed assets	4,752	2,026	134.5%
Write-down of receivables	1,950	7,290	(73.3)%
	6,702	9,316	(28.1)%
TOTAL	53,643	62,622	(14.3)%

Other operating expenses. Other operating expenses were €24.8 million in 2005, compared to €39.7 million in 2004, a decrease of €14.9 million, or 37.5%. Other operating expenses in 2005 consisted primarily of (i) the €7.5 million penalty paid to AAMS in respect of the temporary malfunction of the Lotto network in June 2005, (ii) costs and expenses relating to legal proceedings regarding the termination date of the Lotto concession, (iii) costs and expenses related to the merger of old Lottomatica and FinEuroGames S.p.A. into NewGames S.p.A. and (iv) fees paid to AAMS for using the Lotto network for the provision of services and non-deductible value added tax (“*VAT*”). The 37.5% decrease was primarily due to Lottomatica recording rental costs in 2004 as “other operating expense”, whereas in 2005, in accordance with IFRS, such costs were recorded as “costs for services”.

Net Financial Income/Expense

Net financial expense was €16.1 million in 2005, compared to net financial expense of €17.0 million in 2004, a decrease of €0.9 million, or 5.3%. This was primarily due to an increase in other financial income arising from the release in 2005 of a provision taken in 2004 because the actual losses on the mark-to-market valuation of foreign exchange instruments were lower than those provided. This increase in net financial income was partially offset by an increase in financial expenses due to:

- there being no foreign exchange expense in 2004 as the first invoice rendered by Scientific Games Corporation was not required to be paid until 2005; and
- the 5.5% increase in other financial expenses, due to expenses related to the merger of old Lottomatica and FinEuroGames S.p.A. into NewGames S.p.A.

The following table sets forth a breakdown of the items comprising net financial income/expense for the years ended December 31, 2005 and 2004, with the variations compared with the previous financial year:

<u>Financial income and expense</u>	<u>Year Ended December 31, 2005</u>	<u>Year Ended December 31, 2004</u>	<u>% Change</u>
	<u>(in thousands of euro)</u>		
Financial income:			
Bank interest	4,020	4,596	(12.5)%
Other financial income	4,130	365	—
	8,150	4,961	64.3%
Financial expense:			
Bank interest	(190)	(70)	171.4%
Foreign exchange expenses	(977)	—	—
Other financial expenses	(23,047)	(21,848)	5.5%
	(24,214)	(21,918)	10.5%
TOTAL	<u>(16,064)</u>	<u>(16,957)</u>	<u>5.3%</u>

Income Taxes for the Period. The tax expense for the year ended December 31, 2005, amounted to €82.0 million, as compared to €68.2 million in 2004, an increase of €13.8 million, or 20.2%. The increase was primarily due to:

- an increase in current taxes of €31.9 million, to €61.8 million in 2005 from €29.9 million in 2004, as a result of the increase in earnings before taxes from €153.1 million in 2004 to €196.2 million in 2005;
- a decrease of €10.2 million for advance taxes to €2.2 million in 2005 from €12.4 million in 2004, primarily because deductible tax losses, partially offset by accruals and provisions not deductible for tax purposes, were lower in 2005 than in 2004; and
- a decrease of €8.0 million in deferred taxes, to a deferred tax liability of €18.0 million in 2005 from a deferred tax liability of €26.0 million in 2004, because Lottomatica took a greater number of one-time or accelerated write-downs in 2004 compared with 2005, which had the effect of reducing net income and under the tax rules required Lottomatica to record a deferred tax liability.

Consolidated Net Income. As a result of the factors described above, consolidated net income was €114.2 million in 2005, compared to €85.6 million in 2004, an increase of €28.6 million, or 33.4%. Of this consolidated net income, €1.8 million in 2005 and €(0.4) million in 2004 is attributable to minority interests.

Comparison of 2004 with 2003

Lottomatica's discussion of 2004 as compared to 2003 is provided on the basis of Italian GAAP. See “—Introduction—Overview” above.

In September 2004, Lottomatica announced the sale of its 50% interest in GBC to Cirsa Business Corporation S.A. for approximately €64.0 million. In December 2003, Lottomatica announced the sale to HBG S.r.l. of its 100% interest in Bingo Plus S.p.A. for approximately €3.0 million. In October 2003, Lottomatica announced the sale of its equity interest in Scientific Games Corporation to MacAndrews & Forbes Holdings Inc. for approximately U.S.\$199.0 million (approximately €167.5 million). In August 2003, Lottomatica announced the acquisition of Totobit Informatica Software e Sistemi S.p.A. for approximately €39.0 million.

Value of Production

Value of production, which comprises revenues from sales and services and other revenues (including capitalisation of internal construction costs, other earnings and proceeds and changes in work in progress, but excluding changes in other inventory items) was €1,234.3 million in 2004, compared with €961.1 million in 2003, an increase of €273.2 million, or 28.4%.

This increase was primarily due to the increase in revenues from sales and services and other earnings and proceeds described below. Under Italian GAAP, revenues for Lottomatica's electronic top-ups for pre-paid mobile and fixed-line telephone accounts are recorded as gross revenues including the costs related to the provision of such services; and the related costs are therefore included in costs of production. See “—Transition to IFRS—Revenue Recognition (IAS18)” above. For the year ended December 31, 2004, these costs amounted to €647.5 million, compared with €242.7 million for the prior period.

Revenues. The table set forth below shows Lottomatica's revenues from sales and services, and other revenues, for each of 2004 and 2003:

Total Revenues	Year Ended December 31, 2004		Year Ended December 31, 2003	
	(in thousands of euro)			
Lotteries and Gaming				
Lotteries:				
Lotto	494,210	40.0%	412,835	42.9%
Instant and Traditional Lotteries	15,808	1.3%	—	—
Sports Games:				
Sports Pools	4,015	0.3%	5,300	0.5%
Betting services	2,150	0.2%	2,952	0.3%
Tris	3,128	0.2%	1,055	0.1%
F 101	—	—	218	0.0%
Total Lotteries	519,311	42.1%	422,360	43.9%
Gaming Machines:				
AWPs	582	0.0%	—	—
Total Gaming Machines	582	0.0%	—	—
Total Lotteries and Games	519,893	42.1%	422,360	43.9%
Services				
Commercial Services:				
Top-ups—(LIS and Totobit networks)	677,110	54.9%	259,559	27.0%
Sport ticket office services	4,612	0.4%	4,306	0.4%
Processing Services:				
Car road tax	7,788	0.6%	8,049	0.8%
Totobit system	2,721	0.2%	—	—
Payment and Collection Services:				
Municipal services	286	0.0%	217	0.0%
Unified state taxes	492	0.0%	475	0.0%
RAI television license	584	0.0%	663	0.1%
Other services	3,324	0.3%	3	0.0%
Total Services	696,917	56.4%	273,272	28.4%
PCC GS S.p.A.	1,726	0.1%	5,069	0.5%
Discontinued operations:				
GBC	—	—	256,159	26.7%
Other Revenues	15,710	1.3%	4,282	0.4%
TOTAL REVENUES	1,234,246	100.0%	961,142	100.0%

Total revenues, comprising revenues from sales and services and other revenues were €1,234.2 million in 2004 compared with €961.1 million in 2003, an increase of €273.2 million, or 28.4%.

Revenues from sales and services were €1,218.5 million in 2004, compared with €956.9 million in 2003, an increase of €261.6 million, or 27.3%. This increase was primarily due to an increase in revenues from Lotto of €81.4 million, or 19.7%, an increase in revenues (including their related costs) from electronic top-up services for pre-paid mobile and fixed-line telephone accounts of €417.6 million, or 160.9%, and the inclusion of €15.8 million of revenues from Instant and Traditional Lotteries launched in mid-2004, partially offset by the loss of revenues in 2004 from Lottomatica's bingo business as a consequence of the exit by Lottomatica from the Bingo business through the sale of its 50% interest in GBC. In 2003, GBC generated revenues of €256.2 million.

Revenues generated by Lotteries in 2004 were €519.3 million compared with €422.3 million in 2003, an increase of €97.0 million, or 23.0%. This was primarily due to an increase in revenues from Lotto, as well as revenues generated by Instant and Traditional Lotteries, which commenced in 2004. Revenues from Lotto increased from €412.8 million in 2003 to €494.2 million in 2004, an increase of €81.4 million or 19.7%. This increase was primarily due to the increase in overall wagers to approximately €11.7 billion in 2004 from approximately €6.9 billion in 2003.

Lottomatica believes that the increase in overall wagers in 2004 was the result of substantial growth in speculative bets made on "late numbers" (those numbers that have not been drawn for more than 100 drawings), to approximately €5.6 billion in 2004 from approximately €1.4 billion in 2003, and that this growth also had a limited effect on the amount of core bets. Lottomatica believes that this was a primary factor leading to:

- an increase in the size of the average wager from €2.7 in 2003 to €3.9 in 2004, and
- an increase in the overall number of bets from 2.6 billion in 2003 to 3.0 billion in 2004.

Lottomatica's Instant and Traditional Lotteries business commenced in 2004 following the grant by the Ministry of Economy and Finances to Consorzio Lotterie Nazionali, a consortium 63% owned by Lottomatica, of the exclusive concession to operate Instant and Traditional Lotteries in the Republic of Italy. This business generated revenues in 2004 of €15.8 million. Lottomatica also commenced its Gaming Machines business in 2004, generating revenues of €0.6 million.

Revenues generated by Lottomatica's Services business were €696.9 million in 2004 compared with €273.3 million in 2003, an increase of €423.6 million or 155.0%. As discussed above, under Italian GAAP these revenues are expressed on a gross basis including the related costs of providing such services. These costs almost entirely consist of the costs related to the provision of electronic top-up services for pre-paid mobile and fixed line telephone accounts. In 2004, these costs were €647.5 million compared with €242.7 million in 2003.

The increase in revenues from Lottomatica's Services business was primarily due to the 160.9% increase in revenues from electronic top-up services, which increased from €259.6 million in 2003 to €677.1 million in 2004. This 160.9% increase was due to a 29.8% increase in revenues generated from Lottomatica's LIS point of sale network, from €259.6 million in 2003 to €336.9 million in 2004, and the €340.1 million revenues generated in 2004 by Totobit following its acquisition by Lottomatica in 2003. This increase also reflected the continued trend toward electronic top-ups to the detriment of the scratch card top-up market. The increase in revenues generated by Lottomatica's Services business was partially offset by the sale by Lottomatica of its 50% interest in GBC in 2004 as Lottomatica exited the Bingo business. In 2003, GBC generated revenues of €256.2 million.

Revenues from Other Services were €3.3 million in 2004 compared with almost zero in 2003. These revenues in 2004 derive from the acquisition of Totobit and consist of the contributions to the costs of a marketing and advertising campaign paid to Lottomatica by the operators of the points of sale in the Totobit commercial network.

Revenues generated by PCC GS S.p.A. decreased by 65.9% to €1.7 million in 2004 from €5.1 million in 2003. This decrease was primarily due to Lottomatica changing the focus of the operations of PCC GS S.p.A. from a supplier to third parties to a supplier to Lottomatica in 2004.

Lottomatica's Total Revenues also includes Other Revenues. Other Revenues in 2004 are primarily comprised of contributions to Consorzio Lotterie Nazionali by its other members, and payments made to Lottomatica by AAMS for providing sports pools games, such as Totocalcio, to towns with small numbers of residents. Other revenues were €15.7 million in 2004, compared with €4.3 million in 2003, an increase of €11.4 million, or 266.9%.

Costs of Production

Costs of production, which are made up of costs of raw materials, costs for services, lease and rental costs, personnel costs, amortisation, depreciation and write-downs, changes in inventories, provisions for risks and other provisions and other operating expenses, were €1,090.9 million in 2004, compared with €889.2 million in 2003, an increase of €201.7 million, or 22.7%. This increase was primarily due to the increase in raw materials, secondary materials, consumables and goods as a consequence of Lottomatica's acquisition of Totobit at the end of 2003, and amortisation, depreciation and write-downs, and other expenses, which was partially offset by the decreases in services, leases and rentals and personnel costs, as more particularly described below.

Costs of raw materials, secondary materials, consumables and goods. Costs of raw materials, secondary materials, consumables and goods were €365.1 million in 2004, compared with €33.5 million in 2003, an increase of €331.6 million. This increase is almost entirely the result of including the costs relating to the provision of electronic top-ups by Totobit in the consolidated results of Lottomatica, which primarily relate to the purchase of inventory for the sale of on-line services for top-ups and are recorded in this line item. For 2004, the costs relating to the provision of electronic top-up services by Totobit was €334.7 million.

Costs for services. The costs for the provision of services was €517.7 million in 2004, compared with €647.5 million in 2003, a decrease of €129.8 million, or 20.0%. The following table sets forth a breakdown of the items comprising costs for services for 2004 and 2003, with the variations compared with the previous financial year.

<u>Costs for services</u>	<u>Year Ended December 31, 2004</u>	<u>Year Ended December 31, 2003</u>	<u>% Change</u>
	<u>(in thousands of euro)</u>		
Network management	€ 52,410	€ 70,993	(26.2)%
Maintenance	29,596	25,697	15.2%
Office costs	7,774	8,236	(5.6)%
Assistance for bet collection points	22,345	15,846	41.0%
Advertising costs	38,613	33,329	15.8%
Consultancy costs	35,792	16,859	112.3%
Corporate bodies	1,698	1,228	38.3%
Services provided			
• Football ticketing service	637	594	7.2%
• Top-ups	314,635	243,119	29.4%
• RAI television licenses services	202	230	(12.2)%
• Car road tax	2,647	2,818	(6.1)%
Payment of Bingo prizes/taxes	—	218,924	—
Banking costs and services	1,388	1,647	(15.7)%
Other costs	9,994	7,996	25.0%
TOTAL	€ 517,731	€ 647,516	(20.0)%

Lottomatica sold its 50% interest in GBC in 2004. As a result, the service costs associated with the Bingo business, which in 2003 were €218.9 million, were eliminated in 2004. After accounting for the effect of this disposal, costs for the provision of services increased by €89.1 million. This increase was primarily due to:

- the €71.5 million increase in costs for electronic top-up services for pre-paid mobile and fixed-line telephone accounts provided by LIS using its points of sale network, primarily due to the continuing trend towards electronic top-up services for pre-paid mobile telephones to the detriment of the scratch card top-up market;
- the €18.9 million increase in consultancy expenses primarily relating to strategy and market positioning related to the commencement of new businesses during 2004 (e.g., Instant and Traditional Lotteries, and new games connected to Totocalcio);
- the €6.5 million increase in services provided to points of sale for business development and business volume increase;
- the €5.3 million increase in advertising costs primarily relating to the marketing campaign for the launch in 2004 of the Instant and Traditional Lotteries business and new games; and
- the €3.9 million increase in maintenance costs primarily because of the age of the existing Lotto terminals, which Lottomatica began to replace with new models beginning at the end of 2004.

This increase was partially offset by the €18.6 million decline in network management costs, resulting from the implementation of the technological innovation process begun in early 2003 by which Lottomatica migrated the data transmission systems to the IP (Internet Protocol) system. Advertising costs include the amounts required to be devoted to advertising the Lotto game in an amount equal to 7% of the net income received from the Lotto game in the previous financial year.

Leases and rental costs. Leases and rentals were €11.0 million in 2004, compared with €13.1 million in 2003, a decrease of €2.1 million, or 16.0%, primarily as a result of the exit by Lottomatica from the Bingo business in 2004.

Personnel costs. Personnel costs were €56.1 million in 2004, compared with €63.2 million in 2003, a decrease of €7.1 million or 11.3%. The decrease was primarily due to an elimination of €13.7 million in personnel costs as result of Lottomatica's exit from the Bingo business, partially offset by an increase of €2.9 million as a result of an increase in the number of employees at Lottomatica leading to an increase in salary costs and an associated increase in social security contributions, and an increase of €3.3 million in respect of the increase in the number of employees employed by Totobit, which was acquired by Lottomatica at the end of 2003 and was consolidated for financial reporting purposes in 2004.

Amortisation, depreciation and write-downs. Amortisation, depreciation and write-downs were €120.7 million in 2004, compared with €126.6 million in 2003, a decrease of €5.9 million, or 4.7%. Amortisation, depreciation and write-downs includes amortisation of intangible assets, depreciation of tangible assets and write-downs of current receivables. The decrease in amortisation, depreciation and write-downs was primarily due to the cumulative effects of the matters described below.

Amortisation of intangible assets was €71.7 million in 2004, compared with €80.8 million in 2003, a decrease of €9.1 million, or 11.3%. The decrease was primarily due to a decrease of €6.6 million in amortisation of intangible assets resulting from Lottomatica's exit from the Bingo business in 2004, partially offset by the increase of €1.8 million of amortisation associated with Totobit following its acquisition at the end of 2003 and €2.8 million of amortisation associated with the start-up costs for Consorzio Lotterie Nazionali, the consortium 63% owned by Lottomatica which operates Instant and Traditional Lotteries which commenced operations in 2004.

In addition, Lottomatica's amortisation of capitalised expenses associated with the start up and expansion of its services businesses decreased by approximately €5.9 million as these capitalised expenses were fully amortised.

Depreciation of tangible assets was €46.7 million in 2004, compared with €45.8 million in 2003, an increase of €0.9 million, or 1.9%. The increase was due to the purchase of plant and equipment during the year. Depreciation of tangible assets includes depreciation for assets which Lottomatica will be required to return to AAMS at the conclusion of the Lotto concession and assets owned by Lottomatica which are not subject to such a requirement.

Write-down of current receivables was €1.7 million in 2004, compared with €0.03 million in 2004, an increase of €1.7 million. The increase primarily resulted from a write-down of €1.2 million in respect of receivables at Totobit (acquired in late 2003 and accounted for in 2004 for the first time).

Change in inventories and provisions for risks. Changes in inventories amounted to a deficit of €0.9 million in 2004, compared with €0.2 million in 2003, a decrease of €1.1 million, which is mostly attributable to the reduction in the purchase of activation codes for Vodafone and Telecom electronic top-ups for pre-paid mobile telephone accounts, reflecting the inclusion of the Totobit group in Lottomatica's consolidated group for the first time in 2004.

Provisions for risks were €2.7 million in 2004, compared with €0.01 million in 2003, an increase of €2.7 million. The increase resulted from a provision of €1.8 million in respect of the early termination of the supply contract for Traditional Lotteries tickets, a provision of €0.5 million for risks relating to support contracts entered into by the Totobit Group and acquired as part of Lottomatica's Totobit acquisition, and a provision of €0.5 million relating to the number of bet collection points Lottomatica estimates will fail to pay the pre-set fee on the volume collected for the Totocalcio game.

Other provisions. Other provisions were €5.5 million in 2004, compared with €1.1 million in 2003, an increase of €4.4 million. The increase is primarily the result of a provision of €1.8 million for amounts due to AAMS (but not yet paid) under Lottomatica's license to operate entertainment games as a result of delays encountered in the activation in 2004 of the gaming terminals, and a provision of €3.3 million representing the amount set aside by Consorzio Lotterie Nazionali in relation to potential losses under the foreign exchange rate derivative instrument not yet realised, representing mark-to-market adjustments which do not necessarily imply a future payment.

Other operating expenses. Other operating expenses were €13.1 million in 2004, compared to €4.1 million in 2003, an increase of €9.0 million. The increase resulted primarily from (i) charitable donations amounting to €7.1 million, (ii) the *pro rata* portion of unrecoverable VAT amounting to €0.8 million, (iii) €0.7 million paid to AAMS in respect of Lottomatica's use of the Lotto terminals for the provision of certain of its services and (iv) the payment of promotional costs in an amount approximately equal to €0.7 million associated with a sports and arts charity and a therapy project at a children's hospital.

Net financial income/expense. Net financial expense was €13.4 million in 2004, compared with net financial income of €23.5 million in 2003, a decrease of €36.9 million. The following table sets forth a

breakdown of the items comprising net financial income and expense for 2004 and 2003, with the variations compared with the previous financial year:

	Year Ended December 31, 2004	Year Ended December 31, 2003	% Changes
	(in thousands of euro)		
Income from equity investments	€ 1	40,556	—
Group companies' interests	—	370	—
Bank interest	4,596	2,497	84.1%
Other financial income	365	666	(45.2)%
Total Financial Income	€ 4,962	€ 44,089	(88.7)%
Bank interest	€ 70	€ 335	(79.1)%
• Group companies' interests	2	142	(98.6)%
• Interest paid—Bond	17,280	—	—
• Discount on issue	194	479	(55.5)%
• Loan interest	—	16,963	—
Other financial charges	758	2,595	(70.8)%
IAS 17	103	62	66.1%
Total Financial Expenses	€ 18,407	€ 20,576	(10.5)%
TOTAL	€ (13,445)	€ 23,513	—

Financial income was €5.0 million in 2004, compared with €44.1 million in 2003, a decrease of €39.1 million, or 88.7%. The decrease was primarily the result of a €40.6 million decrease in income from equity investments resulting from the sale in 2003 of Lottomatica's beneficial interest in Scientific Games Corporation.

Other financial expense was €18.4 million in 2004, compared with €20.6 million in 2003, a decrease of €2.2 million, or 10.6%. The decrease was primarily the result of the lower interest rate relating to Lottomatica's €360.0 million 4.80% fixed rate notes due 2008, issued at the end of 2003, compared with the interest rate on Lottomatica's senior loan facility repaid with the proceeds from the issue of the notes due 2008.

Foreign exchange gains/losses. Foreign exchange gains, net of foreign exchange losses, were €0.2 million in 2004, compared to €0.9 million in 2003, a decrease of €0.7 million, which is primarily attributable to changes in the exchange rates between the Euro and the U.S dollar.

Revaluations. Revaluations, which relate to losses accrued in the period by Lottomatica's wholly-owned subsidiary LIS Finanziaria (which, because it is a financing company, is consolidated on an equity basis), were €0.2 million in 2004, compared to €3.4 million in 2003, a decrease of €3.2 million, or 92.0%. The decrease was primarily the result of the costs in 2003 relating to the launch of Lottomatica's payment services.

Extraordinary income/expense. Extraordinary income/expense in 2004 amounted to a net expense of €19.2 million, compared to a net expense of €90.6 million in 2003, a decrease of 78.7%. Extraordinary income/expense consists of one-time non-recurring income/expenses.

Extraordinary income increased in 2004 to €12.2 million from €3.7 million in 2003, an increase of €8.5 million. The increase resulted primarily from:

- income of €8.1 million from the deconsolidation of GBC following the sale of Lottomatica's interest in GBC;
- capital gains of €1.1 million achieved by Totobit in resolving disputes under outstanding commercial contracts for the supply of electronic equipment; and

- capital gains of €0.8 million from the liquidation of Twin, a company partially owned by Lottomatica that managed pari-mutuel betting.

Extraordinary expense decreased in 2004 to €31.4 million from €94.3 million in 2003, a decrease of €62.9 million, or 66.7%. The most significant expense items in 2004 were:

- a €9.0 million provision relating to the proceedings initiated by the Italian Competition Authority against Lottomatica, which are currently under appeal;
- a €7.4 million breakage fee paid to Cirsà, Lottomatica's joint venture partner in GBC, following the sale of its 50% interest to Cirsà, which includes a capital loss of €0.3 million from the sale of the equity investment;
- a €4.8 million provision for bad debts in a business Lottomatica purchased from EIS S.p.A.;
- a €2.9 million provision for corporate restructuring expenses and redundancy costs relating to an internal reorganisation undertaken in 2004;
- a €2.7 million provision for a delayed invoice from 2003 primarily related to telecom expenses;
- a €1.4 million provision by Videolot Gestioni against estimated costs for the replacement of certain Gaming Machines equipment that has not proved popular with players;
- a payment of €0.8 million pursuant to Italian tax amnesty procedures in order to close tax liability for fiscal 2001; and
- a €0.6 million for charges connected to the closure of operational activities in Venezuela.

Income Taxes for the Period. The estimated tax charge as of December 31, 2004 was €49.3 million, compared with €7.4 million as of December 31, 2003, an increase of €41.9 million. The increase was primarily the result of:

- an increase in current taxes of €14.9 million, to €29.9 million in 2004 from €15.0 million in 2003, as a result of increased earnings before taxes of €110.5 million in 2004 compared with €2.2 million before non-deductible expenses in 2003;
- deferred tax liabilities of €6.3 million in 2004 as a result of advanced tax depreciation calculated on tangible assets that commenced their useful life in 2002, 2003 and 2004 compared with no such deferred tax liabilities in 2003; and
- an increase in advanced taxes to an anticipated tax liability of €13.0 million in 2004 from an anticipated tax asset of €23.0 million for 2003 as a result of the combined effect of recording advance taxes for 2004 and the use of advanced taxes in prior years.

Consolidated Net Income. As a result of the factors described above, consolidated net income was €61.2 million in 2004, compared to €9.7 million in 2003, an increase of €51.5 million. Of this consolidated net income, €0.5 million in 2004 and €0.5 million in 2003 is attributable to minority interests.

Liquidity, Capital Resources and Financial Position

Lottomatica's principal sources of liquidity are cash-flows from operations. Lottomatica's principal uses of each are capital expenditures, working capital needs and acquisitions, and interest payments on its €360.0 million 4.80% Senior Notes due 2008.

2005 Compared with 2004

Cash-flows

The following table sets forth Lottomatica's consolidated cash-flows for fiscal 2005 and 2004. This information has been extracted from Lottomatica's audited consolidated financial statements for fiscal 2005 and 2004, prepared in accordance with IFRS, included elsewhere in this Offering Circular.

<u>Consolidated Cash-flows</u>	<u>Year Ended December 31, 2005</u>	<u>Year Ended December 31, 2004</u>	<u>% Change</u>
	<u>(in thousands of euro)</u>		
Cash-flows from operating activities	€190,741	€ 250,495	(23.8)%
Cash-flows from (used in) investing activities	(91,298)	24,436	(473.6)%
Cash-flows from (used in) financing activities	(95,464)	(230,417)	58.6%
Increase in cash and cash equivalents	€ 3,979	€ 44,514	(91.1)%

Cash-flows from operating activities. Lottomatica's cash-flows from operating activities in 2005 were €190.7 million compared with €250.5 million for the prior period. This was primarily due to the negative impact to changes in net working capital of approximately €80.0 million primarily resulting from the start-up of Instant and Traditional Lotteries in 2004 as a result of the payment Consorzio Lotterie Nazionali was required to make to AAMS at the beginning of 2005 in connection with the draw of Lotteria Italia, representing the total wagers from the sale of instant and traditional lottery tickets, net of the amounts due to the operators of the points of sale for distributing the tickets and Consorzio Lotterie Nazionali's fee.

Cash-flows from or used in investing activities. Lottomatica's cash-flows used in investing activities in 2005 reflected a net use of cash of €91.3 million compared with cash-flows from investing activities of €24.4 million in 2004. This was primarily due to the sale of Lottomatica's 50% interest in GBC in 2004 for approximately €64.0 million and the increase in capital expenditures in 2005 of €52.9 million relating to the replacement of existing Lotto terminals with new Lotto terminals. Lottomatica expects to complete this replacement program by the end of 2006, and does not anticipate undertaking a further replacement program before the end of 2016. See "Risk Factors—Revocation or termination of the Lotto concession would have a material adverse impact on Lottomatica's revenues".

Cash-flows used in financing activities. Lottomatica's cash-flows used in financing activities in 2005 were €95.5 million compared with €230.4 million for the prior year. Lottomatica's cash-flow used in 2005 consisted primarily of:

- a cash inflow of the dividend of approximately €83.3 million paid by Lottomatica to FinEuroGames S.p.A. on consolidation of FinEuroGames S.p.A. as a result of the old merger of Old Lottomatica and FinEuroGames S.p.A. into NewGames S.p.A. in December 2005;
- a cash inflow from a capital contribution to FinEuroGames S.p.A. of approximately €69.5 million;
- a cash inflow of approximately €42.8 million in short-term loans; and
- an increase of approximately €9.2 million after accounting for stock options in accordance with IFRS 2;

partially offset by a cash outflow of approximately €150.0 million because of the repayment of debt owed by FinEuroGames S.p.A. as a result of the merger of Old Lottomatica and FinEuroGames S.p.A. into NewGames S.p.A. in December 2005.

The decrease in 2005 was primarily due to the decrease in the aggregate amount Lottomatica paid by way of dividends to its stockholders in 2005, being €151.3 million (€83.3 million of which was paid to FinEuroGames S.p.A. and was consolidated upon the merger of Old Lottomatica (as defined below) with FinEuroGames S.p.A.), compared with €177.6 million in 2004.

Net Financial Position

The following table sets forth Lottomatica's net financial position at the close of 2005 and 2004. Lottomatica's net financial position as of December 31, 2005 was €(89.7) million compared with €51.3 million as of December 31, 2004. This information has been extracted from Lottomatica's audited consolidated financial statements for fiscal 2005 and 2004 prepared in accordance with IFRS.

<u>Consolidated Net Financial Position</u>	<u>As of December 31, 2005</u>	<u>As of December 31, 2004</u>	<u>% Change</u>
	<u>(in thousands of euro)</u>		
Cash and cash equivalents	€ 246,163	€ 241,661	1.9%
Short-term portions of long-term (payables)/ receivables	(473)	(473)	0.0%
Short-term loans	(7,260)	(3,322)	118.5%
Cash and cash equivalents/(Short-term debt)	€ 238,430	€ 237,866	0.2%
Long-term loans	(359,653)	(358,032)	0.4%
Net debt	(121,223)	(120,166)	0.9%
Derivative instruments valued on a mark-to-market basis	(263)	(3,302)	(92.0)%
Current financial assets	31,808	72,120	(55.9)%
Net financial position	€ (89,678)	€ (51,348)	74.6%

Cash and Cash Equivalents/Short-Term Debt. As of December 31, 2005 Lottomatica's net cash was €238.4 million compared with €237.9 million as of December 31, 2004. Lottomatica's net cash is the sum of cash and cash equivalents, short-term portions of long-term payables or receivables and short-term loans. Lottomatica's cash and cash equivalents, which consists of cash at bank and cash on hand, were €246.2 million as of December 31, 2005, compared with €241.6 million as of December 31, 2004. Lottomatica's short-term portions of long-term payables, representing the accrued interest for the last week of the year for its 4.80% fixed rate notes due 2008 (which accrue interest payable annually in arrear on December 22), remained unchanged at €0.5 million. Lottomatica's short-term loans, which consist of prizes won but not yet paid and the short-term portion of leasing expenses, were €7.3 million as of December 31, 2005 compared with €3.3 million as of December 31, 2004. This increase of €4.0 million was due to an increase in the amount of prizes won but not yet paid to €6.5 million as of December 31, 2005 from €0.7 million as of December 31, 2004, partially offset by a decrease in the short-term portion of leasing expense to €0.7 million from €2.5 million as of December 31, 2004.

Long-term Loans. Lottomatica's long-term loans, which consist of the principal outstanding on its 4.80% fixed rate notes due 2008, amounted to €359.6 million as of December 31, 2005 compared with €358.0 million as of December 31, 2004.

Derivative Instruments and Current Financial Assets. Lottomatica's derivative instruments valued on a mark-to-market basis as of December 31, 2005 were €0.3 million compared with €3.3 million as of December 31, 2004. The decrease of €3.0 million was due to the U.S. dollar's weakness against the Euro at the end of 2004, while the dollar had strengthened by the end of 2005. Lottomatica's current financial assets, which consist of short-term Italian Treasury bonds and other financial receivables, were

€31.8 million as of December 31, 2005, compared with €72.1 million as of December 31, 2004. The decrease of €40.3 million, which resulted in a corresponding increase in cash and cash equivalents, was primarily due to the decrease in 2005 of cash-flows from operating activities.

2004 compared with 2003

Cash-flows

The following table sets forth Lottomatica's consolidated cash-flows for fiscal 2004 and 2003. This information has been extracted from Lottomatica's audited consolidated financial statements for fiscal 2004 and 2003, prepared in accordance with Italian GAAP, included elsewhere in this Offering Circular.

<u>Consolidated Cash-flows</u>	<u>Year Ended December 31, 2004</u>	<u>Year Ended December 31, 2003</u>	<u>% Change</u>
	<u>(in thousands of euro)</u>		
Cash-flows from operating activities	€ 274,225	€ 304,199	(9.9)%
Cash-flows from (used in) investing activities	8,830	(146,865)	(106.0)%
Cash-flows from (used in) financing activities	(240,569)	(78,813)	(205.2)%
Increase/(Decrease) in cash and cash equivalents .	€ 42,486	€ 78,521	(45.9)%

Cash-flows from operating activities. Lottomatica's cash-flows from operating activities in 2004 were €274.2 million compared with €304.2 million for 2003. This decrease was primarily due to the proceeds of the sale of its investment in Scientific Games Corporation in 2003 being recorded as cash-flow from operations. This decrease was partially offset by an increase in revenues from Lotto and the commercial services business in 2004.

Cash-flows from or used in investing activities. Lottomatica's cash-flows from investing activities for 2004 resulted in cash-flow from investing activities of €8.8 million compared with cash flow used in investing activities for 2003 of €146.9 million. This cash-flow for 2004 was comprised of a cash inflow of €64.0 million in respect of the sale of Lottomatica's beneficial interest in 50% of GBC, offset by a cash-outflow of approximately €53.6 million in respect of investments in tangible and intangible assets and a cash outflow of approximately €2.0 million for the acquisition by Lottomatica of the minority interests it did not already own in Medialan S.p.A. and TTS Srl. The cash flow for 2003 was comprised of cash outflows of approximately €19.3 million in respect of Lottomatica's acquisition of Playservice S.p.A. (which was subsequently merged with Bingo Plus), approximately €39.5 million in respect of the acquisition of Totobit and approximately €10.3 million in respect of the acquisition of the interest in PCC GS S.p.A. that Lottomatica did not already own. Cash-outflows of €8.4 million and €1.7 million also occurred during 2003 in respect of capital increases in GBC and LottoLatino Venezuela. Lottomatica was also required to make a capital contribution to Consorzio Lotterie Nazionali of €10.0 million in 2003. Consorzio Lotterie Nazionali was not consolidated by Lottomatica until it began trading in 2004. Lottomatica also made investments in tangible and intangible assets of approximately €57.1 million in 2003.

Cash-flows used in financing activities. Lottomatica's cash-flows used in financing activities for 2004 were €240.6 million compared with cash-flows used in financing activities for 2003 of €78.8 million. This increase in cash-flows used in financing activities in 2004 was primarily due to the cash from the issuance of Lottomatica's €360.0 million 4.80% Senior Notes due 2008 arising in 2003, partially offset by the decrease in the amount of dividends paid to Lottomatica's shareholders in 2004 (which was €177.6 million, compared with €292.2 million in 2003).

Net Financial Position

The following table sets forth Lottomatica's net financial position as of December 31, 2004 and 2003. Lottomatica's net financial position as of December 31, 2004 was €(48.4) million compared with €(168.7) million at the prior year-end. This information has been extracted from Lottomatica's audited consolidated financial statements for fiscal 2004 and 2003 prepared in accordance with Italian GAAP.

<u>Consolidated Net Financial Position</u>	<u>As of December 31, 2004</u>	<u>As of December 31, 2003</u>	<u>% Change</u>
	<u>(in thousands of euro)</u>		
Cash and cash equivalents	€ 241,595	€ 199,109	21.3%
Short-term portions of long-term (payables)/ receivables	(473)	(473)	0.0%
Short-term loans	3,443	20,288	(83.0)%
Cash and cash equivalents/(Short-term debt)	€ 237,679	€ 178,348	33.3%
Long-term loans	(360,126)	(361,436)	(0.4)%
Net debt	122,447	183,088	(33.1)%
Current financial assets	74,012	14,414	(413.5)%
Net financial position	€ (48,435)	€ (168,674)	(71.3)%

Cash and cash equivalents/short-term debt. As of December 31, 2004 Lottomatica's net cash was €237.7 million compared with €178.3 million as of December 31, 2003. Lottomatica's net cash is the sum of cash and cash equivalents, short-term portions of long-term payables or receivables and short-term loans. Lottomatica's cash and cash equivalents, which consist of cash at bank and on hand, were €241.6 million as of December 31, 2004, compared with €199.1 million as of December 31, 2003. The increase in 2004 compared with 2003 was primarily due to the fact that the fee due to AAMS in respect of Lotteria Italia was paid during January 2005 when the draw for Lotteria Italia was made, and an equivalent fee was not paid in January 2004 as Consorzio Lotterie Nazionali, at that point, had not yet commenced operating Lotteria Italia. The increase in 2004 was also due to the increased revenues generated by Lotto during that year compared with 2003. Lottomatica's short-term portions of long-term payables, representing the accrued interest for the last week of the year for its €360.0 million 4.80% Senior Notes due 2008 (which accrue interest payable annually in arrear on December 22), remained unchanged at €0.5 million. Lottomatica's short-term loans as of December 31, 2004 were €3.4 million compared with €20.3 million as of December 31, 2003. This €16.9 million decrease was primarily due to an approximately €10.0 million payable to Consorzio Lotterie Nazionali, because the consortium was formed in 2003 but was not consolidated by Lottomatica until it commenced trading in 2004. The remaining €6.9 million related to a number of non-material matters recorded in 2003.

Long-term Loans. Lottomatica's long-term loans, which consist of the principal outstanding on its €360.0 million 4.80% Senior Notes due 2008, amounted to €360.1 million as of December 31, 2004 compared with €361.4 million as of December 31, 2003.

Current Financial Assets. Lottomatica's current financial assets, which primarily consist of Italian Treasury Bonds purchased by Lottomatica, were €74.0 million as of December 31, 2004, compared with €14.4 million as of December 31, 2003. The increase of €59.6 million was primarily due to the acquisition of additional Italian Treasury Bonds with the proceeds from the sale of Lottomatica's interest in GBC, partially offset by a decrease in financial assets following the deconsolidation of GBC.

Cash Requirements

Lottomatica currently expects that its cash balances, cash equivalents, cash-flows from operations and access to additional sources of capital, including the net proceeds of the Securities and the Rights Offering and the funding committed to in respect of the Senior Credit Facilities, will be sufficient to fund its anticipated working capital and ordinary capital expenditure needs, to service its debt obligations, to fund anticipated internal growth, to fund all of the cash needed for any acquisitions, including its proposed Acquisition of GTECH and to pay dividends. Lottomatica's ability to pay dividends may be restricted by the terms of the Senior Credit Facilities. Lottomatica expects that these sources will also be sufficient for the completion of the replacement program for the Lotto terminals, the installation of new terminals in the points of sale in Lottomatica's LIS and Totobit commercial networks and new product launches in Lottomatica's Services business, the maintenance and development of Lottomatica's network of AWP machines, the improvement of Lottomatica's Instant and Traditional Lotteries point of sale network and for the development of new platform technology. However, Lottomatica will have a substantial amount of indebtedness after this offering and the Acquisition. Its actual financing requirements will depend on a number of factors, many of which are beyond its control. See "Risk Factors—Risk Factors Relating to Lottomatica".

On January 10, 2006 Lottomatica entered into an agreement pursuant to which Lottomatica agreed to acquire GTECH for U.S.\$35.00 in cash per outstanding share of GTECH, for a total transaction value of approximately €4.0 billion, including the assumption of GTECH's existing debt. Completion of the transaction is subject to receipt of financing, approval by GTECH's shareholders, regulatory approvals, receipt of contract assignment assurance from certain significant lottery customers, Lottomatica maintaining a *pro forma* investment grade corporate credit rating, and other customary conditions. Lottomatica intends to fund the transaction through (i) this offering of the Securities, (ii) the Rights Offering, (iii) the U.S.\$2.26 billion Term Facilities, and (iv) existing cash balances of Lottomatica and GTECH.

Balance Sheet

Lottomatica's balance sheet as of December 31, 2005, as compared to its balance sheet as of December 31, 2004, was impacted by the merger of Old Lottomatica and FinEuroGames S.p.A. into NewGames S.p.A. in December 2005. Drivers of the material changes in each specific balance sheet category are described below.

Receivables from customers increased by €53.6 million, from €58.8 million to €112.4 million, reflecting increases in receivables from bet collection points of sale, from points of sale for electronic top-up services for transactions processed at the end of the year, operating contributions due to Consorzio Lotterie Nazionali for distribution and sale activities relating to instant and traditional lotteries and amounts to be paid in connection with the Gaming Machine business.

Receivables from Others increased by €76.3 million, from €113.5 million to €189.8 million, reflecting increased receivables for electronic top-up services for Telecom Italia Mobile processed at the end of 2005 and an increase in receivables from Instant and Traditional Lotteries points of sale in respect of tickets sold during the year but for which the fees owing to Lottomatica have not been paid.

Inventories increased by €4.0 million at year-end 2005 compared with 2004, primarily due to an increase in inventories of activation codes for electronic top-up services for Vodafone and Telecom Italia Mobile and an increase in inventories for Lotto tickets.

Goodwill increased by €217.0 million primarily because of the merger of Old Lottomatica, FinEuroGames S.p.A. and NewGames S.p.A. completed in December 2005.

Other intangible assets decreased from €11.7 million as of December 31, 2004 to €10.7 million as at December 31, 2005. Other intangible assets include costs related to the acquisition and development of software, costs incurred in connection with the acquisition of licenses and fixed assets under development.

Property, plant and equipment increased by €40.8 million to €158.2 million primarily due to a €26.8 million increase in fixed assets under construction relating to terminals and printers that have not yet been installed at points of sale.

Trade payables increased from €179.9 million as of December 31, 2004 to €305.0 million as of December 31, 2005 primarily due to a reclassification of intra-group liabilities for tax planning purposes, which for the prior period were classified as other liabilities, and an increase in payables in respect of Lottomatica's Instant and Traditional Lotteries business and electronic top-up services.

Potential Commitments and Capital Expenditures

As of December 31, 2005, Lottomatica's contractual obligations and payments due by period, are as follows:

<u>Contractual Obligations</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
			<u>(in thousands of euro)</u>			
Long-term debt obligations	162	—	360,000	—	—	360,162
Operating lease obligations	742	484	261	170	522	2,179
Other long-term liabilities reflected on the balance sheet under IFRS	(100)	(27)	85	181	124	263
TOTAL	€ 804	€ 457	€ 360,346	€ 351	€ 646	€ 362,604

Long-term Debt. Lottomatica issued €360.0 million 4.80% Senior Notes due 2008 in December 2003. The notes are repayable at their principal amount on December 22, 2008 and bear an annual coupon of 4.80%.

Operating Leases. Operating leases are used primarily by PCC GS S.p.A. to finance equipment and by Totobit to finance its office building acquisition.

Other Long-Term Liabilities. Other Long-Term Liabilities are unrealised losses arising on mark-to-market valuations of Lottomatica's foreign exchange derivative instruments.

Commitments

Lottomatica and its subsidiaries are required, in certain circumstances, to ensure guarantees are issued in favour of counterparties, primarily AAMS, mobile telephone providers or the Italian tax authority. These guarantees secure the payment obligations of the relevant subsidiaries of Lottomatica. For example, whenever the AAMS issues a concession, it requires that the concessionaire provide a bank guarantee, indemnifying AAMS in the event that the concessionaire fails to properly perform its obligations under the concession. In addition, AAMS also required Lottomatica to provide a bank guarantee in respect of Lottomatica's operation of Gaming Machines and Sports Betting, indemnifying AAMS if the concessionaire fails to properly perform its obligations. Lottomatica's guarantee in favour of AAMS is due to expire at the end of the concession.

For electronic top-up services, the tobacconists and other points of sale that provide this service transmit the electronic top-up sale amount to Lottomatica and Lottomatica retains these monies for an average of 15 to 20 days before wiring the monies to the mobile telephone company net of Lottomatica's fee for providing the top-up service. Under the terms of the agreements with these mobile telephone companies, Lottomatica is required to provide a bank guarantee in favour of the mobile telephone

company for approximately 50% of the negotiated amount. The guarantees in favour of mobile telephone companies are usually guarantees for one year, with an automatic roll-over capability.

Under Italian law, companies seeking reimbursement from the Italian tax authority of VAT overpayments are required to provide a bank guarantee in favour of such authority for a specified period beginning on the date of reimbursement. Lottomatica's guarantee in favour of the Italian tax authority is due to expire in 2006.

<u>Commitments</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
	<u>(in thousands of euro)</u>						
Services	—	179,377	—	—	72	—	—
Lotto	—	1,601	—	—	—	—	35,106
Instant and Traditional	—	—	—	—	—	25,823	—
Italian tax authority	17,144	5,459	—	—	—	—	—
Gaming Machines	3,000	—	—	—	—	12,385	—
Sports Betting	—	—	—	15,000	—	—	—
Prizes	—	1,002	2,011	—	103	—	—
Rent	—	242	—	—	—	17	675
Other	—	492	—	—	—	—	248
Horse racing	—	626	—	—	—	—	—
TOTAL	<u>20,144</u>	<u>188,799</u>	<u>2,011</u>	<u>15,000</u>	<u>175</u>	<u>38,225</u>	<u>36,029</u>

In addition, in relation to its proposed Acquisition of GTECH, Lottomatica will guarantee the Senior Credit Facilities extended to the Acquisition Subsidiary which will merge into GTECH at the closing of the transaction. See "Description of Certain Indebtedness".

In each year, Lottomatica is required, under the terms of its Lotto concession, to commit an amount equal to 7% of the net revenues derived from its operation of Lotto in the prior year to the costs of advertising campaigns promoting Lotto. Consorzio Lotterie Nazionali is similarly required, in each year of the concession for Instant and Traditional Lotteries, to commit 1.5% of the net revenues generated from the relevant lotteries in the prior year to advertising campaigns promoting Instant and Traditional Lotteries Games.

Capital Expenditures

During 2005 Lottomatica made capital expenditures of approximately €93.8 million. Lottomatica's capital expenditures included its program for replacing the existing Lotto terminals with new Lotto terminals and the installation of new terminals in the points of sale in its LIS and Totobit commercial networks. Lottomatica also carried out a refurbishment program of its head office and incurred capital expenditure in respect of the connection of Gaming Machines to its telecommunication network and the network's processing system.

Lottomatica currently intends to make capital expenditures in 2006 of approximately €80.0 million. These capital expenditures are expected to be, primarily, in connection with the completion of the replacement program for the new Lotto terminals. It also anticipates incurring capital expenditures in its Services business installing new terminals in the points of sale in its LIS and Totobit commercial networks and in connection with its expected launch of stored value cards. Further capital expenditures in respect of the connection of Gaming Machines to Lottomatica's telecommunications network and the network's processing system are also anticipated to be incurred in 2006.

Financial Risk Management and Dividend Policy

Financial Risk Management

The principal market risk inherent in Lottomatica's financial instruments and exposures is the potential loss arising from adverse changes in foreign exchange rates. Lottomatica does not consider its exposure to commodity price changes and interest rate changes to be material. In order to manage its foreign exchange risks which relate to invoices from Scientific Games denominated in U.S. dollars for the special paper used to manufacture scratch cards for Instant Lottery games, Lottomatica enters into and reviews, from time to time, foreign exchange hedging instruments to hedge approximately 50% of the risk based on the future supplies up the termination of the concession for Instant and Traditional Lotteries held by Consorzio Lotterie Nazionali.

As of December 31, 2005, a hypothetical 10% adverse change in the €/exchange rates would result in a potential loss of future earnings and a cash outflow of approximately €4.3 million.

As of December 31, 2005, Lottomatica had contracts for the purchase of U.S. dollars of approximately U.S.\$40.5 million.

Liquidity Policy

During 2004 Lottomatica commenced operating a cash-flow investment policy designed to maximise a fair rate of return on amounts invested and to ensure that the proceeds from investments are consistent with Lottomatica's cash-flow needs, both in terms of amount and the ease with which such investments could be realised at short notice. Currently, the maturity dates of these investments is limited to up to 12 months for corporate instruments and up to 18 months for government securities. The policy permits rated instruments only, with a minimum rating of P-2/A-2/F-2, A3/A-/A-. In addition, the policy includes strict guidelines to ensure that the maximum exposure to a single issuer is limited (currently 20% of the aggregate amounts invested by Lottomatica) and the maximum percentage of a particular issuance of securities by an issuer is limited (currently 5% on the same basis). In respect of non-negotiable instruments, such as bank deposits, the policy includes strict guidelines as to countries in which investments are permitted and the rating of the relevant banking institution.

Dividend Policy

Lottomatica is committed to return cash to its shareholders. During the period from 2003 through 2005 Lottomatica has distributed dividends to Lottomatica's shareholders of approximately €448.3 million. In addition, on April 24, 2006, Lottomatica's started to pay the dividends declared on April 12, 2006 for a total amount of €119.4 million. Lottomatica plans to continue distributing dividends in the future, although there can be no assurance that it will do so. The Senior Credit Facilities Agreement provides for certain restrictions on the payment of dividends. See "Description of Certain Indebtedness—Senior Credit Facilities".

Subsequent Events

On January 10, 2006, Lottomatica and GTECH announced that they had entered into an agreement pursuant to which Lottomatica will acquire GTECH for U.S.\$35.00 in cash for each outstanding share of GTECH, for a total transaction value of approximately €4.0 billion, including the assumption of GTECH's existing debt. Completion of the transaction is subject to receipt of financing, approval by GTECH shareholders, regulatory approvals, receipt of contract assignment assurance from certain significant lottery customers, Lottomatica maintaining a *pro forma* investment grade corporate credit rating, and other customary conditions. See "The Transactions".

On April 27, 2006, Lottomatica announced its unaudited interim consolidated financial results for the three-month period ended March 31, 2006. Lottomatica's unaudited interim consolidated financial statements as of and for the three-month period ended March 31, 2006 are included as Appendix B to this Offering Circular.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS—GTECH

Introduction

Overview

The following Management's Discussion and Analysis, or MD&A, is intended to help the reader understand the financial results of GTECH Holdings Corporation ("**GTECH**"). MD&A is provided as a supplement to, and should be read in conjunction with, GTECH's financial statements and the accompanying notes.

The discussion that follows assumes that GTECH continues to operate on a stand alone basis and does not reflect the potential impact of the proposed Acquisition.

This overview provides guidance on the individual sections of MD&A as follows:

- **Forward-Looking Statements**—cautionary information about forward-looking statements.
- **Potential Change in Control of GTECH**—a description of the potential change in control of GTECH.
- **GTECH's Business**—a general description of GTECH's business; GTECH's growth strategy and Brazil matters.
- **Common Stock Split**—information about GTECH's prior year common stock split.
- **New Accounting Pronouncements**—a summary of accounting pronouncements that GTECH has not yet adopted due to a delayed effective date.
- **Application of Critical Accounting Policies**—a discussion of accounting policies that GTECH believes are both most critical to its financial condition and results of operations, and requires management's most difficult, subjective or complex judgments and estimates.
- **Operations Review**—an analysis of GTECH's consolidated results of operations for the three years presented in its financial statements. GTECH operates in one business—Transaction Processing, and it has a single operating and reportable business segment. Therefore, GTECH's discussions are not quantified by segment results.
- **Liquidity, Capital Resources and Financial Position**—an analysis of cash-flows, financial position, contractual obligations and commitments.
- **Financial Risk Management and Dividend Policy**—information about financial risk management; interest rate market risk; foreign currency exchange rate risk; and GTECH's dividend policy.

Unless specified otherwise, the term "GTECH" is used in this MD&A to refer to GTECH Holdings Corporation and its consolidated subsidiaries included in the consolidated financial statements.

Forward-Looking Statements

Statements contained in this section and elsewhere in this report which are not historical statements constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934. Generally, the words "believe," "expect," "estimate," "anticipate," "will," "may," "could," "plan," "continue" and similar expressions identify forward looking statements. See "Forward-Looking Statements".

Potential Change in Control of GTECH

On January 10, 2006, GTECH entered into an agreement and plan of merger with Lottomatica, whereby Lottomatica would acquire GTECH for U.S.\$35.00 in cash per outstanding GTECH share. The

total value of the transaction is estimated to be approximately U.S.\$4.8 billion, including the assumption of GTECH's existing net debt. In connection with the transaction (as currently contemplated), GTECH expects to incur approximately U.S.\$19 million to U.S.\$21 million of transaction costs from the close of fiscal 2006 through the closing of the transaction, of which approximately U.S.\$12 million to U.S.\$14 million are contingent upon completion of the transaction. These costs are subject to change based on changes in terms of the transaction.

Completion of the transaction, which is expected to occur in mid-2006, is subject to receipt of financing, approval by GTECH's shareholders, regulatory approvals, receipt of contract assignment assurance from certain significant lottery customers, Lottomatica maintaining a *pro forma* investment grade corporate credit rating, and other customary conditions. Subsequent to the Acquisition, GTECH's shares will be delisted on the New York Stock Exchange.

GTECH's Business

Overview

GTECH operates on a 52-week or 53-week fiscal year ending on the last Saturday in February and fiscal 2006 was a 52-week year that ended on February 25, 2006. Fiscal 2005 was also a 52-week year. Fiscal 2004 was a 53-week year and GTECH included the extra week in its fourth quarter ended February 28, 2004.

GTECH is a global gaming and technology company providing software, networks and professional services that power high-performance, transaction processing systems. GTECH is the world's leading operator of highly-secure on-line lottery transaction processing systems, doing business in 51 countries worldwide and GTECH has a growing presence in commercial gaming technology ("Gaming solutions") and financial services transaction processing ("Commercial services"). To date, the majority of GTECH's Gaming solutions revenues have been product sale driven. A comparison of GTECH's revenue concentration is as follows:

<u>Consolidated Revenues</u>	<u>Fiscal</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Lottery	84%	87%	91%
Commercial services	9%	7%	7%
Gaming solutions	7%	6%	2%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

Being a global business, GTECH derives a substantial portion of its revenue from its operations outside of the United States. In fiscal 2006, GTECH derived 48.9% of its revenues from international operations, including 11.4% of its revenues from its Brazilian operations alone (including 11.1% of its revenues from Caixa Economica Federal, the operator of Brazil's National Lottery, its largest customer in fiscal 2006 based on annual revenues). In addition, substantial portions of GTECH's assets, primarily consisting of equipment it uses to operate on-line lottery systems for its customers, are held outside of the United States. GTECH is also exposed to more general risks of international operations, including increased governmental regulation of the on-line lottery industry in the markets where it operates; exchange controls or other currency restrictions; and significant political instability.

GTECH's service revenues are derived primarily from lottery service contracts, which are typically at least five to seven years in duration for the base contract term with three to five years of extension options resulting in total contract lives of eight to ten years. GTECH's contracts generally provide compensation to it based upon a percentage of a lottery's gross on-line and instant ticket sales. These percentages vary depending on the size of the lottery and the scope of services provided to the lottery. GTECH's product sale revenues are derived primarily from the installation of new on-line lottery systems, installation of new

software and sales of lottery terminals and equipment in connection with the expansion of existing lottery systems. GTECH's product margins fluctuate depending on the mix, volume and timing of product sale contracts. GTECH's product sale revenues from period to period may not be comparable due to the size and timing of product sale transactions.

Over the past several fiscal years, GTECH has experienced and may continue to experience a reduction in the percentage of lottery ticket sales it receives from certain customers resulting from contract rebids, extensions and renewals due to a number of factors, including the substantial growth of lottery sales over the last decade, reductions in the cost of technology and telecommunications services, and general market and competitive dynamics. In anticipation of and response to these trends, beginning in fiscal 2001, GTECH began the implementation of GTECH Enterprise Series™-led technology strategy combined with the implementation of a number of ongoing cost savings initiatives and efficiency improvement programs designed to enable it to maintain its market leadership in the lottery industry. In addition, GTECH has developed and continues to develop new lottery games, licensed new game brands and installed a range of new lottery distribution devices, all of which are designed to maintain a strong level of same store sales growth for its customers.

GTECH's business is highly regulated, and the competition to secure new government contracts is often intense. In addition, GTECH's ability to consummate the acquisition, which it announced in December 2004, of a 50% controlling equity interest in the Atronic group of companies, and to otherwise expand its business in non-lottery gaming markets, is contingent upon obtaining required gaming licenses. From time to time, competitors challenge GTECH's contract awards and there have been, and may continue to be, investigations of various types, including grand jury investigations conducted by government authorities into possible improprieties and wrongdoing in connection with efforts to obtain and/or the awarding of lottery contracts and related matters. Because such investigations frequently are conducted in secret, GTECH may not necessarily know of the existence of an investigation which might involve it. Because GTECH's reputation for integrity is an important factor in its business dealings with lottery, gaming licensing, and other governmental agencies, a governmental allegation or a finding of improper conduct on GTECH's part or attributable to it in any manner could have a material adverse effect on GTECH's business, including its ability to retain existing contracts, obtain new or renewal contracts and to expand its business in non-lottery gaming markets. In addition, continuing adverse publicity resulting from these investigations and related matters could have a material adverse effect on GTECH's reputation and business. See the following for further information concerning these matters and other contingencies:

- "Risk Factors—Risk Factors Relating to GTECH—Government regulations and other actions affecting the on-line lottery industry could have a negative effect on GTECH's business, results of operations or prospects";
- "Business—GTECH-Legal Proceedings";
- Note 15 to the consolidated financial statements.

Growth Strategy

In fiscal 2005 GTECH acquired two privately-held companies that strengthened GTECH's growth strategy in Gaming Solutions:

- Spielo Manufacturing Incorporated ("Spielo") in April 2004;
- Leeward Islands Lottery Holding Company Inc. ("LILHCo") in May 2004;

In addition, GTECH's growth strategy in Gaming Solutions was significantly advanced when in December 2004, it signed an agreement, as amended in January 2006, to acquire a 50% controlling equity position in the Atronic group of companies, a video gaming machine manufacturer that also develops video

machine games and customized solutions for dynamic gaming operations. GTECH expects this transaction will close by December 2007.

In fiscal 2005 GTECH acquired one privately-held company, Billbird S.A. (“*BillBird*”), that strengthened its growth strategy in Commercial Services.

GTECH’s Commercial Services market includes the processing and transmission of commercial, non-lottery transactions including debit and credit card transactions (both acquiring and issuing processing), bill payments, electronic tax payments, pre-paid utility payments and pre-paid cellular telephone recharges. Currently, GTECH’s networks in Brazil, Poland, Chile, the Czech Republic, Jamaica and other countries process debit and credit card transactions, bill payments and other commercial services transactions. In the near term, GTECH expects to concentrate its efforts to grow commercial services revenues principally in Central and Eastern Europe and other selected emerging economies, with the goal of leveraging its existing technology, infrastructure and relationships to drive growth in Commercial Services.

In addition, GTECH will continue to identify and evaluate a variety of selective opportunities for acquisitions in the Lottery, Gaming Solutions, and Commercial Services markets, as well as investing in growth through licensing when the right opportunities present themselves.

Brazil Matters

GTECH Brasil Ltda., GTECH’s Brazilian subsidiary (“*GTECH Brazil*”), has provided on-line lottery services and technology to Caixa Economica Federal (“*CEF*”), the Brazilian bank and operator of Brazil’s National Lottery since 1997. Revenues from GTECH Brazil’s contract with CEF accounted for 11.1% of GTECH’s total fiscal 2006 revenues, making CEF GTECH’s largest customer in fiscal 2006 based upon annual revenues.

In June 2004, a ruling (the “*Ruling*”) in a civil action initiated by federal attorneys with Brazil’s Public Ministry had the effect in fiscal 2005 of materially reducing payments that GTECH Brazil otherwise would have received from its contract with CEF. The Ruling ordered that 30% of payments subsequent to the date of the Ruling due to GTECH Brazil by CEF, be withheld and deposited in an account maintained by the Court. As of February 26, 2005, the total amount withheld and deposited pursuant to the Ruling was approximately 68 million Brazilian reais, or U.S.\$26 million. In fiscal 2005, GTECH did not recognise service revenues for the payments that were withheld from GTECH Brazil, as realisation of these amounts was not reasonably assured.

In July 2004, GTECH Brazil filed an appeal of the Ruling and in March 2005, an appellate court decision ordered that the withholding be discontinued and that all funds currently held in escrow in excess of 40 million Brazilian reais be returned to GTECH Brazil, which amounted to U.S.\$11 million of the U.S.\$26 million withheld as of February 26, 2005. GTECH received and recognised these funds as service revenue on April 13, 2005. The Ruling also put in place certain restrictions on the transfer or sale of certain of GTECH’s Brazilian assets. Such restrictions were lifted in March 2005.

The civil action initiated by federal attorneys with Brazil’s Public Ministry also seeks to impose damages equal to the sum of all amounts paid to GTECH Brazil under contracts that it entered into with CEF in 1997 (the “*1997 Contract*”) and 2000 (the “*2000 Contract*”), respectively, and certain other permitted amounts, minus its proven investment costs. The applicable statute under which this action was brought also permits the assessment of interest and, in the discretion of the court, penalties of up to three times the amount of the damages imposed. GTECH estimates that through the date of the lawsuit it received under the 1997 Contract and the 2000 Contract a total of approximately 1.5 billion Brazilian reais (or approximately 702 million United States dollars at currency exchange rates in effect as of February 25, 2006). In addition, although it is unclear how investment costs would be determined for purposes of this lawsuit, GTECH estimates that its investment costs through the date of the lawsuit were approximately

between 1.2 billion and 1.4 billion Brazilian reais (or approximately between 562 million and 656 million United States dollars) at currency exchange rates in effect as of February 25, 2006 in aggregate; however, these investment costs could be disputed by CEF, and are ultimately subject to approval by the court.

In May 2005, GTECH Brazil entered into a new one-year contract with CEF, which expires in May 2006. While CEF has the right to extend the term of this contract, a preliminary report issued in January 2006 by a special investigating panel of the Brazilian congress recommended, among other things, that CEF's contract with GTECH Brazil not be extended past its May 2006 expiration date. In addition, CEF has announced its intention to develop a central in-house system to replace the services provided by GTECH Brazil under its contract with CEF. Therefore, GTECH does not anticipate that its contract with CEF will be extended on a long-term basis, if at all.

Accumulated foreign currency translation losses related to GTECH's operations in Brazil of U.S.\$48.4 million (which are recorded in Accumulated Other Comprehensive Loss in GTECH's Consolidated Balance Sheet at February 25, 2006), would be recorded as a charge to GTECH's consolidated income statement upon the expiration of its contract with CEF should it determine that the expiration of the CEF contract results in a substantial liquidation of its investment in Brazil.

See "Business—GTECH—Legal Proceedings—Brazilian Legal Proceedings", and Note 15 to the consolidated financial statements for detailed disclosures regarding this matter.

Common Stock Split

In the second quarter of fiscal 2005, GTECH's Board of Directors approved a 2-for-1 common stock split, payable in the form of a stock dividend, which entitled each shareholder of record on July 1, 2004 to receive one share of common stock for each outstanding share of common stock held on that date. The stock dividend was distributed on July 30, 2004. All references to common shares and per share amounts herein have been restated to reflect the stock split for all periods presented.

New Accounting Pronouncements

FASB Statement No. 123R

In December 2004, the Financial Accounting Standards Board ("**FASB**") issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("**SFAS 123R**"), which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation". SFAS 123R supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("**APB 25**"), and amends FASB Statement No. 95, "Statement of Cash-flows". SFAS 123R requires all share-based payments to employees, including grants of employee stock options, be recognised in the financial statements based on their fair values. Pro forma disclosure is no longer an alternative. SFAS 123R must be adopted no later than the beginning of the first fiscal year beginning after June 15, 2005 (GTECH's fiscal 2007 first quarter). Early adoption is permitted. GTECH plans to adopt SFAS 123R on the first day of fiscal 2007 (February 26, 2006).

SFAS 123R permits public companies to adopt its requirements using either the modified prospective transition ("**MPT**") method or the modified retrospective transition ("**MRT**") method. Under the MPT method, compensation cost for new awards and modified awards are recognised beginning with the effective date and the cost for awards that were granted prior to, but not vested as of the effective date, will be based on the grant date fair value estimate used for SFAS 123 pro forma disclosure purposes. The MRT method includes the requirements of the MPT method but also permits restatement of all prior periods presented or only the prior interim periods of the year of adoption. GTECH plans to adopt SFAS 123R using the MPT method and GTECH intends to use a lattice model to value stock options granted on or after February 26, 2006.

GTECH currently accounts for share-based payments to employees using the intrinsic value method under APB 25 and related Interpretations, and therefore it generally recognises no compensation cost for employee stock options. GTECH currently estimates the impact of adopting SFAS 123R will be in a range of U.S.\$0.04 to U.S.\$0.06 per diluted share in fiscal 2007 assuming a certain level of awards. Variation to the assumed level of awards and other factors could result in a different amount. SFAS 123R also requires the benefits of tax deductions in excess of recognised compensation cost to be reported as a financing cash-flow, rather than as an operating cash-flow as required under current literature. This requirement will reduce net operating cash-flows and increase net financing cash-flows in periods after adoption. While GTECH cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash-flows recognised in prior periods for these excess tax deductions were U.S.\$6.7 million, U.S.\$11.3 million, and U.S.\$10.4 million in fiscal 2006, 2005 and 2004, respectively.

SEC Staff Accounting Bulletin No. 107

In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (“**SAB No. 107**”), “Share-Based Payment, to provide interpretive guidance on SFAS 123R valuation methods, assumptions used in valuation models, and the interaction of SFAS No. 123R with existing SEC guidance. SAB No. 107 also requires the classification of stock compensation expense in the same financial statement line as cash compensation, and will therefore impact GTECH’s service and product gross margins as well as its selling, general and administrative and research and development expenses.

Application of Critical Accounting Policies

GTECH has identified the accounting policies listed below that it believes are both most critical to its financial condition and results of operations, and require management’s most difficult, subjective or complex judgments in estimating the effect of inherent uncertainties. This section should be read in conjunction with Note 1 to the consolidated financial statements, which includes other significant accounting policies.

Revenue Recognition

Lottery and Gaming Transaction Processing Services

GTECH generally conducts its lottery and gaming business under two types of contractual arrangements: Facilities Management Contracts and Product Sales Contracts.

Facilities Management Contracts

A majority of GTECH’s revenues are derived from facilities management contracts, under which it constructs, installs, operates and retains ownership of the on-line lottery system (“**lottery system**”). These contracts generally provide for a variable amount of monthly or weekly service fees paid to GTECH directly from the lottery authority based on a percentage of a lottery’s gross on-line and instant ticket sales or a percentage of net machine income. These fees are recognised as revenue in the period earned and are classified as Service Revenue in GTECH’s Consolidated Income Statements when all of the following criteria are met:

- persuasive evidence of an arrangement exists, which is typically when a customer contract has been signed;
- services have been rendered;
- GTECH’s fee is deemed to be fixed or determinable and free of contingencies or significant uncertainties; and
- collectibility is reasonably assured.

In instances where customer acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met.

Product Sales Contracts

Under product sales contracts, GTECH constructs, sells, delivers and installs a turnkey lottery system or delivers lottery equipment, and licenses the computer software for a fixed price, and the lottery authority subsequently operates the lottery system. Product sale contracts generally include customer acceptance provisions and general customer rights to terminate the contract if GTECH is in breach of the contract.

Because product sales contracts include significant customisation, modification and other services prior to customer acceptance that are considered essential to the lottery software inherent in GTECH's lottery systems, revenue is recognised using contract accounting. Under contract accounting, amounts due to GTECH, and costs incurred by it in constructing the lottery system, prior to customer acceptance, are deferred. Revenue attributable to the lottery system is classified as Sales of Products in GTECH's Consolidated Income Statements and is recognised upon customer acceptance as long as there are no substantial doubts regarding collectibility.

Whenever GTECH enters into a product sale contract that involves the delivery or performance of multiple products and services that include the development and customisation of software, implementation services, and licensed software and support services, GTECH applies the consensus of EITF 00-21 "Revenue Arrangements with Multiple Deliverables", to determine whether the non-customisation related deliverables specified in the contract that are not directly related to its technology, should be treated as separate units of accounting for revenue recognition purposes. If the elements qualify as separate units of accounting, and fair value exists for the elements of the contract that are unrelated to the customisation services, these elements are accounted for separately, and the related revenue is recognised as the products are delivered or the services are rendered.

The application of revenue recognition principles requires judgment, including whether GTECH's product sales contracts include multiple elements, and if so, whether fair value exists for those elements. As a result, contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, the relative fair value that should be allocated to each of the elements and when to recognise revenue for each element. GTECH's interpretation would not affect the amount of revenue recognised but could impact the timing of revenue recognition.

Revenues attributable to any ongoing services provided subsequent to customer acceptance are classified as Service Revenue in GTECH's Consolidated Income Statements in the period earned.

In certain product sale contracts (primarily the stand alone sale of lottery or video lottery terminals and software deliverables that do not involve significant customisation of software), GTECH is not responsible for installation. In these cases, GTECH recognises revenue when all of the following criteria are met:

- persuasive evidence of an arrangement exists, which is typically when a customer contract has been signed;
- the product has been delivered;
- GTECH's fee is deemed to be fixed or determinable and free of contingencies or significant uncertainties; and
- collectibility is reasonably assured.

In instances where installation is required and/or customer acceptance of the product is required, revenue is deferred until installation is complete, and any acceptance criteria have been met.

GTECH's typical payment terms under product sale contracts include customer progress payments based on specific contract milestones with final payment due on or shortly after customer acceptance. GTECH does not generally offer its customers payment terms that extend substantially beyond customer acceptance. In the rare case that GTECH provides a customer with extended payment terms, GTECH defers revenue equal to the amount of the extended payment until it is received. Amounts received from customers in advance of revenue recognition are recorded in Advance Payments from Customers in GTECH's Consolidated Balance Sheets.

Non-Lottery Transaction Processing Services

GTECH offers high-volume transaction processing services outside of its core market of providing on-line lottery services that consist of the acquiring, processing and transmission of commercial non-lottery transactions. Such transactions include retail debit, credit and charge card transactions, bill payments, electronic tax payments, utility payments, pre-paid cellular telephone recharges and retail-based programs.

GTECH earns a fee for processing commercial non-lottery transactions that is transaction-based (a fixed fee per transaction or a fee based on a percentage of dollar volume processed). GTECH recognises these fees as service revenue at the time a transaction is processed based on the net amount retained in accordance with Emerging Issues Task Force Issue No. 99-19, "Reporting Revenue Gross as a Principal Versus Net as an Agent".

Liquidated Damage Assessments

GTECH records liquidated damage assessments, which are contractual penalties incurred due to a failure to meet specified deadlines or performance standards, as a reduction of revenue in the period they become probable and estimable. Liquidated damage assessments equalled 0.61%, 0.18% and 0.50% of GTECH's total revenues in fiscal 2006, 2005 and 2004, respectively.

Income Tax Expense and Accruals

GTECH's annual income tax rate is based upon its income, statutory tax rates and tax planning opportunities available to it in the various jurisdictions in which it operates. Significant judgment is required in determining GTECH's annual income tax rate and in evaluating GTECH's tax positions. GTECH establishes reserves when, despite its belief that its tax return positions are fully supportable, GTECH believes that certain positions are likely to be challenged and that it may not succeed. GTECH adjusts these reserves in light of changing facts and circumstances, such as the result of a tax audit. An estimated effective annual income tax rate is applied to GTECH's quarterly operating results. In the event there is a significant or unusual item recognised in GTECH's quarterly operating results, the tax attributable to that item is separately calculated and recorded at the same time.

Tax law requires items to be included in the income tax return at different times than the items are reflected in the financial statements. As a result, GTECH's annual income tax rate reflected in its financial statements is different than that reported in its tax return (GTECH's cash tax rate). Some of these differences are permanent, such as expenses that are not deductible in GTECH's income tax return, and some differences reverse over time, such as depreciation expense. These timing differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in GTECH's income tax return in future years for which GTECH has recorded the tax benefit in its income statement. GTECH establishes valuation allowances for its deferred tax assets when it believes expected future taxable income is not likely to support the use of a tax deduction or credit in that tax jurisdiction. Deferred tax liabilities generally represent income tax expense recognised in GTECH's financial statements for which payment has been deferred, or expense for which GTECH has taken a

deduction in its income tax return but has not yet recognised an expense in its financial statements. GTECH has not recognised any United States income tax expense on undistributed international earnings since it intends to reinvest the earnings outside the United States for the foreseeable future.

A number of years may elapse before a particular matter, for which GTECH has established a reserve, is ultimately resolved. The number of years with open tax audits varies depending on the jurisdiction. While it is often difficult to predict the final outcome or the timing of resolution of any particular matter, GTECH believes its reserves reflect the most probable outcome of known contingencies.

Trade and other receivables, net

GTECH evaluates the collectibility of trade and other receivables on a customer-by-customer basis and it believes its reserves are adequate; however, if economic circumstances change significantly resulting in a major customer's inability or unwillingness to meet its financial obligations to GTECH, original estimates of the recoverability of amounts due to it could be reduced by significant amounts requiring additional reserves.

Inventories and Obsolescence

Inventories are stated at the lower of cost (first-in, first-out method) or market. Inventories include amounts GTECH manufactures or assembles for its long-term service contracts, which are transferred to Systems, Equipment and Other Assets Relating to Contracts upon shipment. Inventories also include amounts related to product sales contracts, including product sales under long-term contracts. GTECH regularly reviews inventory quantities on hand and records provisions for potentially obsolete or slow-moving inventory based primarily on its estimated forecast of product demand and production requirements. GTECH believes its reserves are adequate; however, should future sales forecasts change, GTECH's original estimates of obsolescence could increase by a significant amount requiring additional reserves.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. Goodwill and other intangible assets determined to have indefinite useful lives are not amortised but are reviewed for impairment annually or more frequently if events or circumstances indicate these assets may be impaired. Other intangible assets determined to have definite lives are amortised over their useful lives. GTECH reviews other intangible assets with definite lives for impairment to ensure they are appropriately valued if conditions exist that may indicate the carrying value may not be recoverable. Such conditions may include, among others, significant adverse changes in the extent or manner in which an asset is being used or in legal factors or in the business climate that could affect the value of an asset.

Because GTECH has a single operating and reportable business segment (the Transaction Processing Segment), it performs its goodwill impairment test by comparing the fair value of the Transaction Processing Segment with its book value, including goodwill. If the fair value of the Transaction Processing Segment exceeds the book value, goodwill is not impaired. If the book value exceeds the fair value, GTECH would calculate the potential impairment loss by comparing the implied fair value of goodwill with the book value. If the implied goodwill is less than the book value, a write-down would be recorded.

Impairment of Long-Lived Assets

GTECH periodically evaluates the recoverability of long-lived assets whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash-flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. If facts and circumstances indicate

GTECH's long-lived assets may be impaired, the estimated future undiscounted cash-flows associated with these long-lived assets would be compared to their carrying amounts to determine if a write-down to fair value is necessary.

Operations Review

Refer to the Summary Financial Data table while reading the operations review below:

SUMMARY FINANCIAL DATA

	Fiscal Year Ended					
	February 25, 2006		February 26, 2005		February 28, 2004	
	(in thousands of U.S. dollars)					
Revenues:						
Services	\$ 1,122,668	86.0%	\$ 1,017,683	80.9%	\$ 957,471	91.1%
Sales of products	182,138	14.0	239,552	19.1	93,859	8.9
Total	1,304,806	100.0	1,257,235	100.0	1,051,330	100.0
Costs and expenses:						
Costs of services(a)	674,528	60.1	616,633	60.6	537,839	56.2
Costs of sales(a)	104,037	57.1	157,974	65.9	59,226	63.1
Total	778,565	59.7	774,607	61.6	597,065	56.8
Gross profit	526,241	40.3	482,628	38.4	454,265	43.2
Selling, general and administrative	135,715	10.4	117,253	9.3	109,092	10.4
Research and development	49,869	3.8	52,559	4.2	57,318	5.4
Operating expenses	185,584	14.2	169,812	13.5	166,410	15.8
Operating income	340,657	26.1	312,816	24.9	287,855	27.4
Other income (expense):						
Interest income	10,912	0.8	4,615	0.4	5,733	0.5
Equity in earnings of unconsolidated affiliates	1,941	0.1	2,812	0.2	6,236	0.6
Other income (expense)	(4,341)	(0.3)	5,356	0.4	1,889	0.2
Interest expense	(30,793)	(2.4)	(19,213)	(1.5)	(10,919)	(1.0)
	(22,281)	(1.7)	(6,430)	(0.5)	2,939	0.3
Income before income taxes	318,376	24.4	306,386	24.4	290,794	27.7
Income taxes	107,331	8.2	109,992	8.8	107,594	10.3
Net income	\$ 211,045	16.2%	\$ 196,394	15.6%	\$ 183,200	17.4%

(a) Percentages are computed based on cost as a percentage of related revenue.

Comparison of Fiscal 2006 with 2005

Revenues and Gross Margin

	Fiscal Year Ended			
	February 25, 2006	February 26, 2005	Change	
			\$	%
	(in millions of U.S. dollars)			
Domestic lottery	\$ 580.5	\$ 520.6	\$ 59.9	11.5
International lottery	392.2	381.9	10.3	2.7
Commercial services	115.9	84.8	31.1	36.7
Gaming solutions	34.1	27.4	6.7	24.4
All other	—	3.0	(3.0)	(100.0)
Services	\$1,122.7	\$1,017.7	\$105.0	10.3
Sales of products	182.1	239.5	(57.4)	(24.0)
Total revenues	\$1,304.8	\$1,257.2	\$ 47.6	3.8

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	Change
			Percentage Points
Service gross margin	39.9%	39.4%	0.5
Product gross margin	42.9%	34.1%	8.8

The principal drivers of the 11.5% increase in domestic lottery service revenues were higher revenues from an increase in sales by GTECH's domestic lottery customers of approximately 4%, net contract wins of approximately 3% (including the impact of GTECH's new service contract in Florida and the loss of the Colorado contract), and the combined benefit of GTECH's instant ticket vending machine contract in Illinois and higher jackpot activity of approximately 4%.

The 2.7% increase in international lottery service revenues was primarily due to an increase in sales by GTECH's international lottery customers of approximately 6%, favourable foreign exchange rates of approximately 5%, and higher revenues from Brazil of approximately 5% related to the combined impact of the court ordered return of funds previously held in escrow and the cessation of withholding. Contractual rate changes and lower revenues from the loss of the Puerto Rico contract combined to partially offset these increases by approximately 13%.

The 36.7% increase in commercial transaction processing service revenues was primarily due to higher revenues from Brazil of approximately 21% related to the combined impact of the court ordered return of funds previously held in escrow and the cessation of withholding, favourable foreign exchange rates of approximately 15%, and higher service revenues from an increase in transaction volumes by GTECH's commercial transaction processing customers of approximately 11%. These increases were partially offset by contractual rate changes.

The principal drivers of the 24.4% increase in gaming solutions service revenues were service revenues from GTECH's new gaming contract in the Republic of Italy of approximately 11%, higher service revenues from an increase in sales by GTECH's gaming solutions customers of approximately 6%, and a full year of service revenues from Spielo (versus ten months in the prior fiscal year) of 4%.

GTECH's service margins were up 0.5 percentage points over last year primarily due to higher margins from Brazil related to higher service revenues resulting from the court ordered return of funds previously held in escrow, and higher jackpot activity, partially offset by the current year impact of higher depreciation and amortisation related to the implementation of new contracts.

Product sales were down principally due to the prior year sale of lottery terminals and a communications network to GTECH's customer in Belgium which did not recur in the current year. GTECH's product margins were up 8.8 percentage points over last year, principally due to higher margins associated with Spielo product sales and the mix of sales. In fiscal 2005, product margins were reduced by purchase accounting adjustments that increased Spielo product sale contracts to fair value in connection with the Spielo acquisition. Such adjustments were not recurring in fiscal 2006.

Operating Expenses

	Fiscal Year Ended			
	February 25, 2006	February 26, 2005	Change	
			\$	%
	(in millions of U.S. dollars)			
SG&A expenses	\$135.7	\$117.2	\$18.5	15.8
R&D expenses	49.9	52.6	(2.7)	(5.1)
	<u>\$185.6</u>	<u>\$169.8</u>	<u>\$15.8</u>	<u>9.3</u>
Percentage of total revenue				
SG&A expenses	10.4%	9.3%		
R&D expenses	3.8%	4.2%		

The U.S.\$18.5 million increase in SG&A expenses was principally due to transaction and due diligence costs associated with the potential acquisition of GTECH by Lottomatica, acceleration in regulatory licensing activity in worldwide commercial gaming markets and other legal matters. The U.S.\$2.7 million decrease in R&D expenses was principally due to the timing of development initiatives, partially offset by a full year of spending by Spielo (versus ten months in the prior year).

Interest Income

	Fiscal Year Ended			
	February 25, 2006	February 26, 2005	Change	
			\$	%
	(in millions of U.S. dollars)			
Interest income	\$10.9	\$4.6	\$6.3	>100.0

Interest income increased over last year primarily due to higher invested funds and higher interest rates earned on those invested funds.

Other Income (Expense)

The components of other income (expense) in fiscal 2006 and fiscal 2005 are as follows:

	Fiscal Year Ended			
	February 25, 2006	February 26, 2005	Change	
			\$	%
			(in millions of U.S. dollars)	
Minority interest in consolidated subsidiaries	\$(3.0)	\$(3.8)	\$ 0.8	21.1
Foreign exchange losses, net	(2.8)	(1.4)	(1.4)	(100.0)
Brazil financial lending tax	(1.4)	—	(1.4)	(100.0)
Gain on sale of investment	1.3	10.9	(9.6)	(88.1)
Other	1.6	(0.3)	1.9	>100.0
	<u>\$(4.3)</u>	<u>\$ 5.4</u>	<u>\$(9.7)</u>	<u>(>100.0)</u>

Minority interest in consolidated subsidiaries principally relates to GTECH's controlling interest in PolCard.

The U.S.\$1.4 million Brazil financial lending tax represents accruals for tax liabilities related to intercompany loans made to GTECH by its Brazilian subsidiary.

The current year U.S.\$1.3 million gain on sale of investment principally resulted from the sale of GTECH's 33% interest in Turfway Park to Harrah's Entertainment and the Keeneland Association. The prior year U.S.\$10.9 million gain on sale of investment resulted from the sale of GTECH's 50% interest in Gaming Entertainment (Delaware) L.L.C. to Harrington Raceway, Inc.

Interest Expense

	Fiscal Year Ended			
	February 25, 2006	February 26, 2005	Change	
			\$	%
			(in millions of U.S. dollars)	
Interest expense	\$30.8	\$19.2	\$11.6	60.4

Interest expense increased over last year primarily due to higher average debt balances resulting from the issuance of U.S.\$300 million of Senior Notes in November 2004.

Weighted Average Diluted Shares

Weighted average diluted shares in fiscal 2006 decreased by 2.2 million shares to 130.4 million shares, primarily due to the impact of prior year treasury share repurchases made under GTECH's share buyback program.

Income Taxes

GTECH's effective income tax rate of 33.7% in fiscal 2006 was down from 35.9% in fiscal 2005. The decrease is primarily due to a larger percentage of international profits taxed at rates that are lower than the U.S. statutory income tax rate.

Comparison of Fiscal 2005 with 2004

Revenues and Gross Margin

	Fiscal Year Ended			
	February 26, 2005	February 28, 2004	Change	
			\$	%
	(in millions of U.S. dollars)			
Domestic lottery	\$ 520.6	\$ 504.1	\$ 16.5	3.3
International lottery	381.9	359.5	22.4	6.2
Commercial services	84.8	74.3	10.5	14.1
Gaming solutions	27.4	16.9	10.5	62.1
All other	3.0	2.6	0.4	15.4
Services	\$1,017.7	\$ 957.4	\$ 60.3	6.3
Sales of products	239.5	93.9	145.6	>100.0
	<u>\$1,257.2</u>	<u>\$1,051.3</u>	<u>\$205.4</u>	<u>19.6</u>

	Fiscal Year Ended		
	February 26, 2005	February 28, 2004	Change
			Percentage Points
Service gross margin	39.4%	43.8%	(4.4)
Product gross margin	34.1%	36.9%	(2.8)

The 3.3% increase in domestic lottery service revenues was primarily due to higher service revenues from an increase in sales by GTECH's domestic lottery customers of approximately 6%, the launch of GTECH's new service contract in Tennessee and the impact of the Interlott acquisition (in September 2003), partially offset by contractual rate changes, lower jackpot activity and the extra week of service revenues in fiscal 2004.

The 6.2% increase in international lottery service revenues includes higher service revenues from an increase in sales by GTECH's international lottery customers of approximately 2%, along with favourable foreign exchange rates and higher jackpot activity, partially offset by lower revenues from Brazil related to the court order to withhold 30% of GTECH's revenues.

The 14.1% increase in commercial transaction processing service revenues includes higher service revenues from an increase in sales by GTECH's commercial transaction processing customers of approximately 14%, along with favourable foreign exchange rates and the impact of the BillBird acquisition, partially offset by lower revenues from Brazil related to the court order to withhold 30% of GTECH's revenues.

The 62.1% increase in gaming solutions service revenues was primarily due to the acquisition of Spielo and the installation of additional video lottery terminals in the state of Rhode Island.

GTECH's service margins declined 4.4 percentage points from last year primarily due to lower margins from Brazil related to lower service revenues resulting from the court order to withhold 30% of GTECH's revenues along with higher legal costs, and the impact of higher depreciation and amortisation related principally to acquisitions, contract renewals and the implementation of new contracts.

Product sales were higher principally due to the sale of lottery terminals and a communications network to GTECH's customer in Belgium, the sale of a GTECH Enterprise Series™ central system to GTECH's customer in West Lotto, Germany, the sale of lottery terminals to GTECH's customer in Spain, and the impact of the Spielo acquisition. GTECH's product margins fluctuate depending on the mix,

volume and timing of product sales contracts and its current year product margins were down 2.8 percentage points primarily due to lower margins associated with the Germany central system sale.

Operating Expenses

Operating expenses are comprised of selling, general and administrative (SG&A) expenses and research and development (R&D) expenses.

	Fiscal Year Ended			
	February 26, 2005	February 28, 2004	Change	
			\$	%
	(in millions of U.S. dollars)			
SG&A expenses	\$117.2	\$109.1	\$ 8.1	7.4
R&D expenses	52.6	57.3	(4.7)	(8.2)
	<u>\$169.8</u>	<u>\$166.4</u>	<u>\$ 3.4</u>	<u>2.0</u>
Percentage of total revenue				
SG&A expenses	9.3%	10.4%		
R&D expenses	4.2%	5.4%		

The U.S.\$8.1 million increase in SG&A expenses was principally due to the acquisition of Spielo, along with acceleration in regulatory licensing activity in worldwide commercial gaming markets, partially offset by lower incentive compensation costs. The U.S.\$4.7 million decrease in R&D expenses was primarily due to the timing of development initiatives, partially offset by the impact of the Spielo acquisition.

Equity Earnings

	Fiscal Year Ended			
	February 26, 2005	February 28, 2004	Change	
			\$	%
	(in millions of U.S. dollars)			
Equity earnings	\$2.8	\$6.2	\$(3.4)	(54.8)

Equity earnings were down U.S.\$3.4 million from last year, primarily due to the sale in April 2004 of GTECH's 50% interest in Gaming Entertainment (Delaware) L.L.C. to Harrington Raceway, Inc.

Other Income (Expense)

The components of other income in fiscal 2005 and fiscal 2004 are as follows:

	Fiscal Year Ended			
	February 26, 2005	February 28, 2004	Change	
			\$	%
	(in millions of U.S. dollars)			
Gain on sale of investment	\$10.9	\$ —	\$10.9	100.0
Foreign exchange losses, net	(1.4)	(0.2)	(1.2)	(>100.0)
Minority interest in consolidated subsidiaries	(3.8)	(4.5)	0.7	15.5
One-time, non-cash gain	—	5.3	(5.3)	(100.0)
Other	(0.3)	1.3	(1.6)	(>100.0)
	<u>\$ 5.4</u>	<u>\$ 1.9</u>	<u>\$ 3.5</u>	<u>>100.0</u>

The U.S.\$10.9 million gain on sale of investment resulted from the sale in April 2004 of GTECH's 50% interest in Gaming Entertainment (Delaware) L.L.C. to Harrington Raceway, Inc.

Minority interest in consolidated subsidiaries principally relates to GTECH's controlling interests in PolCard and Wireless Business Solutions (Proprietary) Limited ("**WBS**"). PolCard is a debit and credit card merchant transaction acquirer and processor in Poland. WBS is a telecommunications provider in South Africa. In fiscal 2005, GTECH determined that it no longer had a controlling interest in WBS that would require consolidation in its financial statements due principally to the expiration of its guarantee of loans made by an unrelated commercial lender to WBS and GTECH now accounts for WBS using the equity method of accounting.

The U.S.\$5.3 million one-time, non-cash, pre-tax gain in the prior fiscal year resulted from the consolidation of the partnership that owns GTECH's world headquarters facilities, which was recorded in compliance with Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities".

Interest Expense

	Fiscal Year Ended			
	February 26, 2005	February 28, 2004	Change	
			\$	%
	(in millions of U.S. dollars)			
Interest expense	\$19.2	\$10.9	\$8.3	76.1

Interest expense was up U.S.\$8.3 million over last year primarily due to higher debt balances resulting from the issuance in November 2004 of U.S.\$150 million of 4.50% Senior Notes and U.S.\$150 million of 5.25% Senior Notes.

Income Taxes

GTECH's effective income tax rate was 35.9% in fiscal 2005, down from 37% in fiscal 2004. The decrease is primarily due to a larger percentage of international profits taxed at rates that are lower than the U.S. statutory income tax rate and increased tax benefits relating to export sales.

Weighted Average Diluted Shares

Weighted average diluted shares in fiscal 2005 were comparable to fiscal 2004. GTECH adopted EITF 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share", in December 2004, which requires the inclusion of all 12.7 million shares underlying its U.S.\$175 million principal amount of 1.75% Convertible Debentures in prior periods' diluted earnings per share computations, if dilutive, regardless of whether the conversion requirements have been met. The adoption of EITF 04-8 resulted in a decrease to diluted earnings per share of U.S.\$0.02 in fiscal 2004.

Liquidity, Capital Resources and Financial Position

GTECH believes its ability to generate cash from operations to reinvest in its business is one of its fundamental financial strengths and GTECH expects to meet its financial commitments and operating needs in the foreseeable future. GTECH expects to use cash generated from operating activities primarily for contractual obligations and to pay dividends. GTECH expects its growth to be financed through a combination of cash generated from operating activities, existing sources of liquidity, access to capital markets and other sources of capital. GTECH has been assigned investment grade credit ratings from Moody's and Standard and Poor's. GTECH believes investment grade credit ratings contribute to its ability to access capital markets at attractive prices.

Analysis of Cash-flows

During fiscal 2006, GTECH generated U.S.\$429.6 million of cash from operations. This cash was principally used to fund U.S.\$137.3 million of systems, equipment and other assets relating to contracts; to purchase an additional 11.681% of PolCard for U.S.\$21.5 million; to repurchase U.S.\$32.1 million, or 1,326,100 shares of GTECH's common stock; and to pay cash dividends of U.S.\$41.7 million. At February 25, 2006, GTECH had U.S.\$235.2 million of cash and cash equivalents and U.S.\$260.7 million of short-term investment securities on hand.

GTECH's business is capital-intensive. GTECH expects its principal sources of liquidity to be existing cash and short-term investment securities balances, along with cash it generates from operations and borrowings under its revolving credit facility. GTECH's credit facility provides for an unsecured revolving line of credit of U.S.\$500 million and matures in October 2009. There were no borrowings under the credit facility as of February 25, 2006. Up to U.S.\$100 million of the Credit Facility may be used for the issuance of letters of credit. As of February 25, 2006, after considering U.S.\$6.0 million of letters of credit issued and outstanding, there was U.S.\$494.0 million available for borrowing under the credit facility. The credit facility contains various covenants, including among other things, requirements relating to the maintenance of certain financial ratios. None of these covenants are expected to impact GTECH's liquidity or capital resources. There are no covenants in GTECH's credit facility that restrict GTECH's ability to pay dividends. At February 25, 2006, GTECH was in compliance with all applicable covenants.

GTECH currently expects that its cash-flow from operations, existing cash, investment securities available-for-sale, available borrowings under its credit facility and access to additional sources of capital will be sufficient, for the foreseeable future, to fund its anticipated working capital and ordinary capital expenditure needs, to service its debt obligations, to fund anticipated internal growth, to fund all or a portion of the cash needed for potential acquisitions, to pay dividends, to fund the capital requirements under its Master Contract with the Rhode Island Lottery and to repurchase shares of its common stock, from time to time, under its share repurchase programs. GTECH may also seek alternative sources of financing to fund certain of its obligations under its Master Contract with the Rhode Island Lottery and to fund future potential acquisitions and other growth opportunities.

Financial Position

GTECH's consolidated balance sheet at February 25, 2006 as compared to its consolidated balance sheet at February 26, 2005 was impacted by the material changes described below.

	Fiscal Year Ended			
	February 25, 2006	February 26, 2005	Change	
			\$	%
	(U.S. dollars in millions)			
Inventories	\$ 88.0	\$ 61.1	\$ 26.9	44.0
Other current assets	47.8	26.6	21.2	79.7
Systems, equipment and other assets relating to contracts, net	692.5	720.4	(27.9)	(3.9)
Goodwill	346.1	331.0	15.1	4.6
Property, plant and equipment, net	101.4	74.6	26.8	35.9
Advance payments from customers	63.8	42.9	20.9	48.7
Income taxes payable	67.1	16.5	50.6	>100.0
Long-term debt	542.3	726.3	(184.0)	(25.3)
Other liabilities	106.7	83.3	23.4	28.1
Cost of treasury shares	—	35.9	(35.9)	(100.0)

The increase in inventories was primarily due to inventory related to GTECH's new contract with its customer in Finland. Revenue under the Finland contract is expected to be recorded in fiscal 2009.

The increase in other current assets was primarily due to a loan to Innova Capital Sp. z.o.o. (the minority shareholder in PolCard) of approximately U.S.\$6.3 million in advance of a shareholder dividend along with an advance on equipment purchases to Atronic of approximately U.S.\$5.9 million.

The decrease in systems, equipment and other assets relating to contracts, net was primarily due to depreciation expense, partially offset by the purchase of U.S.\$137.3 million of systems, equipment and other assets relating to contracts (principally related to spending in Missouri, Florida, Rhode Island and Washington).

The increase in goodwill was primarily due to the acquisition of an additional 11.681% of PolCard in September 2005.

The increase in property, plant and equipment, net was primarily due to U.S.\$26.4 million of spending by the developer on GTECH's new corporate headquarters building in Providence, Rhode Island.

The increase in advance payments from customers was primarily due to advances received related to GTECH's new contract with its customer in Finland.

The increase in income taxes payable was primarily due to the timing of income tax payments along with the receipt of a U.S.\$18.4 million income tax refund.

The decrease in long-term debt was principally due to the conversion to equity of U.S.\$168.4 million of GTECH's convertible debentures in fiscal 2006.

The increase in other liabilities was primarily due to U.S.\$26.4 million of spending by the developer of GTECH's new corporate headquarters building in Providence, Rhode Island.

The decrease in the cost of treasury shares was primarily due to the issuance of treasury shares in connection with the conversion of convertible debentures in fiscal 2006.

Contractual Obligations

As of February 25, 2006, GTECH's contractual obligations, including payments due by period, are as follows (U.S. dollars in millions):

	Fiscal						Total
	2007	2008	2009	2010	2011	Thereafter	
Long-term debt	\$ 9.1	\$ 0.1	\$ —	\$148.1	\$245.8	\$148.3	\$551.4
Operating leases	20.4	11.0	8.0	6.1	4.0	1.4	50.9
Total	<u>\$29.5</u>	<u>\$11.1</u>	<u>\$8.0</u>	<u>\$154.2</u>	<u>\$249.8</u>	<u>\$149.7</u>	<u>\$602.3</u>

Commitments

Performance and Other Bonds

In connection with certain contracts and procurements, GTECH has been required to deliver performance bonds for the benefit of its customers and bid and litigation bonds for the benefit of potential customers, respectively. These bonds give the beneficiary the right to obtain payment and/or performance from the issuer of the bond if certain specified events occur. In the case of performance bonds, which generally have a term of one year, such events include GTECH's failure to perform its obligations under the applicable contract. To obtain these bonds, GTECH is required to indemnify the issuers against the costs they incur if a beneficiary exercises its rights under a bond. Historically, GTECH's customers have not exercised their rights under these bonds and GTECH does not currently anticipate they will do so. The

following table provides information related to potential commitments at February 25, 2006 (U.S. dollars in millions):

	<u>Total potential commitments</u>
Performance bonds	\$258.6
Financial guarantees	44.6
Litigation bonds	7.9
All other bonds	5.0
	<u>\$316.1</u>

Master Contract with the Rhode Island Lottery

In May 2003, GTECH entered into a Master Contract with the Rhode Island Lottery (the “Lottery”) that amended its existing contracts with the Lottery and grants GTECH the right to be the exclusive provider of on-line, instant ticket and video lottery central systems and services for the Lottery during the 20-year term of the Master Contract for a U.S.\$12.5 million up-front license fee which GTECH paid in July 2003. This license fee is included in Intangible Assets, net in GTECH’s Consolidated Balance Sheet at February 25, 2006 and is being amortised as a reduction of service revenue on a straight-line basis over the 20-year term of the Master Contract.

The Master Contract is part of a comprehensive economic development package that provides incentives for GTECH to keep its world headquarters and manufacturing operations in Rhode Island. Under the terms of the Master Contract, GTECH is to invest (or cause to be invested) at least U.S.\$100 million in the State of Rhode Island, in the aggregate, by December 31, 2008. This investment commitment includes the U.S.\$12.5 million up-front license fee; new on-line and video lottery related hardware, software and services; the development of a new world headquarters facility of at least 210,000 square feet in Providence, Rhode Island by December 31, 2006; and improvements to GTECH’s existing manufacturing facility in West Greenwich, Rhode Island. GTECH has agreed to employ at least 1,000 people full-time in Rhode Island by the end of calendar year 2005 (such requirement was met) and maintain that level of employment thereafter. In the event the State of Rhode Island takes certain actions which affect GTECH’s financial performance, GTECH will be automatically released from the in-state employment obligation. GTECH currently plans to satisfy its obligation to invest (or cause to be invested) at least U.S.\$100 million in the State of Rhode Island by December 31, 2006. In addition, in July 2003 GTECH entered into a tax stabilisation agreement with the City of Providence (the “City”), whereby the City agreed to stabilise the real estate and personal property taxes payable in connection with GTECH’s new world headquarters facility in the City for 20 years. GTECH also agreed to complete and occupy the facility by December 31, 2006, employ 500 employees at the facility by 2009, and GTECH made certain commitments regarding its employment, purchasing and education activities in the City. The Lottery may terminate the Master Contract in the event that GTECH fails to meet its obligations as stated above.

Acquisition of Atronic

GTECH entered into an agreement in December 2004, as amended in January 2006, to acquire a 50% controlling equity position in the Atronic group of companies (“Atronic”) owned by Paul and Michael Gauselmann (the “Gauselmanns”). The remaining 50% of Atronic will be retained by the Gauselmanns. Atronic is a video gaming machine manufacturer and also develops gaming machine games and customised solutions for dynamic gaming operations. This transaction is contingent upon regulatory and gaming license approvals and other closing conditions, and is expected to be completed by December 2007.

The final purchase price for Atronic will be calculated pursuant to a performance-based formula equal to eight times Atronic’s EBITDA (earnings before interest, taxes, depreciation and amortisation) for its fiscal year ending December 31, 2006, provided however, that the payment shall not be less than Euro

20 million. In addition, the Gauselmanns have the potential to receive an earn-out payment one year after the closing, if Atronic's 2007 performance exceeds certain specified thresholds. However, if Euro 20 million was paid at the closing and if such payment exceeds the payment that would have been made pursuant to the performance-based formula, then any excess will be applied to the earn-out payment. Should GTECH purchase the remaining 50% interest in Atronic, any remaining unapplied excess would be credited toward that purchase. GTECH currently expects the all-cash transaction will have a total value of approximately U.S.\$100 million to U.S.\$150 million, for its 50% share, including the assumption of debt.

Through the end of 2011, GTECH has the option to purchase the Gauselmanns' remaining 50% interest in Atronic at a price calculated pursuant to a performance based formula equal to eight times Atronic's EBITDA for its previous twelve months, plus an earn-out payment pursuant to a performance based formula if certain specified thresholds are exceeded. However, the payment for the second 50% shall not be less than Euro 50 million. During this period, the Gauselmanns have put rights that become effective only under certain circumstances. The exercise price of these puts under the specified circumstances would be calculated through a performance based formula.

Beginning in 2012, GTECH has the option to purchase the Gauselmanns' remaining interests in Atronic and the Gauselmanns have a reciprocal right to sell its interest to GTECH at a value determined by independent appraisers.

Option to Purchase PolCard Outstanding Equity

In May 2003, GTECH completed the acquisition of a controlling equity position in PolCard for a purchase price, net of cash acquired, of U.S.\$35.9 million. On September 28, 2005, GTECH purchased an additional 11.681% of PolCard from Innova Capital Sp. z o.o. ("*Innova*") for cash consideration of approximately U.S.\$21.5 million, resulting in PolCard's outstanding equity being owned 74.5% by GTECH, 25.2% by two funds managed by Innova, and 0.3% by the Polish Bank Association, one of PolCard's previous owners.

The terms of the Share Purchase Agreement which govern the purchase of the additional 11.681% of PolCard included a commitment by GTECH and Innova, as the majority shareholders of PolCard, to vote in favour of a general shareholder dividend of approximately U.S.\$25.0 million to be paid after the close of PolCard's fiscal year ending on February 25, 2006, and for PolCard to loan to Innova approximately U.S.\$6.3 million in anticipation of the dividend. This loan was advanced on December 22, 2005 (after the close of GTECH's fiscal 2006 third quarter), bears interest at WIBOR plus 1.75% (5.92% as of February 25, 2006), and is fully secured by the dividend and by PolCard shares currently owned by Innova. GTECH currently estimates that the dividend will be declared and paid by July 2006.

GTECH has three fair value options to purchase Innova's interest in PolCard, and Innova has the reciprocal right to sell its interest in PolCard to GTECH at fair value. Each fair value option has a duration of 90 days and, in the absence of an agreed price between the parties prior to the commencement of an option period, will be based on an appraised value from at least two investment banks at the date of each option period.

GTECH estimates that the buyout prices in U.S. dollars of each fair value option, based on discounted cash-flows, could be as follows:

<u>Exercise Date Commencing In</u>	<u>Buyout Percentage of the PolCard Outstanding Equity</u>	<u>Range of Buyout Price</u>
May 2007	12.6%	\$20 to \$30 million
May 2008	6.3%	\$11 to \$17 million
May 2009	6.3%	\$13 to \$19 million

Financial Risk Management and Dividend Policy

Financial Risk Management

The primary market risk inherent in GTECH's financial instruments and exposures is the potential loss arising from adverse changes in interest rates and foreign currency exchange rates. GTECH's exposure to commodity price changes is not considered material and is managed through its procurement and sales practices. GTECH uses various techniques to manage its market risks, including from time to time, the use of derivative instruments. GTECH manages its exposure to counterparty credit risk by entering into financial instruments with major, financially sound counterparties with high-grade credit ratings and by limiting exposure to any one counterparty. GTECH does not engage in currency or interest rate speculation.

Interest Rate Market Risk

Interest rate market risk is estimated as the potential change in the fair value of GTECH's total debt or current earnings resulting from a hypothetical 10% adverse change in interest rates.

The estimated fair value of GTECH's long-term debt and change in the estimated fair value due to hypothetical changes in interest rates are as follows (U.S. dollars in millions):

	Estimated Fair Value		
	At February 25, 2006	10% Increase in Interest Rates	10% Decrease in Interest Rates
\$250 million of 4.75% Senior Notes	\$249.1	\$245.1	\$253.1
\$150 million of 4.50% Senior Notes	147.5	145.4	149.7
\$150 million of 5.25% Senior Notes	151.3	146.8	156.0
\$6.6 million of 1.75% Convertible Debentures	16.1	16.1	16.1

The estimated fair values above were determined by an independent investment banker. The values of the Senior Notes were determined after taking into consideration U.S.\$225 million of interest rate swaps as follows:

	Estimated Debt Fair Value	Interest Rate Swaps Outstanding (notional amount)
\$250 million of 4.75% Senior Notes	\$249.1	\$150.0
\$150 million of 4.50% Senior Notes	147.5	50.0
\$150 million of 5.25% Senior Notes	151.3	25.0

A hypothetical 10% adverse or favourable change in interest rates applied to GTECH's variable rate debt would not have a material effect on current earnings.

GTECH uses various techniques to mitigate the risk associated with future changes in interest rates, including entering into interest rate swap and treasury rate lock agreements.

Interest rate swap agreements

During the third quarter of fiscal 2005, in conjunction with the issuance of U.S.\$300 million of Senior Notes, GTECH entered into interest rate swap agreements that effectively converts U.S.\$50 million of its Senior Notes from a fixed rate to a floating rate for the period November 2004 to December 2009 and U.S.\$25 million of GTECH's Senior Notes from a fixed rate to a floating rate for the period November 2004 to December 2014.

Treasury rate lock agreements

In the third quarter of fiscal 2005, GTECH entered into agreements to lock in interest rates to hedge against potential increases to interest rates prior to the issuance of its 4.50% Senior Notes and 5.25% Senior Notes. GTECH determined that the treasury rate lock agreements were highly effective and qualified for hedge accounting. All treasury rate lock agreements have matured. The related gains were deferred and recorded in Accumulated Other Comprehensive Loss in GTECH's Consolidated Balance Sheet and are being amortised to interest expense over the life of the respective debt instruments. As of February 25, 2006 and February 26, 2005, unamortised gains were U.S.\$1.7 and U.S.\$2.0 million, respectively.

Foreign Currency Exchange Rate Risk

GTECH is subject to foreign exchange exposures arising from current and anticipated transactions denominated in currencies other than its functional currency, which is United States dollars, and from the translation of foreign currency balance sheet accounts into United States dollar balance sheet accounts.

GTECH seeks to manage its foreign exchange risk by securing payment from its customers in United States dollars, by sharing risk with its customers, by utilising foreign currency borrowings, by leading and lagging receipts and payments, and by entering into foreign currency exchange and option contracts. In addition, a significant portion of the costs attributable to GTECH's foreign currency revenues are payable in the local currencies. In limited circumstances, but whenever possible, GTECH negotiates clauses into its contracts that allow for price adjustments should a material change in foreign exchange rates occur.

From time to time, GTECH enters into foreign currency exchange and option contracts to reduce the exposure associated with certain firm commitments, variable service revenues and certain assets and liabilities denominated in foreign currencies, but GTECH does not engage in foreign currency speculation. These contracts generally have maturities of 12 months or less and are regularly renewed to provide continuing coverage throughout the year.

As of February 25, 2006, GTECH had contracts for the sale of foreign currency of approximately U.S.\$52.1 million (primarily Euro and Brazilian real) and the purchase of foreign currency of approximately U.S.\$32.1 million (primarily Brazilian real, Mexican peso, New Taiwan dollars and Canadian dollars). Comparatively, as of February 26, 2005, GTECH had contracts for the sale of foreign currency of approximately U.S.\$49.0 million (primarily Euro and pounds sterling) and the purchase of foreign currency of approximately U.S.\$46.4 million (primarily Brazilian real, pounds sterling, New Taiwan dollars, and Canadian dollars). Refer to Note 14 to the consolidated financial statements for additional information.

At February 25, 2006 and February 26, 2005, a hypothetical 10% adverse change in foreign exchange rates would result in a translation loss of U.S.\$16.8 million and U.S.\$24.2 million, respectively, that would be recorded in the equity section of GTECH's balance sheet.

At February 25, 2006 and February 26, 2005, a hypothetical 10% adverse change in foreign exchange rates would result in a net pre-tax transaction loss of U.S.\$4.9 million and U.S.\$3.6 million, respectively, that would be recorded in current earnings after considering the effects of foreign exchange contracts currently in place.

At February 25, 2006, a hypothetical 10% adverse change in foreign exchange rates would result in a net reduction of cash-flows from anticipatory transactions in fiscal 2007 of U.S.\$24.8 million, after considering the effects of foreign exchange contracts currently in place. The percentage of fiscal 2006 and 2005 anticipatory cash-flows that were hedged varied throughout each fiscal year, but averaged 42% in fiscal 2006 compared to 56% in fiscal 2005.

Dividend Policy

GTECH is committed to returning value to its shareholders. Beginning in the second quarter of fiscal 2004, GTECH commenced paying cash dividends on its common stock of U.S.\$0.085 per share, equivalent to a full-year dividend of U.S.\$0.34 per share. GTECH currently plans to continue paying dividends in the foreseeable future.

BUSINESS—LOTTOMATICA

Overview

Lottomatica currently operates three businesses in two segments: (i) its Lotteries and Gaming segment, consisting of its Lotteries business (comprising Lotto, Instant and Traditional Lotteries, and Sports Pools and Other Pari Mutuel Betting) and its Gaming Machines business and (ii) its Services segment, consisting of its Commercial Services, Payment Services and Processing Services business. For the year ended December 31, 2005, Lottomatica generated Total Revenues, EBITDA and Operating Profit of €582.7 million, €266.0 million and €212.3 million, respectively.

Lottomatica's Lotteries and Gaming segment generated Total Revenues, EBITDA and Operating Profit of €512.2 million, €291.9 million and €251.8 million, respectively. Lottomatica's Services segment generated Total Revenues, EBITDA and Operating Profit of €64.7 million, €36.9 million and €31.8 million, respectively. Total Revenues, EBITDA and Operating Profit presented for Lottomatica's operating segments was derived from the segment note in its audited consolidated financial statements. See segment note number 10 to Lottomatica's audited consolidated financial statements.

Total Revenues of €582.7 million for the year ended December 31, 2005 consist of: €503.1 million from Lottomatica's Lotteries and Gaming Machines businesses, €63.9 million from Lottomatica's Services business, €2.1 million from PCC GS S.p.A., a subsidiary of Lottomatica which supplies tickets for Lotto and Lottomatica's Sports Pools as well as tickets for third parties (which is allocated in Lottomatica's financial statements to its Lotteries and Gaming Segment), and "other revenues" of approximately €13.6 million, (of which approximately (i) €7.0 million is allocated in Lottomatica's financial statements to its Lotteries and Gaming segment, (ii) €0.8 million is allocated to its Services segment, and (iii) €5.7 million is not allocated). See notes numbered 4 (Information on the Consolidated Income Statement—Revenues (28)) and 10 (Report by Business Sector) to Lottomatica's audited consolidated financial statements included elsewhere in this Offering Circular. Total EBITDA of €266.0 million for the year ended December 31, 2005 includes €(62.8) million, mostly attributable to corporate overhead, reported as unallocated EBITDA in accordance with IFRS accounting standards. Total Operating Profit of €212.3 million for the year ended December 31, 2005 includes €(71.2) million reported as unallocated Operating Losses in accordance with IFRS accounting standards.

Lottomatica is one of the largest lottery operators in the world, based on total wagers, and a leader in the Italian gaming industry. Lottomatica has built an extensive real-time, on-line distribution network, with approximately 133,000 terminals in approximately 77,000 points of sale throughout the Republic of Italy (including approximately 17,000 points of sale where Lottomatica provides only Processing Services for third parties), comprised of tobacconists, bars, petrol stations, newspaper stands and motorway restaurants. Lottomatica has leveraged its distribution and transaction processing competence to expand its activities beyond Lotteries and also provide Commercial, Payment and other Processing Services through its network.

Since 1993, Lottomatica has been the sole concessionaire for the Italian Lotto game, which is the largest on-line lottery in the world in terms of wagers, according to La Fleur's 2005 World Lottery Almanac. Lotto is a traditional game that was played off-line for centuries. Lottomatica commenced operating Lotto in 1994. Since Lottomatica established the on-line infrastructure for Lotto, wagers have grown significantly, stabilising in recent years in the region of €7 billion—€8 billion per year, from €2.8 billion in 1995. Managing Lotto has provided Lottomatica with substantial experience in managing all the activities along the lottery value chain, such as collecting wagers through its network, paying out prizes, managing all accounting and other back office functions, running advertising and promotion, operating data transmission networks and processing centers, training staff, providing retailers with assistance and supplying materials for the game.

Leveraging its proven operational track record and reputation, Lottomatica has enlarged its Italian lotteries portfolio. Since 2003, Lottomatica, through Consorzio Lottomatica Giochi Sportivi, a consortium 90% owned by Lottomatica (85% directly and 5% through its subsidiary Totobit), has had a non-exclusive concession to collect wagers for the Totocalcio, Totogol and “9” games. Since 2003, Lottomatica, through Consorzio Lotterie Nazionali, a consortium 63% owned by it, has had an exclusive concession to operate Instant and Traditional Lotteries. Recently, Lottomatica has diversified in the Republic of Italy into other national games, such as Other Pari-Mutuel Betting, and Gaming Machines.

Lotteries and Gaming

Lottomatica operates both on-line lotteries and games, which are conducted through computerised systems in which lottery or gaming terminals are connected to a central computer system and which are generally games where players select their own numbers, such as Lotto, and off-line lotteries, which are games involving preprinted paper tickets and are not computerised (except for ticket validation purposes).

Lottomatica operates the following lotteries and games:

Lotto: Lotto is an on-line lottery in which players bet on the draw of up to five numbers, or combinations thereof, selected by them. For the year ended December 31, 2005, Lottomatica generated Revenues from Lotto of €432.3 million or approximately 74.2% of Total Revenues.

Instant and Traditional Lotteries: Instant Lotteries are off-line lotteries consisting of scratch-off tickets with hidden numbers, letters and/or symbols that participants scratch off and immediately know whether they have won, and Traditional Lotteries are off-line lotteries in which players purchase tickets, with the winning ticket(s) being drawn at a later date. For the year ended December 31, 2005, Lottomatica generated Revenues from Instant and Traditional Lotteries of €54.9 million or approximately 9.4% of Total Revenues.

Sports Pools and Other Pari-Mutuel Betting: Sports Pools and Other Pari-Mutuel Betting include pari-mutuel games in which players bet on the outcome of and number of goals scored in sporting events, usually soccer matches (e.g., Totocalcio; “9” and Totogol) and other pari-mutuel games in which players wager on other sports events, horse racing, motor sports, cultural events and current affairs. For the year ended December 31, 2005, Lottomatica generated Revenues from Sports Pools and Other Pari-Mutuel Betting of €9.5 million or approximately 1.6% of Total Revenues.

Gaming Machines

Lottomatica provides information technology services for Gaming Machines. Gaming Machines are electronic machines involving elements of skill or entertainment and risk, and having random winnings. Lottomatica generated revenues of €6.4 million from Gaming Machines or approximately 1.1% of Total Revenues.

In the coming years, Lottomatica will seek to expand the contribution of its Gaming Machines business through growth in video-lottery terminals, for which all current Gaming Machines concessionaries in the Republic of Italy will be permitted to provide information technology services commencing in 2006. See “—Operations” below.

Services

Lottomatica offers the following automated payment and distribution services:

Commercial Services: Lottomatica distributes services for commercial operators (i.e., electronic top-up services distributed by Lottomatica for pre-paid mobile and fixed-line telephone accounts, ticketing for sporting and musical events) and collects payments from end-users for which it retains a fee, which may be a fixed per transaction amount or a percentage of the value of the services. For the year ended

December 31, 2005, Lottomatica generated Revenues from Commercial Services of €41.1 million or approximately 7.1% of Total Revenues.

Payment Services: Lottomatica collects payments from consumers for both private sector enterprises (*i.e.*, for the payment of utility bills) and local and state entities (*i.e.*, fines, local taxes and television license fees) for which it receives a fee, which may be a fixed per transaction amount or a percentage of the value of the services. For the year ended December 31, 2005, Lottomatica generated Revenues from Payment Services of €1.4 million or approximately 0.2% of Total Revenues.

Processing Services: Lottomatica provides technology infrastructure to third parties for the processing of transactions (*i.e.*, car road taxes, third party electronic top-up transactions for pre-paid mobile telephones, some minor taxes and loyalty programs and stamp duties printing) for which it receives a fee, which may be a fixed per transaction amount or a percentage of the value of the services. For the year ended December 31, 2005, Lottomatica generated Revenues from Processing Services of €15.4 million or approximately 2.7% of Total Revenues.

In addition, Lottomatica expects to launch stored value services in 2006, which consist of issuing and acquiring services related to pre-paid debit cards.

Strategies

Historically Lottomatica's strategy has focused on the diversification of its gaming portfolio and on the continuous development of its services business, both in the Republic of Italy and internationally. In particular, Lottomatica's strategy has centered on the following key items:

Diversification of Gaming Portfolio

Increase Lotto revenues. The key growth drivers for increasing revenues related to Lottomatica's Lotto business include the introduction of new games related to Lotto, targeting different clusters of players, trade marketing efforts aimed at enhancing the merchants' role in promoting the games, and ongoing innovation in advertising and marketing campaigns.

Focus on driving substantial growth in Instant and Traditional Lotteries. Lottomatica's growth drivers for Instant and Traditional Lotteries will comprise launching 3-4 new Instant Lottery games per year, maintaining diverse games offerings available for different clusters of players (Lottomatica now offers 10 different Instant Lottery games), and seeking to increase the average price wagered through the optimisation of the portfolio mix of variously priced tickets. Further, these activities will be accompanied by targeted expansion of the network and various strategies to increase point of sale productivity (*e.g.*, merchandising).

Expansion of Gaming Machines market. Lottomatica will seek to build on its existing amusement with prize machine business to expand into the next generation of Gaming Machines business, video lottery terminals, which will be permitted in the Republic of Italy starting in 2006. Lottomatica intends to enter into the Gaming Machines operations business mainly through internal growth, as well as targeted business partnerships or acquisitions.

Maintain market share in Sports Pools and Other Pari-Mutuel Betting. Lottomatica will seek to maintain its market position in Sports Pools and Other Pari-Mutuel Betting, by:

- wagers support through commercial initiatives (for pari-mutuel horse racing and sports games),
- network rationalisation, and
- consolidation of new pari-mutuel betting and exploring potential entry into fixed-odds betting.

Interactive Channels. Lottomatica will invest in a new technological infrastructure intended to position it to exploit the growth potential of interactive channels for its existing games portfolio.

Continuous Services Development

Lottomatica intends to consolidate existing services (electronic top-ups for pre-paid mobile telephones, utility bills, stamp duties) by enhancing brand recognition of its “PuntoLis network” (under which it offers its services) through a focused advertising campaign and through network expansion. Lottomatica is engaged in ongoing product innovation, to enhance existing services and introduce new services, such as stored value services which Lottomatica expects to launch in 2006.

Margin Improvement

Lottomatica continues to focus on improving margins, primarily through cost optimisation over time.

International Expansion

Lottomatica, after consolidating its business model in the Republic of Italy, intends to expand internationally, selecting value accretive growth opportunities in its core businesses (Lotteries, Gaming Machines and Services). This strategy will be pursued through business partnerships, acquisitions or participation in privatisation processes or tenders for new licenses in various jurisdictions outside of the Republic of Italy. The successful Acquisition will be a significant step in Lottomatica’s international expansion strategy.

History and Development

Lottomatica’s registered head office is located at Viale del Campo Boario 56/D, 00153 Rome, Italy, telephone number +39-06-518991. Lottomatica is registered with the Companies’ Register of Rome with registration number 08028081001. Lottomatica was incorporated in the Republic of Italy as a joint stock company on May 25, 2004 under the name Triplet S.p.A and changed its name to NewGames S.p.A. before subsequently changing its name to Lottomatica S.p.A. Lottomatica’s corporate existence is currently scheduled to expire on December 31, 2070.

Business Development

In 1993, the Ministry of Finances (now the Ministry of Economy and Finances) granted to Lottomatica the exclusive concession to run Lotto, which prior to that time had been operated by the AAMS, and transferred to Lottomatica the necessary state powers to manage all aspects of the game, including collection of wagers through tabacconists designated by the AAMS, payment of prizes, management of all accounting and back-office functions, advertising and promotion, operation of the data transmission network and processing centers, staff training, tabacconists assistance and supply of game materials to tabacconists.

Since 1998 Lottomatica also has been developing its Services business. Key milestones include:

- in 1998 Lottomatica began providing commercial services (ticketing for sporting and musical events);
- in 1999 Lottomatica began providing processing services for car road taxes and payment services for local taxes and fines;
- in 2000 Lottomatica began providing electronic telephone top-up services;
- in 2001 Lottomatica began collecting RAI TV license fees;
- in 2002 Lottomatica began providing processing services for minor taxes;

- in 2004 Lottomatica began providing utility payment services; and
- in 2005 Lottomatica began providing stamp duties processing services.

Since January 2006 Lottomatica has been authorised to issue electronic money.

In June 2003, AAMS granted a non-exclusive concession to Lottomatica, through Consorzio Lottomatica Giochi Sportivi, a consortium 90% owned by Lottomatica, and two other operators, Sisal S.p.A. and Snai S.p.A. to collect wagers for the Totocalcio, Totogol and “9” games, which were previously operated by Comitato Olimpico Nazionale Italiano (the “**CONI**”).

In October 2003, AAMS granted to Consorzio Lotterie Nazionali, a consortium 63% owned by Lottomatica, the exclusive concession to operate Instant and Traditional Lotteries, which prior to that time had been operated by the AAMS.

In December 2003, Lottomatica acquired Totobit, which provided on-line payment services and telephone top-up services and processing services in retail locations. The acquisition of Totobit has had an important strategic value for Lottomatica by providing a parallel technological infrastructure not linked to that of the Lotto terminals, and the possibility of extending and diversifying Lottomatica’s network of points of sale for services, games and lotteries (other than Lotto, the points of sale for which are designated by the AAMS).

In July 2004, Lottomatica was one of the 10 concessionaires chosen by the AAMS to set up a remote network for monitoring Gaming Machines.

In December 2004, AAMS extended to the concessionaires for Totocalcio the operation of Pari-Mutuel betting on sport events other than horse racing and various events.

In May 2005, the migration of electronic top-up services for pre-paid mobile and fixed-line telephones from Lotto terminals to point of sale terminals (“**POS terminals**”) was completed. The migration of all other services from Lotto terminals to POS terminals is nearly complete as well, with the exception of car road tax processing services, which Lottomatica hopes to migrate in the future.

In December 2005, the Ministry of Economy and Finances authorised the Totocalcio, Totogol and “9” concessionaires, including Consorzio Lottomatica Giochi Sportivi to collect wagers for the new pari-mutuel horse betting games named “Vincente Nazionale”, “Accoppiata Nazionale”, “Nuova Tris Nazionale”, “Quartè Nazionale” and “Quintè Nazionale”.

Corporate History

The business of Lottomatica has its origins in a predecessor company that was established in 1990 in the form of a consortium named “Consorzio Lottomatica”. During 1991, Consorzio Lottomatica was converted into an Italian cooperative stock company with the name Lottomatica S.c.p.a. In 1998, Lottomatica S.c.p.a. became a joint-stock company, named Lottomatica S.p.A., referred to herein as the Old Lottomatica (“**Old Lottomatica**”). In 2001, it was listed on the MTA.

In 2002, control of the Old Lottomatica was acquired by means of a tender offer by Tyche S.p.A., an Italian joint-stock company (“**Tyche**”). Tyche was a newly formed acquisition vehicle indirectly controlled by De Agostini. As a result of the tender offer and subsequent purchases of the Old Lottomatica’s shares, Tyche held 64.2% of the Old Lottomatica’s capital stock. The Old Lottomatica was merged into Tyche, with retroactive effect to January 1, 2002. In connection with the merger, stockholders of the Old Lottomatica received shares of Tyche, Tyche was renamed Lottomatica S.p.A., which Lottomatica refers to as the New Lottomatica (“**New Lottomatica**”), and its shares were listed on the MTA.

In 2005, the New Lottomatica and FinEuroGames S.p.A. merged into NewGames S.p.A., which, at the effective time of the merger, changed its name to Lottomatica S.p.A., referred to herein as Lottomatica. Prior to the merger, FinEuroGames S.p.A. was wholly-owned by NewGames S.p.A., which

was in turn wholly-owned by De Agostini. The merger was aimed at simplifying the ownership structure of the New Lottomatica through the elimination of intermediate levels between the controlling shareholder, De Agostini, and the New Lottomatica. The merger also allowed the strengthening of the New Lottomatica's shareholders' equity, by creating additional reserves. On the effective date of the merger, in December 2005, the ordinary shares of Lottomatica were listed on the MTA, blue-chip segment with the ticker symbol LTO.

Operations

Lottomatica operates in three business areas, Lotteries, Gaming Machines and Services. A critical component of Lottomatica's operations in these business areas is its distribution network. Lottomatica originally developed its network to provide on-line terminals for Lotto. Lottomatica's various networks now comprise an extensive real-time, on-line network, with approximately 133,000 terminals in approximately 77,000 points of sale throughout the Republic of Italy (including approximately 17,000 points of sale where Lottomatica provides only Processing Services for third parties), at tobacconist shops, bars, petrol stations, newspaper stands and motorway restaurants. Lottomatica uses its networks to distribute lotteries and other games, provide information technology services for Gaming Machines, and offer commercial, payment and other processing services. Lottomatica maintains four separate networks for Lotto, Sports Pools and Other Pari-Mutuel Betting, Gaming Machines and Services. The Lotto, Sports Pools and Other Pari-Mutuel Betting and Services networks and terminals also support the Instant and Traditional Lotteries. See Information Technology".

A new law in the Republic of Italy contemplates the following changes in Lotteries and Gaming Machine markets in 2006:

- all concessionaires will be able to collect wagers of the Lotto, the Superenalotto, the sport-pool betting and the Pari-Mutuel Betting through the following channels: internet, digital TV, land and mobile telephones. Bingo and fixed-odds betting may be collected by means of the new interactive channels solely by the concessionaires presently authorized to manage said games by means of the non interactive channels;
- all concessionaires may collect the remote participation lotteries (e.g., telematic lotteries), foreseen by the 2005 Budget, by means of the following channels: internet, digital TV, land and mobile telephony. The management of the lotteries with remote participation has been awarded on an experimental basis, by AAMS Directorial Decree of April 13, 2006, to the Consorzio Lotterie Nazionali. The experimentation will last 18 months from the date upon which the first telematic lottery is introduced to the market. The other concessionaires may collect these lotteries through connection to the platform foreseen by the Consorzio Lotterie Nazionali;
- introduction of new games played in conjunction with Lotto, for which Lottomatica will be the exclusive concessionaire, and Superenalotto, for which Lottomatica's competitor, Sisal, will be the exclusive concessionaire, with wager amounts and winnings that differ from the original Lotto and Superenalotto games; and
- the introduction of video lottery Gaming Machines. See "—Gaming Machines" below.

Regulations to implement these changes have yet to be developed with respect to Lotto, Sports Pools and Other Pari-Mutuel Betting and video lottery Gaming Machines, and Lottomatica cannot predict the final form of any such regulation. While Lottomatica is making investments in infrastructure intended to position it to exploit the opportunities that the new interactive gaming markets present, we expect significant competition in these markets from other concessionaires and we cannot assure prospective Securityholders as to how successful these investments will be or how our existing network will be adapted to respond to these challenges.

Lotteries

Lotto

For the year ended December 31, 2005, total wagers collected for Lotto were €7,281 million, and generated Revenues for Lottomatica of €432.3 million or approximately 74.2% of Total Revenues.

Lotto is a traditional game that was played off-line for centuries and that originated roughly 500 years ago in Genoa. Lotto is now an on-line lottery in which players bet on the draw of up to five numbers, from 1 to 90. Before the draw, each player chooses one or more numbers (with a maximum of ten) and places a bet on the draw of the number or combinations of numbers chosen by them. It is now the most successful game in the Republic of Italy in terms of both the number of players and wagers.

In 1993, Lottomatica was granted the exclusive concession to run Lotto, which prior to that time had been operated by the AAMS, and the necessary state powers to manage all aspects of the game were transferred to Lottomatica, including collection of wagers through tobacconists designated by the AAMS, payment of prizes, management of all accounting and back-office functions, advertising and promotion, operation of the data transmission network and processing centers, staff training, tobacconists assistance and supply of game materials to tobacconists.

Following Lottomatica's development of an on-line infrastructure for the computerised management of Lotto, total wagers have grown significantly stabilising in recent years to between €7 and €8 billion per year, from €2.8 billion in 1995.

Lotto is played at approximately 39,000 Lotto terminals installed at approximately 34,500 points of sale designated by the AAMS, comprised of tobacconists and bar tobacconists. The Lotto terminals are linked in real-time to Lottomatica's two host data processing centers (each, a "*DPC*"), which host the systems and applications relating to the Lotto business; Lottomatica has a separate host DPC that provides disaster recovery for this network. The communications network consists of 34 Mbps wide-band circuits linking the DPCs, and more than 38,000 local loops and separate wide-band collection backbone networks provided by Telecom Italia and B.N.L. Multiservizi.

Each tobacconist remits directly to Lottomatica the game wagers collected, net of the tobacconist's fee (which currently is 8% of the gross collection) and of the winnings paid by them (winnings up to €2,300 are paid by the tobacconists). Lottomatica, in turn remits to the AAMS the amounts it receives from the tobacconists, net of its fee (discussed below) and the winnings paid by it together with the interest accrued on the same.

The fee rate payable to Lottomatica for operating Lotto is based on a decreasing scale. The fee received by Lottomatica is 6.5% of the total wager amount for total annual wager amounts of up to €714 million. The rate applied to incremental wagers above €714 million gradually decreases as the total annual wager amount increases. This mechanism has a stabilising effect on Lotto commission revenues.

The principal strengths of Lotto are:

- its long-standing tradition and its widespread distribution;
- its simplicity;
- the relative frequency of the winnings with regard to competing games; and
- the quick payment of the winnings.

Lotto is Lottomatica's core business, representing approximately 74.2% of Total Revenues. Lottomatica believes that the concession to run Lotto will expire on June 8, 2016, as was decided on August 1, 2005 following an arbitral proceeding between Lottomatica and the AAMS. However, the arbitration ruling was appealed by the AAMS before the Court of Appeal of Rome. The AAMS has contended that the Lotto concession will expire on April 17, 2012. The first hearing was held on April 20,

2006. The next hearing is scheduled to be held on January 28, 2010. The duration and outcome of the appeal cannot be predicted. See “Risk Factors—Risk Factors Relating to Lottomatica—Lottomatica’s business is dependent upon the Lotto concession” and “Risk Factors—Risk Factors Relating to Lottomatica—Revocation or termination of Lotto concession would have a material adverse impact on Lottomatica’s revenues”.

Game Description

Lotto is based on the draw of five numbers, from 1 to 90 included, on one of 10 regional draw wheels located in Bari, Cagliari, Florence, Genoa, Milan, Naples, Palermo, Rome, Turin and Venice, and on a separate wheel known as the “National Wheel”. The five numbers drawn determine the winnings related to each wheel.

Before the draw, each player chooses one or more numbers (with a maximum of ten) and places a bet on the draw of the number or combinations of numbers chosen by them, on one or all of the draw wheels, with the exception of the bets on the National Wheel, which may be carried out exclusively on such wheel, to the exclusion of the other wheels. The combinations of numbers selected for the bet (commonly named “**drawn number**”) are: single drawn number, exact order of the drawn number, two numbers, three numbers, four numbers and five numbers.

<u>Combination</u>	<u>Winning Multipliers</u>
Drawn number	11,232x
Exact order of drawn number	55x
Two numbers	250x
Three numbers	4,500x
Four numbers	120,000x
Five numbers	6,000,000x

The maximum win per ticket cannot exceed €6 million, regardless of the allocation of the amount wagered on each combination. The state tax payable on winnings is 6% and is directly withheld from winnings.

The bets can vary from a minimum of €1.00 to a maximum of €200. The prizes, the amounts of which are determined based on the odds of the chosen combination being drawn, are in inverse proportion to the number of the wheels selected and to the number of possible combinations derived from the quantity of numbers played. For example, when placing a bet on all the wheels, the amount of the prize will be equal to one tenth of the prize for a bet on only one wheel, and, where more numbers are played than those necessary to make up the chosen lots, the prize will be in inverse proportion to the number of the possible combinations (for example, a “**three number**” combination bet playing only three numbers, all drawn on only one wheel, will pay more than a bet playing five numbers of which only three are drawn on the same wheel).

The Fee

As compensation for its management of Lotto, Lottomatica receives a fee, equal to a percentage of the amount wagered.

The Lotto fee is based on a decreasing scale, called “*décalage*”. The fee rate initially applied is 6.501% of the amount wagered; as the total wagers increase, the fee rate subsequently applied to incremental wagers gradually decreases. As a result, the average fee rate (expressed as a percentage of the total wagers collected) in a given year gradually declines, as the total wagers amount increases. This mechanism has a stabilising effect on Lotto revenues. In fact, if total wagers drop in a certain year, Lottomatica’s revenues decline less than proportionally, as the average fee rate (expressed as a percentage

of the total wagers collected) increases. The converse also is true; Lotto revenues do not increase in direct proportion to an increase in total wagers from year-to-year.

In order to apply the *décalage* system, the annual collection volumes are divided into brackets (whose minimum and maximum thresholds are set by Ministerial Decree) each having a percentage rate that is used to calculate the fee due to Lottomatica for the corresponding wagers.

As of the date of this Offering Circular, the brackets from which the fee due to Lottomatica is determined are as follows:

Bracket	Total Annual Wagers ^(*) (in millions of euro)	Fee Due to Lottomatica (As a percentage of the Total Wagers Collected)
1 st	Up to 714	6.501%
2 nd	From, 714 to 1,072	6.495%
3 rd	From 1,072 to 1,429	6.467%
4 th	From 1,429 to 2,142	6.439%
5 th	From 2,142 to 2,856	6.429%
6 th	From 2,856 to 3,571	6.418%
7 th	From 3,571 to 4,285	6.408%
8 th	From 4,285 to 4,999	6.398%
Successive Brackets . . .	Over 4,999 approximately successive brackets of €714 million each	Constant reduction of 0.160%, which is applied as percentage reduction on the rate of the previous bracket.

(*) Bracket amounts inclusive of Italian consumer price index ("*Istat index*") revaluation.

Furthermore, for the annual collection brackets greater than €4,999 million, there is an additional reduction in the fee due to Lottomatica. In these higher collection brackets, Lottomatica receives only a percentage of the fee amount determined pursuant to the table above. The percentages applied to the fee determined for the relevant bracket are set forth in the table below.

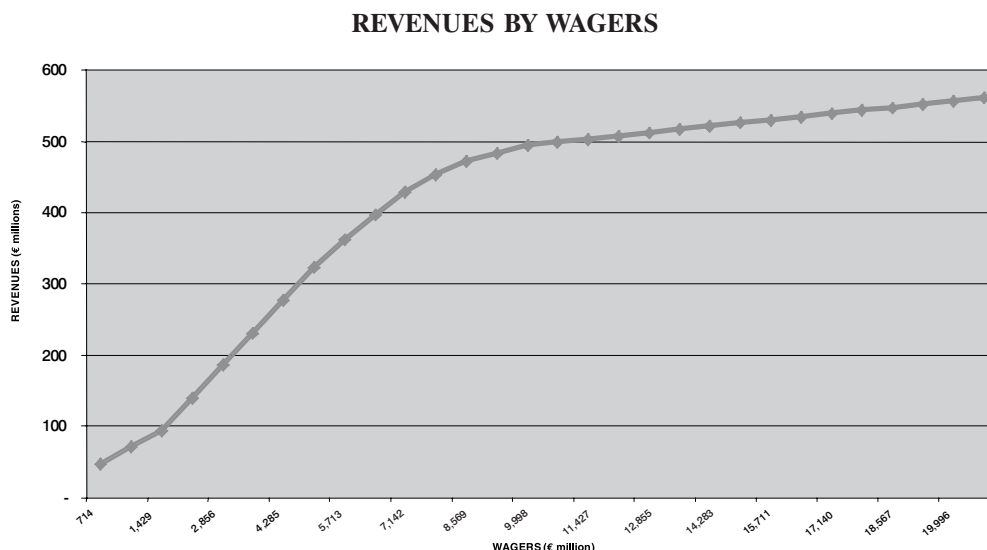
Bracket (in millions of euro)	Collection Percentage Applied to the Corresponding Rate is
Between 4,999 and 5,713	85% of the collection bracket
Between 5,713 and 6,472	78% of the collection bracket
Between 6,472 and 7,142	68% of the collection bracket
Between 7,142 and 7,856	55% of the collection bracket
Between 7,856 and 8,569	40% of the collection bracket
Between 8,569 and 9,284	25% of the collection bracket
Between 9,284 and 9,998	25% of the collection bracket
Between 9,998 and 10,712	10% of the collection bracket ^(*)

(*) For bracket amounts greater than €10,712 million, the collection percentage on which the rate is applied is always equal to 10% of the bracket.

In order to take into consideration the effects of inflation on the determination of the fee, the minimum and maximum thresholds of each bracket (initially determined by the Ministerial Decree of November 8, 1993) are updated annually in a manner which corresponds to the variation of the Istat index for blue and white-collar families.

The fee determination mechanism (the *décalage* together with the fee reduction mechanism when the collection volume increases), operates such that, an increase in the volume of wagers does not result in a proportionate increase in Lottomatica's revenues and a decrease in the volume of wagers does not result in

a proportional decrease in such revenues. This mechanism materially mitigates the effect of volatility in wagering volumes on Lottomatica's revenues from year-to-year. The table below illustrates this effect.



The revenues generated by the operation of Lotto were equal to approximately €412.8 million in 2003, €494.2 million in 2004 and €432.3 million in 2005 (with respect to wagers equal to approximately €6,937 million in 2003, €11,722 million in 2004 and €7,281 million in 2005). This unusually higher level in 2004 was attributable to speculative wagers on late numbers, in particular number 53 on the Venice draw wheel. The number 53 was drawn on the Venice wheel in early 2005, following which the amounts placed as speculative wagers returned to historic levels.

Lottomatica is required to provide a performance bond in an amount equal to 0.3% of total wagers for the prior fiscal year to the AAMS to guarantee performance of Lottomatica's obligations pursuant to the Lotto concession. The amount of the performance bond is updated upon request of the AAMS. As of the date of this Offering Circular, the aggregate amount of performance bonds issued to guarantee Lottomatica's fulfilment of its obligations with respect to the Lotto concession, is €35,106,027.08.

Instant and Traditional Lotteries

For the year ended December 31, 2005, total wagers collected for Instant and Traditional Lotteries were approximately €1.5 billion, which generated Revenues for Lottomatica of €54.9 million, or approximately 9.4% of Total Revenues.

In October 2003, the Ministry of Economy and Finances granted to Consorzio Lotterie Nazionali, a consortium 63% owned by Lottomatica, the exclusive concession to operate Instant and Traditional Lotteries, which prior to that time had been operated by the AAMS. The remaining shares of the consortium are held by Scientific Games International, Inc. (20%), Arianna 2001 S.p.A. (15%) and others. The concession expires in March, 2010, with respect to Traditional lotteries, and in May, 2010, with respect to Instant Lotteries, unless such terms are extended at the discretion of the AAMS. Instant and Traditional Lotteries can be played mainly at tobacconists, but also at bars, motorway restaurants and newspaper stands. Instant and Traditional lotteries are available at approximately 35,800 points of sale (of which approximately 26,900 are also Lotto points of sale). The Lotto, Sports Pools and Other Pari-Mutuel Betting and Services networks and terminals also support the Instant and Traditional Lotteries, for which Lottomatica provides a dedicated DPC.

As compensation for its management of the Instant and Traditional Lotteries, Lottomatica receives a fee, equal to a percentage of the amount wagered.

The Instant and Traditional Lotteries fee is based on a scale or *décalage* similar to the one used to calculate Lotto fee. The fee rate initially applied is 12.37% of the amount wagered (including applicable VAT); as the total wagers increase, the fee rate subsequently applied to incremental wagers gradually decreases. Such fee also includes the retailer's fee, which is 8% of the amount wagered in the case of Instant Lotteries and 10% of the amount wagered, in the case of Traditional Lotteries. As a result, the average fee rate (expressed as a percentage of the total wagers collected) in a given year gradually declines, as the total wagers amount increases. This mechanism has a stabilising effect on Instant and Traditional Lotteries revenues. In fact, if total wagers drop in a certain year, Lottomatica's revenues decline less than proportionally, as the average fee rate (expressed as a percentage of the total wagers collected) increases. The converse also is true; Instant and Traditional Lotteries revenues do not increase in direct proportion to an increase in total wagers from year-to-year. In order to take into consideration the effects of inflation on the determination of the fee, the minimum and maximum thresholds of each bracket are updated annually in a manner which corresponds to the ISTAT index for the income of white collar families.

As of the date of this Offering Circular, the brackets from which the fee due to Lottomatica for Instant and Traditional Lotteries is determined are as follows:

Bracket	Total Annual Wagers (€)	Fee Due to Lottomatica (As a percentage of the Total Wagers Collected)
1 st	Up to 533,499,977	12.37%
2 nd	From 533,499,977 to 800,250,000	12.32%
3 rd	From 800,250,000 to 1,067,000,000	12.27%
4 th	From 1,067,000,000 to 1,600,500,000	12.22%
5 th	Over 1,600,500,000	12.17%

Instant Lotteries

For the year ended December 31, 2005, 793 million Instant Lottery tickets were sold, representing total wagers of approximately €1.5 billion.

Instant Lotteries are off-line lotteries consisting of scratch-off tickets with hidden numbers, letters and/or symbols that participants scratch off and immediately know whether they have won. The determination of the number of lotteries to be called, their issue date, the sales price of the ticket to the public, the number of tickets to be produced for each lottery, the winning combinations, and the prizes, are determined by the Consorzio Lotterie Nazionali, which is required to present the plan of each Instant Lottery for the prior authorisation of the AAMS.

Instant Lotteries, which were launched in 1994 and operated directly by the AAMS, grew rapidly until 1996, becoming very popular in the Republic of Italy. After 1997, the popularity of the game declined due to player dissatisfaction, attributable both to a loss of trust in the game and to a decline in the marketing power supporting the product. The decline in consumer trust can be largely attributed to an incident in 1997 in which an exceptionally high number of winning tickets was distributed in Curno, a small village in Northern Italy, and the AAMS did not honor winning tickets because it suspected that fraud had occurred. Consorzio Lotterie Nazionali took steps to revitalise the game commencing in mid-2004, after it was awarded the concession, and generated €400 million in total wagers during the next six months.

The key factors of the Instant Lotteries revitalisation plan are:

Product innovation: introduction of a greater, innovative offering of games, for diverse customer segments, and with a much higher payout than in the past;

Security: introduction of an activation and ticket validation computer system that provides a high level of security;

Impact advertising: significant advertising investments both in the traditional media as well as at the points of sale; and

Efficient logistics: introduction of a telephone call center for management of orders, and direct delivery of the tickets to the points of sale.

Different games with price ranges equal to €1, €2, €3 and €5, have been introduced to the market. There are currently 10 different games: “Un Due Tris”, “Porta Fortuna” and “Sette e mezzo” at €1; “Batti il Banco”, “Dado Matto” and “Fai Scopa” at €2; “Las Vegas” and “Super Poker” at €3; “Il Miliardario” at €5—the latter, in particular, initiated in 2005, has been very successful, and exceeded Lottomatica’s expectations; and “Medaglia d’oro” introduced this year and related to the 2006 Winter Olympic Games in Turin, was a €2 game.

During 2006, Lottomatica plans to launch at least 3 or 4 new Instant Lottery games.

Lottomatica’s overall strategy has been to progressively increase the average sales price through the consolidation of four distinct price ranges and the spot marketing of higher priced products on special occasions.

Traditional Lotteries

For the year ended December 31, 2005, 16 million Traditional Lotteries tickets were sold, representing total wagers of approximately €48.5 million.

Traditional Lotteries are off-line lotteries in which players purchase tickets with the winning ticket(s) being drawn at a later date. Traditional Lotteries are characterised by their national or international importance, their link with historical, artistic or cultural events and commemorations as well as sports events, and the validity and finality of the event to which they are matched.

Part of the state’s earnings from the Traditional Lotteries are dedicated to the pursuit of educational, cultural purposes, to the preservation and recovery of the artistic, cultural and environmental heritage, to the development of the tourist and sports structures and/or enhancement of the events linked to them. The following activities related to the Traditional Lotteries remain under the authority of the AAMS:

- the determination of the number of lotteries to be carried out every year and the events to be linked to them;
- the determination of the sale price of the ticket to the public;
- the determination of the amount of the first prize and division of the prize mass for the determination of further prizes; and
- the drawings (which usually take place, under the oversight of the State, in the national lottery room of the AAMS).

In 2006, a new law authorised all of the AAMS’s existing concessionaires to implement new interactive Instant and Traditional Lotteries through the internet, digital, analog and satellite television, and fixed-line and mobile telephones, subject to specific rules to be issued by the AAMS. As a result, Consorzio Lotterie Nazionali will not be the exclusive operator of Instant and Traditional Lotteries through these interactive channels, although it will continue to be the exclusive concessionaire for Instant and Traditional Lotteries for the non-interactive channel. The concessionaires will be compensated with a commission of 8% of the new Instant and Traditional Lotteries wagers collected by them through interactive channels. See “Regulatory Framework”. With respect to the new interactive channels, AAMS has granted to Lottomatica the right to operate on a trial basis, the instant and Traditional Lotteries through the new interactive

channels. The operation on a trial basis will last 18 months from the date of the introduction in the market of the first lottery. However, all the concessionaires will be able to collect wagers for these “new lotteries” by connecting to the platform built by Lottomatica.

Sports Pools and Other Pari-Mutuel Betting

For the year ended December 31, 2005, total wagers collected for Sports Pools and Other Pari-Mutuel Betting were approximately €169 million, which generated Revenues for Lottomatica of €9.5 million or approximately 1.6% of Total Revenues. Lottomatica maintains a separate network of installed terminals for Sports Pools and Other Pari-Mutuel Betting, which are located mostly at bars, but also at certain large tobacconists, and Lottomatica has approximately 5,300 points of sale (of which approximately 3,700 are also Lotto points of sale). These betting terminals are linked in real-time to a host data processing center provided by SOCIETÀ GENERALE D'INFORMATICA—S.p.A. (“*Sogei*”), a company 100% owned by Ministry of Economy and Finances. A host DPC also is maintained for administrative and back-office functions of the Sports Pools and Other Pari-Mutuel Betting by the Consorzio Lottomatica Giochi Sportivi, a consortium 90% owned by Lottomatica (the remaining 10% is owned by Totocom-Agenzie On Line and Telecom S.p.A.). The structure for the Sports Pools and Other Pari-Mutuel Betting telecommunications network is similar to the Lotto network, although completely separate.

Totocalcio, Totogol and “9”

In June 2003, the Ministry of Economy and Finances granted a non-exclusive concession to Lottomatica, through Consorzio Lottomatica Giochi Sportivi, a consortium 90% owned by Lottomatica, and two other operators, Sisal S.p.A. and Snai S.p.A. to collect wagers for Totocalcio, Totogol and the “9” games, which were previously operated by the CONI. The remaining 10% of Consorzio Lottomatica Giochi Sportivi is owned by Totocom-Agenzie on-line 5% and Telcos S.p.A. 5%. The Totocalcio concession expires on July 31, 2007, unless it is extended for an additional year at the discretion of the AAMS.

Totocalcio is played by wagering on the outcome of 14 sporting events, usually soccer matches. Totogol involves the prediction of the number of goals scored in each of the 14 proposed matches on the play slip. In addition to correctly predicting the results, it is also possible to win before the events take place; at the moment of validation of the play slip players may win small prizes based on random selection. “9” is a pari-mutuel game played with Totocalcio, in which the player predicts the first nine predictions of a Totocalcio unit column.

The fee paid to Consorzio Lottomatica Giochi Sportivi for operating Totocalcio, Totogol and “9” is equal to 3.45% of the total wagered amounts.

Other Pari-Mutuel Betting

The competitions linked to Olympic sports (basketball, soccer, cycling, downhill skiing, cross-country skiing, tennis, sailing and volleyball), motor sports (car and motorcycle racing), and non-sports events connected with the world of entertainment, music, culture, and current affairs of primary national and international importance are the subject of betting in the Republic of Italy.

The betting can be:

- *pari-mutuel*—where the total pool of wagers placed, minus a specified percentage, is divided among the winning players according to a formula set by the AAMS. A winner will be paid an amount equal to his or her share of the prize pool. The minimum bet is €2; or
- *fixed odds*—where the payout amount is agreed upon in advance between the player and the bookmaker. In the case of a win, the bookmaker pays an amount equal to the bet multiplied by the odds fixed at the moment of the bet. The minimum bet is €3.

In August 2004, the Ministry of Economy and Finances authorised the Totocalcio, Totogol and “9” concessionaires, including Consorzio Lottomatica Giochi Sportivi to operate, starting in December 2004, pari-mutuel betting for sports and other events authorised by the AAMS from time to time.

New Pari-Mutuel Horse Racing Betting

In December 2005, the Ministry of Economy and Finances authorised the Totocalcio, Totogol and “9” concessionaires, including Consorzio Lottomatica Giochi Sportivi, to also collect wagers for the new pari-mutuel horse betting games named “Vincente Nazionale”, “Accoppiata Nazionale”, “Nuova Tris Nazionale”, “Quartè Nazionale” and “Quintè Nazionale”.

“Vincente Nazionale”, “Accoppiata Nazionale”, “Nuova Tris Nazionale”, “Quartè Nazionale” and “Quintè Nazionale” are collected on major horse races selected from the daily horse racing program. The races are normally run every day of the week. The price for every bet is €0.50 per column for “Vincente Nazionale”, “Accoppiata Nazionale” and “Nuova Tris Nazionale” wagers, whereas it is €0.25 per column for the “Quartè Nazionale” and “Quintè Nazionale” wagers. The minimum bet for each of the games is two wager units (two columns).

A winning player is required to correctly guess the order in which the horses finish the race, ranging from guessing only the first place finish for the “Vincente Nazionale” betting to guessing the sequence of the first five horses for the “Quintè Nazionale” betting.

The fees collected by the concessionaires, including Consorzio Lottomatica Giochi Sportivi, are the following percentage of the collected wagers:

- 1% for the “Vincente Nazionale”; and
- 3.45% for “Accoppiata Nazionale”, “Nuova Tris Nazionale”, “Quartè Nazionale” and “Quintè Nazionale”.

Lottomatica competes generally in the Sports Pools and Other Pari-Mutuel business based on the number, location and convenience of the points of sale that are part of its distribution network.

Gaming Machines

For the year ended December 31, 2005, Revenues for Lottomatica from Gaming Machines were €6.4 million or approximately 1.1% of Total Revenues. Lottomatica provides information technology services for approximately 8,500 Gaming Machines located at approximately 5,000 points of sale, consisting of bars, licensed betting halls, tobacconists and, recently, hotels. Lottomatica maintains a host DPC for the Gaming Machines. Lottomatica provides information technology services for, and telecommunications services are provided through structures developed with Telecom Italia and Wind.

Currently, there are generally two types of Gaming Machines: (i) amusement machines that do not distribute prizes, and (ii) amusement machines that distribute prizes in cash.

- *Amusement Machines.* Prior to 2004 the only legal Gaming Machines in the Republic of Italy were amusement machines that paid no prizes (e.g., pinball machines) and machines that paid a winner non-cash prizes (e.g., toys and trinkets). Lottomatica does not operate or provide information technology services for Amusement Machines.
- *Amusement With Prize Machines.* In 2004, the AAMS selected 10 concessionaires to set up a remote network for monitoring legal games through amusement with prize machines. Lottomatica was one of the 10 concessionaires chosen. Concessionaires such as Lottomatica are responsible for linking all the machines, ensuring compliance with regulations regarding gaming content, win frequency and payout, administrative services (i.e., recording the amount wagered, prizes paid and tax accrued) and collecting and remitting accrued taxes to the Ministry of Economy and Finances.

Currently, legal amusement with prize machines must be connected to the AAMS network and must be activated by inserting a metal coin and are defined by the AAMS as those Gaming Machines in which:

- elements of skill or entertainment are present together with a factor of risk;
- the cost of the game does not exceed €0.50;
- the duration of the game is between seven and thirteen seconds;
- winnings are distributed in cash and exclusively in metal coins;
- each winning may not exceed €50; and
- winnings are calculated by the apparatus or the device, in a random manner and, on an overall cycle of no more than 14,000 games, they must not be less than 75% of the amount wagered.

The following changes will become effective starting on July 1, 2006, once the Ministry of Economy and Finances issues the requisite Decree:

- the cost of the game cannot exceed €1 (as compared to €0.50);
- the minimum duration of the game will be four seconds (as compared to between seven and thirteen seconds);
- each winning may not exceed €100 (as compared to €50);
- winnings will be calculated on a cycle of 140,000 games, (as compared to 14,000); and
- in addition to metal coins, the machines may also be activated by specific electronic payment devices.

In each case the devices may not reproduce, even in part, the game of poker or its basic rules.

Video Lottery Terminals. A new law issued in 2005 also introduced a new kind of Gaming Machine, the video lottery terminal. Video lottery terminals will be part of a telecommunication network and activated exclusively when connected to the network's processing system. The new video lottery terminals will make it possible to introduce new games remotely without having to modify the Gaming Machine terminal, as is presently required to change games in amusement with prize machines. These devices will only be activated by the existing Gaming Machines concessionaries after July 1, 2006 once the Ministry of Economy and Finances, together with the Ministry of Interior issues regulations to set:

- cost and method of payment for each game;
- the minimum percentage of the collection to be allocated to winnings;
- the maximum amount and the method of collecting winnings; and
- the inalterability and security specifications, for the processing system to which these devices are connected.

Gaming Machines may only be installed in licensed premises, amusement arcades and other locations where betting and gaming is authorised. Such Gaming Machines must be equipped with devices to connect to the AAMS telecommunication network that guarantee the security and inalterability of operation and game data.

The use of Gaming Machines that pay cash prizes is not allowed in the Republic of Italy by persons under 18 years of age.

On February 2, 2006, the AAMS issued, in favour of RTI Videolot, its final network operation decree, in accordance with the concession agreement, that activation of the network had been completed. Each

concessionaire may connect to its network only the number of Gaming Machines indicated in the specific AAMS authorisation. On December 31, 2005, authorisations were granted to RTI Videolot, to connect to its network 12,000 amusement with prize machines, 8,500 of which are already installed in commercial outlets. Such machines are owned and maintained by over 40 operators. Lottomatica, through RTI Videolot, may request that additional Gaming Machines be added to its network, subject to a specific prior authorisation by AAMS and further provided that the total number of Gaming Machines that are the subject of Lottomatica's concession may not exceed 25% of the total number of machines connected by all concessionaires to the AAMS network. See “—Legal Proceedings”.

Wagers generated from Gaming Machines are presently allocated as follows:

- 75% of revenue must be paid out in prizes;
- Of the remaining 25%:
 - 13.5% (effective July 1, 2006 this is reduced to 12.0%) goes to tax;
 - 0.3% (effective July 1, 2006 this is increased to 0.8%) goes to the AAMS; and
 - 11.2% (effective July 1, 2006 this is increased to 12.2%) is split among the business where the machine is located (usually a bar), the operator (who purchases, installs and maintains the machine and collects from it) and the concessionaire (*i.e.*, Lottomatica) who is responsible for monitoring (through its network to which the machine is linked) its compliance with the regulations and the amount of tax to be paid. The split is negotiated among the parties.

Lottomatica collects from the operators the fee for the AAMS, the tax payable and Lottomatica's fee (usually around 1%). Lottomatica is required to pay the AAMS fee and accrued tax and seeks to reclaim the foregoing from the operator.

Services

Leveraging its distribution network and transaction processing experience, Lottomatica offers through its subsidiaries, LIS, Totobit, CartaLis IMEL S.p.A. (“**CartaLis IMEL**”) and LIS Finanziaria, Commercial Services, Payment Services and Processing Services.

Lottomatica's services network comprises approximately 55,000 points of sale (including approximately 17,000 points of sale where Lottomatica provides only Processing Services for third-parties) divided among tobacconists, bars, petrol stations, newspapers stands, motorway restaurants. Lottomatica has approximately 50,000 POS terminals installed at these locations (of which approximately 21,000 overlap with Lotto points of sale) and approximately 22,000 Lis Printers installed at tobacconists. The Lis Printer is a proprietary dedicated terminal for printing of stamp duties. Lottomatica maintains a host DPC supporting its services network. All services are provided through its separate services network (other than car road tax processing, which continues to be handled through the Lotto terminals). Not all points of sale with a POS terminal offer all services provided by Lottomatica.

In addition, through CartaLis IMEL, Lottomatica expects to launch stored value services, issuing and acquiring services related to pre-paid debit cards, for which necessary authorisation has been received from the Bank of Italy.

Lottomatica has been providing commercial, payment and processing services since 1998. Key milestones in the expansion of Lottomatica's Services business include:

- in 1998 Lottomatica began providing commercial services (ticketing for sporting and musical events);
- in 1999 Lottomatica began providing processing services for car road taxes and payment services for local taxes and fines;

- in 2000 Lottomatica began providing electronic telephone top-up services;
- in 2001 Lottomatica began collecting RAI TV license fees;
- in 2002 Lottomatica began providing processing services for minor taxes;
- in 2004 Lottomatica began providing utility payment services; and
- in 2005 Lottomatica began providing stamp duties processing services.

In 2006 Lottomatica received the authorisation required to issue electronic money.

In 2003, Lottomatica acquired Totobit, which provides on-line payment services and telephone top-up services and processing services in retail locations. The acquisition of Totobit has had an important strategic value for Lottomatica by providing a parallel technological infrastructure not linked to that of Lotto terminals, and the possibility of extending and diversifying Lottomatica's network of points of sale for services, games and lotteries, other than Lotto, the points of sale for which are designated by the AAMS.

In May 2005, the migration of electronic top-up services for pre-paid and fixed-line mobile telephones from Lotto terminals to POS terminals was completed. As of the date of this Offering Circular, the migration of all other services has been completed, with the exception of car road tax processing services, which Lottomatica hopes to migrate in the future.

Commercial Services

The Commercial Services provided by Lottomatica consist of distribution of services for commercial operators and collection of payments from end-users, for which Lottomatica is paid by the commercial operators. Services presently provided by Lottomatica are electronic top-up services for pre-paid mobile and fixed-line telephone accounts, and ticketing for sporting and musical events. For the year ended December 31, 2005, Lottomatica generated Revenues from Commercial Services of approximately €41.1 million.

Sale of Electronic Top-Up Services for Pre-Paid Mobile and Fixed-Line Telephone Accounts

For the year ended December 31, 2005, the sale of top-ups for pre-paid mobile and fixed-line telephone accounts generated Revenues of €35.8 million. For the year ended December 31, 2004, the sale of top-ups for pre-paid mobile and fixed-line telephone accounts generated Revenues of €28.4 million. This market has grown in recent years, as the competing market, the scratch card market, has eroded. Lottomatica expects that this trend will continue in 2006, although likely at a reduced rate.

Since 2000, Lottomatica has provided top-up services for telephone service operators, TIM and Omnitel (now Vodafone). Since 2002, top-up services have been provided for Wind and Albacom (with the Albacard). As of February 2004, the service has also been provided for Telecom Italia (sale of top-up services for international telephone cards). In July 2005 Lottomatica began providing top-up services for the mobile provider H3G S.p.A.

The electronic top-up services provide significant benefits to the consumer, as follows:

- *Simplicity*: the consumer simply goes to the point of sale, provides their telephone number and the value of the recharge and hands it to the merchant;
- *Speed*: the recharge takes only a few seconds; and
- *Security*: the terminal directly connects with the databank of the telephone provider and issues the payment receipt only after confirmation that the transaction was successful.

In relation to these services, Lottomatica is required to offer performance bonds as a guarantee to fulfill all of its obligations to the various telephone operators. As of the date of this Offering Circular, Lottomatica has arranged for performance bonds for a total amount of approximately €177 million. The amounts of the guarantees given vary in relation to the sales volume.

The fee received by Lottomatica from the telephone service operators for electronic top-up services is a percentage of the amount paid by the end-user. The percentage received is the subject of negotiations between Lottomatica and each telephone service operator for whom it provides top-up services.

Lottomatica competes in the electronic top-up services business with other operators, and the competition is based on the number, location and convenience of its points of sale, the ease of use of its service and its ability to secure and retain agreements with the Republic of Italy's major telephone operators. Lottomatica's largest competitors in this market are the Italian retail banks who provide top-up services through their ATM network.

Ticketing Services

For the year ended December 31, 2005, Lottomatica generated Revenues from ticketing services of €5.3 million.

Since 1998, Lottomatica has offered automated ticket services for the purchase of tickets and seasonal subscription tickets for sports, musical/cultural events. This service is available at approximately 800 points of sale, comprising tobacconists, specialised outlets and stadiums.

The fee received by Lottomatica for ticketing services is negotiated by Lottomatica and the relevant sports team or event organiser and may be a fixed per transaction amount or a percentage of the purchase price.

Payment Services

Lottomatica collects payments from consumers for both private sector enterprises (*i.e.*, for the payment of utility bills) and public sector entities (*i.e.*, fines, local taxes, television license fees and duties). For the year ended December 31, 2005, Lottomatica generated Revenues from Payment Services of approximately €1.4 million.

Lottomatica competes in the Payment Services business with other operators through the number and convenience of its points of sale, its hours of operation and its speed of service.

Utility Bills Payment Service

The utility bills payment service is a new business area recently developed by Lottomatica. In October 2004, it became possible to pay Telecom Italia telephone bills, and in January 2005, it became possible to pay Enel power bills and certain other bills including local taxes paid in Turin Municipality (for Soris S.p.A.) through Lottomatica's network. Such services were previously available only by debit-card payment but can now also be paid with cash.

Lottomatica receives a per transaction fee from the end-users. Italian retail banks, Poste Italiane S.p.A. (the Italian postal service) and credit card companies also provide utility bill payment services.

Lottomatica hopes to increase the number of utility suppliers for whom it provides payment services.

Payment Services for Fines and Local Taxes

This service is supplied on the basis of conventions stipulated with the Townships and with Ancitel S.p.A. (a company belonging to the Italian Townships National Association).

Lottomatica receives a per transaction fee paid by end-users, in the case of fines, and by third parties such as Townships, in the case of tax payments. Similar services are available at Italian retail banks and Poste Italiane S.p.A.

Payment Services for TV License Fees

In November 2000, the Decree of the President of the Republic of Italy containing the regulations for the diversification of the collection systems of the RAI TV license fee was issued. It foresaw the possibility of fee collection throughout the entire national territory at tobacconists' points of sale.

In January 2001, the payment service of the RAI TV license fee through Lotto points of sale began, and was offered by approximately 3,000 Lotto points of sale (with the objective of being extended to all the other Lotto points of sale authorised in the Republic of Italy). As of December 31, 2005, the service is available in approximately 16,000 Lotto points of sale.

The service uses a real-time connection with the management system of the national archive of the user records, to ensure the security and integrity of the transmitted data. This tax is collected almost in its entirety in January.

Lottomatica receives a per transaction fee from end-users for TV license fee payment services.

Processing Services

Lottomatica provides technology infrastructure to third parties for the processing of transactions (i.e., for payment of car road taxes, electronic top-ups for pre-paid mobile telephones, some minor taxes and loyalty programs and stamp duties printing), without providing the related service or collecting the related payment. For the year ended December 31, 2005, Lottomatica generated Revenues from Processing Services of €15.4 million.

Car Road Tax

For the year ended December 31, 2005, approximately 12 million car road tax payments were made through Lottomatica's network generating Revenues of €7.6 million.

As of 1999, in conformity with Law No. 449 of December 27, 1997 and the conventions stipulated among the regions (responsible for the collection of car road taxes) and the tobacconists' associations, it became possible to pay the car road tax through Lotto network at approximately 23,000 tobacconist shops (directly connected with the archive of car road taxes), in addition to the Poste Italiane S.p.A. and the Automobile Club d'Italia.

Lottomatica receives a per transaction fee payable by end-users.

Stamp Duties

For the year ended December 31, 2005, Lottomatica generated Revenues from stamp duties payment services of €5.7 million.

In June 2005, Lottomatica was selected as the technological provider under a new plan to dematerialise stamp duties, which are generally fees for the stamping of certain documents required by law. Under this major project, the new stamp duty stickers are printed at the time of purchase at the tobacconists, and will replace the "old" preprinted revenue stamps for all purposes. The on-line payment service of stamp duties is carried out by Lottomatica as operator/manager of the Association of Italian Tobacco Vendor's on-line network upon the request of the Revenue Agency. Currently approximately 22,000 Lis printers have been installed at tobacconists.

Lottomatica receives from the end-user a fee based on percentage of the payment made by the end-user.

Other

Lottomatica also provides processing services for third-party electronic top-up transactions, payment services for the duties due in connection with legal proceedings, payment services for certain minor taxes and loyalty programs.

New Products

CartaLis IMEL received the authorisation of the Bank of Italy on January 10, 2006 to start the business of issuing stored value cards after presenting the formal request on September 21, 2005. The Bank of Italy has confirmed that CartaLis IMEL, which, as of the date of this Offering Circular, is owned 85% by Lottomatica and 15% by Sella Holding Banca S.p.A., was the first Italian company to register with the Bank of Italy to issue stored value cards.

CartaLis IMEL will be active in the field of issuing stored value cards and the respective acceptance circuit. Lottomatica will provide its distribution network and its know-how regarding commercial management and point of sale networks, while Sella Holding Banca S.p.A. will provide its experience relating to the management of payment, process and verification systems, as well as a network of businesses authorised to accept electronic payments.

The stored value market can be compared in terms of evolution with the market for pre-paid debit cards. The market of the pre-paid cards has recorded a strong consumer interest in the past few years.

Seasonality

While no significant seasonality exists for Lotto, the Instant Lotteries and the Gaming Machines, Lottomatica has experienced seasonality for the following games and services:

Totocalcio: the collection occurs mostly during the period when the Italian soccer season takes place (from September to June);

Traditional Lotteries: the distribution and sale of tickets is particularly concentrated during the period of the annual draw of the Lotteria Italia (from September to January);

Car Road Tax: normally, collection peaks correspond with the four annual deadlines scheduled by the regulations;

Sports Box Office: the sale of tickets coincides with the duration of the national soccer championship, while the sale of season tickets is concentrated only during the summer months; and

RAI TV License Fee: collection peaks are noticed in correspondence with the deadline of the annual payment of the fee (mainly in January).

Sources and Availability of Raw Materials

In the business in which Lottomatica operates, raw materials consist of the play slips and the paper used for issuing the validation slips of the bets and the receipts of the services rendered by the terminal, as well as the tickets for the traditional lotteries and instant lotteries.

The cost of these raw materials is not particularly significant, nor has Lottomatica experienced any material price volatility.

Information Technology

A critical component of Lottomatica's business operations is its expertise in developing, implementing, and operating high volume, secure transaction processing systems. Lottomatica makes use of highly effective system design, delivery and ongoing support operations; terminal installation and maintenance, and hotline management and maintenance.

Lottomatica's information technology systems are designed to work together seamlessly within the relevant network to manage and deliver content in all of Lottomatica's businesses.

Lottomatica's computer and information technology network is a valuable asset to Lottomatica and it is the primary factor in the development of the various business activities.

Ongoing development and adaptation of Lottomatica's information technology is required to meet its business needs. In the past few years, a number of innovations have been carried out throughout the entire structure, both to accommodate the new business activities and to improve the degree of reliability and performance of the pre-existing ones.

In May 2005, the migration of electronic top-up services for pre-paid mobile telephones from Lotto terminals to POS terminals was completed. The migration of all other services from Lotto terminals to POS terminals is nearly complete as well, with the exception of car road tax processing services, which Lottomatica hopes to migrate in the near future. The development of the alternative network offers the opportunity for the end-user to pay not only with cash but also with debit cards.

The migration has allowed Lottomatica to operate a different network from Lotto. POS terminals have substantially lower installation costs, when compared with Lotto Terminals. This makes it possible for Lottomatica to provide services to outlet categories for which the installation of a Lotto Terminal would not be economically viable.

The business information technology infrastructure of Lottomatica is based on three Data Centers and on an IP Virtual Private Network that connects approximately 77,000 points of sale with approximately 133,000 terminals.

In order to better understand the characteristics of the current network architecture and the dynamics of this evolution, the following is a description, by line of business, of infrastructure underlying each line of business.

Lotteries

Lotto

The Host Area is currently based on three DPCs, one of which handles disaster recovery (Milan) and two processing centers (Rome and Naples) which host the systems and applications that supply the services. Every production DPC manages 50% of the active Lotto terminals and is interconnected to the other DPC and to the disaster recovery center through a complete-link, wide-band network infrastructure. The Rome DPC is connected to equipment located at the *Direzione Generale dei Monopoli di Stato*, the *Ispettorati Compartimentali dei Monopoli di Stato* and the *Commissioni d'Estrazione* (draw commissions).

Communication Technology provides the link between Lotto Terminals located at Lotto points of sale and the appropriate DPC, as well as between the DPCs. Automated recovery mechanisms have been implemented to allow the system to overcome many component malfunctions.

The entire network infrastructure for Lotto business is designed on three logistical levels:

- complete wide-band linkage between the DPCs with 34 Mbps circuits;
- wide-band backbone network for implemented collections with the use of two different operators with 2—34 Mbps circuits; and
- more than 40,000 local loops that link the collection points (ISDN, RTG and xDSL).

The telecommunication system also carries out a role of fundamental importance in the case of Disaster Recovery because, by creating alternative paths and new links, it allows the prompt replacement of elements of the telecom network that are made unavailable due to natural calamities or other fortuitous events.

Two main suppliers provide the telecommunication service:

- Telecom Italia (approximately 18,000 local loops + collection backbones); and
- B.N.L. Multiservizi (approximately 22,000 local loops + collection backbones) that avails itself of the BT-Albacom network.

Lottomatica has initiated arbitration proceedings against B.N.L. Multiservizi regarding a service interruption on June 18, 2005. See “—Legal Proceedings”.

During 2005 Lottomatica activated its first xDSL local-loops and currently has 3,000 xDSL local-loops activated. Lottomatica expects to convert a total of 14,000 local loops to xDSL and Telecom Italia has agreed to provide Lottomatica with up to 18,000 xDSL local loops.

As of December 31, 2005, approximately 39,000 terminals have been installed at approximately 34,500 tobacconists all of which have MAEL technology—Tecnost Olivetti.

In March 2006, Lottomatica completed a project to replace approximately 33,000 M320 and M350 terminals with new M370e terminals.

Sports Pools and Other Pari-Mutuel Betting

Handling almost all of the Sports Pools and Other Pari-Mutuel Betting wagers, the core system (national totaliser) is located at Sogei, while the host equipment used by the Consorzio Lottomatica Giochi Sportivi, in addition to being the collection front-end of the offices linked to the network of the Consortium itself, manages the administrative and financial aspects, accounting and point of sale billing activities.

The telecommunication network used for Sports Pools and Other Pari-Mutuel Betting is characterised by the same architectural logic as the telecommunication network used for Lotto, but is separate from the latter in that it uses identifiable dedicated resources. All of the approximately 6,000 local-loop circuits used in the networks belong to Telecom Italia.

In 2004, the terminals that collected the Sports Pools and Other Pari-Mutuel Betting wagers were separated from those of Lotto by a new software platform.

Instant and Traditional Lotteries

For the operation of Instant and Traditional Lotteries, the Consorzio Lotterie Nazionali uses core systems with software, developed by their member company Scientific Games International Inc.

The Lotto, Sports Pools and Other Pari-Mutuel Betting, and Services networks and terminals are used to scan and validate Instant and Traditional Lotteries tickets.

Gaming Machines

Core systems for Gaming Machines use software developed by Lottomatica for the information technology management of Gaming Machines.

The SAP technological platforms and, in particular, the ERP and CRM modules, are used in order to make the management of the contractual relationship with the various operators involved in this business (concessionaires, operators and proprietors of the establishments where they are located) more efficient—on the technical, bookkeeping and administrative levels.

The connectivity that provides the link between the Host and the gaming equipment (amusement with prize machine) located at the stores is based on two structures developed with the Telecom Italia and Wind operators.

Today these structures, through the use of point of access modules developed and with different technologies, make it possible to reach more than 10,000 amusement with prize machines in the different wireline or wireless modalities, providing a high degree of flexibility with regard to the various needs of the businesses where the Gaming Machines are located.

Services

The Services business network information technology structure uses POS terminals with point of sale technology installed at approximately 55,000 points of sale. All top-up (both commercial and processing) and payment services are provided by these terminals.

In addition to POS terminals the stamp duty service is provided through a Lis Printer. At the moment approximately 22,000 Lis Printers have been installed, comprising 18,000 Lis Printers installed during 2005 and 4,000 Lis Printers installed during 2006.

Car road tax processing services are still provided through Lotto Terminal and technology platform.

Both POS terminals and Lis Printers are connected to a service dedicated data center in Milan. Each terminal connects to the data center servers through a dial-up connection.

Efficiency

Recent information technology projects, have been focused on developing a standards-based information technology architecture, which makes it much easier to incorporate third-party solutions. This improves the ability of Lottomatica's information technology architecture to adapt to change and to evolve in order to better meet new market needs. In particular it provides:

- *flexibility*: possibility of using cross-border applications that are part of business functionality independent of the technology platform (service oriented architecture);
- *cost development*: reduction in costs for software development;
- *cost effective maintenance*: up-to-date tools for monitoring, development, testing, and training;
- *profiling*: management of user profiles that access only a sub-set of services;
- *optimisation*: keeping system resources focused on core transactions;
- *integration*: introduction of tools for integrated service management;
- *multichannel*: the possibility of providing the same services on different devices; and
- the development of web-based technologies, which will permit cost reduction for software distribution and configuration management.

Reliability

Lottomatica believes that the current technology is highly reliable and provides essential continuity of services.

In particular, for Lotto core systems, the Stratus systems are used, which are classified as fault-tolerance technology able to guarantee service availability at greater than 99.995%. The reliability of the entire service is also enhanced by the use of automated remote telediagnosis procedures which are designed to detect major terminal malfunctions and notify in real time the people in charge of servicing the terminals.

The gaming terminals (Lotto and betting) are linked on-line in real time to the core system. In the case of network failure, the terminals can automatically connect through a backup line and reactivate the network link as soon as the problem is solved, in order not to cause system blockages. All of this takes place in a completely automated manner, without the storekeeper having to carry out any operation. The contracts between Lottomatica and its suppliers, Telecom Italia, B.N.L. Multiservizi, and MAEL, require that the suppliers perform ordinary and preventative maintenance at a level consistent with that required by the Lotto concession. Cases of interruptions, however, have occurred, mostly focusing on the telecommunications network. See “Risk Factors—Risk Factors Relating to Lottomatica—Lottomatica’s systems are subject to network interruption risks which could have a negative impact on the quality of the services offered by Lottomatica and, as a result, on demand from consumers and consequently volume of sales” and “Business—Lottomatica—Legal Proceedings—Interruption of Network Service”.

Security

In order to provide an elevated level of security in the collection and management of the bets and in the performance of the other services, Lottomatica has adopted, among others, the following precautions:

- game receipts and the receipts for other performed services are printed on watermarked paper with anti-forgery features;
- transmission of the information data is undertaken in a coded manner in order to avoid reading of that data in the case of intrusions in the information system;
- access to the circuits and to the data is protected by the use of, respectively, physical and logical keys;
- access to each of the system levels is only permitted to subjects supplied with the access authorisation for that specific level; and
- the terminals are individually identifiable and their correct assignment to the bet collection point is held under constant control.

Intellectual Property

The Lottomatica Group is the holder of the following trademarks, all registered in the Republic of Italy:

Lottomatica Ownership

Trademark	Expiration
“Gruppo Lottomatica Giochi e Servizi” *	July 27, 2011 (figurative)
“Lottomatica”	November 13, 2006 (denominative)—February 27, 2015 (figurative)**
“Lottomatica Sistemi”	July 27, 2011 (figurative)
“Lottomatica Italia Servizi”	July 27, 2011 (figurative)
“Lottomatica International”	July 27, 2011 (figurative)
“Gioco del Lotto”	August 11, 2009 (figurative)
“Lotto telefonico”	January 10, 2010 (figurative)—January 12, 2010 (figurative)—January 12, 2010 (denominative)
“Lotto Tel” (Etichetta a colori)	January 12, 2010 (figurative)
“Lottostadio”*	September 25, 2012—September 25, 2012 (both figurative)
“Quizzo Lotto”*	July 19, 2011 (figurative)
“Progetto Mosè”	February 28, 2011 (figurative)
“Mr. Ambo”	July 25, 2011 (figurative)
“Cinquinotto”	September 24, 2009 (figurative)
“Il Fortunello”	November 22, 2006 (denominative)
“Scrigno della Fortuna”	April 21, 2007 (denominative)
“Busta della Fortuna”	April 21, 2007 (denominative)
“Datti un 5”*	December 16, 2015 (denominative)—December 2, 2015 (figurative)
“Gioca Rigioca”*	December 5, 2015 (denominative)—December 7, 2015 (figurative)
“Palalottomatica”*	July 11, 2013 (figurative)—June 24, 2013 (denominative)
“Lottambuli”*	July 23, 2014 (denominative)

* These trademarks have been only deposited and Lottomatica is waiting for their registration.

** Lottomatica has filed a request of renewal.

Lis Ownership

Trademark	Expiration
“Il comune sotto casa” (generico)	June 8, 2011 (figurative)
“Il comune sotto casa” (Comune di Roma)	June 8, 2011 (figurative)
“Il comune sotto casa” (Comune di Napoli)	June 8, 2011 (figurative)
“PuntoLis”	August 9, 2014 (denominative)
“Cartapuntolis”	August 9, 2014 (denominative)
“Pagolis”	August 9, 2014 (denominative)
“Cartalis”	August 9, 2014 (denominative)
“Lispoint”	August 9, 2014 (denominative)
“Cartapagolis”	August 9, 2014 (denominative)
“Lis Net servizi on line”	March 24, 2009 (figurative)—March 24, 2009 (figurative)

Consorzio Lotterie Nazionali Ownership

Trademark	Expiration
“GRATTA E VINCI!”*	February 20, 2014
“BATTI IL BANCO”*	March 10, 2014
“UNDUETRIS”*	March 10, 2014
“DADO MATTO”*	March 10, 2014
“CACCIA AL BOTTINO”*	March 10, 2014
“THRILLER TRIS”*	March 19, 2014
“TUTTI FRUTTI”*	July 21, 2014
“SETTE E MEZZO”*	September 27, 2014
“CONSORZIO LOTTERIE NAZIONALI”	November 5, 2014
“TUTTA FORTUNA”*	November 5, 2014
“STELLA STELLINA”*	November 5, 2014
“LAS VEGAS”*	January 31, 2015
“FAI SCOPA”*	April 22, 2015
“PORTA FORTUNA”*	April 22, 2015
“SUPER POKER”*	May 18, 2015
“MILIARDARIO”*	August 8, 2015
“LOTTERIA ITALIA”*	September 12, 2015
“MEDAGLIA D’ORO”*	February 3, 2016
“LOTTERIE NAZIONALI”*	September 12, 2015
“TUFFATI NELL’ORO”*	September 26, 2015
All the trademarks owned by the Consorzio Lotterie Nazionali are figurative.	

* These trademarks have been only deposited and the Consorzio Lotterie Nazionali is waiting for their registration.

On January 12, 2004, the AAMS granted, in exclusive, the license to use the following trademarks to the Consorzio Lotterie Nazionali: “Gratta e Vinci”, “Rischia e Vinci”, “Scopri e Vinci”, “Strappa e Vinci”, “Cancella e Vinci”, “Alza e Vinci”, and “Rischiattutto”.

Totobit Informatica Ownership

Trademark	Expiration
“xgate”	June 21, 2011 (figurative)
“Totobit System”	June 27, 2011 (figurative)
“Puntomatiko” *	July 2, 2012 (figurative)
“Ulisse” **	March 29, 2013 (figurative)—March 29, 2013 (denominative)
“Totobit Power Pos” *	September 26, 2013 (figurative)
“Totobit Informatica Software & Sistemi S.p.A.”* . . .	September 26, 2013 (figurative)
“X Gol” **	September 1, 2014 (figurative)
“Totoservice” **	May 5, 2013 (figurative)
“Telesystem” **	May 5, 2013 (figurative)
“Jet Mille” **	May 5, 2013 (figurative)
“Lottobit” **	September 1, 2014 (figurative)
“Totobit Informatica” **	May 5, 2013 (denominative)
“X” **	May 5, 2013 (denominative)
“Puntoricarica” *	December 16, 2015 (figurative)

* These trademarks have been only deposited and Totobit is waiting for its registration.

** Totobit has filed a request of renewal.

Sed Ownership

Trademark	Expiration
“Sed Multitel S.p.A.” *	September 26, 2013 (figurative)

* This trademark has been only deposited and SED is waiting for its registration.

The Lottomatica Group is the holder of the following international trademarks:

Lottomatica Ownership

Trademark	State	Expiration
“Scigno della fortuna”	Andorra	December 11, 2007
“Busta della Fortuna”	Andorra	December 11, 2007
“Lottomatica”	Andorra	December 5, 2007
“Il Fortunello”	Andorra	December 11, 2007

The Lottomatica Group is the holder of the following European trademarks:

Lottomatica Ownership

EU Trademark	Expiration
“Lottomatica”	October 15, 2013 (denominative)
“Lottomatica Giochi Sportivi”	October 15, 2013 (figurative)

Domain Names

The Lottomatica Group is also owner of the following domain names:

Lottomatica Ownership

Domain names	Issue Date	Expiration Date
"giocodelotto.it"	April 3, 2001	April 3, 2007
"giocodellotto.it"	April 20, 2001	April 20, 2007
"gioco-lotto.com"	January 3, 2005	January 3, 2007
"lottomatica.com"	February 18, 1999	February 18, 2010
"lottomatica.net"	March 21, 1999	March 21, 2007
"lottomatica.org"	March 21, 1999	March 21, 2007
"lottomatica.it"	April 17, 1997	April 17, 2007
"lottocult.it"	May 16, 2005	May 16, 2006
"lottocult.net"	May 11, 2005	May 11, 2007
"lottocult.com"	May 11, 2005	May 11, 2007
"gruppolottomatica-giochieservi.eu" . . .	Not registered yet	—
"lottomaticaitaliaservizi.eu"	Not registered yet	—
"lottomatica-giochisportivi.eu"	Not registered yet	—
"lottotelefonico.eu"	Not registered yet	—
"giocodellotto.eu"	Not registered yet	—
"gioco-del-lotto.eu"	Not registered yet	—
"lottomatica.eu"	Not registered yet	—
"lottotel.eu"	Not registered yet	—
"lottomaticasistemi.eu"	Not registered yet	—

Consorzio Lotterie Nazionali Ownership

Domain names	Issue Date	Expiration Date
"grattaevinci.com"	May 13, 2002	May 13, 2006
"consorziolotterienazionali.eu"	Not registered yet	—

Core systems for Gaming Machines use software developed by Lottomatica for the information technology management of Gaming Machines.

Lottomatica Group, and in particular Lottomatica and Totobit, have internally developed certain softwares, which are made available to the companies of the Group. Such softwares are also licensed within the Group for the purposes of the ordinary management of the companies.

The software developed by Lottomatica can be briefly described as follows:

- (i) software used in the central system for the centralised management of (a) any functions connected to the services provided by Lottomatica through the points of sale of Lotto, of the lotteries and of the pari-mutuel bets, and to any other commercial services not connected to games, such as telephonic top-up services or utilities payment services, as well as (b) back-office functions for the centralised management of the data relating to the points of sale, for the data exchange, for the connection between the terminals located at the points of sale, for the on-line payments, for the trouble ticketing of the terminals, for the management of the points of sale, for the updating of the terminals through the network, for the management of the internal internet network and for the management of the data archive of Lottomatica; and
- (ii) software used in the terminals for the management of Lotto, of the lotteries and of the pari-mutual games.

Lottomatica Group, and in particular Lottomatica Italia Servizi, is the owner of a “Point of Sale” software (“*POS*”), developed for the management of the on-line payments at the points of sale.

In addition, Lottomatica Group, and in particular Lottomatica, Totobit, Seal Hultitel and Lottomatica Italia Servizi are licensees of standard softwares developed by the principal operators, such as Microsoft and Oracle.

Except as described above in relation to the licensing and/or authorisation concessions, Lottomatica’s activities have no other dependency on patents, licenses, industrial contracts, commercial contracts, brands, franchises, authorisations or manufacturing processes.

Competition

Gaming Activities

The Italian gaming market can be divided into the following sectors: (i) lotteries; (ii) gaming; and (iii) betting.

Lottomatica is an industry leader in the Republic of Italy in the overall gaming market and represents the only concessionaire for Lotto. It also is the sole concessionaire for Instant and Traditional Lotteries, through Consorzio Lotterie Nazionali, and is active in other gaming segments, such as Sport Pools and Other Pari-Mutuel Betting and Gaming Machines.

Currently Lottomatica operates principally in the lottery sector. Lottomatica’s principal competitor in this sector is Sisal, which operates the *Superenalotto* lottery, a jackpot based lottery and also sports pools. Another competitor in this sector is Snai, which runs sport pools games.

Lottomatica also faces some competition from operators in the betting sector, which encompasses games offered in specially-dedicated licensed betting halls. The operators in this sector are primarily licensed private individuals, licensed betting associations, or licensed partnerships which contract for betting operation services from lottery operators, principally Snai and Sisal.

In the Gaming Machine sector, Lottomatica competes with the nine other concessionaires who provide information technology services for Gaming Machines, including Sisal and Snai.

Services Activities

In 1998, Lottomatica began using its network to provide commercial, payment and processing services. In this market, Lottomatica believes that its principal competitors are Automobile Club d’Italia (with respect to car road tax), Poste Italiane S.p.A., and Italian retail banks in general, as they possess wide-spanning computer networks that offer similar payment services.

Employees

The following table shows the average number of employees of Lottomatica Group as of the dates indicated divided by principal categories:

	For the Year Ended December 31,		
	2005	2004	2003
Executives (<i>dirigenti</i>)	55	50.0	51.9
Mid-level employees (<i>quadri</i>)	112	91.1	82.7
Lower level employees (<i>impiegati</i>)	839	813.8	771.7
Production workers (<i>operai</i>)	56	61.3	64.4
Total	1,062	1,016.2	970.7

Lottomatica operates predominantly in Italy where the large part of its employees are located.

Relations with Lottomatica's mid-level employees and production workers are subject to the national collective bargaining agreement for the metalworks industry. On December 1, 2000, Lottomatica entered into an agreement with its mid-level employees and production workers supplementing the terms of the relevant national collective bargaining agreement. Relations with Lottomatica's executives are subject to the national collective bargaining agreement for executives in the metalworks industry.

Management believes that Lottomatica's relationship with its employees is generally satisfactory.

During the last three years, Lottomatica has not experienced any strike that significantly influenced its business activities.

Properties

Lottomatica's headquarters are located at Rome at Viale del Campo Boario, 56/D.

As of the date of this Offering Circular, Lottomatica is using the following rented assets:

Lessor	Use of Property	Address of Property	Contract Duration		Annual Rental Fee (euro)
			From	To	
Giorgia Nicolin	Zonal Processing Center ("Cez") VE—1st floor	Via Pepe, 6—Mestre (VE)	September 1, 2004	August 31, 2010 with tacit renewal of 6 years	49,260.00 + Istat revaluation
Paolo Greguoldo	Cez VE—2nd floor	Via Pepe, 6—Mestre (VE)	September 1, 2004	August 31, 2010 with tacit renewal of 6 years	49,260.00 + Istat revaluation
San Giulio D'Orta . . . S.r.l.	Cez TO	Via S. Francesco da Paola, 37—Torino	December 1, 2004	November 30, 2010 with tacit renewal of 6 years	60,000.00, 3,800 (heat), a/c (25,000)+ Istat revaluation
Nedisa	Cez CA	Via Marconi, 29/31 Quartu Sant'Elena (CA)	May 19, 1992	November 30, 2009	130,000.00 + Istat revaluation
Gitex Gruppo Imprenditoriale S.p.A.	Cez PA	Viale Regione Siciliana, 7275—Palermo	November 22, 2004	November 21, 2010 with tacit renewal of 6 years	105,539.56 and 10,649.32 (parking) + Istat revaluation
Gesfin Gestioni Informatiche, Industriali e Finanziarie S.p.A.	Cez RM	Via delle Strelitzie, 35—Santa Palomba—Rome	January 1, 2004	April 30, 2012	537,000.00 including services for 2004 Euro 384,834.00 incl. services for 2005, Euro 232,668.00 for 2006 + Istat revaluation
Fimper S.p.A.	Cez MI	Via Pisacane, 26—Pero (MI)	October 1, 2004	September 30, 2010 with tacit renewal of 6 years	76,000.00 + Istat revaluation
Telecom Italia S.p.A. . .	Cez BA	Via S. Dioguardi, 1—Bari	October 1, 2004	Terminated effective July 18, 2006	260,000.00 including receptionist + guard services
Fiart Cantieri Italiani S.p.A.	Cez NA	Via Antiniana, 2/A—Pozzuoli (NA)	November 21, 2004	November 20, 2010	348,072.00 + Istat revaluation including water, heat, a/c, janitorial services and armed guard

Lessor	Use of Property	Address of Property	Contract Duration		Annual Rental Fee (euro)
			From	To	
Pension Fund for Self-Employed Surveyors	Cez FI	Via Volturmo, 10/12— Sesto Fiorentino (FI)	February 1, 2005	January 31, 2011 with acit renewal of 6 years	81,408.00 + Istat revaluation
Iniziativa Sviluppo Immobiliare—Isim S.p.A.	Offices	Viale del Campo Boario, 56/D— Rome	July 20, 2004	April 18, 2012	2,700,000.00 + Istat revaluation
Edilcam	Offices	Via Mosca, 36— Rome	July 2, 1999	December 15, 2011	195,542.64 + Istat revaluation
Foresti Collezioni S.r.l.	Offices	Via Benzoni 22A/24— Rome	August 1, 2005	July 31, 2011 with tacit renewal of 6 years	96,000 + Istat revaluation
Armando Testa S.p.A.	Offices	Piazza Bottego 51, Rome	July 1, 2005	April 30, 2006	72,540

As of the date of this Offering Circular, PCC GS S.p.A. owns real property located at Zona Industriale, 85050 Tito, Potenza, which PCC GS S.p.A. uses as office space.

As of the date of this Offering Circular, Totobit is using the following rented assets:

Lessor	Use of Property	Address of Property	Contract Duration		Annual Rental Fee (euro)
			From	To	
Areagroup Center S.r.l.	Offices	Via Pordenone, 8— Milan	November 1, 2004 (fourth floor) and January 1, 2005 (fifth floor)	December 31, 2010 with tacit renewal of 6 years December 31, 2012 with tacit renewal of 6 years	137,815.00 and 151,930.00 (parking) + Istat revaluation
Areagroup Center S.r.l.	Offices	Via Pordenone, 8— Milan	December 1, 2005	November 30, 2011 with tacit renewal of 6 years	67,510.00 and 2,400.00 (parking) + Istat revaluation
Ing Lease S.p.A.	Offices	Via Staro, 4— Milan	April 14, 2000	April 13, 2010	Italian Lire 3,414,659,000 (approximately €1,463,000) for the entire duration of the leasing

Obligation to Transfer Assets Upon the Termination of Lotto or Other Concessions

Upon termination of the Lotto concession, Lottomatica is required to transfer, free of charge, to the AAMS, upon its request ownership of the entire automated systems. A similar requirement exists with respect to the termination of the other concessions as well. For further information see “Risk Factors—Risk Factors Relating to Lottomatica—Lottomatica’s obligation to transfer assets upon the termination of Lotto and other concessions could have a material adverse effect on its financial position and results of operations” and “Regulatory Framework”.

The following tables show the composition of the tangible fixed assets constituting property subject to return free of charge at December 31, 2005 and 2004, and the related cumulative depreciation at those dates.

**Composition of tangible fixed assets
subject to return free of charge**

<u>Value</u>	<u>Cost at December 31, 2004</u>	<u>Total Change</u>	<u>Cost at December 31, 2005</u>
	(in thousands of euro)		
Plant and machinery	408,003	(49,825)	358,178
Industrial equipment	—	—	—
Other property	2,725	(717)	2,008
Fixed assets in progress	7,632	23,988	31,620
Total	<u>418,360</u>	<u>(26,554)</u>	<u>391,806</u>

**Composition of Cumulative Depreciation
related to the tangible fixed assets
subject to return free of charge**

<u>Value</u>	<u>Cost at December 31, 2004</u>	<u>Total Change</u>	<u>Cost at December 31, 2005</u>
	(in thousands of euro)		
Plant and machinery	355,810	(53,460)	302,350
Industrial equipment	—	—	—
Other property	2,636	(673)	1,963
Total	<u>358,446</u>	<u>(54,134)</u>	<u>304,312</u>

Legal Proceedings

Lottomatica is subject to various legal proceedings arising in the ordinary course of its business. Lottomatica has never been subject to bankruptcy proceedings. Except as set forth below, Lottomatica believes that none of the legal proceedings to which Lottomatica is currently a party, if adversely decided, are likely to have a material adverse effect on its business, financial condition or results of operation. A number of proceedings discussed below were commenced against the Old and/or the New Lottomatica, for the sake of clarity, Lottomatica, as successor to the Old and New Lottomatica, is referred to below as the original party.

Lottomatica/AAMS Arbitration

On March 7, 2005, Lottomatica initiated arbitration proceedings against the AAMS, seeking a ruling that the effective date of the Lotto concession is June 8, 1998 and that, as a result, the final expiration date of the Lotto concession is June 8, 2016. See “Regulatory Framework”. The AAMS has contended that the expiration date of the concession is April 17, 2012.

On August 1, 2005, the arbitration panel rendered its decision, declaring that the legal effective date of the beginning of the Lotto concession was June 8, 1998 and that, as a result, its final expiration date is June 8, 2016. The arbitration panel determined that the ministerial decree granting the Lotto concession required a determination by the Court of Justice that such concession did not violate European Community Treaty provisions before the Lotto concession could have become effective. Such

determination occurred on June 8, 1998, the date when the infringement procedure No. 91/0619 “Automated Lotto game” filed by the European Commission with the Court of Justice vs. the Italian Republic was terminated.

This award is not yet final as the AAMS filed an appeal on December 15, 2005 before the Court of Appeal of Rome. The first hearing on the appeal was held on April 20, 2006. The next hearing has been scheduled to be held on January 28, 2010. The duration and outcome of the appeal cannot be predicted.

Datasiel-Sistemi Tecnologie Di Informatica S.p.A. Arbitration

On April 22, 2003, Datasiel-Sistemi Tecnologie di Informatica S.p.A. (“*Datasiel*”) initiated an arbitration proceeding against Lottomatica seeking a ruling that the termination date of its agreement to provide Lottomatica with information technology services for the Cez of Genoa is April 14, 2012. Lottomatica contested this claim and requested a ruling to the effect that this contract had expired on April 17, 2003.

On October 10, 2003, Lottomatica filed a counterclaim for breach of a contractual guarantee that fees charged by Datasiel would be excessive and requested an order that Datasiel refund amounts paid by Lottomatica in excess of competitive prices for similar services.

By a ruling rendered on July 26, 2005, the arbitration panel:

(i) determined that the contract remained in force between the parties and that Lottomatica was in default of its contractual obligations, ordered Lottomatica to perform its obligations under the contract and pay to Datasiel €2,500,000 in damages for breach of contract; and

(ii) determined that Datasiel was in breach of the guarantee of competitiveness clause of the contract, and ordered Datasiel to pay to Lottomatica the total amount of €2,100,000.

As a result, Lottomatica faces the risk of having to pay to Datasiel additional damages because performance of the contract is no longer possible.

On December 28, 2005, Lottomatica filed an appeal with the Court of Appeal of Rome. The second hearing on the appeal is scheduled for July 7, 2009 and the duration and outcome of the appeal cannot be predicted.

Ticket One S.p.A. Proceedings

On August 12, 2003, Ticket One S.p.A. (“*Ticket One*”), which operates in the services business sector, primarily in the ticketing service area, filed a suit with the Lazio Regional Administrative Court (“*TAR Lazio*”) to obtain, among other things, an order requiring Lottomatica to make its network available to third parties under the same conditions as those offered to LIS, a subsidiary of Lottomatica.

On December 3, 2003, Ticket One also commenced civil proceedings before the Civil Court of Rome, substantially repeating the same claims made in the administrative proceedings before the TAR Lazio. In addition, Ticket One requested (i) €10 million in damages for alleged unfair competition and illegal use of the network by Lottomatica and LIS, and (ii) an order enjoining them from committing any further acts of unfair competition and, alternatively, access to Lottomatica’s electronic network.

Lottomatica and LIS have responded to both lawsuits and, since Ticket One had filed the same claims with two different courts, filed an appeal with the Unified Sections of the Court of Cassation, requesting a preliminary proceeding to resolve the issue of jurisdiction and the suspension of the proceedings. The proceeding before the TAR Lazio was suspended pending the outcome of the appeal before the Court of Cassation. The Court of Cassation rejected Lottomatica and LIS’s appeal.

By order of July 24, 2004, the Civil Court of Rome dismissed the preliminary motion filed by Lottomatica and LIS to suspend the proceeding. The next hearing before the TAR Lazio has not yet been scheduled.

Lottomatica's and LIS's counsel believe that the claims of Ticket One are without merit.

Antitrust (Lottomatica—Sisal)

On July 18, 2003, the Italian Competition and Market Supervisory Authority (the “*Authority*”) commenced proceedings with respect to alleged collusion between Lottomatica and Sisal, a competitor of Lottomatica in the game sector.

At its meeting of November 25, 2004, the Authority imposed on Lottomatica and Sisal fines of €8 million and €2.8 million, respectively, which amounts were, in accordance with then current legislation, proportional to their individual revenues. In addition, the Authority ordered Lottomatica and Sisal to cease their anticompetitive behavior and send notices informing all the points of sale of their option to conduct business with other operators for games other than Lotto, Instant and Traditional Lotteries and to give the Authority notice of the measures taken by them within 90 days.

Lottomatica disputed the allegations made by the Authority and appealed the order with the TAR Lazio, requesting, among other things, the suspension of the order.

At a hearing on March 2, 2005, the TAR Lazio rejected Lottomatica's request for suspension of the payment of the fine and suspended the remainder of the order because of the generic character of the order given by the Authority.

In a decision published on June 15, 2005, the TAR Lazio dismissed the appeals by Lottomatica and Sisal.

Prior to the publication of the decision, and with reservations, Lottomatica paid the fine and complied with the order, to send to all the points of sale the communication requested by the Authority, indicating the possibility to affiliate themselves with other operators for games other than Lotto and Instant and Traditional Lotteries. In a notice dated October 25, 2005, the Authority acknowledged that Lottomatica had complied with its order, specifying that: “*The Authority will continue monitoring the progression of the market concerned, reserving the right to intervene whenever subsequent violations of the regulations for protection of the competition occur*”.

On November 30, 2005 the TAR Lazio issued the reasons for its decision. On March 29, 2006, Lottomatica filed an appeal against the TAR Lazio's decision before the Council of State.

Summons to Partners Formula Giochi

On October 26, 2005, the companies Karissa Holding S.A., Cored International S.A., Mr. Massimo Maci and partners of Formula Giochi S.p.A. in liquidation (operating in the gaming collection and wagering market) served a summons on Lottomatica and Sisal S.p.A. to appear by January 30, 2006 before the Court of Appeal of Rome. The plaintiffs requested the assessment of the liability of Lottomatica and Sisal S.p.A. for engaging in the anticompetitive conduct enjoined by the order of the Authority of November 25, 2004, which conduct, the plaintiffs allege, was responsible for Formula Giochi S.p.A.'s inability to enter the gaming and wagering market, with the consequent reduction in the business value of the latter. The plaintiffs also requested that Lottomatica and Sisal S.p.A. be ordered to, jointly and severally, pay directly to the plaintiffs, as well as to Formula Giochi S.p.A. damages totaling €37,207,000 in the aggregate. Subsequently, Formula Giochi S.p.A. entered into a settlement agreement with Sisal to settle the litigation accepting an amount of €500,000. Lottomatica has argued in its pleadings that the plaintiff may not pursue the claim on behalf of Formula Giochi S.p.A. for damages in the amount of €34,200,000 because Formula Giochi S.p.A. was compensated for any claims it may have had by the

€500,000 it received pursuant to the settlement agreement with Sisal. In a brief dated March 31, 2006, Karissa Holding S.A. and others, by presenting their motions consequent to the occurred appearance of Formula Giochi S.p.A., have acknowledged the entrance into a transactive agreement between the same Formula Giochi S.p.A. and Sisal S.p.A. to define the lawsuit pending between the same parties. This agreement foresees the recognition, in favor of Formula Giochi S.p.A., of an amount equal to €500,000. In the brief regularly deposited by Lottomatica, Lottomatica asserted that Karissa Holding S.A.'s active legitimacy no longer existed following the constitution of Formula Giochi S.p.A., as well as the non-admissibility of the intervention of the same Formula Giochi S.p.A., besides all the already-formulated prejudicial, preliminary and merit exceptions. With regard to this, it has been highlighted how the transaction of €500,000 between Sisal S.p.A. and Formula Giochi S.p.A. against the latter's demand of €34,200,000 proves the unfoundedness of the demands advanced by Formula Giochi S.p.A.

The next hearing will be held on July 3, 2006.

Gaming Machines

SAPAR-Associazione Nazionale Apparecchi per Pubbliche Attrazioni Ricreative ("**SAPAR**") and FM S.r.l filed an appeal with the TAR Lazio requesting, among other things, the preliminary suspension of a call for tenders organised by the AAMS in April 2004 to find concessionaires for the activation and management of video lottery Gaming Machines. The annulment, after suspension, of the contracts that were the subject of the call for tenders was also requested in a separate appeal to the TAR Lazio by a group of Gaming Machine operators.

The call for tenders ended in June 2004 with the execution of concession agreements with ten operators (including RTI Lottomatica).

By orders of June 9, 2004 and September 29, 2004, the TAR Lazio dismissed both appeals for suspension of the tender.

In a decision rendered on May 31, 2005, the TAR Lazio definitively dismissed the adverse appeals for the annulment of the tender.

On November 3, 2005, SAPAR and FM S.r.l. served notice of appeal with the Council of State, repeating the causes of action that had been rejected by the TAR Lazio.

A second proceeding (Aliffi and others) was commenced before the Council of State, after having been dismissed by Tar Lazio.

The SAPAR and FM S.r.l. and the Aliffi and others litigation proceedings have been consolidated and the first hearing was held on March 14, 2006, when the Council of State suspended the proceeding as a result of the merger of the New Lottomatica and FinEuroGames S.p.A. into NewGames S.p.A. on December 20, 2005.

While Lottomatica cannot rule out the possibility that this appeal will be successful, Lottomatica believes, upon advice of counsel, that there are reasons to believe that these appeals will likewise be dismissed.

Instant and Traditional Lotteries

Lottomatica participated, as representative of a temporary joint venture, in the call for tenders organised by the AAMS for the management of the national Traditional and Instant Lotteries. In a letter dated July 30, 2001, the AAMS informed Lottomatica that the tender had been awarded to the aforesaid joint venture.

The award of the concession to the joint venture has been the subject of a number of challenges by the other participants to the tender that may be summarised as follows:

- (a) appeal brought by Sisal: Sisal abandoned this suit at a hearing on April 10, 2002, thus this action may be considered definitively concluded;
- (b) appeal filed by Autogrill, GTECH Corporation, Oberthur Gaming Technologies S.a.S. and others (collectively, “*CONSIRIUM*”): CONSIRIUM abandoned its request for suspension at a hearing on June 17, 2003. The appeal was then dismissed by the TAR Lazio. A hearing on the merits was held on November 18, 2003 before the Council of State. During the hearing, the Council of State, after taking note of the statement submitted by counsel for Lottomatica concerning the intervening merger of the then Lottomatica into Tyche S.p.A. and the resulting change of the corporate name of the entity surviving the merger to Lottomatica, declared the suit suspended pursuant to Article 300 of the Italian Code of Civil Procedure. Subsequently, GTECH Corporation and Oberthur Gaming Technologies S.a.S. served a notice of reinstatement. At a hearing on October 28, 2004, GTECH Corporation and Oberthur Gaming Technologies requested a stay of the proceedings;
- (c) appeal of Snai, Venturini e C. S.p.A. (“*Venturini*”), Poste Italiane S.p.A. and Ente Tabacchi Italiani S.p.A. (“*ETI*”): Poste Italiane S.p.A. and ETI intervened in an appeal filed by Snai and Venturini with the purpose of contesting the award of the tender on July 30, 2001. At the hearing on May 14, 2003, Poste Italiane S.p.A. and ETI requested a stay of the proceedings. On July 21, 2003, Snai and Venturini notified all parties involved that it was renouncing its appeal, making the adjudication unappealable, after which the concession agreement was signed by the Consorzio Lotterie Nazionali. In December 2002, the plaintiffs asked the AAMS to award the contract to them. In a letter dated January 21, 2003, the AAMS responded that it could not award the contract to them prior to resolution of the dispute. This letter was then challenged by Snai and Venturini as grounds for the previously filed appeal, and by Poste Italiane S.p.A. and ETI in a separate appeal. On July 17, 2003, Poste Italiane S.p.A. and ETI filed a motion to schedule a hearing to resolve the dispute. On July 25, 2003, Poste Italiane S.p.A. and ETI requested that the AAMS not render a decision until the administrative judge rendered his decision.

In the opinion of Lottomatica, upon advice of its counsel, the appeal by Poste Italiane S.p.A. and ETI cannot have any effect on the award of the operation of Instant and Traditional Lotteries, which occurred following the abandonment of the main action by Snai and Venturini e C. S.p.A. and is thus unappealable. Further, the deadline has passed for Poste Italiane S.p.A. and ETI to contest the award of the operation of the Instant and Traditional Lotteries to Consorzio Lotterie Nazionali, with the consequence that they cannot continue with the lawsuit.

Interruption of Network Service

On June 18, 2005, there was an alternating current failure in Lotto collection service in almost all terminals installed on the data transmission network managed by B.N.L.-Albacom. After a reconfiguration of the network, completed during the night between June 18 and 19, 2005, the malfunction was corrected and the transmission lines resumed their normal operation. The AAMS calculated the damage suffered at approximately €7.5 million and filed a claim for damages on July 7, 2005. On August 12, 2005 Lottomatica paid to the AAMS the amount claimed by the latter, while contesting the validity of the claim.

In addition, Lottomatica contested the network failure with supplier B.N.L. Multiservizi, while reserving its right to enforce contractual penalties, claim compensation for additional damages incurred and cancel the contract. B.N.L. Multiservizi rejected the claims of Lottomatica. On September 14, 2005, following the payment by Lottomatica of approximately €7.5 million to the AAMS, Lottomatica requested that B.N.L. Multiservizi reimburse it immediately for said amount. On November 2, 2005, Lottomatica initiated arbitration proceedings against B.N.L. Multiservizi requesting termination of the contract due to

the material breach thereof by B.N.L. Multiservizi and compensation for all damages incurred, including, without limitation, the €7.5 million paid to the AAMS. On November 23, 2005 B.N.L. Multiservizi appointed its arbitrator and has rejected Lottomatica's claim and requested an assessment of defaults under the contractual obligations and that Lottomatica reimburse it for all costs incurred in the proceedings, and seeks damages arising from Lottomatica providing additional services on the network and introducing a third weekly drawing of Lotto without giving prior notice to B.N.L. Multiservizi. The third and last arbitrator is expected to be appointed by the other two arbitrators jointly, or in the event that they are unable to agree, by the President of the Court of Rome. As the two arbitrators appointed by the parties have not reached an agreement concerning the designation of the third arbitrator, on April 20, 2006, Lottomatica appealed to the Court of Rome for the appointment of the third arbitrator, who carries out the office of President. As of the Date of the Information Prospectus, the Court of Rome has not yet provided to the appointment and therefore the board has not yet been constituted.

Appeal Concerning the Network Tender

On October 27, 2005, Rti Albacom—Fastweb (i) served an appeal on Lottomatica before the TAR Lazio challenging the tender process relating to, and seeking the annulment, after suspension, of a contract for data transmission services on the Lotto network operated by Lottomatica; and (ii) requested that Lottomatica be sentenced to pay damages. Afterwards, the appellant withdrew its request for suspension and annulment of the contract and has not yet requested a first hearing. On the date of this Offering Circular the date for the hearing in this case has not yet been set.

Gaming Machines Activation Delay

The Gaming Machines concession provides that the holder of such concession may only commence “operating” its telematic networks after obtaining a “network operation decision” from the AAMS following verification by the AAMS that such concession holder has completed the “network activation” phase by completing the telematic hook-up of the amusement with prize machines that are the subject of the concession. On November 4, 2004, following testing of the network, issued to RTI Videolot Lottomatica—now RTI Videolot—a temporary operating decision for its telematic network, which was subject to confirmation, in accordance with paragraph 2 of Article 3 of the concession agreement, that activation of the network had been completed.

The AAMS, by letter dated November 26, 2004, alleged that RTI Videolot failed to complete the activation of the network in the time required by the Gaming Machines concession and ordered RTI Videolot to pay liquidated damages pursuant to subsection b) of paragraph 2 of Article 27 of the Gaming Machines concession in an amount equal to €20,000 per day commencing on November 4, 2004.

Lottomatica responded to the AAMS by letter signed jointly with eight other concession holders and a subsequent preeminent pro veritate legal opinion disputing the applicability of the liquidated damages on the basis that the delay was caused by technical and commercial factors beyond the control of the concession holders and that the AAMS suffered no damages since it had demanded and received the tax (*Prelievo Erariale Unico*) required by law on all amusement with prize machines, including those amusement with prize machines that had not yet been connected to the network, and the Gaming Machines concession fee, both predetermined lump sum amounts. As of the date of this Offering Circular there has been no response or reply from the AAMS to that memorandum from the concession holders.

In light of the claims made by the AAMS, Lottomatica has, as a precaution, posted on its balance sheet provisions in the amount of €2,400,000, comprising €1,220,000 for the portion of the claimed liquidated damages relating to the period from November 5, 2004 to December 31, 2004, and €1,180,000 for the portion of the claimed liquidated damages relating to the period from January 1, 2005 to February 28, 2005, the date that Lottomatica completed installation of the minimum number of amusement with prize machines required by the Gaming Machines concession.

It should be pointed out that on the date of this Offering Circular the aforementioned outlay has not been increased.

With a decree issued on February 2, 2006, AAMS adopted the network management decree in favour of RTI Videolot. As a result of this decree, the revocation of the Video lottery Concession for delay in activating the network is no longer possible, while the possibility of applying penalties for the delayed claimed by AAMS cannot be excluded.

Except as specifically noted above, Lottomatica has not taken a reserve on its December 31, 2005 balance sheet in respect of any such litigations.

GTECH Shareholder Class Action Suits

In connection with the Acquisition, several purported class actions have been brought by shareholders challenging the fairness of the merger consideration and adequacy of the disclosures to GTECH stockholders. Lottomatica has been named (although not served) as a defendant in a shareholder class action lawsuit filed on March 6, 2006, captioned *Claire Partners, on behalf of itself and all others similarly situated, v. W. Bruce Turner, Robert M. Dewey, Jr., Paget L. Alves, Christine M. Cournoyer, Burnett W. Donoho, The Rt. Hon. Sir Jeremy Hanley KCMG, Philip R. Lochner, Jr., James F. McCann, Anthony Ruys, GTECH Holdings Corporation, and Lottomatica S.p.A.* and filed in the Rhode Island Superior Court of Kent County. The complaint alleges, among other things, that Lottomatica aided and abetted the individual defendants in the alleged breaches of their fiduciary duties. See “Business—GTECH—Legal Proceedings—Other Legal Proceedings”. However, the ritual summons has not been served to Lottomatica.

While GTECH has stated that it believes the claims made in these lawsuits are without merit, in an effort to eliminate the burden and expense of further litigation and the risk of delaying the closing of the proposed merger, GTECH has entered into a Memorandum of Understanding with the plaintiffs agreeing to settle the lawsuits. Pursuant to the Memorandum of Understanding, GTECH has agreed to make additional disclosures reflected in its proxy statement for the special meeting of its shareholders at which the Merger will be presented for approval of shareholders, and to pay plaintiffs’ claim for attorneys’ fees and expenses, up to U.S.\$700,000. The settlement, which is subject to court approval and completion of the proposed merger, will result in the dismissal of both lawsuits and the execution of releases by the plaintiffs on behalf of themselves and the shareholder class they represent of all claims arising out of or relating to the proposed Merger.

Environmental Matters

Lottomatica is not aware of any environmental problems that could reasonably be expected to have a material adverse effect on Lottomatica’s ability to use its material tangible assets.

BUSINESS—GTECH

General

GTECH is a leading provider of gaming and technology solutions worldwide with U.S.\$1.3 billion in revenues in fiscal 2006 and approximately 5,300 employees on six continents. GTECH leverages its global lottery experience and capabilities to offer a full range of game content and solutions and financial transaction processing services.

GTECH is the world's leading operator of highly-secure on-line lottery transaction processing systems, doing business in 51 countries worldwide, and GTECH has a growing presence in commercial gaming technology and financial services transaction processing. GTECH's core market is the lottery industry, for which it designs, sells and operates a complete suite of lottery-enabled point-of-sale terminals that are electronically linked with a centralised transaction processing system which mediates lottery funds between the retailer, where a transaction is enabled, and the lottery authority.

GTECH currently operates, provides equipment and services to, or has entered into contracts to operate or provide equipment and services in the future to, 26 of the 43 on-line lottery authorities in the United States, and 60 of the 122 international on-line lottery authorities. GTECH provides integrated on-line lottery transaction processing solutions, services and products to governmental lottery authorities and governmental licensees worldwide. GTECH offers its customers a full range of lottery technology services, including the design, assembly, installation, operation, maintenance and marketing of on-line lottery systems and instant-ticket support systems. GTECH's lottery systems consist of numerous lottery terminals located in retail outlets, central computer systems, systems software and game software, and communications equipment which connects the terminals and the central computer systems.

Historically, the majority of GTECH's lottery customers in the United States have entered into long-term service contracts pursuant to which GTECH provides, operates and maintains the customers' on-line lottery systems in return for a transaction processing fee typically expressed as an agreed percentage of the gross lottery sales. Many of GTECH's international lottery customers have purchased their on-line lottery systems, although some, especially lottery authorities in Eastern Europe, Latin America and Asia, have entered into long-term service contracts with GTECH. GTECH lottery service contracts are typically at least five to seven years in duration for the basic contract term with three to five years of extension options, resulting in total contract lives of eight to ten years.

In recent years, lottery authorities have recognised that by offering new games or products, they often are able to generate significant additional revenues. An important part of GTECH's strategy is to develop new products and services for its customers in order to increase their lottery revenues. For example, during fiscal 2006, GTECH introduced its new PICK'N PLAY category of online games that combines the appeal of instant ticket games with the security and integrity of online games. A PICK'N PLAY player purchases a theme-based play card which the retail clerk scans with a barcode reader. Upon scanning, the lottery central system automatically produces an online game ticket which can be used to play the game on the play card. GTECH has filed for patent protection for PICK'N PLAY in the United States and intends to file the corresponding PCT (Patent Cooperation Treaty) application before May 12, 2006, in order to preserve GTECH's right to pursue patent protection internationally.

Other indicative products and services introduced in recent years to increase lottery revenues for GTECH's customers include HotTrax, Aladdin, the Doubletake game, e-scratch and GTECH's family of self-service terminals, including GamePoint which utilizes a video monitor to create Instant Ticket Vending Machines (also known as Lottery Product Vending Machines or Instant Ticket Dispensing Machines; "ITVMs") designed, manufactured and marketed by Interlott Technologies, Inc. ("Interlott"), which GTECH acquired during fiscal 2004, and, GTECH's Altura family of terminals, the Altura Self-Service Terminal or Altura SST. HotTrax is an exciting lottery game which utilizes a video monitor to create an illusion of an auto race that is taking place in three dimensions. Aladdin is a credit card sized lottery ticket,

that, through the use of magnetic strip and thermal printing technology, can be reused up to 500 times, and which also can be employed in various non-lottery commercial contexts. The Doubletake game is an on-line lottery game that permits players to purchase an additional game with instant-ticket features, thus enhancing wagering interest. GTECH's e-scratch product is a web-based interactive suite of scratch and reveal games that combines the security and convenience of on-line play with the entertainment, branded content and immediate gratification of instant-tickets. Interlott's EDS-Q family of ITVMs offers flexibility and expandability (from a four to 24 game capacity) as well as the industry's first transaction processing connectivity to in-store lottery terminals and lottery authority central systems. GTECH's Altura SST combines the functionality of ITVMs with the capability of selling on-line lottery products through a touch screen interface. GamePoint is GTECH's lottery vending machine that permits the sale both of online and instant tickets. In recent years, GTECH has also introduced various instant-ticket support services, products and systems to assist its lottery customers in increasing revenue.

In addition during fiscal 2006, GTECH also introduced its "Dynamic Floor Management" system, which allows casino operators to customize the game, denomination and mode of play for a single machine or group of machines through commands and content sent via server, and WinWave, our next generation video lottery terminal.

In appropriate circumstances, GTECH has extended its on-line and video lottery product offerings through acquisitions. During fiscal 2005, GTECH completed the acquisition of Spielo, a leading provider of video lottery terminals ("*VLTs*") and related products and services to the global gaming industry.

In recent years, GTECH has taken steps to broaden its offerings of transaction processing services outside of its core market of providing on-line lottery services into the gaming technology and commercial services markets. During fiscal 2005, GTECH entered into an agreement with the owners of the privately-held Gauselmann Group to acquire a 50% controlling equity interest in the Atronic group of companies owned by Gauselmann. Atronic, the leading video gaming machine provider in Europe, Russia and Latin America, has a growing presence in the United States and is licensed in 209 worldwide gaming jurisdictions. Subject to obtaining required regulatory and gaming license approvals and the satisfaction of other closing conditions the agreement, as amended, provides for this acquisition to close not later than December 2007. In addition, during fiscal 2005, GTECH completed the acquisition of BillBird S.A., the leading provider of electronic bill payment services in Poland.

Significant Developments Since the Start of Fiscal 2006

Lottery Contract Awards

Since the start of fiscal 2006 (which ended on February 25, 2006), GTECH has received a number of contract awards and extensions from lottery authorities.

New On-line Customers. During fiscal 2006, GTECH acquired three new on-line customers.

In June 2005, GTECH entered into an agreement to acquire the operation and management rights of The Barbados Lottery and to become the exclusive central system and lottery services supplier to The Barbados Lottery. The Barbados Lottery was formed in April 2005 upon the consolidation of three previously independent Barbados lotteries: the Barbados Olympic Association, the Barbados Cricket Association and the Barbados Turf Club. While GTECH has been a technology and services provider to the Barbados Olympic Association and the Barbados Cricket Association, the Barbados Turf Club has in the past operated its on-line games using another vendor's equipment. Under the terms of the 18-year integrated services agreement, GTECH has agreed to migrate the on-line games of all three entities to its GTECH Enterprise Series™ solution which will be operated out of Austin, Texas. GTECH has also agreed to provide approximately 225 Altura terminals and an IP-based wireless communications system to be installed as the interface between the retailers and the central system.

In August 2005, Loxley GTECH Technology Co. Ltd. (“*LGT*”) signed a five-year agreement to provide equipment and services for a national on-line lottery in Thailand. GTECH owns a 49% equity interest in LGT, a company that GTECH formed in joint venture with Loxley Public Company Limited, a leading trading and telecommunications conglomerate in Thailand. Under the agreement, GTECH will be the principal provider of technology and services to LGT, supplying to LGT a turnkey system, consisting of its GTECH Enterprise Series™ solution and approximately 12,000 Altura terminals. LGT will, in turn, supply equipment and integrated services to the Government Lottery Office of Thailand. This award followed a competitive procurement. Sales for this national on-line lottery are expected to begin during the second quarter of fiscal 2007.

In January 2006, GTECH signed a seven-year agreement with the North Carolina Education Lottery to provide a fully-integrated on-line and instant ticket lottery system, lottery terminals, a wireless communications network, Instant Ticket Vending Machines, management of warehousing and distribution of instant tickets and other ongoing services. Under this agreement, GTECH partnered with Oberthur Gaming Technologies Corporation for the printing of instant tickets. The agreement, under which sales commenced on March 30, 2006, followed a competitive procurement process.

New Contracts with, and Extensions and Orders by, Existing Customers. Since the start of fiscal 2006, GTECH has also been awarded new contracts by, or has received contract extensions or orders from, a number of its existing customers.

In November 2005, following a competitive procurement, GTECH entered into a five-year integrated services contract with the Arizona lottery authority to provide a new on-line lottery system, terminals and communications network. Under the terms of the contract, GTECH has agreed to convert the Arizona lottery authority’s existing system to its GTECH Enterprise Series™ technology platform, replace the Arizona lottery’s existing terminal base with approximately 2,600 Altura terminals, and provide an IP-based communications network.

In November 2005, following a competitive procurement, the New Jersey lottery authority named GTECH as the apparent successful bidder to provide a new integrated on-line and instant ticket lottery system, terminals and communication network. Sales under this new five-year contract, the terms of which are being finalised, are expected to commence in June 2006. Implementation of this contract may be suspended pending resolution of a challenge by one of GTECH’s competitors to the award of this contract to GTECH.

In December 2005, following a competitive procurement, GTECH entered into a facilities management contract with the Washington lottery authority under which GTECH is to provide a new on-line and instant lottery system, terminals, communications network and ongoing services.

Several of GTECH’s fiscal 2006 contract developments related to sales of products and services. In June 2005, GTECH entered into a new software license agreement and agreement to provide software and hardware maintenance and support services to Societe de la Loterie de la Suisse Romande (“*LoRo*”), the Swiss lottery authority. At such time, GTECH also entered into a product sale agreement with LoRo to provide a new integrated on-line and instant ticket lottery system, Altura terminals and communications network.

In July 2005, GTECH signed a five-year contract to provide ongoing software support and enhancements, as well as certain general contractor services, to Westdeutsche Lotterie GmbH & Co. OHG, the operator of on-line and instant-ticket lottery games in the German state of Nordrhein-Westfalen.

In July 2005, GTECH signed an agreement with the Spanish National Organisation for the Blind (Organización Nacional de Ciegos Espanoles), which is authorised to administer lottery and wagering games in Spain, to provide 5,000 additional handheld lottery terminals and to upgrade the authority’s central system hardware.

In August 2005, GTECH entered into an agreement with the New Zealand Lotteries Commission to provide a complete lottery system conversion, including a new integrated on-line and instant ticket lottery system and new terminals, together with ongoing software support and terminal maintenance services.

In August 2005, GTECH received an order from the California lottery authority for a variety of lottery products, including 550 additional Altura terminals, 700 Altura CVT terminals, 1,000 Instant Ticket Vending Machines and other self-service lottery solutions.

During fiscal 2006, the Ohio lottery authority, Dansk Tipstjeneste (GTECH's lottery customer in Denmark), and Supreme Ventures Limited (GTECH's lottery customer in Jamaica), each exercised options to extend the terms of their respective on-line contracts with GTECH. In addition, in May 2005, GTECH signed a new one-year contract with Caixa Economica Federal ("*CEF*"), the administrator of the National Lottery in Brazil, which provides for GTECH to continue to operate the existing lottery and financial transaction processing systems for CEF through May 14, 2006, or such later date as CEF may elect.

During fiscal 2006, GTECH received several awards, or extensions of awards, to provide ITVMs in addition to orders of ITVMs from the North Carolina and California lottery authorities in the context of larger contract awards which are described above. In June 2005, GTECH entered into a product sale agreement, following a competitive procurement, with the operator of the French National Lottery, LaFrancaise Des Jeux ("*FDJ*"), to provide FDJ not less than 575 ITVMs and repair services. In June 2005, GTECH entered into a two-year extension with the Ohio lottery commission for the lease of ITVMs.

Other Products And Services

Since the start of fiscal 2006, GTECH entered into a number of agreements, and announced a number of other developments, respecting products and services outside of its traditional on-line lottery product offerings.

Video Lottery And Gaming. In September 2005, following a competitive procurement, GTECH entered into an agreement with the Pennsylvania Department of Revenue to provide a gaming central control system to monitor and control up to 61,000 Gaming Machines which are to be installed at approximately 14 venues. In December 2005, following a competitive procurement, GTECH entered into an agreement to provide a video gaming monitoring system and site controllers for the Louisiana Department of Public Safety and Corrections' video gaming program.

New Product Offerings And Developments. In June 2005, GTECH entered into a joint venture agreement with Viekkas Oy, the operator of the Finnish national lottery, to develop and market innovative new games and solutions for the lottery and gaming industries. The primary focus of this joint venture, in which GTECH will hold an 81% equity stake, is the development of government-sponsored games and solutions (with an emphasis on sports-betting games and solutions) over interactive channels such as internet, mobile telephony and interactive television.

In November 2005, GTECH announced the successful integration of its Lottery Inside technology into the Nucleus Point of Sale ("*POS*") Platform offered by Dresser Wayne, a business unit of Dresser Inc. and a pioneer in the retail fueling industry. GTECH's Lottery Inside technology enables the sale of lottery tickets through PC-based POS devices used by retailers, thereby obviating the need for retailers to maintain dedicated lottery terminals.

GTECH reported several new product offerings and other developments during fiscal 2006 respecting its video lottery and gaming businesses.

In May 2005, GTECH and Harrah's Operating Company, Inc., a subsidiary of Harrah's Entertainment, Inc. ("*Harrah's*"), entered into a strategic relationship whereby GTECH agrees to supply

Harrah's properties with Gaming Machines, and the two companies agreed to work together to develop new game content.

In August 2005, GTECH announced that its subsidiary, Spielo Manufacturing, Inc. had launched WinWave, its next generation video lottery terminal, which was developed in consultation with lotteries to meet specific needs of venues and players.

In September 2005, GTECH announced the development of its "Dynamic Floor Management System", which permits operators of casinos to customise the game, denomination and mode of play for a single machine or group of machines through commands and content sent via server.

In December 2005, GTECH signed a licensing agreement with Hasbro Properties Group, the intellectual property arm of Hasbro, Inc., granting GTECH exclusive rights in the United States and Canada to develop and market slot machines and video lottery terminals featuring THE GAME OF LIFE property brand in the casino and government-sponsored environments. (THE GAME OF LIFE is a trademark of Hasbro Properties Group Inc., and is license to GTECH by Hasbro Properties Group.)

Regarding its commercial services business, in July 2005, GTECH announced that it had successfully integrated the commercial services payment capability of its Billbird subsidiary into its existing GTECH Enterprise Series™ system. This solution, GTECH Enterprise Series™ Commercial Payments, offers GTECH's customers the opportunity to merge their lottery and commercial services operations.

On-line Lottery Business

On-line Lottery Contracts

Overview. GTECH generally conducts business under one of two types of contractual arrangements which are described in more detail below:

Facilities Management Contracts. Under a typical Facilities Management Contract, GTECH constructs, installs and operates the lottery system and retains ownership of the lottery system. These contracts generally provide for a variable amount of monthly or weekly service fees to be paid to GTECH directly from the lottery authority based on a percentage of a lottery's gross on-line and instant ticket sales.

Product Sales Contracts. Under Product Sales Contracts, GTECH constructs, sells, delivers and installs a turnkey on-line lottery system or lottery equipment and licenses the computer software for a fixed price, and the lottery authority subsequently operates the lottery system.

The collection of lottery monies, the selection of winners, the financial responsibility for the payment of prizes and the qualification of retail sales agents are usually the sole responsibility of the lottery authority in each jurisdiction in which GTECH operates a lottery. The United Kingdom's National Lottery, Taiwan's Public Welfare Lottery and the South African National Lottery provide important exceptions to the general rule, in that in each case a licensee to whom GTECH supplies goods and services (rather than the lottery authority) operates all aspects of the respective lottery with the exception of proceeds allocation.

With respect to fiscal 2006, approximately 74% of GTECH's revenues were service revenues earned under its Facilities Management Contracts; approximately 10% of its revenues were product sales revenues earned under Product Sales Contracts; and approximately 16% of its revenues were attributable to the provision of non-lottery goods and services.

Facilities Management Contracts. GTECH's Facilities Management Contracts typically require it to construct, install and operate the lottery system for an initial term, which is typically at least five to seven years, and usually contain options permitting the lottery authority to extend the contract under the same terms and conditions for one or more additional periods, generally ranging from one to five years. In addition, GTECH's customers occasionally renegotiate extensions on different terms and conditions.

GTECH's revenues under Facilities Management Contracts are generally a variable amount of monthly or weekly service fees which are paid to GTECH directly from the lottery authority based on a percentage of such lottery's gross on-line and instant ticket sales. The level of lottery ticket sales within a given jurisdiction is determined by many factors, including population density, the types of games played and the games' design, the number of terminals, the size and frequency of prizes, the nature of the lottery's marketing efforts and the length of time the on-line lottery system has been in operation.

Under GTECH's Facilities Management Contracts, GTECH typically retains title to the lottery system and provides its customers with the services necessary to operate and manage the lottery system. GTECH installs and commences operations of a lottery system after being awarded a Facilities Management Contract and, following the start-up of the lottery system, it is responsible for all aspects of the system's operations. GTECH typically operates lottery systems in each jurisdiction on a stand-alone basis through the installation of two or more dedicated central computer systems, although in a few instances several jurisdictions share the same central system. In addition, in most jurisdictions GTECH employs a work force consisting of a site director, marketing personnel, computer operators, communications specialists and customer service representatives who service and maintain most aspects of the system.

Under certain of GTECH's Facilities Management Contracts the lottery authority has the right to purchase GTECH's lottery system during the contract term at a predetermined price, which is calculated so that it exceeds the net book value of the system at the time the right is exercisable. In addition, some of GTECH's lottery contracts permit the lottery authority to acquire title to GTECH's system-related equipment and software during the term of the contract or upon the expiration or earlier termination of the contract, in some cases (*i.e.*, were GTECH to materially breach or be unable to perform under certain circumstances) without paying GTECH any compensation related to the transfer of that equipment and software to the lottery authority. GTECH's role, if any, with respect to the continued operation of a lottery system in the event of the exercise of such a purchase option generally is not specified in such contracts and thus would be subject to negotiation. Under many of GTECH's Facilities Management Contracts, the lottery authority also has the option to require GTECH to install additional terminals and/or add new lottery games. Such installations may require significant expenditures by GTECH. However, since GTECH's revenues under such contracts generally depend on the level of lottery ticket sales, such expenditures have generally been recovered through the revenues generated by the additional equipment or games and revenues from existing equipment.

Under a number of GTECH's lottery contracts, in addition to constructing, installing and operating the on-line lottery systems in these jurisdictions, GTECH is providing a wide range of support services and equipment for the lottery's instant-ticket games, such as marketing, distribution and automation of validation, inventory and accounting systems, for which it receives fees based upon a percentage of the sales of the instant-ticket games.

Revenues from Facilities Management Contracts are accounted for as Service Revenue in GTECH's Consolidated Income Statements.

Unless otherwise indicated, the table below sets forth the lottery authorities with which GTECH had Facilities Management Contracts and fully installed, operational lottery systems as of February 25, 2006, and as to which GTECH is the sole supplier of central computers and terminals and material services. The table also sets forth information regarding the term of each contract and, as of February 25, 2006, the approximate number of terminals installed in each jurisdiction.

<u>Jurisdiction</u>	<u>Approximate Number of Lottery Terminals Installed⁽¹⁾</u>	<u>Date of Commencement of Current Contract</u>	<u>Date of Expiration of Current Contract Term</u>	<u>Current Extension Options*</u>
United States:				
Arizona ⁽²⁾	2,600	September 1999	September 2006	—
California	19,800	October 2003	October 2009	4 one-year
D.C. ⁽³⁾	600	June 1999	November 2009	—
Florida	12,600	January 2005	March 2011	2 two-year
Georgia	8,200	September 2003	September 2010	—
Idaho ⁽⁴⁾	740	February 1999	February 2007	—
Illinois	8,260	April 2000	October 2007	1 one-year
Kansas	1,900	July 2002	June 2008	—
Kentucky	3,000	April 1997	June 2008	—
Louisiana	2,500	June 1997	June 2010	—
Michigan	10,900	January 1998	January 2009	—
Minnesota	3,240	February 2003	February 2011	2 one-year
Missouri	4,230	December 2004	June 2012	—
New Jersey ⁽⁵⁾	6,100	June 1996	June 2006	—
New Mexico	1,100	June 1996	November 2008	—
New York	16,200	March 2002	March 2007	3 one-year
North Carolina ⁽⁶⁾	—	January 2006	March 2013	—
Ohio	8,600	August 2000	June 2007	2 two-year
Oregon	3,170	June 1998	June 2008	—
Rhode Island	1,220	July 2003	June 2023	—
Tennessee	4,480	January 2004	April 2011	—
Texas	17,300	August 2002	August 2011	—
Washington ⁽⁷⁾	4,400	September 1995	June 2006	—
Wisconsin	3,800	June 2004	June 2011	2 one-year
International:				
Anguilla				
—LILHCo	10	October 1997	October 2007	1 ten-year ⁽⁸⁾
Antigua/Barbuda				
—LILHCo	50	January 2000	September 2016	1 ten-year ⁽⁸⁾
Argentina				
—Loteria National				
Sociedad del Estado ⁽⁹⁾ . .	800	November 1993	January 2007	—
—Boldt IPLC ⁽⁹⁾	3,400	November 1999	November 2009	—
Barbados				
—LILHCo	225	June 2005	June 2023	—

<u>Jurisdiction</u>	<u>Approximate Number of Lottery Terminals Installed⁽¹⁾</u>	<u>Date of Commencement of Current Contract</u>	<u>Date of Expiration of Current Contract Term</u>	<u>Current Extension Options*</u>
Bermuda				
—LILHCo	1	—	—	automatic annual renewal
Brazil				
—National Lottery ⁽¹⁰⁾ . .	21,600	May 2000	May 2006	—
—Minas Gerais	900	October 1994	November 2006	—
China				
—Beijing Welfare Lottery	1,850	April 2004	December 2012	—
—Shenzen Welfare Lottery	90	July 2005	November 2013	—
Colombia				
—ETESA ⁽¹¹⁾	5,200	December 1999	January 2011	1 five-year
Czech Republic				
—SAZKA	7,000	October 1992	December 2017	—
Ireland				
—An Post Nat'l Lottery Company	3,400	June 2002	December 2008	(12)
Jamaica				
—Supreme Ventures Limited	840	November 2000	January 2016	—
Luxembourg ⁽¹³⁾				
—Loterie Nationale . . .	700	June 2001	October 2012	—
Mexico				
—Pronosticos Para La Asistencia Publica . .	7,100	(14)	(14)	(14)
Morocco				
—La Societe de Gestion de la Loterie Nationale and La Marocaine des Jeux et Les Sports	1,400	August 1999	April 2009	1 one-year
Poland				
—Totalisator Sportowy .	10,760	May 2001	May 2011	1 six-month
Slovak Republic				
—TIPOS a.s.	1,700	March 1996	December 2011	—
South Africa ⁽¹⁵⁾				
—National Lottery	8,600	July 1999	April 2007	1 one-year

<u>Jurisdiction</u>	<u>Approximate Number of Lottery Terminals Installed⁽¹⁾</u>	<u>Date of Commencement of Current Contract</u>	<u>Date of Expiration of Current Contract Term</u>	<u>Current Extension Options*</u>
Sri Lanka				
—Mahapola Higher Education Scholarship Trust Fund	380	June 2004	September 2014	1 five-year
St. Kitts/Nevis				
—LILHCo	45	April 1996	April 2016	—
St. Maarten/Saba/ St Eustatius				
—LILHCo	40	January 1997	September 2007	1 ten-year ⁽⁸⁾
Taiwan				
—Taipei Bank ⁽¹⁶⁾	5,500	November 2001	December 2006	—
Thailand				
—Government Lottery Office ⁽¹⁷⁾	—	August 2005	(15)	—
Trinidad & Tobago				
—National Lotteries Control Board	560	July 1999	July 2006	1 three-year
Turkey				
—Turkish National Lottery ⁽⁹⁾	3,900	February 1996	(18)	(18)
Turks & Caicos				
—LILHCo	10	October 2004	March 2015	1 ten-year ⁽⁸⁾
United Kingdom				
—The National Lottery ⁽¹⁹⁾	28,000	January 2002	January 2009	—
Ukraine				
—Ukrainian National Lottery ⁽²⁰⁾	2,950	April 2005	March 2013	—
U.S. Virgin Islands				
—LILHCo	80	January 2002	January 2012	2 five-year

* Reflects extensions available to the lottery authority under the same terms as the current contract. Lottery authorities occasionally negotiate extensions on different terms and conditions.

- (1) Total does not include instant-ticket validation terminals or instant ticket vending machines.
- (2) In November 2005, GTECH entered into a new five-year facilities management contract with the Arizona lottery authority. Sales are expected to commence under this new contract during the second quarter of fiscal 2007.
- (3) Operated by Lottery Technology Enterprises, a joint venture in which GTECH has a 1% interest, and to which GTECH supplies lottery goods and services.
- (4) In April 2006, after the close of fiscal 2006, GTECH was notified by the Idaho lottery authority of its intent to negotiate a new online gaming system contract with another vendor, such contract to become operational upon the expiration of GTECH's existing contract.
- (5) In November 2005, the New Jersey lottery authority named GTECH as the apparent successful bidder to provide services under a new facilities management contract, the terms of which are being finalised. Sales under this new facilities management contract are scheduled to begin in June 2006. Implementation of this contract may be suspended pending resolution of a challenge by one of GTECH's competitors to the award of this contract to GTECH.

- (6) In January 2006, GTECH signed a seven-year facilities management contract with the North Carolina lottery authority. Sales under this contract commenced on March 30, 2006.
- (7) In December 2005, the Washington lottery authority and GTECH entered into a new six-year facilities management contract. Sales under this contract are scheduled to begin upon expiration of the term of the current contract.
- (8) The extension options for these contracts are at GTECH's option, subject, in certain cases to compliance by GTECH with the terms and conditions of the existing contract and/or review of certain financial terms.
- (9) Under these contractual arrangements, the lottery authorities purchased the lottery system and related software license from GTECH at the commencement of the respective contracts.
- (10) Operated by GTECH Brasil Ltda. Holdings, S.A., a Brazilian company in which GTECH owns all voting stock. The term of GTECH's contract with Caixa Econômica Federal, the operator of the National Lottery, runs until May 2006.
- (11) GTECH's contract with the Colombia lottery authority is not a true facilities management contract in that title to the equipment vests in the Colombia lottery authority at the end of the term.
- (12) GTECH's contract with the Ireland lottery authority may be extended for any period mutually acceptable to GTECH and the Ireland lottery authority.
- (13) The Luxembourg lottery authority can extend the software license granted by GTECH for up to 10 years after the end of the initial term and any extensions of the contract.
- (14) GTECH's contract with the Mexico lottery authority is not a true facilities management contract. Title to all equipment, which initially had been supplied under lease, has passed to the lottery authority pursuant to the terms of GTECH's agreement. GTECH provides maintenance and other services if requested by the lottery authority. In September 2004, GTECH signed a contract with Pronósticos para la Asistencia Pública to provide equipment and services to a new on-line lottery system and associated telecommunications network in Mexico. Implementation of this contract has been suspended pending resolution of administrative and legal challenges by two of GTECH's competitors to Pronósticos's award to GTECH of this contract. In September 2005 GTECH began (with delayed timelines) implementation of the September 2004 agreement.
- (15) Operated by Uthingo consortium, in which GTECH is a 10% equity owner.
- (16) Lottery Technology Services Corporation ("LTSC"), a consortium in which GTECH owns a 44% indirect interest, entered into a Commission Agreement with the Bank of Taipei to operate the Taiwan Public Welfare Lottery. ACER, Inc. indirectly owns the other 56% of LTSC. GTECH supplies terminals to LTSC and provides to LTSC central system maintenance, software support and consulting services pursuant to service and supply agreements. In April 2006, GTECH announced that it had been notified that another vendor had been selected to provide equipment and services for a new online lottery gaming system upon the expiration of GTECH's contract in December 2006.
- (17) In August 2005, Loxley GTECH Technology Co. Ltd., a joint venture in which GTECH owns a 49% equity interest, entered into a five-year facilities management contract with the Government Lottery Office of Thailand.
- (18) The term of the contract with the Turkey lottery authority renews for successive one-year extension terms unless either party gives timely notice of non-renewal. In addition, the Turkey lottery authority has the option to assume responsibility for the provision of certain lottery services at any time after the second anniversary of system start-up.
- (19) Operated by Camelot Group plc, a consortium, on a facilities management basis.
- (20) In August 2005, GTECH completed the sale of this system to its customer, the Ukrainian National Lottery. GTECH continues to provide software services to the Ukrainian National Lottery under a software maintenance agreement and license.

Product Sales Contracts. Under Product Sales Contracts, GTECH constructs, sells, delivers and installs turnkey lottery systems or lottery equipment and licenses the computer software for a fixed price, and the lottery authority subsequently operates the lottery system. GTECH also sells additional terminals and central computers to expand existing systems and/or replace existing equipment under Product Sales Contracts.

In connection with its Product Sales Contracts, GTECH generally designs the lottery system, trains the lottery authority's personnel and provides other services required to make and keep the system operational. GTECH also generally licenses its software to its customers for a fixed additional fee.

Historically, product sales revenues have been derived from the installation of new on-line lottery systems, installation of new software and the sales of lottery terminals and equipment in connection with the expansion of existing lottery systems. The size and timing of these transactions at times have resulted in variability in product sales revenues from quarter to quarter. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—GTECH".

The table below lists certain of GTECH's direct and indirect customers that since March 1, 2000 have purchased (or have agreed to purchase) from GTECH new on-line or video lottery systems, software and/or terminals and equipment in connection with the expansion or replacement of existing lottery systems.

Jurisdiction	Customer
Australia	Lotteries Commission of New South Wales
Australia	Western Australia Lotteries Commission
Belgium	Loterie Nationale de Belgique
California	California State Lottery
Canada	Alberta Gaming & Liquor Commission
	Atlantic Lottery Corporation
	British Columbia Lottery Corporation
	Western Canada Lottery Corporation
China	Beijing Welfare Lottery Center
Finland	Veikkus Oy
France	La Francaise des Jeux
Germany	WestLotto
	Sachsische Lotto—GmbH
	Lotterie Treuhandgesellschaft mbH Thuringen
Israel	Mifal Hapayis
Luxembourg	Loterie Nationale
Massachusetts	Massachusetts State Lottery Commission
Netherlands	Stichting de Nationale Sport Totalisator
New Zealand	New Zealand Lotteries Commission
Oregon	Oregon State Lottery
Pennsylvania	IGT OES On-line Entertainment Systems, Inc.
Poland	Totalisator Sportowy Sp. Zo.o
Portugal	Santa Casa de Misericordia de Lisboa
Singapore	Singapore Pools (Pte) Ltd.
South Africa	Uthingo
Spain	Sistemas Tecnicos de Loterias del Estado
	Organisacion Nacional de Ciegos Espanoles
Sweden	AB Svenska Spel
Switzerland	Loterie de la Suisse Romande
Taiwan	Lottery Technology Services Corporation
United Kingdom	Camelot Group plc
Virginia	Virginia Lottery

Video Lottery Contracts. On April 30, 2004, GTECH acquired Spielo. Spielo supplies video lottery terminals on a product sales basis to various lottery authorities and gaming establishments throughout the world.

Instant Ticket Vending Machine Lottery Contracts

Overview: During fiscal 2004 GTECH acquired Interlott, a leading provider of ITVMs for the lottery industry worldwide. Similar to GTECH's on-line business, its ITVM business is generally conducted under one of two types of contractual arrangements which are described in more detail below: Facilities Management Contracts and Product Sales Contracts.

Facilities Management Contracts: Under a typical ITVM Facilities Management Contract with a lottery authority, GTECH builds to specification, installs, and services ITVMs for an initial term which

typically is four years. These contracts usually contain options permitting the relevant lottery authority to extend the contract under the same terms and conditions for additional periods, generally ranging from one to three years. In addition, GTECH's ITVM customers occasionally renegotiate extensions on different terms and conditions.

Historically, the majority of Interlott's Facilities Management Contracts have been based on a compensation structure involving fixed monthly lease payments paid directly by the lottery authorities. However, GTECH's recent ITVM Facilities Management Contracts feature a compensation structure based upon a negotiated percentage of the ITVM instant ticket sales revenues. Under its ITVM Facilities Management Contracts, GTECH retains title to the ITVMs, while providing its customers with necessary support services. In most of its ITVM jurisdictions GTECH employs a dedicated work force, consisting of a Regional Service Manager, marketing personnel, and customer service representatives who help service and maintain most aspects of the ITVM program.

Product Sales Contracts: Under a typical ITVM Product Sales Contract, for a fixed price GTECH constructs, sells, delivers and installs a turnkey ITVM system that the lottery jurisdiction subsequently operates.

The table below sets forth the lottery authorities with which GTECH has ITVM Facilities Management Contracts ("*FMCs*"). This table also provides (except where noted by footnote) historical information respecting the number of ITVMs that are currently in service, under various ITVM Product

Sales Contracts (“PSCs”). Finally, the table below sets forth information regarding the term of each FMC, as well as the approximate number of ITVMs installed in each FMC jurisdiction, as of February 25, 2006.

Jurisdiction	FMC or PSC	Approximate Number of ITVMs in service	Date of Commencement of Current FMC	Date of Expiration of Current FMC Term	Current Extension Options
Arizona	FMC	420	July 2003	July 2008	—
California	PSC	4,200	N/A	N/A	N/A
Idaho	PSC	200	N/A	N/A	N/A
Illinois	FMC	3,400	June 2004	September 2010	1 three-year
Indiana	FMC	1,400	August 2005	November 2007	2 one-year
Kentucky	PSC	1,290	N/A	N/A	N/A
Luxembourg	FMC	130	September 2005	October 2012	—
Maine	FMC	150	September 2004	August 2007	2 two-years
Maryland	PSC	1,200	N/A	June 2008	—
Massachusetts	PSC	1,500	N/A	N/A	N/A
Minnesota	(1)	110	N/A	N/A	N/A
Missouri	FMC	630	June 2001	November 2007	—
New Hampshire	FMC	250	June 2005	June 2008	1 two-year
New Jersey	(1)	180	N/A	N/A	N/A
New Mexico	FMC	150	May 1997	June 2007	—
New York	(3)	4,100	(3)	(3)	—
Ohio	FMC	1,500	July 2003	June 2007	—
Oregon	PSC	500	N/A	N/A	N/A
Pennsylvania	PSC	3,450	N/A	N/A	N/A
Rhode Island	(1)	100	N/A	N/A	N/A
Texas	FMC	1,300	September 2003	September 2006	2 one-year
Virginia ⁽²⁾	PSC	1,500	N/A	N/A	N/A
Washington	FMC	900	November 2004	November 2007	1 three-year
West Virginia	PSC	110	N/A	N/A	N/A
Wisconsin	PSC	500	N/A	N/A	N/A

(1) Represents ITVMs installed under a GTECH Facilities Management Contract. See Facilities Management Contracts table above for additional information.

(2) The Virginia Lottery entered into a seven-year contract with Oberthur Gaming Technologies Corporation (OGT) under which GTECH has subcontracted to provide new ITVMs and management of warehousing and distribution of instant tickets.

(3) GTECH has entered into a contract to supply maintenance services for approximately 4,100 items which are owned by the New York lottery authority.

Contract Award Process

In the United States, lottery authorities generally commence the contract award process by issuing a request inviting proposals from various lottery vendors. The request for proposals usually indicates certain requirements specific to the jurisdiction, such as the number of terminals and breadth of services desired, the particular games which will be required, particular pricing mechanisms, the experience required of the vendor and the amount of any performance bonds that must be furnished. After the bids have been evaluated and a particular vendor’s bid has been accepted, the lottery authority and the vendor generally negotiate a contract in more detailed terms. Once the contract has been finalised, the vendor begins to install the lottery system.

GTECH’s marketing efforts for its lottery products and services frequently involve top management in addition to its professional marketing staff. These efforts consist primarily of marketing presentations to the lottery authorities of jurisdictions in which requests for proposals have been issued.

Marketing of GTECH's lottery products and services to lottery authorities outside of the United States is often performed in conjunction with licensees and consultants with whom GTECH contracts for representation in specific market areas. Although generally neither a condition of their contracts with GTECH nor a condition of their contracts with lottery authorities, such licensees and consultants often agree with GTECH to provide on-site services after installation of the on-line lottery system.

After the expiration of the initial or extended contract term, a lottery authority in the United States generally may either seek to negotiate further extensions or commence a new competitive bidding process. Internationally, lottery authorities do not typically utilise as formal a bidding process, but rather negotiate proposals with one or more potential vendors.

From time to time, there are challenges or other proceedings relating to the awarding of lottery contracts.

On-line Products And Services

A significant portion of GTECH's revenues and cash-flow is derived from its portfolio of long-term on-line lottery service contracts, each of which in the ordinary course of its business periodically is the subject of competitive procurement or renegotiation. GTECH's lottery operations are dependent upon its continued ability to retain and extend its existing contracts and win new contracts.

GTECH's lottery systems consist of lottery terminals, central computer systems, communications and game software, and communications equipment which connect the terminals and the central computer systems. The systems' terminals are typically located in high-traffic retail outlets, such as newsstands, convenience stores, food stores, tobacco shops and liquor stores.

GTECH's on-line lottery systems control and perform the following functions: entry of wagers using a terminal's touch screen/keyboard or a fully-integrated contact image sensor reader; automatic auditing of each wager for correctness by the originating terminal; encryption and transmission of the wager and related data to the central computer installation(s); processing of each wager by the central computers, including entry of the wager on redundant systems; transmission of authorisation for the originating terminal to accept the wager and print a receipt or ticket, and performance of winning ticket identification and validation; and administrative functions, including determination of prize pools and generation of management information reports.

The basic functions of GTECH's systems, which are listed above, as well as various optional or custom-designed functions, are performed under internal controls designed for maximum security and minimum processing time. Security is provided through an integrated system of techniques, procedures and controls supported by hardware, software and human resources. Individual systems generally have redundant capacity at multiple levels and sophisticated software to ensure continuous service to the customer.

Terminals

GTECH designs, manufactures and provides the point-of-sale terminals used in its on-line lottery systems. GTECH's model GT-101TF terminals, introduced in 1985, and its model GT-401/OI terminals, introduced in 1989, are installed to this day in several jurisdictions. GTECH's Spectra terminal series (GT-401/OM, 402/OM and 403/OM), first introduced in 1989, is distinguished by its modular internal and external architecture.

GTECH's ISYS terminal series (GT-501, 502 and 503), introduced during fiscal 1996, is an integral, single-unit terminal that features modular subassemblies, high performance ticket printer and playslip reader subassemblies, an easy-to-use design, and a host of new features and technologies.

During fiscal 1999, GTECH announced the introduction of the PlayerExpress terminal, which was designed specifically for large retail environments, such as grocery stores, with numerous checkout lanes.

During fiscal 1999, GTECH also announced the launch of its Altura family of terminals. Altura, which represents the initial offering of GTECH's ninth generation of on-line lottery terminal, permits applications to be written in the Java programming language, enabling the rapid development of a wide variety of games that are compatible with numerous software environments. GTECH has supplied Altura terminals to 23 of its customers with another 10 installations planned or underway.

The Altura LVT and Altura SST terminals are the newest additions to GTECH's Altura family of terminals. The Altura LVT, which features a compact platform, touch screen interface and expandable configuration, is designed to meet the needs of retailers with low volumes of transactions. The Altura SST, a self-service terminal, combines the functionality of ITVMs with the capability of selling on-line lottery tickets through a touch screen interface.

During fiscal 2004, GTECH expanded its self-service terminal offerings with the completion of its acquisition of Interlott, a leading provider of ITVMs for the worldwide lottery industry. Interlott's EDS-Q family of ITVMs offers flexibility and expandability (from a four to 24 game capacity) as well as the industry's first transaction processing connectivity to in-store lottery terminals and lottery authority central systems.

During fiscal 2005, GTECH completed the acquisition of Spielo. GTECH believes that this acquisition will further expand its terminal offerings. The Spielo family of terminals includes the Aura, a video lottery terminal that features a high-resolution 18" flat screen color monitor, 16-bit digital stereo sound, ergonomic design and powerful processor, and the Power Station 5, a video lottery terminal that is designed to meet the needs of bar and restaurant venues.

During fiscal 2005, GTECH announced the development of GamePoint, its all-in-one instant and on-line lottery terminal solution. The GamePoint terminal, which dispenses both instant and on-line tickets, is completely self-contained and provides a secure and player-friendly opportunity for the sale of instant and on-line lottery products.

During fiscal 2006, GTECH announced that its Spielo subsidiary launched WinWave, its next-generation video lottery terminal, which was developed in consultation with lotteries to meet the specific needs of venues and players.

GTECH is not dependent upon the use of its proprietary terminals and has the ability to integrate into its on-line lottery systems qualified third-party terminals.

Software. GTECH designs and provides, or licenses from third parties, all applications solutions for its lottery systems. GTECH's highly sophisticated and specialised software is designed to provide the following system characteristics: rapid processing, storage and retrieval of transaction data in high volumes and in multiple applications; the ability to down-line load (*i.e.*, to reprogram the lottery terminals from the central computer installation via the communications system to add new games); a high degree of security and redundancy to guard against unauthorised access and tampering and to ensure continued operations without data loss; and a comprehensive management information and control system.

GTECH's latest generation solution, the GTECH Enterprise Series™, has an open architecture that GTECH believes sets a new industry standard for the development, deployment, integration and support of next-generation on-line lottery solutions, including those which permit sales of lottery products via a secure infrastructure over the internet, without compromising the integrity of the games. The open system architecture of the GTECH Enterprise Series™ allows lotteries to upgrade their lottery systems, and integrate a broad spectrum of third party hardware and software solutions to achieve greater performance.

Central Computers. Each of GTECH's lottery systems contains one or more central computer sites to which the lottery terminals are connected. GTECH's central computer systems are manufactured by

Hewlett-Packard Company, Stratus Computer, Inc. and IBM Corporation. The specifications for the configuration of GTECH's central computer installations are designed to provide continuous availability, a high throughput rate and maximum security. Central computer installations typically include: redundant mainframe computers, various peripheral devices (such as magnetic storage devices, management terminals and hard copy printers), and various safety, environmental control and security subsystems (including back-up power suppliers), which are all manufactured by third parties, and a microcomputer-based communication and switching subsystem. In addition, GTECH supplies management information systems that provide lottery personnel access to important financial and operational data without compromising the security of the on-line system. Based upon the development of its GTECH Enterprise Series™, GTECH is able to integrate qualified third party software applications.

Communications. GTECH's lottery terminals are typically connected to the central computer installations by dedicated telephone lines owned or leased by the jurisdiction in which the system is located. Due to the varying nature of telecommunications services available in lottery jurisdictions, GTECH has developed the capability to utilise and interface with a wide range of communications technologies to provide a data communications pathway between the lottery terminals and the central computers, including UHF Radio capability (narrow-band and Spread Spectrum), GSAT/VSAT, Microwave, Integrated Services Digital Networking (ISDN), Data Over Voice (DOV), fiber optic and cellular telephone.

According to industry sources that GTECH regards as reliable, GTECH is the largest global provider of wireless point-of-sale devices.

Games. An important factor in maintaining and increasing public interest in lottery games is the development of innovative and compelling new game content. In conjunction with lottery authorities, GTECH utilises principles of demographics, sociology, psychology, mathematics and computer technology to design customised lottery games which are intended to appeal to the populations served by its lottery systems. The principal characteristics of game design include: frequency of drawing, size of pool, cost per play and setting of appropriate odds. GTECH believes that its expertise in game design has enhanced the marketing of its lottery systems and has contributed to increases in the revenues of many of its customers.

Keno, an on-line game which GTECH, together with the Lotteries Commission of South Australia, first introduced in 1990, exemplifies how innovative lottery games can help lottery customers maintain or increase public interest in lottery games and thereby generate additional revenues. Keno features on-line drawings as often as every four minutes and is currently offered by 24 of GTECH's customers.

GTECH currently has a substantial number of variations of lottery games in its software library and new games under development. GTECH believes that this game library and the "know how" and experience accumulated by GTECH's professionals since its inception make it possible for GTECH to meet the requirements of its customers for specifically tailored games on a timely and comprehensive basis.

During fiscal 2005, GTECH entered into an agreement with Hasbro Properties Group, the intellectual property development arm of Hasbro, that it believes will further strengthen GTECH's lottery game content library. Under this agreement, Hasbro grants to GTECH a license to develop and distribute select lottery products featuring Hasbro's MONOPOLY and BATTLESHIP brands in the United States, Canada and Mexico. During fiscal 2006, GTECH entered into an agreement with Hasbro granting GTECH exclusive rights in the United States and Canada to develop and market slot machines and video lottery terminals featuring THE GAME OF LIFE property brand in the casino and government sponsored environments. MONOPOLY, BATTLESHIP and THE GAME OF LIFE are trademarks of Hasbro Consumer and Hasbro Properties Group.

In February 2005, GTECH announced a five-year exclusive licensing agreement giving it the right to utilize the names, likenesses, and signatures of premium racecar drivers in connection with its HotTrax game.

During fiscal 2005, GTECH introduced HotTrax, a new three dimensional lottery game that it developed, in Rhode Island. This race-based monitor game provides players with an exciting opportunity to place every four or five minutes a variety of wagers on the finishing order of racecars.

During fiscal 2006, GTECH introduced PICK'N PLAY, its new category of online games that combines the appeal of instant ticket games with the security and integrity of online games. GTECH has filed for patent protection for PICK'N PLAY in the United States and intends to file the corresponding PCT (Patent Cooperation Treaty) application before May 12, 2006, in order to preserve GTECH's right to pursue patent protection internationally.

During fiscal 2006, GTECH also entered into an agreement with Universal Studios to use the King Kong brand and introduced an instant game based on this brand in New York, Georgia and California.

In addition, during its fiscal 2006, GTECH and Harrah's Operating Company, Inc., a subsidiary of Harrah's Entertainment, Inc., entered into a strategic relationship whereby, among other things, the parties agree to work together to develop new game content.

During fiscal 2006, GTECH announced the development of its "Dynamic Floor Management System" which permits operators of casinos to customise the game, denomination, and mode of play for a single machine or group of machines through commands and content sent via a server.

Marketing. In United States jurisdictions in which GTECH has been awarded a lottery contract, GTECH is frequently asked to assist the lottery authority in the marketing of lottery games to the public. Such assistance generally includes advice with respect to game design, and promotion and development and distribution of terminals and advertising programs. As part of such assistance, GTECH developed "GMark", a computerised marketing analysis system used to determine favourable locations for new lottery terminals. The lottery authorities of California, Florida, Georgia, Illinois, Kansas, Missouri, New York, Ohio, Rhode Island and Texas currently utilise GMark systems, and many additional customers rely upon the GTECH Corporate Market Research Group to provide GMark services to them.

Warranty. GTECH offers a product warranty on all of its manufactured products (primarily terminals and related peripherals) sold to its customers. Although GTECH does not have a standard product warranty, its typical warranty provides that GTECH will repair or replace defective products for a period of time (usually a minimum of 90 days) from the date revenue is recognised or from the date a product is delivered and tested. GTECH estimates product warranty costs that it expects to incur during the warranty period and records a charge to costs of sales for the estimated warranty cost at the time the product sale is recorded. In determining the appropriate warranty provision, consideration is given to historical warranty cost information, the status of the terminal model in its life cycle and current terminal performance. GTECH periodically assesses the adequacy of its product warranty reserves and adjusts them as necessary in the period when the information necessary to make the adjustment becomes available.

GTECH typically does not provide a product warranty on purchased products sold to its customers but attempts to pass the manufacturer's warranty, if any, on to them.

Non-Lottery Commercial Services

While transaction processing services for the on-line lottery industry remains GTECH's core service offering, it has in recent years undertaken to capitalise on the investments that it has made in secure, high-volume transaction processing technology through development of additional applications, such as financial or retail transaction processing. During fiscal 2006, revenues from non-lottery commercial services accounted for approximately 9% of GTECH's consolidated revenues.

In May 2000, GTECH signed a contract with Caixa Economica Federal, the operator of Brazil's National Lottery, to include additional financial transaction services (including bill and tax payment, social security contribution and traditional banking transaction services) over its dedicated network

infrastructure. See “—Legal Proceedings—Brazilian Legal Proceedings”. In addition, GTECH is party to agreements with more than 550 retailers in Chile to provide electronic bill payment services at retail outlets throughout the country.

During fiscal 2003, GTECH entered into an agreement with Supreme Ventures Limited, a licensee operating certain on-line games in Jamaica, and Mossel Jamaica Limited, a cellular telephone service provider in Jamaica (“*Digicel*”) to provide Digicel with a non-exclusive distribution network for the electronic sale of personal identification numbers for cellular phone usage in Jamaica, thus providing customers in Jamaica with the ability to place cellular telephone calls using purchased minutes. During fiscal 2004, GTECH acquired a controlling equity position in PolCard, the leading debit and credit card merchant transaction acquirer and processor in Poland, and was awarded a two-year contract extension by the Idaho Department of Fish and Game to continue to provide products and services to operate Idaho’s fish and game licensing system through December 31, 2006.

During fiscal 2005, GTECH completed the acquisition of BillBird S.A., the leading provider of electronic bill payment services in Poland, and during fiscal 2006 GTECH announced that it had successfully integrated the commercial services payment capability of its BillBird subsidiary into its existing GTECH Enterprise Service™ system, thereby offering GTECH’s customers the opportunity to merge their lottery and commercial services operations.

During fiscal 2006 GTECH leveraged its existing lottery infrastructure in Colombia and the United States Virgin Islands to provide the consumers in those jurisdictions non-lottery commercial services, including pre-paid mobile telephone “top-up” services.

Product Development

GTECH devotes substantial resources in order to enhance its present products and systems and develop new products. In fiscal 2006, GTECH spent approximately U.S.\$49.9 million on research and development, as compared to U.S.\$52.6 million in fiscal 2005, and U.S.\$57.3 million in fiscal 2004.

Intellectual Property

Historically, GTECH generally has not sought to obtain patents on its products, believing that its technical “know-how”, trade secrets and the creative skills of its personnel would be of substantially more importance to its success than the benefit which patent protection ordinarily would afford. As GTECH continues to advance the development of new technological solutions, it has decided to pursue comprehensive intellectual property protection, including patents where appropriate, for these solutions. GTECH is currently pursuing protection of some of its newest advances in technology and gaming, including its GTECH Enterprise Series™, a unique, fully-open, integrated solution which includes the ability to distribute lottery games via a secure infrastructure over the internet without compromising the integrity of the games. GTECH has obtained patent protection in certain of its key business methods in the areas of infrastructure systems, terminal improvements and creative game design. Many of GTECH’s products bear recognisable brand names that it either owns or has the right to use pursuant to license agreements. GTECH owns trademark registrations in the United States and in foreign countries and uses other marks that have not been registered. GTECH also licenses certain trademarks, such as THE GAME OF LIFE, MONOPOLY, and BATTLESHIP from third parties. THE GAME OF LIFE, MONOPOLY and BATTLESHIP are trademarks of Hasbro, Inc. and are licensed to us by Hasbro Consumer Products and Hasbro Properties Group.

Production, Assembly and Components

GTECH purchases most of the parts, components and subassemblies necessary for its terminals and other products from outside sources. GTECH assembles these parts, components and subassemblies into finished products in its manufacturing facility where it also conducts all of its quality testing. GTECH

offers central systems manufactured by Hewlett-Packard Company, Stratus Computer, Inc. and IBM Corporation for its lottery systems. GTECH does not manufacture any central system components. GTECH has approximately three material sole source vendors. The loss of any of those vendors might result in material additional costs and/or manufacturing delays.

Backlog

The backlog of GTECH's orders for sales of its products, which are supported by signed contracts with its customers and which are believed by GTECH to be firm, amounted to approximately U.S.\$189.2 million as of February 25, 2006, as opposed to a backlog of approximately U.S.\$143.7 million as of February 26, 2005. Approximately U.S.\$92.2 million, or 48.7% of the backlog at February 25, 2006, is expected to be filled during fiscal 2007.

Competition

The on-line lottery industry has faced increased competition in recent years for the consumers' entertainment dollar, including from a proliferation of destination gaming venues, and an increased availability of internet gaming opportunities. In addition, in recent years, there has been increased competition among domestic and international participants in the on-line lottery industry. The on-line lottery business is highly competitive in the United States and internationally. Both in the United States and internationally, price is an increasingly important, but usually not the sole, criterion for selection. Other significant factors that influence the award of lottery contracts are: the ability to optimise lottery revenues through technical capability and applications knowledge; the quality, dependability and upgrade capability of the system; the marketing and gaming experience, financial condition and reputation of the vendor; and the satisfaction of other requirements and qualifications that the lottery authority may impose.

During fiscal 2006, GTECH's principal competitors in the on-line lottery business (and the number of on-line lottery contracts serviced worldwide by such competitors) were as follows: Scientific Games Corporation (including the business formerly known as Automated Wagering International, Inc., and IGT Online Entertainment Systems, Inc.) (42); EssNet AB (22); and Intralot S.A. (26). In January 2006, Scientific Games Corporation announced that it had signed an agreement to acquire substantially all of the on-line lottery assets of EssNet AB, including substantially all of EssNet AB's existing on-line lottery contracts.

Personnel

As of April 1, 2006, GTECH had approximately 5,300 full-time employees worldwide. The vast majority of its domestic employees is not represented by any labor union. GTECH believes that its relationship with its employees is satisfactory.

Properties

GTECH's world headquarters and research and development and main production facility are located in two buildings that total approximately 260,000 square feet on approximately 26 acres in West Greenwich, Rhode Island, which it leases from West Greenwich Technology Associates, L.P. Prior to February 1, 2005 GTECH had a 50% limited partnership interest in this partnership. On February 1, 2005, GTECH acquired the remaining 50% interest in, and presently owns 100% of, West Greenwich Technology Associates, L.P. GTECH also owns approximately 24 acres adjoining its headquarters in West Greenwich, Rhode Island. In May 2003, GTECH entered into a Master Contract with the Rhode Island Lottery that, among other matters, relates to the development of a new world headquarters facility containing at least 210,000 square feet in Providence, Rhode Island by December 31, 2006. See Note 16 to Notes to Consolidated Financial Statements of GTECH included in this Offering Circular for further information

respecting the planned relocation of GTECH's World Headquarters to Providence, Rhode Island, and certain related matters.

GTECH also owns an approximately 140,000 square foot manufacturing and central storage facility in Coventry, Rhode Island.

Except in New York State, where GTECH owns its back-up data center facility, GTECH leases, or is supplied by the relevant state authorities with, its data center facilities in the various jurisdictions. GTECH also leases office, depot maintenance and warehouse space in a number of other locations.

In addition, GTECH's subsidiary, Spielo Manufacturing, Inc., owns an approximately 113,000 square foot office building in Moncton, Canada, and leases an approximately 31,000 square foot manufacturing and warehouse facility in Saint-Anne-des-Monts, Canada. GTECH's facilities are in good condition and are adequate for its present needs.

Legal Proceedings

Brazilian Legal Proceedings

The CEF Contract Proceedings

Background. In January 1997, Caixa Economica Federal ("**CEF**"), the Brazilian bank and operator of Brazil's National Lottery, and Racimec Informática Brasileira S.A. ("**Racimec**"), the predecessor of GTECH's subsidiary GTECH Brasil Ltda. ("**GTECH Brazil**"), entered into a four-year contract pursuant to which GTECH Brazil agreed to provide on-line lottery services and technology to CEF (the "**1997 Contract**"). In May 2000, CEF and GTECH Brazil terminated the 1997 Contract and entered into a new agreement (the "**2000 Contract**") obliging GTECH Brazil to provide lottery goods and services and additional financial transaction services to CEF for a contract term that, as subsequently extended, was scheduled to expire in April 2003. In April 2003, GTECH Brazil entered into an agreement with CEF (the "**2003 Contract Extension**") pursuant to which: (a) the term of the 2000 Contract was extended into May 2005, and (b) fees payable to GTECH Brazil under the 2000 Contract were reduced by 15%.

In May 2005, CEF completed a procurement process for products and services to replace those that GTECH provided under the 2000 Contract. Based upon the commodity auction nature of the procurement process and the revenue restrictions that were then imposed on GTECH by the courts at the time, GTECH elected not to participate in the bid process. CEF also announced at such time that it was developing its central system in-house.

In May 2005, CEF and GTECH Brazil entered into a new agreement (the "**2005 Contract**") to provide the same lottery and financial transaction goods and services as were provided under the 2000 Contract. The 2005 Contract includes a discount of approximately 12% from the then-current pricing under the 2000 Contract and provides for a contract term through May 14, 2006, unless CEF elects to extend the term beyond such date. In addition, the 2005 Contract provides for GTECH Brazil to be paid in part based upon the number of terminals installed and connected to the GTECH Brazil central system. As and when new terminals are installed and connected to the CEF central system, terminals will be de-installed from the GTECH Brazil central system and, as this occurs, revenues otherwise payable to GTECH Brazil under the 2005 Contract will be correspondingly reduced. The de-installation of GTECH Brazil terminals from the GTECH central system will materially reduce GTECH's revenues to be received under the 2005 Contract and any short-term extensions thereof. We may be required to record a charge of \$48.4 million to our consolidated income statement for accumulated foreign currency translation losses related to our operations in Brazil upon the expiration of the 2005 Contract.

Fiscal 2006 revenues from the 2000 Contract through May 14, 2005, and from the 2005 Contract thereafter, accounted for approximately 11.1% of GTECH's total revenues for fiscal 2006, making CEF its largest customer in fiscal 2006 based on revenues.

Criminal Allegations Against Certain Employees and Related SEC Investigation. In late March 2004 federal attorneys with Brazil's Public Ministry (the "**Public Ministry Attorneys**") recommended that criminal charges be brought against nine individuals, including four senior officers of CEF, Antonio Carlos Rocha, the former Senior Vice President of Holdings and President of GTECH Brazil; and Marcelo Rovai, GTECH Brazil's marketing director.

The Public Ministry Attorneys had recommended that Messrs. Rocha and Rovai be charged with offering an improper inducement in connection with the negotiation of the 2003 Contract Extension, and co-authoring, or aiding and abetting, certain allegedly fraudulent or inappropriate management practices of the CEF management who agreed to enter into the 2003 Contract Extension. No other current or former employee of GTECH or GTECH Brazil has been implicated by the Public Ministry Attorneys. Neither GTECH nor GTECH Brazil is the subject of this criminal investigation, and under Brazilian law (which provides that criminal charges may not be brought against corporations or other entities), neither GTECH nor GTECH Brazil can be subject to criminal charges in connection with this matter.

As previously reported, in June 2004, the judge reviewing these charges prior to their being filed refused to initiate the criminal charges against the nine individuals, including against Messrs. Rocha and Rovai, but instead granted a request by the Brazilian Federal Police to continue the investigation which had been suspended upon the recommendation of the Public Ministry Attorneys that criminal charges be brought.

The Brazilian Federal Police subsequently ended their investigation and presented a report of their findings to the court. This report did not recommend that indictments be issued against Messrs. Rocha or Rovai, or against any current or former employee of GTECH.

The Public Ministry Attorneys have since requested that the Brazilian Federal Police reopen their investigation. GTECH understands that investigations by the Brazilian Federal Police are ongoing, including an investigation respecting the award of, and performance under, the 1997 Contract and the 2000 Contract.

As previously reported, GTECH is cooperating fully with the investigations by Brazilian authorities and has encouraged Messrs. Rocha and Rovai to do the same.

In addition, as previously reported, GTECH conducted an internal investigation of the 2003 Contract Extension under the supervision of the independent directors of GTECH Holdings Corporation. The investigation did not reveal any reason to believe that any of GTECH's or GTECH Brazil's current or former employees had committed any criminal offenses.

Notwithstanding the favourable resolution of the Brazilian Federal Police's initial investigation, on January 31, 2006, a special investigating panel of the Brazilian congress issued a preliminary report and voted, among other things, to ask the Public Ministry Attorneys to indict CEF President Jorge Mattoso and more than 30 other people, including one current and three former employees of GTECH Brazil, alleging that the individuals helped GTECH to illegally obtain the 2003 Contract Extension. The report also recommends that the 2005 Contract terminate, and not be extended by CEF, upon the expiration of the term of the 2005 Contract in May 2006. GTECH finds nothing in the congressional report to cause it to believe that any present or former employee of GTECH or GTECH Brazil committed any criminal offense in connection with obtaining the 2003 Contract Extension. Nevertheless, there can be no assurance that the Public Ministry Attorneys will not seek to indict or initiate criminal charges against one or more current or former GTECH Brazil employees in the wake of the issuance of the congressional report, or that the final congressional report will not request additional action against GTECH.

As previously reported, the SEC began an informal inquiry in February 2004, which informal inquiry became a formal investigation in July 2004, into the Brazilian criminal allegations against Messrs. Rocha and Rovai, and GTECH's involvement in the facts surrounding the 2003 Contract Extension, to ascertain whether there has been any violation of United States law in connection with these matters. In addition, in May 2005, representatives of the United States Department of Justice asked to participate in a meeting

with GTECH and the SEC. GTECH has cooperated fully with the SEC and the United States Department of Justice with regard to these matters, including by responding to their requests for information and documentation.

To date GTECH has found no evidence that it, or any of its current or former employees, has violated any United States law, or is otherwise guilty of any wrongdoing in connection with these matters.

In light of the fact that GTECH's reputation for integrity is an important factor in its business dealings with lottery and other governmental agencies, an allegation or finding of improper conduct by GTECH or any of its current or former employees that is attributable to GTECH could have a material adverse effect on GTECH's results of operations, business or prospects, including its ability to retain existing contracts or to obtain new or renewal contracts within Brazil and elsewhere. See "Risk Factors—Risk Factors Relating to GTECH—Government regulations and other actions affecting the on-line lottery industry could have a negative effect on GTECH's business, results of operations or prospects".

Civil Action By The Public Ministry Attorneys. As previously reported, in April 2004 the Public Ministry Attorneys initiated a civil action in the Federal Court of Brasilia against GTECH Brazil; 17 former officers and employees of CEF; the former president of Racimec; Antonio Carlos Rocha; and Marcos Andrade, another former officer of GTECH Brazil. The focus of this civil action is the contractual relationship between CEF, GTECH Brazil and Racimec during the period 1994 to 2002. This civil action alleges that the defendants acted illegally in entering into, amending and performing, the 1997 Contract, and the 2000 Contract.

As previously reported, this lawsuit also seeks to impose damages equal to the sum of all amounts paid to GTECH under the 1997 Contract and the 2000 Contract, and certain other permitted amounts, minus GTECH's proven investment costs. The applicable statute also permits the assessment of interest and, in the discretion of the court, penalties of up to three times the amount of the damages imposed. GTECH estimates that through the date of the lawsuit it received under the 1997 Contract and the 2000 Contract a total of approximately 1.5 billion Brazilian reais (or approximately 702 million United States dollars at currency-exchange rates in effect as of February 25, 2006). In addition, although it is unclear how investment costs would be determined for purposes of this lawsuit, GTECH estimates that its investment costs through the date of the lawsuit were approximately between 1.2 billion and 1.4 billion Brazilian reais (or approximately between 562 million and 656 million United States dollars) at currency exchange rates in effect as of February 25, 2006 in aggregate; however, these investment costs could be disputed by CEF, and are ultimately subject to approval by the court.

As previously reported, GTECH believes it has good and adequate defenses to the claims made in this lawsuit. GTECH intends to defend itself vigorously in these proceedings, which, GTECH has been advised by its Brazilian counsel, are likely to take several years, and could take longer than 15 years in certain circumstances, to litigate through the appellate process to final judgment. It is GTECH's position that it was appropriately awarded the 1997 Contract by CEF after a competitive procurement, and that at all times since 1997, GTECH has been appropriately compensated for services performed under valid contracts with the CEF.

While GTECH cannot rule out the possibility that it will ultimately be held liable in this matter, or estimate the amount of such liability in such event, GTECH believes that the outcome of this lawsuit is not likely to have a material adverse affect on its results of operations or business.

As previously reported, in June 2004, the Federal Court of Brasilia granted a procedural injunction in connection with this civil matter which ordered that 30% of payments made subsequent to the date of the injunction to GTECH Brazil by CEF under the 2000 Contract be withheld and deposited into an account maintained by the Court. This injunction also put in place restrictions that effectively prevented the transfer or sale of GTECH's Brazilian assets, including the share capital of GTECH Brazil, with certain limited exceptions. The injunction was granted as part of a confidential ex parte proceeding in which GTECH was not afforded an opportunity to participate.

GTECH filed an appeal respecting the court's grant of this injunction in July 2004. On March 22, 2005, a panel of judges of the Brazilian Federal Court of Appeals heard GTECH's appeal of the procedural injunction granted by the Federal Court of Brasilia and issued an order: (a) discontinuing the withholding of payments due to GTECH Brazil from CEF that had been mandated by the procedural injunction; (b) removing the procedural injunction's restrictions on the transfer or sale of GTECH's Brazilian assets; and (c) requiring the return to GTECH Brazil of amounts in excess of 40 million Brazilian reais held in escrow pursuant to the procedural injunction, thereby permitting the return to GTECH of approximately 11 million United States dollars of the 26 million United States dollars held in escrow as of the end of fiscal 2005. The appeals court also ordered that 40 million Brazilian reais continue to be held in escrow, and that the procedural injunction's requirements that defendants report assets to the court, and that the Brazilian Central Bank report any transaction associated with these assets, be maintained. GTECH has appealed the Court of Appeals decision with respect to the continued withholding of 40 million Brazilian reais in a court account and the deadline for the Public Ministry Attorneys to appeal this decision of the Court of Appeals has expired. Amounts, exclusive of interest, held in escrow as of February 25, 2006 were valued at approximately U.S.\$18.2 million at currency exchange rates in effect as of such date.

Popular Claim. As previously reported, in February 2004, Vincius Bijos, a Brazilian, commenced a public class action lawsuit in Brazil's Brasilia District Court of the Federal District against the Brazilian Federal government; CEF; several former and current officers of CEF; the former president of Racimec; and GTECH Brazil, seeking, among the relief requested of the Court, a preliminary injunction prohibiting CEF from making further payments to GTECH Brazil under the now superseded 2000 Contract, and an order that would terminate such contract and require the defendants, jointly and severally, to refund amounts received by GTECH Brazil under the 1997 Contract and the 2000 Contract, together with interest, appropriate monetary adjustments, court costs and expenses. This public class action lawsuit bases its claims upon numerous alleged defects and irregularities, which the suit asserts violate Brazilian law, in the 1997 Contract and the 2000 Contract, and the manner in which the procurement processes that gave rise to the awards of these contracts were organised and administered. GTECH intends to mount a vigorous challenge to the far-reaching claims that make up this lawsuit. GTECH notes that the Public Ministry Attorneys filed an opinion with the federal court disagreeing with the request that an injunction enjoining payments from CEF to GTECH Brazil be entered and requesting that this suit be consolidated with the Public Ministry Attorneys' civil action described above.

GTECH believes that it has good and adequate defenses in this matter and intends to defend itself vigorously in these proceedings. GTECH further believes that the claims and determinations of the public class action lawsuit will be merged into the civil action instituted by the Public Ministry Attorneys described above, and are accordingly unlikely to represent an independent source of liability for GTECH. While GTECH cannot rule out the possibility that it will ultimately be held liable in this matter, or estimate the amount of such liability in such event, GTECH believes that the outcome of this lawsuit is not likely to have a material adverse effect on its results of operations or business.

TCU AUDIT. As previously reported, in June 2003, the TCU, the court charged with auditing agencies of the Brazilian federal government and its subdivisions, summoned GTECH, together with several current and former employees of the CEF, to appear before TCU's Brasilia court to show cause why they should not be required to jointly pay a base amount determined on a preliminary basis by the TCU to be due of 91,974,625 Brazilian reais, duly indexed for inflation and interest as of May 26, 2000 (Decision No. 692/2003). GTECH estimates that this claim, in aggregate, is for the local currency equivalent of approximately 43 million United States dollars at currency exchange rates in effect as of February 25, 2006. The allegations underlying this summons are set forth in a report (the "**2003 Audit Report**") issued by the TCU in May 2003 respecting an audit conducted by the TCU of the 1997 Contract.

The central allegation of the 2003 Audit Report is that under the 1997 Contract GTECH was accorded certain payment increases respecting lottery services, and it contracted to supply to CEF certain

lottery-related services, that were not contemplated by the procurement process respecting the 1997 Contract and that are not otherwise permitted under applicable Brazilian law. The 2003 Audit Report alleges that as a result of this, CEF overpaid GTECH under the 1997 Contract for the period commencing in January 1997 through May 26, 2000, and that GTECH is liable with respect to such alleged overpayments as specified above.

In November 2003, GTECH presented its defense to the claims and preliminary determination of the TCU that CEF had overpaid it. In light of its defense, in September 2004, the TCU reduced its determination of the amount alleged to have been overpaid to GTECH by CEF under the 1997 Contract from 91,974,625 Brazilian reais to 30,317,721 Brazilian reais, or approximately 14 million United States dollars at currency exchange rates in effect as of February 25, 2006. This determination by the TCU remains subject to approval by TCU's judges.

In June 2005, the TCU issued a second preliminary report (the "**2005 Audit Report**"; collectively with the 2003 Audit Report, the "**TCU Audit Reports**") respecting GTECH's contracts with CEF. While GTECH has not been formally served with a copy of the 2005 Audit Report, GTECH understands that its central allegations are that the 1997 Contract was improperly transferred from Racimec to GTECH Brazil; GTECH was accorded certain payment increases respecting financial services transactions that were not contemplated by the procurement process respecting the 1997 Contract or otherwise permitted under applicable Brazilian law; and the 2003 Contract Extension was entered into a manner inconsistent with Brazilian law and the procurement process respecting the 1997 Contract. The 2005 Audit Report alleges that as a result of these considerations, CEF overpaid GTECH under the 1997 Contract and the 2000 Contract. The 2005 Audit Report seeks payment from GTECH of a base amount determined on a preliminary basis by TCU to be approximately 300 million Brazilian reais. GTECH estimates this claim in aggregate, is for the local currency equivalent of approximately 140 million United States dollars at currency exchange rates in effect as of February 25, 2006. Amounts sought by the TCU under the 2005 Audit Report are independent of, and in addition to, amounts sought under the 2003 Audit Report.

GTECH plans to vigorously defend itself against the allegations made by TCU in the TCU Audit Reports and the proceedings initiated by the TCU with respect thereto. GTECH believes that it has good defenses to the claims and determinations of the TCU. GTECH further believes that the claims and determinations of the TCU Audit Reports will, in essence, be merged into the civil action instituted by the Public Ministry Attorneys described above, and are accordingly unlikely to represent an independent source of liability for GTECH. While GTECH is unable to rule out the possibility that it will ultimately be held liable in this matter, it believes that the outcome of this matter is not likely to have a material adverse effect on its results of operations or business.

Serlopar Suit

As previously reported, in April 2002 Serlopar, the lottery authority for the Brazilian state of Parana, sued GTECH's subsidiaries Dreamport Brasil Ltda. and GTECH Brazil in the 2nd Public Finance Court of the City of Curitiba, State of Parana, under an agreement dated July 31, 1997, as amended (the "**VLT Agreement**"). Pursuant to the VLT Agreement, GTECH agreed to install and operate video lottery terminals ("**VLTs**") in Parana. The Serlopar lawsuit alleges that GTECH installed only 450 of the 1,000 VLTs that it was allegedly obliged to install, and that GTECH was overpaid, and failed to reimburse Serlopar certain amounts alleged to be due to Serlopar, under the VLT Agreement. The Serlopar lawsuit seeks payment from GTECH in an amount (after adjustment for inflation and interest through February 25, 2006) equal to 124,252,740 Brazilian reais, or approximately 58 million United States dollars (at currency exchange rates in effect on February 25, 2006), together with unspecified amounts alleged to be due from the defendants with respect to general losses and damages (including loss of revenues), court costs and legal fees. GTECH believes it has good defenses to the claims made by Serlopar in this lawsuit, and intends to continue to defend itself vigorously in these proceedings. GTECH believes that the outcome of this suit will not have a material adverse impact on its results of operations or business.

Other Legal Proceedings

Shareholder Class Action Suits

On January 10, 2006, GTECH and Lottomatica announced that they had entered into the Merger Agreement. Two shareholder class action lawsuits were subsequently filed against GTECH and its directors respecting this proposed merger.

On January 12, 2006, a shareholder class action lawsuit captioned *Ralph Sellite, individually and on behalf of all others similar situated, v. GTECH Holdings Corporation, W. Bruce Turner, Robert M. Dewey, Paget L. Alves, Christine M. Cournoyer, James F. McCann, The Rt. Hon. Sir Jeremy Hanley KCMG, Philip R. Lochner, Jr., Anthony Ruys and Burnett W. Donoho*, was filed in the Rhode Island Superior Court of Kent County. This lawsuit generally alleges that the consideration to be received by GTECH shareholders in connection with the merger with Lottomatica is inadequate and that the individual defendants breached their fiduciary duties to GTECH's shareholders by approving the merger transaction on the basis of such allegedly inadequate consideration and under circumstances of certain allegedly disabling conflicts of interest. The lawsuit further alleges that GTECH aided and abetted the individual defendants in the breach of their fiduciary duties to GTECH's shareholders by entering into the Merger Agreement. The complaint seeks injunctive relief: (i) declaring the Merger Agreement to have been entered into in breach of the fiduciary duties of the individual defendants, and therefore unlawful and unenforceable; (ii) enjoining the defendants from proceeding with the Merger Agreement, including consummating the proposed transaction, unless the defendants implement procedures to obtain the highest possible price for GTECH; and (iii) directing the individual defendants to obtain a transaction which is in the best interests of GTECH's shareholders and to exercise their fiduciary duties to disclose all material information in their possession respecting the proposed transaction prior to the GTECH shareholder vote on same. The complaint also seeks to recover costs and disbursements from GTECH and the individual defendants, including reasonable attorneys' and experts' fees.

On March 6, 2006, a second shareholder class action lawsuit, captioned *Claire Partners, on behalf of itself and all others similar situated, v. W. Bruce Turner, Robert M. Dewey, Jr., Paget L. Alves, Christine M. Cournoyer, Burnett W. Donoho, The Rt. Hon. Sir Jeremy Hanley KCMG, Philip R. Lochner, Jr., James F. McCann, Anthony Ruys, GTECH Holdings Corporation, and Lottomatica S.p.A.*, was filed in the Rhode Island Superior Court of Kent County. This lawsuit generally alleges that each of the individual defendants breached their fiduciary duties to GTECH's shareholders by reason of agreeing to consummate the merger between GTECH and Lottomatica on the basis of allegedly inadequate consideration and under circumstances of certain allegedly disabling conflicts of interest, and for allegedly failing to fully and fairly disclose details of the transaction to GTECH's shareholders. The complaint further alleges that Lottomatica aided and abetted the individual defendants in such alleged breaches of their fiduciary duties. The complaint seeks injunctive relief: (i) declaring the defendants to have breached their fiduciary duties and/or aided and abetted such breaches; (ii) enjoining or rescinding the Merger Agreement; (iii) awarding plaintiff class compensatory and/or necessary damages as well as allowable interest; (iv) awarding plaintiffs the cost of disbursements and reasonable attorneys' and expert's fees and other costs; and (v) awarding the plaintiffs such other relief that the court may deem just and equitable.

While GTECH has stated that it believes the claims made in these lawsuits are without merit, in an effort to eliminate the burden and expense of further litigation and the risk of delaying the closing of the proposed merger, GTECH has entered into a Memorandum of Understanding with the plaintiffs agreeing to settle the lawsuits. Pursuant to the Memorandum of Understanding, GTECH has agreed to make additional disclosures reflected in its proxy statement for the special meeting of its shareholders at which the Merger will be presented for approval of shareholders, and Lottomatica has agreed to cause to be paid plaintiffs' claim for attorneys' fees and expenses.

Argentina Money Transfer Matter

In February 2005, GTECH Foreign Holdings Corporation, Argentina Branch (“*GFHC*”) and GTECH’s Argentina legal counsel, Dr. Jorge Perez of Perez, del Barba and Rosenblum, received notification from the Central Bank of Argentina that they were being indicted for alleged violations of Argentina’s currency exchange laws. The Argentina laws in question prohibit the transfer of foreign currency from Argentina, subject to certain exceptions not here relevant. At issue is a February 2002 agreement (the “*BofA Agreement*”) between GFHC and Bank of America, N.A., Buenos Aires Branch (“*BofA*”) pursuant to which BofA assigned to GFHC a certificate of deposit in the amount of 571,429 United States dollars (the “*CD*”), issued by Bank of America, Charlotte, North Carolina Branch (“*BofA-North Carolina*”), in consideration for the payment of 1.4 million Argentina pesos. Upon maturity of the CD, the agreement provided for BofA-North Carolina to pay 571,429 United States dollars to a GFHC branch bank account in the United States. GTECH understands that the central claim of the Argentina Central Bank’s indictment will be that the BofA Agreement was a transaction in which foreign currency was transferred, in essence, from Argentina to the United States in violation of applicable Argentina law.

If GFHC is found guilty of violating applicable Argentina currency exchange laws, as charged in the indictment, GTECH would be liable to pay a fine of up to approximately 5.7 million United States dollars (*i.e.*, ten times the amount of United States dollars allegedly transferred from Argentina) and could be prohibited for up to ten years from importing goods into, or exporting goods from, Argentina.

GTECH notes that BofA, which solicited GTECH to enter into the BofA Agreement, and approximately 20 other customers of BofA including several subsidiaries of large multi-national corporations, have been indicted in connection with transactions similar to the transaction outlined in the BofA Agreement. GTECH understands that the Central Bank of Argentina’s indictments against BofA were rejected by the courts. BofA explicitly represented to GTECH in the BofA Agreement that the transaction described therein did not violate any Argentina law or regulation, and GTECH believes that it took appropriate measures independent of this representation (including obtaining the opinion of local counsel) in advance of entering into the BofA Agreement to ascertain that this transaction was legal under applicable Argentina law. GTECH believes that it has good defenses to the claims made in the indictment, and GTECH intends to vigorously defend itself in these proceedings. GTECH does not believe that the outcome of this suit will have a material impact on its results of operations or business.

Trinidad and Tobago

In 1993, a subsidiary of GTECH and the National Lottery Control Board (“*NLCB*”) of Trinidad and Tobago (“*Trinidad*”) entered into an agreement (the “*Trinidad Agreement*”) for a five year term pursuant to which GTECH would provide on-line lottery services and technology to the NLCB. GTECH assigned that contract to a subsidiary (the “*Subsidiary*”) doing business in Trinidad. In July 1999, the Trinidad Agreement was amended to extend the term for an additional seven years, and to increase the compensation that the Subsidiary would receive if lottery proceeds in Trinidad exceeded a stated threshold. In connection with negotiating this extension, GTECH proposed to provide up to U.S.\$2.8 million in funding for community programs in Trinidad, and the extension amendment GTECH entered into requires the Subsidiary to undertake such community programs in Trinidad as are agreed with the NLCB.

From 1999 until 2001, the Subsidiary paid U.S.\$1.9 million to a private entity in connection with a proposal, approved by the NLCB, to provide community services in Trinidad. In March 2006, representatives of the Attorney General of Trinidad contacted GTECH regarding an allegation that a portion of that amount was paid by the private entity to a person who was a financial supporter of a Trinidad political party, and that the private entity had provided no services in return for the payments. GTECH has commenced an investigation into the circumstances surrounding the payments. The investigation is ongoing.

GTECH has informed the SEC about the allegations and investigation. The SEC or other law enforcement agencies in the United States or Trinidad may commence investigations and actions as a

result of the allegations or the investigation. The NLCB also may pursue an investigation or commence legal action as a result of the allegations. In the event that any such investigation or action is commenced, GTECH may be subject to fines, penalties or adverse judgments in amounts that cannot be determined at this time.

In light of the fact that GTECH's reputation for integrity is an important factor in its business dealings with lottery and other governmental agencies, an allegation or finding of improper conduct by GTECH or any of its current or former employees that is attributable to GTECH could have a material adverse effect on GTECH's results of operations, business or prospects, including its ability to retain existing contracts, or renew its existing contract with the NLCB or obtain new or renew contracts elsewhere. See "Risk Factors—GTECH—Government regulations and other actions affecting the on-line lottery industry could have a negative effect on GTECH's business, results of operations or prospects".

Cohen Suit

As previously reported, on August 7, 2002 GTECH terminated without cause the employment of Howard S. Cohen, GTECH's former President and Chief Executive Officer. In March 2003, Mr. Cohen attempted to exercise options granted by GTECH in April 2002 to purchase (on a pre-split adjusted basis) 450,000 shares of GTECH Common Stock at a per-share exercise price of U.S.\$23.30. The non-qualified stock option agreement entered into between Mr. Cohen and GTECH respecting the April 2002 grant of options provides by its terms that, in the event that Mr. Cohen's employment was terminated without cause, options remaining exercisable must be exercised within six months from the date of termination (*i.e.*, by February 7, 2003).

Because Mr. Cohen failed to exercise his April 2002 options within the term provided in the applicable stock option agreement, GTECH did not permit Mr. Cohen to exercise these options. In May 2003, Mr. Cohen filed suit in Rhode Island Superior Court against GTECH and the attorneys who had advised him in connection with the negotiation of his severance agreement, respecting his attempt to exercise the April 2002 stock options. The suit, captioned *Howard S. Cohen v. GTECH Corporation, GTECH Holdings Corporation, Michael J. Tuchman, Levenfeld Pearlstein, Charlene F. Marant and Marant Enterprises Holdings LLC*, alleges that: (i) GTECH breached its agreements with Mr. Cohen in failing to allow him to exercise his April 2002 options; (ii) through fraud by GTECH, or the mutual mistake of the parties, the April 2002 option grant does not reflect the intent of the parties, and (iii) GTECH had a duty to advise Mr. Cohen of his mistaken belief (if such it was) as to the exercise term of the April 2002 options, and failed to so advise Mr. Cohen. Mr. Cohen also alleges that his attorneys had failed in their duty of care in misadvising him as to the correct period during which he could exercise his options, and, in addition, had practiced law in Rhode Island without a license in violation of applicable Rhode Island law. Mr. Cohen seeks damages against GTECH and the other defendants in an amount of not less than 4.0 million United States dollars, plus interest, costs and reasonable attorneys fees. With respect to GTECH, he also seeks an order reforming the terms of the April 2002 option grant to reflect the alleged intent of the parties with respect to the post-termination exercise term, and other equitable relief. Mr. Cohen also asks for a declaratory judgment construing GTECH "s 2000 Omnibus Stock Option and Long Term Incentive Plan and Mr. Cohen's employment and severance agreements, as to the relevant option exercise period. GTECH believes that it has good defenses to the claims made by Mr. Cohen in this lawsuit and GTECH intends to vigorously defend itself in these proceedings. Nevertheless, at the present time GTECH is unable to predict the outcome of this lawsuit.

For further information respecting legal proceedings, see "Risk Factors—Risk Factors Relating to GTECH—Government regulations and other actions affecting the on-line lottery industry could have a negative effect on GTECH's business, results of operations or prospects", "Management's Discussion and Analysis of Financial Condition and Results of Operations-GTECH", Item 1 "Certain Factors Affecting Future Performance" and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in GTECH's Annual Report on Form 10-K, and Note 14 to Notes to Consolidated Financial Statements of GTECH included in this Offering Circular. GTECH also is subject to certain other legal proceedings and claims which its management believes, on the basis of information presently available to it, will not materially adversely affect GTECH's results of operations or business.

MARKET OVERVIEW

Overview

Lottomatica bases statements relating to the gaming and services industries contained in this Offering Circular on information compiled by Lottomatica, or derived from independent public sources which Lottomatica believes to be reliable. No assurance can be given, however, regarding the accuracy of such statements. In general, there is less publicly-available information concerning the international gaming industry than the gaming industry in the United States, and less publicly-available information concerning the services industries in which Lottomatica operates than the gaming industry.

Lottomatica currently operates in the Republic of Italy, and GTECH currently does business in 51 countries worldwide and 26 states of the United States.

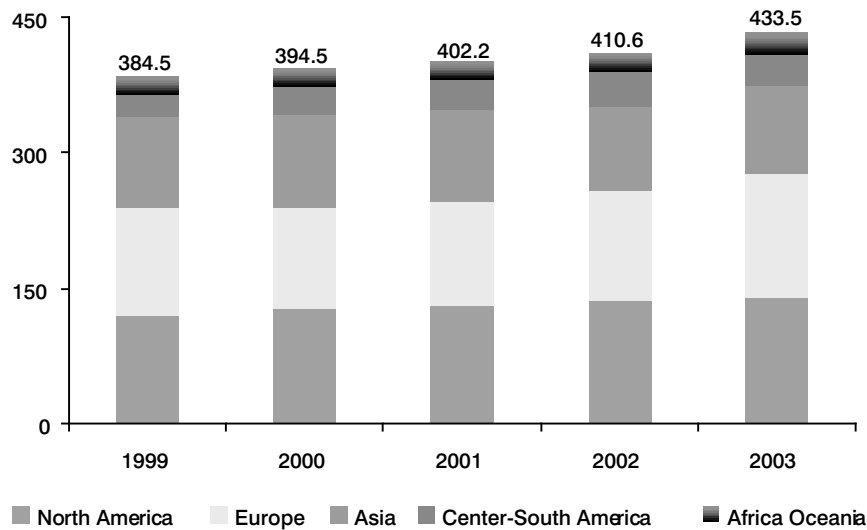
International Gaming Market

Generally

In most countries, the gaming market is generally heavily regulated. Each country governs the gaming sector, from a regulatory point of view as well as an administrative point of view, with its own solutions. Lotteries and other gaming activities are typically regulated by a governing body. The organisational model varies from country to country, although, more frequently, the operation of games is conducted by one or more dedicated, public or private entities. In certain countries, such as the United Kingdom, Spain and the Republic of Italy, the operation of games is conducted by several operators. In the United States, there is a lottery authority, or a commission for gaming activities in each state.

The gaming market is vast and variable, able to satisfy the needs of customers who, though living in different countries and continents, have a shared interest in gaming. The different games offered throughout the world can be traced back to historical roots (for example, Lotto in the Republic of Italy), depend on player preferences (which are influenced by tradition and game structure), and also are linked to the gaming providers' development ability (*e.g.*, innovation of the game, distribution network, and technological innovation).

Lottomatica considers that the world gaming market, which in 2003 reached approximately U.S.\$433 billion based on effective gambling turnover, is not still overstocked and growth of the market should be expected. Effective gambling turnover is the amount wagered in all games except casino games and Gaming Machines for which gross gambling yield is used. Gross gambling yield is the total amount wagered less amounts paid out to players as winnings. Management believes that the world gaming market is still not saturated and that many growth opportunities still exist. In the 1999-2003 period, the weighted-average growth rate was approximately 2.5%. Global Betting and Gaming Consultants forecasted annual growth of approximately 2.3% and 2.4% during 2005 and 2006, respectively. (Source: Global Betting and Gaming Consultants, 2004.)



(Source: *Global Betting and Gaming Consultants, 2004*)

On a worldwide basis, the supply of gaming products is extremely varied and can be broken down by game lines, such as:

Gaming

- Casino (poker, black jack, roulette, baccarat);
- Gaming Machines (amusement with prize machines, video lottery terminals); and
- Other games (bingo, keno).

Lotteries

- Lotteries (Lotto, instant and traditional lotteries).

Betting

- Pari-mutuel sports and horse race betting;
- Fixed-odds horse race betting;
- Greyhound/Jai Alai (fixed-odds and pari-mutuel); and
- Sports pools (fixed-odds and pari-mutuel).

The development of these game lines among different countries is highly diversified. This is attributable, in particular, to macroeconomic factors, but also to player preferences and local legislation. In North America, for example, the casino segment is far more developed than in the other regions, while betting is particularly developed in Asia.

Distribution is still limited for the gaming-machine segment (amusement with prize machines and video lottery terminals), portions of which have not yet been legalised in some countries, and have just been legalised, since mid-2004, in the Republic of Italy.

The Betting and Gaming Market Worldwide 2003 (\$ Billions)

Areas/Continents	Betting	Gaming Casinos	Gaming Gaming Machines	Gaming Other	Lotteries
Africa	2.9	1.3	0.1	0	0.7
Asia	63.0	4.5	8.1	0	21.5
Central-South America	22.0	2.6	1.6	2.6	6.96
Europe	41.2	9.7	15.3	7.88	61.6
North America	21.6	46.1	6.4	21.3	45.2
Oceania	9.1	1.6	5.4	0.7	2.3
Total	<u>159.7</u>	<u>65.8</u>	<u>36.8</u>	<u>32.5</u>	<u>138.2</u>

(Source: Global Betting and Gaming Consultants, 2004)

Note: Global Betting and Gaming Consultants includes in the lotteries segment sports betting games.

Among the factors that can influence the gaming market in the Republic of Italy are the temporary dynamics that make a certain type of game more appealing to the players. For example, the growth of the jackpot in the Superenalotto game, and the delay in the draw of one or more specific numbers (the so-called *late numbers*) in the Lotto game.

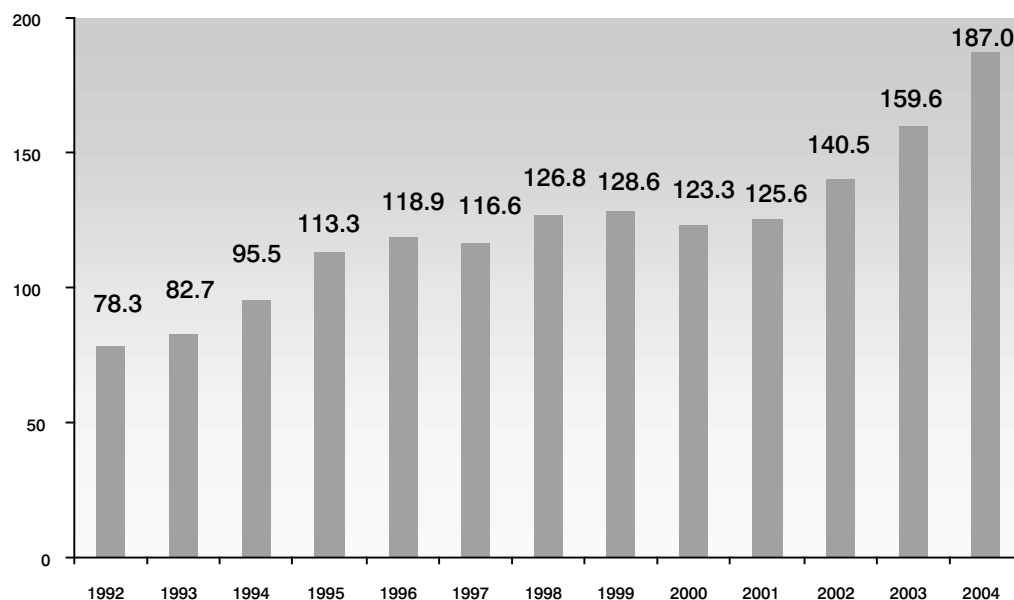
Lotteries

Lotteries are operated by state and foreign governmental bodies and their licensees in over 200 jurisdictions worldwide. Governments have authorised lotteries primarily as a means of generating non-tax revenues.

Although there are many types of lotteries in the world, it is possible to categorise government authorised lotteries into two principal groups: on-line lotteries and off-line lotteries. An on-line lottery is conducted through a computerised lottery system in which lottery terminals are connected to a central computer system. An on-line lottery system is generally utilised for conducting games such as Lotto, sports pools, keno and numbers, in which players select their own numbers. Off-line lotteries feature lottery games which are not computerised (except for ticket validation purposes), including traditional off-line lottery games and instant-lottery games.

In general, on-line lotteries generate significantly greater revenues than both traditional off-line lottery games and instant-lottery games. In addition, there are several other advantages to on-line lotteries as compared to traditional off-line lotteries. Unlike traditional off-line lottery games, wagers can be accepted and processed by an on-line lottery system until minutes before a drawing, thereby significantly increasing the lottery's revenue in cases in which a large prize has attracted substantial wagering interest. On-line lottery systems also provide greater reliability and security, allow a wider variety of games to be offered and automate accounting and administrative procedures which are otherwise manually performed.

Global Lotteries sales were equal to approximately U.S.\$187 billion in 2004, with a compounded annual growth rate from 1992 of approximately 7.5% and a strong growth measured over the past few years (an increase of approximately 11% during the period 2001–2004).



(Source: La Fleur's 2005 World Lottery Almanac)

Note: La Fleur's 2005 World Lottery Almanac includes in the lotteries segment: Lotto (Lotto and other games based on Lotto draws); Numbers (non-Lotto games such as 2 number, 3 number or 4 number games); keno (a type of Lotto with frequent draws); instant and other lotteries; and sports pools.

Italian Gaming Market

All games and lotteries in the Republic of Italy are overseen and regulated by the AAMS, part of the Italian Ministry of Economy and Finances. While Lotto is operated by Lottomatica, Sisal S.p.A., an Italian private lottery operator, runs Superenalotto, an on-line jackpot based on lottery. In addition to on-line lotteries, the Italian lottery market includes Instant and Traditional Lotteries. Such lotteries are operated by Lottomatica through Consorzio Lotterie Nazionali, a consortium 63% owned by Lottomatica, and are distributed through a network of approximately 35,000 points of sale. A number of sports pools and other pari-mutuel betting games are available in the Italian market. The sports pools (*i.e.*, Totocalcio, Totogol etc.), which were previously operated by the CONI, have been operated by Lottomatica (through Consorzio Lottomatica Giochi Sportivi, a consortium 90% owned by it), Sisal and Snai on a non-exclusive basis since 2003. The most popular sports pool is Totocalcio, which focuses mainly on Series A Soccer matches.

In the Republic of Italy, betting is a relatively young industry. Sports betting was introduced and regulated only in 1998, while the related regulations on horse race betting were fully revised during the second half of the 1990s. Currently, a regulatory revision phase is taking place with respect to fixed-odds betting. Sports betting has grown at a fast pace over the past few years and Lottomatica believes that it will continue to increase significantly in the coming years.

In June 2004, the AAMS selected 10 concessionaires, one of whom is Lottomatica, to set up a remote network for managing legal games through amusement with prize machines. The concessionaires are responsible for linking all the machines, ensuring compliance with regulations regarding gaming content, win frequency and payout, administrative services (*i.e.*, recording the amount wagered, prizes paid and tax accrued) and collecting and remitting the accrued tax to the Ministry of Economy and Finances.

The Republic of Italy has four large casinos, located in Saint Vincent, Campione, San Remo and Venice. The oldest of the four casinos is Casino de la Vallée, located in Saint Vincent, which opened in

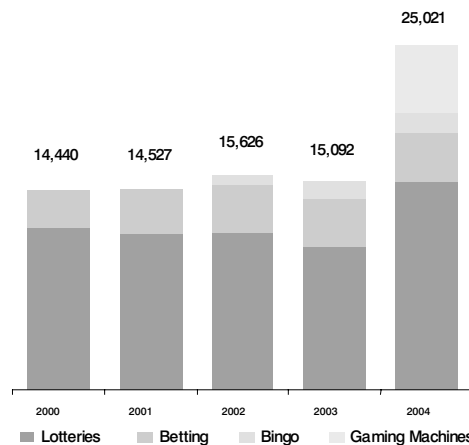
1947 and is one of the largest casinos in Europe. It has more than 90 tables, over 500 Gaming Machines and attracts over 1.2 million customers per year. The newest of the Republic of Italy's casinos is Casinò Municipale di Venezia, which opened in 1999.

Bingo was regulated in January 2000. Operation of the first halls commenced during the following year and currently there are over 300 operating across the Republic of Italy.

The gaming and betting market in the Republic of Italy grew considerably, based on wager volume, during the period from 1995 to 1999 (with an annual compounded growth rate greater than 18%) and then passed into a phase of maturity from 2000 to 2003 (with an average increase of 2%). In 2004, the market had another strong increase, largely due to the incredible year enjoyed by Lotto (which, with approximately €11.7 billion in wagers, exceeded its previous record), the new regulation permitting Gaming Machines (almost €5 billion in wagers in just 5 months of activity) and the re-launch of the instant lotteries, whose operation was transferred in June 2004 from the AAMS to Consorzio Lotterie Nazionali (€400 million in just 7 months of 2004 under Consorzio Lotterie Nazionali's management compared to approximately €80 million in the previous months of 2004 and €250 million in 2003).

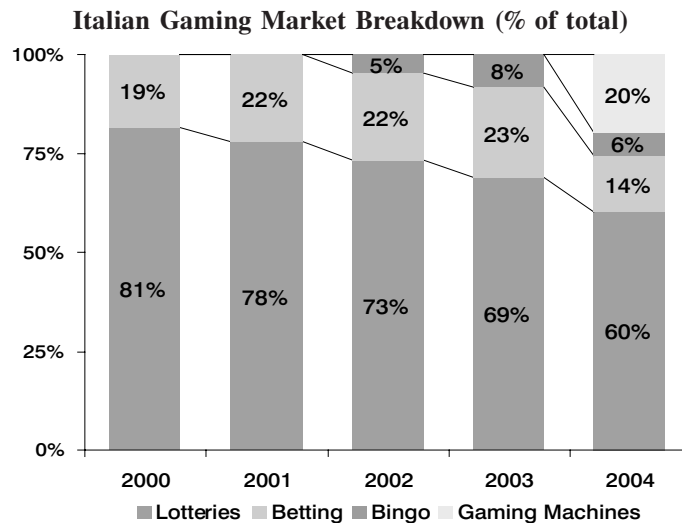
Following these phenomena, overall 2004 wagers amounted to over €25 billion compared to approximately €15 billion in 2003 (a 67% increase). With regard to the other games, Superenalotto, after stabilising in the past few years, underwent a slight decline, positioning in 2004 at €1.8 billion in wagers. Pari-mutuel betting over the past few years has experienced a declining trend in revenue, averaging a decrease of approximately 10% annually from 1995 to 2004, while during the same period, fixed-odds continued to grow.

Italian Gaming Market 2000—2004 (Millions of Euro)



(Source: Based on data provided by AAMS/Ministry of Economy and Finances)

Italian lotteries (Lotto, Superenalotto, Instant and Traditional Lotteries, and Pari-mutuel betting) represented approximately 80% of the overall wagers in the Italian gaming market during the period from 1995 to 2000. With the introduction of new games, especially Gaming Machines, the percentage of the Italian gaming market represented by lotteries fell to 60% in 2004 and is believed by Lottomatica to have decreased further.



(Source: Based on data provided by AAMS/Ministry of Economy and Finances)

According to estimates for the gaming market in 2005, Gaming Machines are believed to have represented 37%-40% of total 2005 gaming wagers. Overall the market is believed to have reached approximately €27 billion, with Lotteries accounting for approximately €11 billion (with Lotto wagers at €7.3 billion and Instant and Traditional Lotteries at €1.5 billion).

Italian Services Market

The Italian Services market is characterised by a large product portfolio, divided into four main families of Services with several shared characteristics (*e.g.*, technology, cost structure for transactions and terminals, distribution channels). The main services are:

- *Commercial services*: electronic top-up services for pre-paid mobile and fixed-line telephone accounts, event ticketing;
- *Payment services*: payment services that enable consumers to make payments for the benefit of both private sector enterprises (utility bills payment) and public sector entities (fines, local taxes, television license fees);
- *Processing services*: third party transaction processing and stamp duties printing; and
- *Stored Value and Debit Card services*.

The commercial services market is developed, but further growth is expected in this market. Payments are made principally through scratchcards and ATMs and, in minor part, through the internet and telephone call centers. While the electronic channel is continuing to cannibalise the scratch card sector, Lottomatica believes that the ATM market share generally is stable and the internet and telephone call center market share generally is increasing.

Payment services are primarily provided by Poste Italiane S.p.A. and banks. The stored value and debit cards market is regulated with barriers to entry for non-bank players. Based upon the growth of these services in the United States and the United Kingdom, management believes that the market has a tremendous growth potential.

U.S. Gaming Market

In the United States, lottery revenues are frequently designated for particular purposes, such as education, economic development, conservation, transportation and aid to the elderly. Many states have become increasingly dependent on their lotteries as revenues from lottery ticket sales are often a significant source of funding for these programs.

Typically, approximately 57.5% of the gross revenues of an on-line lottery in the United States is returned to the public in the form of prizes. Approximately 31.2% is used by the state to support specific public programs or as a contribution to the state's general funds. The remaining 11.3% is generally used to fund the operations of the lottery, including the cost of advertising, sales commissions to point-of-purchase retailers and service fees to vendors such as GTECH.

According to La Fleur's 2003 and 2005 World Lottery Almanacs, from 1972 through 2004, total annual lottery ticket sales in the United States grew from approximately U.S.\$295.0 million to approximately U.S.\$44.9 billion, although, in recent years, as the United States lottery industry has matured, the rate of lottery sales growth has moderated and certain of GTECH's customers have from time-to-time experienced a downward trend in sales. See "Risk Factors—Risk Factors Relating to GTECH—Slow growth or declines in sales of on-line lottery goods and services could lead to lower revenues and cash-flows for GTECH", above.

There are currently 43 jurisdictions that authorise the operation of on-line lotteries in the United States. Implementation of lotteries in other jurisdictions will depend upon successful completion of legislative, regulatory and administrative processes.

REGULATORY FRAMEWORK

The gaming and betting industry, in the Republic of Italy like in most countries, is regulated in all aspects by government authorities. The Italian gaming and betting regulatory authority is the AAMS. Any new rule making and/or administrative provisions could have unfavourable effects on Lottomatica, changing the situation in which it operates. In particular, the institution and operation of new games, the determination of the compensation pertaining to the concession holders themselves, the identity and the number of the concession holders, and the pertinent tax regimen are determined by legislative and administrative provisions.

Legislative Decree No. 496 of April 14, 1948, establishes that *“the organisation and the business of games of skill and games of chance, for which a compensation of any nature is paid and the participation to which requires the payment of a money stake, are reserved to the state”*.

This Decree has referred the practice of these activities to the Ministry of Finances (currently Ministry of Economy and Finances) which can directly carry out the management, or through natural and legal persons who offer an adequate guarantee of suitability.

Such Decree also establishes that the amount of the commission due to the providers and to the other management modalities will be set in special agreements to be stipulated in accordance with the policy regulations provided for in article 5, according to which *“by Decree of the President of the Republic of Italy, following proposal of the Ministry of Finances together with that of the Interior, the statutory regulations for the application and execution of the present Decree will be issued”*.

By Decree of the President of the Republic of Italy No. 58 of April 18, 1951, the statutory regulations for the application and the execution of Legislative Decree No. 496 dated April 14, 1948, were issued.

Article 3, paragraph 77 of Law No. 662 of December 23, 1996 (linked to the Budget Law), reserved the organisation and the management of the gaming and betting correlated to horse racing to the Ministry of Finance and the Ministry of Agricultural Policies, which can provide for them either directly or through public agencies or companies they have selected.

With the implementation of Article 12 of Law No. 383 of October 18, 2001—that had set the guidelines for regulatory interventions aimed at the achievement of *“the unitary management of state functions on gaming, personnel training and the transferring of non-tangible goods to the townships”*—Legislative Decree No. 33 of January 24, 2002, attributed to the AAMS the management of the state functions concerning the organisation and management of gaming, betting and games of chance.

Subsequently, Decree No. 138 of July 8, 2002, converted into Law No. 178 of August 8, 2002, attributed to the AAMS the execution of all its functions concerning the organisation and business of gaming, betting and games of chance.

Lotto

Legal Framework prior to the First Concession Decrees

Law No. 528 of August 2, 1982 (*“Law 528/82”*) stipulated that Lotto was reserved to the Government and awarded its operation to the AAMS.

Law No. 85 of April 19, 1990 (*“Law 85/90”*), which modified Law 528/82, provided for the implementation of a new automated system for Lotto operation. This law also required, in order to progressively extend Lotto bet collection to resellers of monopoly items, for the AAMS to arrange, within 2, 5, and 7 years from the implementation of the automated system, the determination of 10,000, 12,500, and 15,000 bet collection points, respectively, and that within 9 years from such implementation, the relevant concession be issued to every applying reseller.

The regulation for the application and enforcement of Law 528/82 and Law 85/90, issued with the Decree of the President of the Republic of Italy No. 303 of August 7, 1990 provided, *inter alia*, that:

- (a) compensation for bet collection agents be 10% of gross receipts from tickets (later reduced to 8% by Ministerial Decree No. 474 of December 13, 2002);
- (b) concession contracts with bet collection agents be entered into by the office of the compartmental Government Monopolies inspector having jurisdiction, for a term of no more than 9 years; and
- (c) operation of Lotto be managed by the Ministry of Economy and Finances through the AAMS.

A *Comitato Interministerie per la Programmazione Economica* (Interministerial Committee for Economic Programs, “*CIPE*”) resolution issued on February 18, 1993 provided for the Ministry of Economy and Finances to be able to award the concession of the automated Lotto service to an entity giving a sufficient guarantee regarding its assets and its technical and organisational structure.

The Ministerial Decrees of Concession

Ministerial Decree of March 17, 1993 provided for the transfer in favour of Lottomatica of the Ministry of Finances’ state powers regarding automated Lotto operation.

This Decree introduced, also, the following provisions:

- the Ministry of Finances, (now the Ministry of Economy and Finances) exercises control and supervision powers over the fulfilment of concession, with specific concentration on the exercise of the transferred state powers; and
- Lottomatica must apply in full the domestic and European Community laws when awarding to third parties work, supply, or service contracts pertaining to carrying out the concession (for these purposes, Lottomatica consortium partners were not considered as third parties for services).

In addition, in order to receive competitive bids for work or supply contracts, Lottomatica must transmit the request for bids in advance to the Ministry of Economy and Finances which has the power of supervision and control to ensure the absolute transparency of the bidding process. The term for the Lotto concession is set at 9 years and is extendable only once for a term of the same length.

The following state functions have been transferred to Lottomatica:

- safekeeping of the mechanised matrices (also for the purpose of vigilance by the Ministry of Economy and Finances over the normal procedure of the game);
- certification of validity of the bets;
- arrangement for the exclusion from drawing of bets;
- preparation of the drawing report for each wheel;
- identification, validation and determination relating amounts as to wins; and
- preparation of the official area bulletin containing the list of winning numbers.

According to Article 26 of the Ministerial Decree of March 17, 1993, the Lotto concession may be revoked by the Ministry of Economy and Finances with a reasoned decree, in the event of violations by the company holding the Lotto concession and/or by the occurrence for the same company of one of the following situations:

- violation of domestic and European Community laws on tenders for work, supply, or service contracts;

- exercise of the transferred public powers in a manner not corresponding to the public interest, as protected by the public administration;
- failure to fulfill the obligation to ensure efficiency of the service, good quality of materials or systems, their proper installation and excellent operation, as well as the obligation to maintain the entire system in an efficient manner; and
- failure to maintain the requirements of proper guarantee regarding assets and technical and organisational structure under letter (m) of the CIPE resolution of February 18, 1993.

Additional causes for revocation of the Lotto concession, by effect of the combined provisions of Article 26, paragraph 1, letter (e) and Article 20 of the Decree of March 17, 1993, as modified by Article 4 of the Director's Decree of November 15, 2000, are:

- failure to obtain the authorisation of the Ministry of Economy and Finances/AAMS, as required by the Director's Decree of November 15, 2000, for the acquisition, no matter how achieved, by third parties other than the present Lottomatica shareholders, of the control of Lottomatica, pursuant to Article 2359, paragraph 1, No. 1 of the Italian Civil Code; and
- failure to submit the appointment of Lottomatica's Chairman of the Board of Directors, Managing Director, General Manager, and Chairman of the Board of Auditors to the Ministry of Economy and Finances for prior authorisation.

At the expiration of the Lotto concession, Lottomatica must transfer, free of charge to the Ministry of Economy and Finances, at the latter's request, the ownership of the entire automated system, including terminals, systems, structures, availability of premises, files, and whatever is necessary for the operation of the Lotto system.

Regulatory Developments and Additional Concession Decrees

Ministerial Decree of January 11, 1995 (integrating the Ministerial Decree of March 17, 1993) transferred in favour of Lottomatica, the Ministry of Economy and Finance's public powers pertaining to the collection of game's revenues, the payment of winnings, the drawings and the oppositions. Such Decree provided in Article 6 that Lottomatica must apply in full the domestic and European Community laws where awarding work, supply and service contract, for these purposes, Lottomatica consortium partners (as of the date of such Decree), were considered third parties.

Ministerial Decree of July 25, 1995 (integrating the Ministerial Decree of March 17, 1993) provided in Article 2 for the transfer to Lottomatica of the state powers cited above to be total and full. The activities pertaining to the exercise of said powers are organised and managed by Lottomatica in full independence and autonomy.

The regulations that govern Lotto, the subject of the Lotto concession, were issued with the Decree of the President of the Republic of Italy No. 560 of September 16, 1996 (modified regarding payment of winnings by Decree of the President of the Republic of Italy No. 240 of October 4, 2002). It regulates, among other things, the relationship among the bet collection agents, the concession holder, and the Ministry of Economy and Finances in relation to the payment of winnings, and drawing operations. Broadly, bet collection agents pay to Lottomatica the amounts they collected (after deducting their commission) and Lottomatica (after deducting its compensation) pays the total receipts to the Italian Treasury Department. Payments for winnings up to Italian Lire 4.5 million, approximately €2,300, are made by the bet collection agents; and payments for greater amounts are made by Lottomatica.

There are no formal dealings between Lottomatica and the bet collection agents, who receive terminals from Lottomatica for use free of charge, and sign a contract with the Ministry of Economy and Finances that regulates the concession relationship of Lotto's bet collection agents. The Ministry of

Economy and Finances, in turn, instructs Lottomatica as to the bet collection points to be included in the network, where the terminals are to be installed.

Ministerial Decree of January 30, 1997 instituted a second weekly drawing (every Wednesday) for the game of Lotto.

Law No. 449 of December 27, 1997 (i) granted the Ministry of Economy and Finances the power to provide, with its own decree, the methods for collecting Lotto bets other than those under Article 4, paragraph 2 of Law No. 528 of August 2, 1982, and (ii) provided for the extension of the bet collection network to all tobacconists who apply by March 1 of every year, as long as average yearly receipts are guaranteed, in an amount to be set in agreement with the major national labor organisations in the respective sectors.

Ministerial Decree of April 14, 1998 transferred to Lottomatica the public powers associated with collection of the revenues from Lotto, payment of winnings, and declaration of exclusion of bets from the drawing, effective from May 4, 1998.

Subsequently, with the Ministerial Decree of June 26, 1998, the Ministry of Economy and Finances' state powers associated with drawing operations for Lotto were transferred to Lottomatica, effective July 1, 1998.

Ministerial Decree of February 9, 1999 authorised the collection of bets by phone, by means of pre-paid forms. This collection operation is performed by Lottomatica, which, for the purpose of the necessary interconnections, must make its automated system available to all telecommunication operators interested in that bet collection method (operators of telephony services serving the national territory that demonstrated their availability, following a public notice to show interest by the company that holds the concession).

The AAMS Directorial's Decree of June 7, 2005 provided for the suspension of telephone collection for the Lotto game over the entire national territory, in consideration of the need to find new regulatory, technical and administrative methods for remote bet collection.

Director's Decree of December 30, 1999 provided that, for the purpose of extending the Lotto bet collection network required by Law 724/94 (as modified by Law 449/97), the appropriate concessions be granted to all owners of a retailer of monopoly goods who applied for it on March 1, 1998 and March 1, 1999. Granting said concessions is carried out over a period of two years, based on a plan formulated by the holder of the Lotto concession and approved by the AAMS.

In line with the provisions of Article 4 of the Ministry of Economy and Finances' Decree of November 8, 1993 (through which Article 9*bis* was introduced in the Ministerial Decree of March 17, 1993), in 1998 the Ministry of Economy and Finances determined, upon the completion of a complex analysis conducted by a ministry-appointed commission (the "**Ministerial Commission**"), the amount that Lottomatica must pay to the Ministry, based on the savings projected by the Ministry with reference to the new telecommunication technologies and the modifications introduced into the telecommunication network by the network used (that is, the B.N.L. Multiservizi primary network and the Telecom Italia S.p.A. secondary network).

The value of the savings and, as a result, the amount that Lottomatica agreed to pay to the Ministry of Economy and Finances in the 1999-2003 period was set at Italian Lire 15,852,469,000 (equivalent to €8,187,116.98), of which Italian Lire 15,295,500,000 (equivalent to €7,899,466.50) was for savings on the B.N.L. Multiservizi primary network and Italian Lire 556,969,000 (equivalent to €287,650.48) was for savings on the Telecom Italia S.p.A. secondary network.

Moreover, B.N.L. Multiservizi and Telecom Italia S.p.A. agreed to pay to Lottomatica, for the entire 1999-2003 period:

- as for Telecom Italia S.p.A., 100% of the value determined by the Ministerial Commission; and
- as for B.N.L. Multiservizi, 50% of the value determined by the Ministerial Commission (approximately Italian Lire 7.6 billion). As a result, Lottomatica had to pay to the Ministry of Economy and Finances the same amount of approximately Italian Lire 7.6 billion.

Article 9 of the Director's Decree of November 15, 2000 (supplementing the Ministerial Decree of March 17, 1993, regarding the grant of the concession to Lottomatica) provides for the savings from operation of the Lottomatica concession holder's telecommunications network, deriving from direct or indirect rendering of services other than collection of Lotto game bets, after its having been determined by a joint committee appointed by the General Manager of Government Monopolies, to be proportionally returned every year to the Government of the Republic of Italy, beginning on the effective date of aforementioned Decree, to the extent of the usage percentage, as verified by the aforesaid committee.

The value of said savings and, as a result, the amount that Lottomatica paid to the AAMS (imputed to chapter 161 of the Administration's revenue forecast status) was determined by the committee to be €804,620.58 for the year 2002 and €668,213.78 for the year 2003.

AAMS Director's Decree of November 15, 2000 integrates the prior concession Decrees, the Ministerial Decrees of March 17, 1993 and November 8, 1993.

Pursuant to that Decree, Lottomatica was responsible for the increase in size of the Lotto game network, as required by Article 33 of Law 724/94 and the Director's Decree of December 30, 1999 by approximately 20,000 bet collection points. Lottomatica fulfilled its obligations in a timely manner, as shown in the report dated July 24, 2003 by the verification committee specially appointed by the AAMS. The Decree also established that the cancellation provided for by Article 6, paragraph 3 of the Ministerial Decree of March 17, 1993 could be declared by the Ministry of Economy and Finances only in the event it verifies, seven months prior to the expiration date of the Lotto concession, any failure on Lottomatica's part in carrying out the technical activation of over 10% of the bet collection points indicated in specific provisions by the Ministry and communicated to the concession holder with at least three months' advance notice.

Article 8 of the AAMS Director's Decree of November 15, 2000 requires Lottomatica to bear the investments to promote and advertise the game of Lotto up to at least 7% of the compensation received by the concession holder for the previous year and specifically to submit in advance the annual promotion and advertising plan to the Administration for approval.

Law Decree No. 452 of December 28, 2001, converted, with modifications, by Law No. 16 of February 27, 2002, set (i) the minimum bet for the game of Lotto at €1.00 and the maximum bet at €200.00, and (ii) the amounts of increases and the breakdown of bets, as well as the amount in euros of winnings payable by the bet collection point or directly by the concession holder.

AAMS Director's Decree of December 12, 2003, for the purpose of extending the collection network for the game of Lotto required by Article 33, paragraph 1 of Law No. 724 of December 23, 1994, as amended by Article 19 of Law No. 449 of December 27, 1997, awarded concessions to all individual holders of a regular point of sale for monopoly goods who apply by March 1 of every year, save the limit of 35,000 bets collecting points.

Article 1, paragraphs 488-493 of Law No. 311 of December 30, 2004, established a single 6% withholding on Lotto winnings, increased the jackpot for the combination of five winning numbers to six million times the wager, and stipulated that the maximum prize that may be generated by a single play slip may not exceed €6 million. It additionally provided for the introduction of the national drawing location,

the “determined drawing” combination, and the possibility of instituting a third weekly drawing for the game of Lotto. Finally it has modified the winnings multiplier.

The AAMS Directorial Decree of March 1, 2005 provided for putting in place Lotto game collection on the “determined drawing” combination, effective March 14, 2005.

The AAMS Directorial Decree of April 15, 2005 provided, effective May 2, 2005, for the collection of the game on the national drawing location and that, beginning with the Lotto drawing of May 4, the drawing for the Rome wheel would take place with electrically rotated drums.

The AAMS Directorial Decree of June 9, 2005 instituted on a trial basis for a period of four months, beginning with the drawing following June 18, 2005, the third weekly drawing for the game of Lotto, later finalised by the Director’s Decree of October 18, 2005.

The AAMS Directorial Decree of January 19, 2006 regulates the time of Lotto drawings.

Tris Toto Betting

Article 3, paragraph 77 of Law No. 662 of December 23, 1996 reserved the organisation and management of games and bets associated with horse racing to the Ministry of Economy and Finances and the Ministry for Agricultural Policies, which may attend to it directly or by means of public agencies or companies selected by them. The same Article, in the next paragraph, provides for regulations to be issued, subject to authorisation by the parliamentary committees having jurisdiction, to reorganise the operational, organisational, tax, and sanctioning aspects of games and bets associated with horse racing, as well as allocation of revenues.

The regulations mentioned above were adopted with Decree of the President of the Republic of Italy No. 169 of April 8, 1998 (“*Presidential Decree 169/98*”), which reserves to the Ministry of Economy and Finances, in agreement with the Ministry for Agricultural Policies, with a tender to be carried out in accordance with European Community laws, the award of concessions for handling bets on horse racing (with a national pari-mutuel system and fixed odds) to individuals and companies with suitable and proven requirements, also with regard to their financial standing. Included among the types of bets that may be placed on horse races is the TRIS. Article 2, paragraph 5 of the above-mentioned Presidential Decree 169/98 provided for the management of the TRIS bet and those similar to it to be awarded to a single concession holder.

Ministerial Decree of April 20, 1999 (in agreement with the Ministry for Agricultural Policies) approved the model agreement for the award of the services associated with collecting TRIS bets and those similar to it with regard to the manner of acceptance and use of pari-mutuel system.

Directorial Decree of August 25, 1999 ratified the agreement entered into by the Ministry of Economy and Finances, the Ministry for Agricultural Policies, and SARA BET regarding the methods for performing the services associated with collection of TRIS bets and of bets of the same kind.

Ministerial Decree of October 21, 1999 set the technical specifications to be adopted by the concession holders to manage horse racing bets.

Department of Revenue Directorial’s Decree of March 22, 2002 regulated financial flows associated with the management of bets, operators’ reporting, and controls of betting operation and procedures.

Ministerial Decree of June 15, 2000 (in agreement with the Ministry for Agricultural Policies) introduced telephone or computerised horse racing betting, implementing Article 4, paragraph 5 of Presidential Decree No. 169/98.

Law No. 452 of December 28, 2001 (implemented through Law No. 16 of February 24, 2002) provides that, effective January 1, 2002, one unit for TRIS and similar bets is €0.50 and the minimum bet is €1.00.

The concession for the services pertaining to Tris was awarded, following a tender for bids, to Sara Bet (Ministerial Decree of August 11, 1999). On the same date the Ministry of Economy and Finances and the Ministry for Agricultural Policies, for the first part, and Sara Bet, for the second part, entered into an agreement that regulates the procedure for the performance of the services associated with the collection of Tris (agreement approved with the Ministerial Decree of August 25, 1999).

The concession holder Sara Bet entered into contracts with Lottomatica and Twin (as well as with Snai) to provide the services associated with collecting Tris and similar bets. Based on that agreement, Lottomatica and Twin agreed, among other things:

- (a) to transmit to their own collection agents Sara Bet's authorisation to accept Tris bets as well as collect their participation;
- (b) to make available to the Sara Bet concession holder their own collection network consisting of authorised collection agents;
- (c) to operate in the name and on behalf of the concession holder, according to the contractual relationship between the concession holder and the collection agents; and
- (d) to perform cash management services for the collection and payment of receivables from collection agents.

Effective November 11, 2002, under authorisation by the AAMS and by virtue of a service agreement with Sara Bet, Sisal will collect Tris bets on its own network. Beginning on June 1, 2004, the service is carried out exclusively through Lottomatica because on that date the subsidiary Twin S.p.A. transferred to Lottomatica the corporate division that includes the Tris national pari-mutuel Totalisation system.

On December 31, 2005 the concession granted to Sara Bet expired, therefore the agreement between Lottomatica and Sara Bet was automatically terminated on the same date (Article 14).

In anticipation of the expiration of the Sara Bet's concession, Article 1, paragraph 498 of Law No. 311 of December 30, 2004 provided:

- (a) the establishing, by virtue of a directorial's provision of the Ministry of Economy and Finances-AAMS, of a new pari-mutuel horseracing bets, organised in several formulas upon UNIRE's proposal; and
- (b) that the same directorial's provision shall implement rules for the new pari-mutuel horseracing bets to be performed at the pool games network points of sale, at horseracing agencies and at the horse racetracks.

On October 10, 2005, with a note No. 2005/0065023 UNIRE sent its proposal to the Minister of Finance—AAMS.

Decree of the General Director of AAMS of October 26, 2005, established the technical regulations for pari-mutuel horse-racing "Vincente Nazionale" and "Accoppiata Nazionale" bets, both of them concern the Tris' horseracing bet (Presidential Decree 169/1998).

Decree of the General Director of AAMS, of December 15, 2005, established the pari-mutuel horseracing bets "Nuova Tris Nazionale", organised in several formulas according to Article 1, paragraph 498 of the Law No. 311 of December 30, 2004 concerning Tris' horseracing bets.

Decree of the General Director of AAMS, of December 20, 2005, established the technical rules concerning the pari-mutuel horseracing bets "Quartè Nazionale" and "Quintè Nazionale", concerning Tris' horseracing bets.

With note of December 23, 2005, No. 2005/11148/giochi/sco, AAMS, in compliance with the provisions of the Law No. 311 of December 30, 2004, authorised Consorzio Lottomatica Giochi Sportivi

(as concessionaire of Totocalcio), to accept the above mentioned horse-racing bets. The authorisation was effective from January 2006.

Games of Chance and Toto Bets

Legal Framework

Listed below are the regulatory provisions for the above activity:

- Law No. 401 of December 13, 1989—Intervention in the illegal games and betting sector and protection of fairness in sporting events;
- Decree of the President of the Republic of Italy No. 169 of April 8, 1998—Regulations containing standards for the reorganisation of the organisational, operational, and tax controls for games and bets associated with horse racing, as well for the allocation of revenues, pursuant to Article 3, paragraph 78 of Law No. 662 of December 23, 1996;
- Ministry of Economy and Finances' Decree No. 174 of June 2, 1998—Regulations containing standards for the organisation and operation of a pari-mutuel system and fixed odds bets on sports events organised by the CONI, to be adopted pursuant to Article 3, paragraph 230 of Law No. 549 of December 28, 1995;
- Directorial Decree of June 19, 1998—Selection of technical specifications to be adopted by the concession holders for handling of sports bets;
- Directorial Decree of June 19, 1998—Approval of the model agreement to receive concessions for the handling of sports bets;
- Directorial Decree of April 7, 1999—Approval of the expansion plan for the collection and acceptance network of horse racing bets;
- Directorial Decree of April 20, 1999—Approval of the model convention to award the services associated with Tris and bets similar to it from the standpoint of acceptance and totalisation;
- Directorial Decree of April 20, 1999—Approval of the model convention to award the services associated with collection of pari-mutuel system and fixed odds bets;
- Law No. 133 of May 13, 1999, Article 16—Games;
- Ministry of Economy's Decree No. 278 of August 2, 1999 and its subsequent amendments (Pari-mutuel bets on sporting events);
- Directorial Decree of August 25, 1999—Ratification of the agreement entered into by the Ministry of Economy and the Ministry of Agricultural Policies and Sara Bet S.r.l. in San Giorgio di Mantova, concerning procedure for carrying out services associated with Tris and similar bets;
- Ministry of Economy and Finances' Decree of October 21, 1999—Selection of technical specifications to be adopted by the concession holders for handling of horse racing bets;
- Directorial Decree of December 21, 1999—Renewal of concessions for the collection of horse racing bets pursuant to Article 25 of Decree of the President of the Republic of Italy No. 169 of April 8, 1998;
- Decree of March 22, 2000—Implementation of Article 8, paragraph 4 of the agreement outline for awarding services associated with the collection of Tris bets;
- Directorial Decree of April 11, 2000—Award of concessions for the handling of a national pari-mutuel system and fixed odds wagering on horse racing;

- Directorial Decree of June 15, 2000—Rules governing the telephonic or electronic acceptance of horse racing bets, in accomplishment of Article 4, paragraph 5 of Decree of the President of the Republic of Italy No. 169 of April 8, 1998;
- Ministry of Economy and Finances' Decree No. 231 of July 12, 2000—Regulation containing amendments and supplements to Ministerial Decree No. 174 of June 2, 1998;
- Law No. 388 of December 23, 2000 (Financial Law for the year 2001)—Article 41;
- Ministry of Economy and Finances' Decree No. 156 of February 15, 2001—Regulation containing the authorisation for the telephonic and electronic collection of bets associated with games, bets, and pool games;
- Ministry of Economy and Finances' Decree No. 219 of April 26, 2001—Regulations modifying Decree No. 174 of June 2, 1998;
- Law No. 383 of October 18, 2001. This law provided, among other things, that, in order to optimise government revenues from the sector, government functions in the matter of organisation and operation of games, bets, and sweepstakes and the resources associated with them are reorganised by means of one or more Decrees of the President of the Republic of Italy, to be issued pursuant to Article 17, paragraph 2 of Law No. 400 of August 23, 1988, based on the following guiding criteria: (i) elimination of duplication and overlapping of responsibilities, awarding said functions to a joint structure; (ii) selection of said structure from existing bodies, or a body to be set up pursuant to Article 8 and 9 of Legislative Decree No. 300 of July 30, 1999. Moreover, Law No. 383 of October 18, 2001 provided for games, bets, and sweepstakes under paragraph 1 to be governed taking into account the need to rationalise the existing information systems, by means of one or more decrees by the Ministry of Economy and Finances, to be issued pursuant to Article 17, paragraph 3 of Law No. 400 of August 23, 1988. The individual wager to participate in games, bets, and pool games is set by a decree of the Ministry of Economy and Finances. Technical procedures for games, bets, and sweepstakes are in any case set by means of a Directorial's Decree;
- Law Decree No. 452 of December 28, 2001 (contemplated through Law No. 16 of February 24, 2002)—Articles 12 and 13;
- Directorial Decree of May 31, 2002—Rules governing the telephonic or electronic acceptance of horse racing bets, in accomplishment of Ministerial Decree No. 156 of February 15, 2001;
- Inter-managerial Decree of June 6, 2002—Redefinition of the financial conditions for concessions to collect bets;
- Inter-managerial Decree of August 2, 2002—Modifications to the Inter-managerial Decree of June 6, 2002;
- Directorial Decree of November 6, 2002—Implementation of Article 4, paragraphs 5 and 6 of Decree of the President of the Republic of Italy No. 169 of April 8, 1998. Institution of bets similar to Tris;
- Law No. 289 of December 27, 2002 (2003 Financial Law)—Article 22, paragraphs 8-17;
- Law Decree No. 45 of March 21, 2003—Urgent provisions regarding UNIRE (Unione Nazionale per l'Incremento delle Razze Equine/National Union for the Expansion of Equine Breeds) and horse racing bets;
- Directorial Decree of April 3, 2003—Selection of additional activities that may be managed within the scope of acceptance of horse racing and sports betting;
- Directorial Decree of April 10, 2003—Issue of authorisation to points of sale for pool games and any other games associated with sports events;

- Ministry of Economy and Finances' Decree No. 179 of June 19, 2003—General rules for sports-based pool games;
- Directorial Decree of July 9, 2003—Protocol for sports-based pool games;
- Directorial Decree of July 9, 2003—Indefinite suspension of “Totosei” and “Totobingo” pool games;
- Law Decree No. 269 of September 30, 2003—Article 39;
- Inter-managerial Decree of October 10, 2003—Redetermination and methods for payment of guaranteed minimums for holders of horse racing betting concessions;
- Directorial Decree of December 19, 2003—Extension of the deadline for submitting the authorisation request for the sale of pool games for the year 2004;
- Directorial Decree of March 22, 2004—Extension of the deadline for submitting the authorisation request for the sale of pool games for the year 2004;
- Directorial Decree of March 22, 2004—Participation procedure for Totocalcio, “9” and Totogol sports-based pool games by means of special pool wagers;
- Directorial Decree of June 3, 2004—Regulation of bets on horse racing, implementing Article 4, paragraph 5 of Decree of the President of the Republic of Italy No. 169 of April 8, 1998 and Article 16, paragraph 2 of Law No. 133 of May 13, 1999;
- Directorial Decree of June 4, 2004—Reduction of the unified tax rate on pari-mutuel fixed odds sports bets;
- Directorial Decree of June 11, 2004—Reduction of the unified tax rate on pari-mutuel fixed odds horse racing bets and on the Tris and similar bets;
- Ministry of Economy and Finances' Decree No. 228 of August 5, 2004—Regulation modifying Ministerial Decree No. 179 of June 19, 2003 by the Ministry of Economy and Finances' Decree, which includes rules for sports-based pool games;
- Ministry of Economy and Finances' Decree No. 229 of August 5, 2004—Regulations modifying Ministerial Decree No. 278 of August 2, 2004, which includes rules regarding the institution of new pari-mutuel and fixed odds betting, pursuant to Article 16 of Law No. 133 of May 13, 1999;
- Directorial Decree of October 25, 2004—Regulation of horse race betting;
- Directorial Decree of November 19, 2004—Technical rules for “Big Match” bets (pari-mutuel wagers on sports events);
- Law No. 311 of December 30, 2004 Financial Law for the year 2005, Article 1, paragraphs 281-290;
- Directorial Decree of January 19, 2005—Identification of fixed odd and pari-mutuel sports events under Article 2, paragraph 1 of Ministry of Economy and Finances Decree No. 278 of August 2, 1999 and its subsequent amendments;
- Directorial Decree of February 1, 2005—Regulation of technical requirements of “Big Show—Sanremo 2005” pool game;
- Directorial Decree of February 1, 2005—Regulation of technical requirements of “Big Race—Bici” pool game;
- Directorial Decree of February 18, 2005—Extension of operation for Totip pool game;
- Inter-directorial Decree (AAMS—Service Department, Ministry of Agricultural and Forestry Policies) of August 4, 2005—Introduction of ceiling for multiple reference bets;

- Directorial Decree of October 20, 2005—Technical requirements for “Big Race—Sci” pari-mutuel betting on skiing competitions;
- Inter-directorial Decree (AAMS—Service Department, Ministry of Agricultural and Forestry Policies) of October 26, 2005—Extension of operation of Totip pool game;
- Directorial Decree of October 26, 2005—Technical regulations for pari-mutuel horse racing “Vincente nazionale” and “Accoppiata nazionale” betting;
- Directorial Decree of October 28, 2005—Game forms regulations for pari-mutuel horse racing “Vincente nazionale” and “Accoppiata nazionale” betting;
- Directorial Decree of November 17, 2005—Condition of managing the amounts due by the concessionaires to AAMS, their allotment in the financial statement of the Administration, method and timing of the payment to the legitimate holder, performance of accounting obligation of the concessionaire deriving from the management of the new pari-mutuel horseracing bets;
- Directorial Decree of December 15, 2005—Set up of a new formula for pari-mutuel horse racing “Nuova Tris Nazionale”;
- Directorial Decree of December 20, 2005—Regulations of technical requirements of “Quartè Nazionale”;
- Directorial Decree of December 23, 2005—Regulations of technical requirements of the coupons of “Vincente Nazionale”, “Accoppiata Nazionale”, “Nuova Tris Nazionale”, “Quartè Nazionale” and “Quintè Nazionale”;
- Directorial Decree of January 13, 2006—Acceptance of the fixed odd bets on sports and non sports events of national and international relevance;
- Directorial Decree of January 11, 2006—Unit bets of pari-mutuel bets other than horseracing, set forth in the Decree of Ministry of Finances No. 278 of August 2, 1999;
- Decree of the Ministry of Economy and Finances No. 110 of January 31, 2006—Regulation containing amendments to the Decree of Ministry of Economy and Finances No. 179 of June 19, 2003 regulating the general rules for sports-based pool games, in accordance with Article 16 of Law No. 133 of May 13, 1999;
- Directorial Decree of February 22, 2006—Regulations of technical requirements of “Big Race Atletica”; and
- Decree of Ministry of Economy and Finances No. 111 of March 1, 2006—Regulations concerning fixed odds bets on sports events other than horseracing and on non sports events to be adopted in accordance with Article 1, paragraph 286 of Law No. 311 of December 30, 2004.

Agreement for Awards in Concession

By means of a special selection government procedure, in June 2003 the AAMS selected three concession holders to whom, by virtue of special agreements, were granted the “activities and functions associated with pool games as well as other possible games linked with sports events”. Among said concession holders, Consorzio Lottomatica Giochi Sportivi—consisting of Lottomatica (85%), Totobit (5%), Telcos S.p.A. (5%), and Consorzio Totocom/Agenzie On-Line (5%)—came in second, and on June 5, 2003 it signed a concession agreement with the AAMS.

The activities and functions that are the subject of the Totocalcio concession pertain to pool games (that is, pool games and sports-based games, as well as pari-mutuel system bets on events other than horse racing) operating from the beginning of the 2003—2004 soccer season, as well as any other sports-based game that the AAMS wishes or will wish to sell during the term of the concession through its points of sale

(meaning commercial shops with gaming terminals open to the public or betting agencies or Toto receivers that, subject to an authorisation issued by the AAMS, manage user relations, perform gaming operations on gaming terminals, and pay off winnings of modest size) and/or through the special sports gaming web portal created and managed by each selected concession holder. The concession is renewable but it is not indicated in accordance with which methodology.

More specifically, the activities and functions that are the subject of the totocalcio concession are:

- installation of the Pool Games operating system, with the features defined in the technical specifications;
- collection of the receipts from the retailers and the transfer to the AAMS of the proceeds due to it, net of the prizes paid to the winners;
- technological, commercial, and administrative management of the retailers;
- transportation of information from the retailers to the national totalisator and vice versa;
- promotion and management of gaming via the internet and, optionally, by telephonic means; and
- verification of proper and efficient management of the sales of pari-mutuel wagering by the retailers following issuance of the permit for the sale of pari-mutuel wagering by the AAMS.

Specific Obligations of the Concessionaire

Among the principal obligations to be borne by the concessionaire are the following activities:

- making and running of a proprietary processing system for gaming management, on the basis of the functional technical specifications in conformity with the provisions set forth in the respective technical specifications;
- equipping of retail locations with gaming terminals if they are devoid of them;
- transmission to the AAMS of requests for permits for the sale of pari-mutuel wagering put forth by retailers upon subscription of the appropriate contract between the latter and the concessionaire itself; in this regard, the concessionaire will be bound to the AAMS until every retailer (located in a municipality with a population of over 1,500 inhabitants and which is not a Toto collection points) ensures receipts from the sale of pari-mutuel wagering for every soccer season equal to at least €10,000.00;
- execution, by its own organisation or by means of a specially identified credit institution, of the duties of the concessionaire's cashier for the withdrawal, by direct interbank remittance (RID), of the sums owed by the retailers;
- having appropriately trained the retailers and those associated with them in the use of the gaming terminal;
- accounting management, the reporting, and weekly payment of the receipts and the proceeds to the retailers and to the AAMS;
- payment of the winning tickets, upon validation by the National Totalisator of the receipts presented for recovery;
- printing of gaming tickets and supplying them to the retailers, with the formats and standards determined by the AAMS with specific measures;
- regular and special technical maintenance of the gaming terminals and of the connection network, to guarantee full and continual functionality of the retail locations;

- technical assistance to the retailer through remote assistance tools, call centers, as well as, where necessary, on-site access;
- training of the retailer concerning the use of the technology made available by the concessionaire itself, the gaming procedures, the proper management of terminals and of the respective diagnostics messages, as well as the gaming techniques, the gaming product sales techniques, and the monitoring of sales results;
- oversight of retailers, as well as administrative and commercial assistance to them for proper management of the business;
- activation and sizing of the retailers network, through on-line and real-time connection to the proprietary processing system;
- collection, in real time, after having received notice from the national totalisator of the opening of the pari-mutuel wagering, of the data on the bets that were made at the retailers connected to the concessionaire and the exchange of such data with the national totalisator;
- making of a portal for sports betting that, in addition to informational activity, also allows for the acceptance of bets according to the minimum functional requirements stipulated in the respective technical specification; and
- activation, which is optional and upon authorisation from the AAMS, of additional channels for the collection of telephonic and remote bets.

Payment of Winnings

The concessionaire must see to payment of the winnings due from it to the winners with respect to tickets played at the retailers connected to it, as well as on the winning bets made through its own portal for sports betting, as of the day after the closing of the contest, under the terms provided for by the AAMS General Director's Decree.

Winnings in amounts not greater than €3,000 will be paid directly by every point of sale associated with the concessionaire connected to the point where the winning ticket was sold. Winnings in amounts greater than €3,000, up to a maximum of €100,000, will eventually be paid by the concessionaire out of the concessionaire's cash, according to the terms to be determined by the next AAMS measure on the management of cash-flows. Winnings in amounts greater than €100,000 will be paid by the AAMS.

Term

The concession will have a term of four years as of the activity start date, being set, by a specific measure, as August 1, 2003, and it will expire, accordingly, on July 31, 2007. The AAMS's option to extend the term of the concession for an additional year under the same terms and conditions as provided for in the said concession will remain unchanged.

Compensation of the Concessionaire

The AAMS will pay the concessionaire compensation equal to 3.45% of the total receipts from bets placed at the retail locations, while for bets made through the sports betting portal, the concessionaire's compensation will be equal to 4% of the total receipts; this latter percentage, however, may be subject, by a subsequent AAMS measure, to a possible revision upward on the basis of the methods of payment provided for bets made through the remote and/or, possibly, the telephonic channel.

The concessionaire will also receive the following payments from the retailer:

- a one-time payment of €3,500 for the activation of the connection to the processing system; this payment may not be required from Toto collection points not equipped with a suitable betting

terminal, for each of which the AAMS will pay the concessionaire, annually and for the entire term of the concession, a contribution equal to €500; and

- an annual payment of €500 for the connection to the concessionaire's processing system and for all the services offered by the concessionaire for purposes of engaging in the activity of selling pari-mutuel wagering.

Concession Fee

The concessionaire will be required to pay the AAMS, by July 31 of each year starting with the year 2003, as a concession fee, a sum equal to €500 times the number of retail locations connected to it as of July 31. Deducted from this sum will be the amount of the contribution that the AAMS will attend to paying for connection to the processing system for Toto collection points that are not equipped with any betting terminal with the features provided for in the respective technical specifications.

Revocation of the Concession

The AAMS may proceed with revocation of the concession, in particular:

- if precautionary measures are adopted against the concessionaire's legal representative or directors or measures filing legal action against any of the above on any of the criminal grounds set forth in Law No. 55 of March 19, 1990, or on any other criminal ground liable to cancel the fiduciary relationship with the AAMS;
- in the event of nonobservance of the prohibition of assignment or subrogation, even in part, to the concession;
- in the event of unauthorised suspension of activities; and
- in the event that the delay in passing on the proceeds, net of the winnings paid directly to users, is greater than 15 days or in the event more than 10 cases of delay, of any duration, in the passing on of such proceeds occur during the course of the term of the concession.

Developments of the Totocalcio concession

By addendum instrument dated May 13, 2004, the concessionaire undertook for the entire duration of the concession, to perform specific promotional activities at its retailer points.

By addendum instruments dated August 4, 2004 and December 14, 2004, the AAMS redetermined the amount of the guaranty provided by Consorzio Lottomatica Giochi Sportivi to be €15,000,000, which will be increased to the extent of 5% at the end of every soccer season, starting with the 2005-2006 one, in the event of an increase of at least 5% in the volume collected for bets involved in pari-mutuel wagering and for the bets referred to in Article 1, paragraph 1 of Ministry of Economy and Finances Decree No. 278 of August 2, 1999, as amended by Ministry of Economy and Finances Decree No. 229 of August 5, 2004.

By the above addendum instrument dated December 14, 2004, the provisions set forth in Ministerial Decrees No. 228 and No. 229 of August 5, 2004, have been added by virtue of which, respectively: (i) changes were made to the rules governing the sports-based pari-mutuel wagering referred to in Ministerial Decree No. 179 of June 19, 2003 and (ii) the collection of pari-mutuel bets on sporting events other than horse races and on non-sporting events were included with the activity of selling pari-mutuel wagering.

By a supplementary subscribed instrument dated November 4, 2005, the Totocalcio concession was added to the provisions set forth in the October 26, 2005 Directorial Decree, which introduced the technical rules governing "Vincente Nazionale" and "Accoppiata Nazionale" toto horse-racing betting.

Guaranties

In observance of what is provided for in Article 16, paragraph (c) of the Totocalcio concession, Consorzio Lottomatica Giochi Sportivi has seen to having a bank guaranty issued, in favour of the AAMS, to secure proper performance of the activities and duties awarded, as well as to secure timely and proper payment of the proceeds, net of the winnings paid directly to users, and of every other amount owed by the concessionaire for any reason. As of the date of this Offering Circular, the amount of said guaranty is equal to €15 million.

National Lotteries

Provided below is the legal and regulatory framework applicable to this activity. The Instant Lotteries and the Traditional Lotteries are set up by a proper AAMS decree.

Legal and Regulatory Framework of Reference

- Decree of the President of the Republic of Italy No. 1677 of November 20, 1948 (and subsequent amendments and additions) approved the regulations for the national lotteries “Solidarietà Nazionale”, “Lotteria di Merano”, and “Italia”;
- Law No. 722 of August 4, 1955 authorised the operation of four national lotteries a year;
- Law No. 62 of March 26, 1990, containing rules on the subject of lotteries, tombolas, and drawings authorising the operation as of 1990 of national lotteries up to a maximum of twelve every year, as well as of one international lottery, stipulated for profits to flow as revenue on the Government Budget and of one-third of the profits to the municipalities organising events in combination with national lotteries;
- Ministry of Finances Decree No. 183 of February 12, 1991 adopted the Regulations for National Instant Lotteries;
- Law Decree No. 557 of December 30, 1993 (implemented by Law No. 133 of February 26, 1994) Article 11 provides that the Ministry of Finances is authorised to award a concession for the management of the lotteries by specific automated systems or by adding to the system activated for the management of Lotto;
- Law Decree No. 452 of December 29, 2001 (implemented by Law No. 16 of February 27, 2002), in Article 10, set the price for the sale of tickets for national traditional lotteries at €3.00 and the price for national instant lottery tickets at €1.50;
- Law No. 200 of August 1, 2003, which introduced paragraph 5-bis under Article 1 of Law No. 722 of August 4, 1955, provided for additional traditional lotteries “also for purposes of allowing participation by telephone or remote connections, without association with events or with historical, artistic, or cultural reenactments or with sports events”;
- Ministry of Economy and Finances Decree of December 15, 2003 identified the events to be combined with the national lotteries for the year 2004;
- Law No. 311 of December 30, 2004 (Financial Law year 2005) provided for in Article 1, paragraph 292 that the Ministry of Economy and Finances/AAMS will govern lotteries, both traditional and instant, with involvement at a distance determining the percentage distribution of the game at stake with regard to the national treasury, the player, and third parties, as well as the criteria and methods of operation of telephonic and remote lotteries; and
- Directorial Decree of March 29, 2006 has established that, as of June 1, 2006 of the instant draw lottery tickets will fall between €0.50 and €10.00.

Concession Award Agreement

Law Decree No. 557 of December 30, 1993, implemented by Law No. 133 of February 26, 1994, authorised the Ministry of Finances to entrust under a concession the management of the lotteries and other games administered by the Government by special automated systems or by inclusion of the system activated for the management of Lotto.

Following the competitive tender carried out pursuant to the Legislative Decree No. 157 of March 17, 1995, the agreement for awarding a concession for the service of automated management of Traditional and Instant National Lotteries was subscribed with the Ministry of Economy and Finances/AAMS dated October 14, 2003 by Lottomatica as principal (with a share of interest equal to 63%) of the temporary grouping set up by Arianna 2001, Servizi Base 2001 S.p.A., Olivetti S.p.A., and Scientific Games International Inc.

By virtue of an addendum to the concession, subscribed on October 15, 2003, the Consorzio Lotterie Nazionali, set up on December 10, 2003 by the same members of the aforesaid temporary grouping and with the same respective shares of interest, was automatically subrogated to all the obligations of the temporary grouping awarded the contract.

The term of the concession was set at six years as of March 15, 2004, insofar as Traditional Lotteries are concerned (the date on which the AAMS ceased the management of the Traditional National Lotteries), while it was set at six years starting May 31, 2004, insofar as the instant Lotteries are concerned (the date on which the AAMS ceased the management of Instant Lotteries). The concession is renewable, but it is not stated under what terms.

The purpose of the concession is the following activities:

- making and running an information system for the management of the lotteries;
- production, distribution, and sale of tickets;
- preparation of a ticket distribution and sales network capable of covering the entire national territory;
- carrying out the national lottery promotion and advertising activities; and
- payment of the winning tickets, as well as recovery of profits for the national treasury.

The concessionaire is obligated:

- to fully observe the legal, contractual, and regulatory provisions in force on the subject of traditional and instant national lotteries, as well as observing the measures that come to be issued by the AAMS;
- to bear advertising expenses each year of no less than 1.5% of the annual gross receipts, with an annual minimum of €5,165,000, up to a maximum investment of €25,823,000; and
- to pay the AAMS by the tenth day of each calendar month the amount of the national treasury's share of the profits for the tickets sold during the previous month (penalty equal to 10% of the amount not paid for each day of delay in making the aforesaid transaction).

To guarantee performance of all the obligations deriving from the concession, the concessionaire is required to provide, concurrently upon signing, for the first year, a guaranty of €25,822,845. On the date of this Offering Circular, the concessionaire has issued bank guaranties for a total of €25,822,845.

Furthermore, to cover the risks associated with the payment of the winning tickets, the concessionaire must enter into a special third-party civil liability policy, the amount of which may not be less than €15,000,000.

The concessionaire is to be paid consideration at the rate of 12.37% on the first tier of gross annual receipts (up to €533,500,000), pooling both the receipts for traditional lotteries, as well as those for instant lotteries, taking into account the percentage decrease provided for the subsequent tiers as shown below:

- 2nd tier of receipts (from over €533,500,000 to €800,250,000) the rate for the 1st tier is reduced by 0.05% (12.32%);
- 3rd tier of receipts (from over €800,250,000 to €1,067,000,000) the rate for the 2nd tier is reduced by 0.1% (12.27%);
- 4th tier of receipts (from over €1,067,000,000 to €1,600,500,000) the rate for the 3rd tier is reduced by 0.15% (12.22%);
- 5th tier of receipts (from over €1,600,500,000) the rate for the 4th tier is reduced by 0.2% (12.17%).

By means of a decree to be published in the Official Gazette of the Republic of Italy, the AAMS will declare the forfeiture or revocation of the concession:

- if the requirements for the awarding of the concession as stated in the bidding terms are not met any longer;
- in the event of the transfer of controlling share stakes in the company that directly holds the majority of the temporary grouping without the prior consent of the AAMS;
- in the event of interruption of activity for causes not deriving from force majeure;
- if, in carrying out the activity, serious and repeated violations of the tax rules or laws are committed;
- if precautionary measures are adopted or legal action is filed against the concessionaire or the company directors on any of the criminal grounds set forth in Law No. 55 of March 19, 1990 and on any other criminal ground liable to terminate the fiduciary relationship with the AAMS;
- if the management is transferred without the prior consent of the AAMS; and
- if new criteria for the terms of management of lotteries should be provided for by legislative provisions issued after the date of the concession, effective as of the effectiveness of the measures issued.

The Tiers are annually adjourned in accordance with the ISTAT revaluation.

At the termination for any reason of the management, the concessionaire agrees to transfer, without consideration to the AAMS, at its request, the ownership of the entire automated system, including the equipment, including therein the terminals at all the collection points, the devices, structures, processing programs, data files, and everything else used for the complete functioning, management and functionality of the said system. For purposes of avoiding interruptions in service with regard to the functioning of the automated system, the AAMS will also be entitled to be subrogated to or to request the assignment of the contracts in existence on the management expiration date.

Video Lotteries

Regulatory Framework

Provided below is the legislative and regulatory framework applicable to this activity.

Article 110, paragraph 3 *et seq.* of the Royal Decree No. 773 of June 13, 1931 (known as *Testo Unico delle leggi di pubblica sicurezza*, “*TULPS*”) governs automatic, semiautomatic, and electronic diversion and entertainment apparatuses and devices, determining the general features that make such apparatuses suitable for lawful gaming.

In particular, the main provisions of Article 110 of the TULPS concern:

- the installation of automated apparatuses that pay out winnings in money (the so-called “*Video Lotteries*” referred to in paragraph 6), which is allowed only in retail outlets, subject to authorisation pursuant to Articles 86 or 88 of the TULPS, which obtain the specific authorisation provided for in paragraph 3 of the aforesaid Article 86 (Article 110, paragraph 3) and which have apparatuses for the connection to the electronic network, in accordance with the Decree of the President of the Republic of Italy No. 540 of October 25, 1972, as subsequently amended, which guarantees the reliability and the modifiability game and functioning data;
- the prohibition to install and use automated, semiautomated, and electronic apparatuses and devices for games of chance in public places or places open to the public and in clubs and associations of any nature (Article 110, paragraph 4);
- the identification of automated, semiautomated, and electronic apparatuses and devices for games of chance, with regard to those apparatuses and devices where the bet is inherent or which allow for purely random winnings of any prize in money or in kind or winnings of an amount greater than the limits set in paragraph 6 of the said Article 110, excluding scanning machines for games managed by the Government (Article 110, paragraph 5);
- the identification of automated, semiautomated and electronic apparatuses and devices for entertainment or games of skill, such as those suitable for lawful gaming, in those apparatuses and devices that are activated merely by introducing a metal coin, in which the elements of skill or entertainment are preponderant compared with the element of randomness, the cost of the game does not exceed 1.50 cents of a euro, the duration of the game ranges from seven to thirteen seconds, and which distribute winnings in money, each, however, not of an amount greater than €50, paid by the machine right after it ends and solely in coins. For such types of apparatuses and devices, the winnings, calculated by the apparatus and the device itself, in a non-predetermined manner, on an overall cycle of 14,000 games, must prove no lower than 75% of the sums played. In any case, such apparatuses may not reproduce the game of poker or in any case even part of its fundamental rules (Article 110, paragraph 6 item a)); and
- Law No. 266 of December 23, 2005 (the Financial Law for the year 2005), supplemented Article 110 of TULPS, introducing both technical and operation modifications to the existing Gaming Machines, and a new category of apparatus, the video terminals. The aforesaid modification will be implemented by AAMS through instruments to be issued within July 2006.

Use of entertainment apparatuses and devices, that pay out winnings in money, is not allowed to individuals under the age of 18.

Paragraph 4 of Article 14 *bis* of the Decree of the President of the Republic of Italy No. 640 of October 26, 1972, and subsequent amendments and additions, has provided for the identification, by open public proceedings and in accordance with national and community rules, of one or more concessionaires for the AAMS network or networks for remote management of the apparatuses referred to in Article 110, paragraph 6 of the TULPS (video lotteries), which allow for remote management, including by means of video-terminal apparatuses.

Article 38 of Law No. 388 of December 23, 2000, and subsequent amendments and additions, has specified the administrative procedures for the aforesaid system of authorisation for entertainment apparatuses, including the provision for an operating permit, necessary for the installation of the apparatuses themselves, which is to be issued by the AAMS following verification of technical and administrative conformity.

The Inter Directorial Decree (by the AAMS and the Ministry of the Interior’s Public Safety Department) dated October 27, 2003, identified the categories of public retail businesses, private clubs,

and collection points for other authorised gaming, where diversion and entertainment apparatuses may be installed, as well as the maximum number of apparatuses that may be installed in each type of business and the respective requirements for installation.

Article 39, paragraph 13 of Law Decree No. 269 of September 30, 2003, implemented Law No. 326 of November 24, 2003, introduced the Sole Government Treasury Draw (“*PREU*”) as the sole tax on the sums bet by the apparatuses referred to in Article 110, paragraph 6 of the TULPS, setting its value at 13.5% of the amount played.

The Inter Directorial Decree (by AAMS and the Ministry of the Interior’s Public Safety Department) dated December 4, 2003 set the technical rules for the manufacturing of the AWP machines (art. 110, paragraph 6 of TULPS) stipulating, in particular, the procedures for approval of the models of apparatuses for purposes of the issuance of the respective permit for distribution, within the framework of which the support of Certification Organisations for verification of the technical conformity of samples of the apparatus models is provided.

The AAMS Directorial Decree No. 86 of March 12, 2004, adopted pursuant to Article 14-*bis*, paragraph 4, of the Decree of the President of the Republic No. 640 of October 26, 1972, has defined the functions, including those to be entrusted by concession, of the AAMS proprietary network for remote management of lawful gaming through gaming apparatuses, including video terminals.

The AAMS Directorial Decree No. 515 of April 8, 2004 provided for the methods and terms of payment of the Sole Government Treasury Draw on the sums played through the apparatuses.

The AAMS Directorial Decree No. 516 of April 8, 2004 provided for the administrative procedures for substitution of the operating permits issued prior to the identification of the concessionaires, as well as the contents of the contracts proposed to operators who already hold permits.

The AAMS Circular No. 1/COA/DG/2004 of February 26, 2004 provided for the system for authorising video lotteries.

The AAMS Directorial Decree of July 14, 2004 provided for the terms for determination of the tax basis for the Sole Government Treasury Draw on the sums played on the diversion and entertainment apparatuses referred to in Article 10, paragraph 6 of the TULPS.

The AAMS Directorial Decree of July 23, 2004 provided for the terms for determination of the basis of calculation of the concession fee for the activation and operational running of the network for remote operation of lawful gaming.

Law No. 311 of December 30, 2004, in particular under paragraph 497 of Article 1, provided for the application of a Value-added Tax exemption—as referred to in Article 10, paragraph one, item (6) of the Decree of the President of the Republic No. 633 of October 26, 1972—on the gaming collections made through the entertainment apparatuses referred to in Article 110, paragraph 6 of the TULPS, as well as regarding the relationships between the network concessionaires for remote operation and the third parties in charge of the said collections.

Revenue Agency Circular No. 31 of May 13, 2005, with reference to the provisions of the aforementioned Law No. 311 of December 30, 2004, clarified, among other things, with regard to VAT exemption that this exemption concerns, in particular, operations related to the lawful gaming business and operates in the following manner: on the possessor of the apparatuses (so-called operator), for all the apparatuses installed prior to July 26, 2004 and up to September 13, 2004; for the concessionaire, as of July 26, 2004, for the apparatuses for which it was issued an operating permit and, as of September 13, 2004, for the apparatuses for which the issuance of a permit replacing the one originally issued to the possessor/operator was seen to; on the relationships between the concessionaire and third parties in charge of collecting the bets, or on the relationships that the concessionaire sets up with either the owners of the

retail businesses where the apparatuses are installed, or with the possessor/operator of the apparatuses, or with any other party authorised by the concessionaire to collect the bets.

The AAMS Circular No. 2005/COA/ADI of June 15, 2005 furnished some operating instructions regarding the relationships set up between the concessionaire and the other operators involved (managers—retailers); in particular, the circular qualified the concessionaire as in charge of public service for all effects, specifying as necessary that “the parties that operate for the concessionaire in connection with collecting bets engage in a public duty entrusted to them under maximum observance of the rules of transparency, efficiency, and timeliness”, and attributing, substantially, to the concessionaire the option to request revocation of the permits for the apparatuses whose managers/possessors become guilty of serious contractual defaults against it, such as to cause the cancellation of the contracts themselves.

Concession Award Agreement

By means of an appropriate selection procedure, the AAMS identified ten concessionaires in June 2004, which, by virtue of appropriate agreements, were awarded the activation and operational running of the network for remote management of lawful gaming by means of diversion and entertainment apparatuses, as well as of the accessory activities and duties.

Among the aforesaid concessionaires, in third place in the ranking, was the temporary grouping headed up by Lottomatica, which, on July 15, 2004, subscribed the video lotteries concession with the AAMS, as principal, which was subsequently transferred, by means of an appropriate addendum dated May 5, 2004, to the current concessionaire, the Videolot S.p.A. temporary grouping, to which Lottomatica transferred, as of the same effective date, by virtue of an appropriate leasing agreement, the management of the video lotteries business unit, for purposes of guaranteeing regular execution of the activities awarded by concession. In December 2005 the videolottery ongoing concern was transferred by Lottomatica to RTI Videolot S.p.A.

The purpose of the video lotteries concession is, primarily, the following activities:

- the activation of the network for remote management of lawful gaming, with remote network being understood as the hardware and software that connects the gaming apparatuses to the processing system (prepared by each concessionaire for the gathering, management, and control of all the information and all the data regarding the apparatuses) and which connects the latter to the central system, or to the specific processing system with which the AAMS manages and controls all the data and information regarding the apparatuses furnished by the individual concessionaires' processing systems;
- the running of the aforementioned network;
- all the activities and duties associated, directly or indirectly, with remote management of the entertainment and lawful gaming apparatuses through the apparatuses themselves; and
- the possible management of lawful gaming also through video terminals, or those entertainment apparatuses, in accordance with the provisions of Article 110, paragraph 6 of the TULPS, whose gaming functioning may take place also through network connection to a concessionaire's processing system, observing the technical rules preestablished by the appropriate regulatory provisions.

The main obligations of the concessionaire include, without limitation, the following:

- the obligation to ensure all administrative obligations with regard to gaming apparatuses, particularly with reference to requesting and obtaining operating permits (issued by the AAMS) for the apparatuses that the concessionaire intends to connect to its own remote network;

- the obligation to connect the apparatuses for which the permits are in the concessionaire's name and keep them connected, through suitable connection devices (access points) between the network itself and the communication port of each apparatus;
- the obligation to subscribe the appropriate contracts with the holders of commercial retail stores (retailers) where apparatuses are installed connected to the said concessionaire's remote network;
- the obligation to see to reporting the sums bet to the AAMS, as well as collecting the same, net of the winnings paid out to players;
- the obligation, as a permit holder and taxpayer, to see to paying the AAMS the Sole Government Treasury Draw and the concession fee—equal, respectively, to 12% as of July 1, 2006 and to 0.8% of the sums bet through the apparatuses (starting from July 1, 2006);
- the obligations associated with the activity of controlling the regularity of the apparatuses connected to its own remote network and to the respective commercial retail stores, particularly with reference to the obligation to see to immediate blocking of the apparatuses in the event of technical or administrative irregularities, by appropriate technical and operational procedures and solutions (blocking procedures); and
- the obligation throughout the term of the concession to make an annual provision to an appropriate reserve on the balance sheet for investments related to technological upgrades, in the overall amount of €10 for every apparatus connected to the concessionaire's network;

Furthermore, Article 15 of the video lotteries concession provides for the concessionaire's obligation to return without consideration to the AAMS, at the end of the concession, the ownership of all the tangible and intangible assets that make up the remote network, including the availability of the equipment, fixtures, and whatever else is pertinent to the said network's complete functioning and management.

As provided for in the rules of reference, the sums bet through the apparatuses, calculated with reference to each complete cycle of 14,000 games, are distributed in the following manner:

- (a) a percentage of no less than 75% is to be allocated to winnings;
- (b) a percentage of 13.5% (12% as of July 1, 2006) is to be allocated to the sole government treasury draw (PREU); and
- (c) a percentage of no more than 11.5% (13% as of July 1, 2006) is to be allocated to compensation for the activities involved in the management of the apparatuses and the duties entrusted to the concessionaires, including the management expenses borne by the AAMS.

In consideration of the foregoing, as well as what is provided for in Article 8 of the video lotteries concession, which sets the percentage owed to the AAMS at 0.3% (0.8% as of July 1, 2006), in accordance with applicable law. The residual percentage of compensation—equal to 11.2% of the sums bet—is to be distributed among the concessionaire, the parties that, as owners, lessees, or possessors of the apparatuses, see to management thereof, and the retailers; managers and retailers will operate, in fact, as third parties in charge of lawful gaming collections on behalf of the concessionaire, receiving from the latter compensation determined as a percentage of the collections themselves.

Law No. 266 of December 23, 2005, extended the term of the gaming machines concession until October 31, 2010, originally set on October 31, 2009, with an option to extend it for an additional year at the discretion of the AAMS. No option to renew is provided for.

The AAMS may cancel the video lotteries concession:

- (a) in the event, subsequent to the stipulation of the concession agreement, for any reason the nonexistence emerges of any requirement or element comprising the essential technical and economic requirements for the awarding of the concession;
- (b) in the event of failure to pass the test by September 13, 2004;
- (c) in the event of failure to complete the activation of the network by December 31, 2004, and/or failure to collect by that same date the number of gaming machines that the concessionaire agreed to connect with a specific statement during the tender phase;
- (d) if precautionary measures are adopted against the concessionaire's legal representative or directors or measures filing legal action against any of them on any of the criminal grounds set forth in Law No. 55 of March 19, 1990, or for any other criminal ground liable to cancel the fiduciary relationship with the AAMS;
- (e) in the event of transfer of the concession or of shares of interest in the concessionaire's capital stock, made in violation of the provisions of Article 21 of the video lotteries concession;
- (f) in the event of violations of the rules in force governing lawful gaming, ascribable to the concessionaire's responsibility;
- (g) in the event of a delay of over 30 days in the payment of the Sole Government Treasury Draw owed to the AAMS, equal to 13.5% of the sums bet through the apparatuses connected to the concessionaire's network for the video lotteries concession; and
- (h) in any case in which the number of apparatuses connected to the remote network is lower than the minimum number provided for as the requirement for participation in the selection procedure, or 5,000.

In the event of the ascertainment of one of the grounds for revocation, the AAMS will see to notice by means of a formal instrument, setting a deadline for regularisation.

For purposes of avoiding interruptions in the service for the functioning of the automated system, the AAMS has the option of being subrogated to or requesting the assignment of the contracts in existence on the management expiration date.

In compliance with Article 20 of the Concession Agreement, the concessionaire has obtained on its behalf and in favour of AAMS the following bank guarantee:

- €11 million for the payment of the second advance installment of PREU (released by AAMS on December 24, 2004);
- €3 million for the activation of the remote network (released by AAMS on March 16, 2006); and
- €14,404,343.21 for running the network.

The Concession Agreement provides that the activity of running the remote network of each concessionaire may be started up only after a specific measure, the so-called network running decree, which the AAMS will issue after having verified that the individual concessionaire has seen to completing the network activation phase, or to completing remote connection of the apparatuses whose permits are in the name of the concessionaire itself.

The Concession Agreements required the concessionaire to activate the remote network within October 31, 2004, failure the concessionaire should have paid a penalty for late performance equal to €20.00 for each day of delay and the Administration might have the right to terminate the concession.

On November 4, 2004, also after passing the network test performed by the AAMS, the latter issued the concessionaire the provisional remote network running decree.

As of the date of this Offering Circular, the only thing contested by the AAMS comes from a note dated November 26, 2004 in which, taking into account the failed completion of the network startup, the penalty described above was applied, to be retroactive to November 4, 2004. This same note was found along with a letter signed by eight other concessionaires wherein there was ample defense against the application of this penalty. This defensive position was founded on the objective and inevitable technical and commercially based causes, making the delay objectively not assignable to the concessionaires. No further response or reply came from the AAMS regarding this note from the concessionaires.

Therefore, in consideration of the AAMS claim, Lottomatica recorded a debt to the AAMS on its balance sheet for €1,220,000, representing the amount associated with the period running from November 5 through December 31, 2004, as well as €1,180,000, representing the amount associated with the period running from January 1 to February 28, 2005. Both of these amounts were transferred to RTI Videolot with the lease contract for the business unit noted above. Please note that as of the date of this Offering Circular, the aforementioned provisions have not been modified.

On February 2, 2006, AAMS issued a decree for the activity of running the above remote network, in favour of concessionaire RTI Videolot.

Formula 101

Following is the description of the regulatory outline associated with Formula 101, even though, the collection of bets for this game was suspended by Ministerial Decree dated March 1, 2004.

Article 16 of Law No. 133 of May 13, 1999 provides that the Ministry of Economy and Finances may establish, even on a temporary basis, acceptance of new machines for straight or toto bets or associated with sporting events other than horse racing and those competitions organised by CONI. For any toto bets, the Ministry of Economy and Finances may provide for acceptance through retailers and concessionaires of public games and Lotto, as long as a network of retailers is used that is linked through real time information technology systems.

Ministry of Economy and Finances Decree No. 278 of August 2, 1999 provides, under Article 10, that a Formula 101 toto bet will be instituted that is linked to the Formula 1 World Championship of international car racing. The handling of these bets will be assigned to the Ministry of Economy and Finances (Article 11, paragraph 1). Acceptance of bets *“is assigned, based on the appropriate handling to be determined in full adherence to national and community regulations, to public gaming concessionaires, pool games and lotto that work within the national territory. These entities will make use of a network linked to a real time automated system”* (Article 11, paragraph 2).

The organisation of schedules, information collection and official notifications required to perform the gaming and its promotion will be reserved, by appropriate regulations, to the FIA or to another entity determined by it (Article 11, paragraph 6).

In adherence with the appropriate regulations approved by Ministerial Decree on April 5, 2000, Lottomatica is performing a dual role as organisational coordinator (Ministry of Economy and Finances Provision—March 30, 2000) and executor, handling acceptance of the bets placed in the Formula 101 (Ministry of Economy and Finances Provision—March 30, 2000), linked to the Formula 1 World Championship of international car racing organised by the *Federation Internationale de l’Automobile*.

The duration of this agreement is set at 6 years and is renewable in two-year periods for no more than four years (Article 19 of the agreement).

The license fee is calculated on a scale of decreasing percentages of gross revenue brackets (Article 22).

Subsequent Article 15 establishes that the Ministry of Finances may declare default or revocation of the license, beyond those cases expressly outlined in this provision, even when, among other possibilities, the requirements for assignment of the license as indicated in Article 11, paragraph 2 of Ministry of Economy and Finances Decree No. 278/1999 are not satisfied or when management is transferred without prior approval by the Ministry of Economy and Finances.

Article 11 states that there is an obligation of the coordinator to offer an asset based guarantee similar to that outlined in Article 13 of the provision for assigning acceptance of the bets.

Finally, Article 13 governs those cases of default and revocation of the license, as stated by decree of the Ministry of Economy and Finances. Any conjecture indicated in the licensing for assigning acceptance of the bets is not anticipated.

The directive of January 23, 2001 by the Ministry of Finances entrusts handling of the Formula 101 gaming, originally reserved to this same Ministry, to the AAMS (Article 1). The General Director of the AAMS will provide for any confirmation of the effects of those regulations adopted up to this point (Article 2).

The Decree issued by the Ministry of Economy and Finances No. 205 on August 6, 2002 made a detailed review of Ministerial Decree No. 278 of August 2, 1999 and subsequently made various substitutions and modifications to its articles.

The “new” Article 10 (institution of a pari-mutuel machine) links to Formula 101, not only with international car races, but also with world championship motorcycle races organised by the *Federation Internationale de Motocyclisme* (“*F.I.M.*”). Handling of the betting is assigned to the Ministry of Economy and Finances/AAMS.

The organisational coordination in the calendar planning, data collection and official notifications required for handling of the gaming, its promotion through print and television media, even within the sphere of images owned by F.I.M., the acquisition of official competition results also for the purposes of betting as outlined in Article 10, is all reserved, by means of appropriate provisions, for F.I.A., F.I.M. or to any other entities assigned by them for the purposes of performing the activities outlined by the decree in question (Article 11, paragraph 6). Should F.I.A. or F.I.M. assign any other entity the role of performing activities, the contracts between these entities will be subject to approval by the Ministry of Economy and Finances/AAMS. This approval is a necessary element to begin collecting bets (Article 11, paragraph 7).

Through the supplemental instrument of March 17, 2003, it was established that the Provision will be renewable every two years, beginning on December 31, 2004.

Ministry of Economy and Finances Decree, March 1, 2004

Through Ministerial Decree of March 1, 2004, the AAMS declared temporary suspension of collecting pari-mutuel machine bets under the name of “Formula 101”.

In a note dated August 30, 2005, the AAMS notified that the licensees had satisfied their obligations to issue guarantees as requested by the AAMS and, subsequently, it authorised binding of these same guarantees.

Motor Vehicle License Duty

Article 17, paragraph 10 of Law No. 449 dated December 27, 1997 (Measures for the Stabilisation of Public Finances), assigned to the Regions the responsibilities involved in collection, verification, recovery, reimbursement, sanction application and administration associated with Motor Vehicle license fees. The Regions may in turn, using public notification procedures, assign third parties to the activities of control and collection of the Motor Vehicle license duty.

As per the provisions of paragraph 11 of this same Article 17, tobacconists may collect the Motor Vehicle license duty with prior adherence to the appropriate provision such as that which governs the means for connecting via telecommunication means with the collection licensee and payment to the licensee itself of the sum collected, determining the amount due the tobacconists for each deposit operation as well as any guarantees that are to be offered for the performance of these activities.

In accordance with Article 1 of the Decree of President of Council of Ministers No. 11 of January 25, 1999, tobacconists who intend to collect the Motor Vehicle license duty must file, possibly through trade associations, a request to the Region, and assume, furthermore, the obligation of equipping itself with all appropriate technical devices in order to ensure the connection and safety features required by this same Decree (as approved by Decree on February 1, 1999 by the General Director of the Treasury Department).

This connection to the regional and national Motor Vehicle license duty archives and the transfer of data on deposits will be performed through the use of a telecommunications network and through an appropriate information technology system as outlined by the category associations (Article 2, paragraph 1). Tobacconists and the information technology system manager will together define their reciprocal relationships (Article 2, paragraph 4).

The Decree on March 16, 1999 of the General Director of the Treasury Department approved the provisions outline governing the means of telecommunication connection with the collections licensee and payment to the licensee of the sums collected, determining the compensation amount due the tobacconists for each deposit operation as well as the guarantees that must be offered for the performance of this activity.

Lottomatica, in accordance with the indications from the largest trade association of tobacconists on a national level (FIT and Assotabaccai), offers its own on-line information technology organisation system for payment service, based on the anticipated typical provisions. This system became operative on February 1, 1999 in Regions under special statutes (Friuli, Sardegna, Valle d'Aosta) and then it spread across other Regions (last to activate was Sicily on May 26, 1999).

Because of the license agreement, the Motor Vehicle license duty Agency Branch was transferred from Lottomatica to LIS which, as of today, still manages the Motor Vehicle license duty payment service.

RAI TV License Fees

Decree of the President of the Republic of Italy No. 387 of November 17, 2000 confirmed (Article 1) that the payment of radio and TV license fees associated with the licensed public service, the associated government license tax, the Value Added Tax, as well as any interest amounts, fees and penalties may be handled, not only through the postal agencies, but also through any of the payment service licensees, banks or tobacconists holding the collection locations for the Lotto game who, for this purpose, are linked through the appropriate information technology system with the role of the institutional members at the Office of the Treasury in Turin 1—TV license fee Window.

By decree on December 28, 2000, the Ministry of Economy and Finances approved the agreement form to be entered into by the Ministry itself and the tobacconists holding the Lotto game collection location to receive payment of the TV license fee.

Each agreement lasts three years, with right of recession by the tobacconists with notification three months in advance. The connection with the TV license fee archive and the transfer of data on received deposits is done through a telecommunications network and an information technology system as described by the trade associations. The means for connection and the safety features of the connection have been established based on the information provided by the category associations, with prior approval of the Administration. The tobacconists and the information technology system manager will define, with appropriate contract, their reciprocal financial relationships. With prior information from the category associations, the handling of the information technology and telecommunications service associated with

the RAI fee payment has been assigned to Lottomatica Italia Servizi. Through the provision of June 14, 2001, the Treasury Agency approved the technical specifications of the connection to the user role and the transmission of the data associated with the collection of the license fees for the radio listening channels from the tobacconists holding the Lotto game collection locations.

Highway Code Violation Automated Payment Service

The Highway Code Violation Automated Payment Service will be handled by LIS Finanziaria in accordance with the applicable contract signed by Ancitel S.p.A. for those municipalities involved in the service.

Those interested municipalities may, then, with prior stipulation of an appropriate contract with Ancitel S.p.A., join this service. The service will be activated by Ancitel S.p.A. at authorised locations within the member community territory.

The telecommunications network by which the Highway Code violation payment service will be managed functions only as a transfer hub, without any possibility of modifying the content of the data transmitted. As such, LIS Finanziaria holds no responsibility for the issuance or printing of documents, receipts or communications containing data or information that may be erroneous and/or untrue.

Furthermore, LIS Finanziaria will furnish operational assistance and instruction to the authorised locations, even as needed to make the service operational and available for the entire duration of the daily business schedule for the commercial enterprise.

It is expressly prohibited to transfer the license, rights and obligations arising from it, except when expressly contracted in writing between the parties.

Stamp Duties

The possibility of handling the payment of revenue stamps by telecommunication means (tax stamps) was introduced by Law Decree No. 168 of July 12, 2004 and converted to Law No. 191 of July 30, 2004. As such, it modified Articles 3 and 4 of Presidential Decree No. 642 of October 26, 1972 (Rules governing revenue stamp).

By note on November 16, 2004, the Treasury Agency requested FIT (Association of Italian Tobacconists) to identify and indicate the manager of the telecommunications network for the stamp tax collection service.

By subsequent notes on November 23, 2004 and May 10, 2005, this aforementioned FIT informed the Treasury Agency that List and Totobit were operating the management of the telecommunications network for the revenue stamp collection service.

By provision on May 5, 2005, the Revenue Agency approved the features and their manner of use of the countermark replacing revenue stamps, as well as the technical features of the ideal information technology system for allowing telecommunication linkage between the brokers and the Revenue Agency.

Stored Value Cards

Title V—*bis* of the Italian Banking Act regulates Stored Value Card Institutions (*Istituti di Moneta Elettronica* or “*IMEL*”) and establishes that:

- only the banks and IMEL may issue stored value cards. IMEL may issue stored value cards only after having immediately transformed the funds received (Article 114 *bis*);
- the activity must be authorised by the Bank of Italy and can be issued only after the verification of the applicant's requirements;

- the Bank of Italy supervises the IMEL, issues regulations for the development of stored value cards in order to insure their reliability and to promote the normal functioning of the circuit; and
- the Bank of Italy may exempt IMEL from the provision set forth under Title V *bis* (Article 114 *quinquies*).

According to Provision of December 27, 2005, of the General Manager of the Bank of Italy, CartaLis IMEL received the authorisation to issue stored value cards. According to the Notice of January 10, 2006, the Bank of Italy transmitted to CartaLis IMEL the authorisation measure issued on December 27, 2005. According to the Notice of February 3, 2006, the Bank of Italy informed CartaLis IMEL, as the first Italian institution of stored value cards, that it had been registered in the books kept in accordance with the Italian Banking Act.

Unified Government Tax Payments (*Contributo Unificato*)

Law No. 488 of December 23, 1999, (Financial Law for 2000) introduced the unified government tax payment (*contributo unificato*) which replaced the jurisdiction taxes as: the tax for entry in the case files, chancery fees, stamp duties and other activities handled by the court official.

The Decree of the President of the Republic of Italy No. 126 of March 1, 2003, subsequently replaced by the Decree of the President of the Republic of Italy No. 115 of May 30, 2005, regulating judicial expenses, established that the unified government tax payment may be paid remotely through and at the retailers selling monopoly goods and stamp duties. In 2002, Lottomatica Italia Servizi activated such service.

Evolution of the Gaming Regulatory Framework

The Italian gaming sector is scheduled to be noticeably changed in 2006 according to new laws issued at the end of 2005.

Article 11 *quinquiesdecies* of Law Decree No. 203 of September 30, 2005, implemented with amendments by Law No. 248 of December 2, 2005, provided that AAMS should adopt, by April 30, 2006, provisions regulating the collection of Lotto, Enalotto, sports pools and pari-mutuel betting (provided for in the Decree of the Ministry of Economy and Finances No. 278 of August 2, 1999) and the new horse racing bets established in Article 1, paragraph 498 of Law No. 311 of December 30, 2004, through internet, digital TV, cable and satellite, fixed phone and mobile phone services. Such regulations provide for:

- the daily drawing of the Lotto national wheel (Article 1, paragraph 489 of Law No. December 30, 2004) and Enalotto;
- the expansion of existing concessions to permit the use of the new interactive channels by current operators of Lotto, Enalotto, sport pools and pari-mutuel betting, by the Decree of the Ministry of Finances No. 278 of August 2, 1999, and the new horse racing bets established in Article 1, paragraph 498 of Law No. 311 of December 30, 2004;
- the possibility of remote collection of wagers for games operated in interactive channels as described in the prior bullet point by concessionaires with collection systems in compliance with the technical and organizational requirements provided for by AAMS. The provisions of the Ministry of Economy and Finances/AAMS establish (i) the criteria for connectivity between the remote collectors and the concessionaires operating the games in order to assure both the security of the network's transaction and the connection among the gaming concessionaries, and (ii) the means of paying such entities; and
- the marketing of payment instruments to be used to pay for games in the new interactive channels under Article 1, Paragraphs 290, 291 and 292 of Law No. 311 of December 30, 2004, through the collection network for Lotto, Enalotto, pari-mutuel bets provided for by the Decree of the Ministry of Economy and Finances No. 278 of August 2, 1999, and the new horse racing bets (Article 1,

paragraph 498 of Law No. 311 of December 30, 2004) ensuring that each concessionaire exclusively markets payment instruments pertaining to the games operated by them; such activity is assessed at a fee equal to 6% of the value of the payment instruments sold.

Furthermore, for years 2006 - 2008, the fee mechanism for Lotto, Enalotto, Totip pool games, sports pool and pari-mutuel betting (Decree of the Ministry of Economy and Finances No. 278 of August 2, 1999) Tris bet and the new horse racing bets operated in the new interactive channels as provided for by Article 1, paragraph 498, of Law No. 311 of December 30, 2004, have been introduced on a trial basis. The fee mechanism correlates to the collection level of the preceding year, based upon the following criteria:

- in the event that during 2006 the collection of the above-listed games distributed by retailers through interactive channels is higher than €11.2 million, the fee for 2007 will be equal to 9% of the collection; and
- in the event that during 2007 the collection of the above-listed games distributed by retailers through interactive channels is higher than €11.6 million, the fee provided for in the prior bullet point is confirmed for 2008 and subsequent years.

Furthermore, it provides that the Ministry of Economy and Finances/AAMS, with Directorial Decree that must be issued within sixty days of enacting conversion Law No. 248, of December 2, 2005, establishes regulations for the introduction of new games relating to Lotto and Superenalotto without changes in the fee percentage, based upon the following principles:

- the amount wagered for every combination shall be equal to €0.50;
- the player's return shall not be less than 50 percent of the total amount wagered;
- each new game must differ from those currently provided for Lotto and Superenalotto games;
- the introduction of instant prizes, which are cumulative with other point prizes; and
- the possibility to access the game remotely.

Finally, the same Decree establishes that, according to the provisions of Article 1, paragraphs 290-291, of Law No. 311 of December 30, 2004, the Ministry of Economy and Finances/AAMS shall determine its own provisions, the means for regulating the remote collection of bets, Bingo and lotteries using internet, digital, cable and satellite television, as well as with fixed and mobile telephones within January 31, 2006.

In particular, new laws contemplate that the concessionaires for lotteries, sports pools and pari-mutuel betting with collection systems in compliance with the technical and organisational requirements specified by AAMS will be permitted to collect wagers in the new interactive channels, as provided for by Article 1, paragraph 2 of Law No. 311 of December 30, 2004. A fee equal to 8 percent of the total amount collected is allowed for such activities.

Law No. 266 of December 23, 2005, Article 1, paragraphs 535-537, establishes that, upholding the powers of the judicial authority in the event that an action constitutes a crime, the Ministry of Economy and Finances/AAMS shall communicate to the connectivity suppliers is the internet network or the managers of other remote or telecommunication networks or to other related remote and telecommunication service operators, situations of gaming, betting and pool game offers, using the above-mentioned networks, having monetary winnings that lack franchises, authorisations, licenses or other authorized qualifications, all of which are in violation of the rules and regulations of the law or of the limits or regulations defined by the same Administration.

Those receiving the communications must inhibit the use of the networks, for which they are operators or for which they supply services, for the development of games, bets or pool games, by adopting the appropriate technical measures conforming to those established by one or more provisions of the Ministry of Economy and Finances/AAMS.

In the case of violation to inhibit the use of the networks, a monetary fine ranging from €30,000 to €180,000 shall be levied for each violation. The competent authority is the AAMS.

Law No. 266 of December 23, 2005, establishes that gaming machines can be activated also using electronic payment machines as defined by the Ministry of Economy and Finances/AAMS provision. The cost of the game cannot exceed €1, the maximum amount of each winning shall be €100, the minimum length of the game shall be 4 seconds and the winnings shall be calculated on an overall cycle of 140,000 games instead of the current 14,000.

Furthermore, the introduction of gaming machines (so-called video terminals) has been provided for, as part of the remote network, in Article 14 *bis*, paragraph 4, of the Decree of the President of the Republic of Italy No. 640 of October 26, 1972, and subsequent amendments, that will be activated exclusively with a link to a processing system belonging to the same network. For such gaming machines, the following will be defined according to the regulation of the Ministry of Economy and Finances in agreement with the Ministry of the Interior:

- the cost and method of payment for each game;
- the minimum percent of the collection to be devoted to the winnings;
- the maximum amount and the method of collecting the winnings; and
- the non-modifiable details of security, referring also to the processing system to which such devices are connected.

The installation of automatic devices that pay out amounts of money is authorized only in retail shops, collecting points or in places where games are allowed, according to Article 86 or 88 of TULPS, that have the *ad hoc* authorisation provided for by paragraph 3 of Article 86 (Article 100, paragraph 3) and are equipped with a remote connection according to the Decree of the President of the Republic of Italy No. 640 of October 26, 1972, as amended, granting the operative reliability and the non modifiability of the gaming and functioning data.

As of July 1, 2006, the tax burden on bets made with the gaming machines mentioned in Article 110, paragraph 6 a) of TULPS, amounts to 12% of the bets;

- the Ministry of Economy and Finances shall establish by decree a tax burden on the gaming machines mentioned in Article 110, paragraph 6 b) of TULPS, not lower than 8% nor higher than 12% of the bets;
- within July 1, 2006, the concession fee for running the remote network provided for by the concession agreement is fixed at 0.8% of the bets placed; and
- within July 1, 2006, AAMS grants the remote network concessionaires a maximum compensation of up to 0.5%, calculated on the necessary investments made to adapt the remote network and on the basis of the service performance obtained through collection.

As of the date of this Offering Circular, the following implementing provisions, concerning the above mentioned decrees have been enacted:

- Directorial Provision of February 7, 2006—dismissal of offers lacking authorisation for games, lotteries, bets or pool games with cash winnings made through the remote network;
- Directorial Decree of March 15, 2006—implementation of Article 1, Paragraphs 535, 536, 537, 538, of Law No. 266 of December 23, 2005, concerning the non-authorised offer through remote connection of games, lotteries, bets or pool games with cash winnings;
- Directorial Decree of March 9, 2006—Introduction of the new optional game Superstar which is connected to Superenalotto;
- Directorial Decree of March 21, 2006—Measures for the regulation of the remote collection of wagers, bingo and the lotteries; and

- Directorial Decree of April 13, 2006—implementation of Article 1, paragraph 292 of Law No. 311, granted to Consorzio Lotterie Nazionali the operator on an experimental basis, of lotteries using inherent digital, cable and satellite television, as well as fixed and mobile shows.

Insolvency Laws

The following is a brief description of certain aspects of insolvency law in the Republic of Italy.

Lottomatica and its Italian subsidiaries (as well as any of its subsidiaries whose center of interests is deemed to be the Republic of Italy) will be subject to Italian insolvency laws. Under Italian law, the insolvency (*insolvenza*) of a company must be determined and declared by a court. Insolvency occurs when a debtor is no longer able to regularly meet its obligations as they fall due. The following judicial restructuring and bankruptcy proceedings are currently available under Italian law:

- Pre-Bankruptcy Composition pursuant to Bankruptcy Law. A company facing a financial crisis has the option to seek an arrangement with its creditors, under court supervision. During the Pre-Bankruptcy Composition, all actions by creditors are stayed and the company is managed under the supervision of a court-appointed official; extraordinary transactions must be authorised by the court. The Pre-Bankruptcy Composition proposal may provide for all or any of: (i) the division of creditors into different classes; (ii) the differential treatment of creditors in different classes; (iii) a restructuring of the subject company's debt in any form, including a debt-for-equity exchange; and (iv) the transfer of the subject company's assets to an assignor (which may be one or more of the company's creditors, or a corporation specifically established during the procedure for the purpose of offering its shares to the creditors pursuant to the Pre-Bankruptcy Composition). The feasibility of the composition arrangement must be confirmed by an expert's report. The Pre-Bankruptcy Composition proposal must be approved by unsecured creditors holding a majority (by value) of the claims recognised as having the right to vote by the court-appointed official (or, in the case of disputed claims, by the court on a provisional basis), or, if unsecured creditors are divided into classes, by creditors holding a majority (by value) of the recognised claims in each class, and must be ratified by the court. Once approved by creditors, and ratified by the court, the Pre-Bankruptcy Composition is binding on all creditors. If the Pre-Bankruptcy Composition fails, the company, if found insolvent, is declared bankrupt by the court.
- New Extraordinary Administration pursuant to Law No. 39 of February 18, 2004, as amended. A company in a state of economic and financial crisis that (i) has had not fewer than 500 employees for at least one year, and (ii) has indebtedness, including obligations arising from guarantees, in an aggregate amount of at least €300 million, may be admitted to the New Extraordinary Administration. During such proceeding, which provides for a two-year restructuring plan, actions by creditors are generally stayed, and the company is managed by an extraordinary trustee, appointed by the Italian Minister of Production Activities. The restructuring plan may include a composition proposal providing for all or any of the options discussed above with regard to the Pre-Bankruptcy Composition. Again, the proposal must be approved by creditors holding a majority (by value) of the process claims, or, if creditors are divided into classes, by creditors holding a majority (by value) of the recognised claims in each class, and must be ratified by the court. If the proposal is rejected, the extraordinary trustee may implement a divestiture plan. If the divestiture plan cannot be successfully carried out, the company is declared bankrupt by the court. In addition, at any time during the proceeding, the court may convert the proceeding into a Bankruptcy Proceeding if the New Extraordinary Administration process can no longer be usefully carried out.
- Prodi-bis Extraordinary Administration pursuant to Legislative Decree No. 270 of July, 1999. A company in a state of economic and financial crisis having (i) more than 200 employees for at least one year and (ii) aggregate indebtedness of not less than two-thirds of its assets and of its annual revenues from sales and services, may be admitted to Prodi-bis Extraordinary Administration which provides for a one-year divestiture plan or a two-year restructuring plan. At any time during the

proceeding, the court may convert the proceeding into a Bankruptcy Proceeding if the Prodi-bis Extraordinary Administration process can no longer be usefully carried out.

- Court-supervised temporary controlled administration (*amministrazione controllata*) (the “**Controlled Administration**”), which will be superseded following the enactment of the Bankruptcy Law Reform, which is expected to come into force shortly. A company (regardless of its size) facing significant but temporary financial or liquidity problems can request to be placed in controlled administration for a period of up to two years. Company management generally operates under the direction and supervision of the court and frequently, the supervision of a court-appointed official. The company will be declared bankrupt if it appears that the Controlled Administration is ineffective or likely to be unproductive.
- Bankruptcy Proceeding (*fallimento*) pursuant to the Bankruptcy Law. The debtor, a creditor or a public prosecutor may apply to an insolvency court for the commencement of the Bankruptcy Proceeding. Once it has begun, all actions of creditors are generally stayed and creditors are required to file claims with the court. The company is managed by a court appointed bankruptcy trustee, and any action taken by the debtor with respect to a creditor after a declaration of bankruptcy is ineffective. The proceeds from the liquidation are distributed in accordance with statutory priority provisions regarding the payment of certain preferred creditors, including employees, the Italian tax authorities and social security administrators. The Bankruptcy Law Reform, which will take effect shortly, has simplified and shortened the bankruptcy proceedings and has increased the powers of the statutory creditors’ committee, which, inter alia, as from that date will be in charge of authorising any extraordinary administration transaction to be carried out by the bankruptcy trustee in managing the bankrupt estate.
- Post-bankruptcy composition with creditors (*concordato fallimentare*) (the “**Post-Bankruptcy Composition**”) pursuant to the Bankruptcy Law. The Bankruptcy Proceeding can be terminated prior to liquidation by a debtor filing a petition with the insolvency court for a post-bankruptcy arrangement with creditors. The Post-Bankruptcy Composition has been amended by the Bankruptcy Law Reform and, following the enactment of such law, will mirror the Pre-Bankruptcy Composition in several instances, including the possibility to propose a similar restructuring plan. Until the entry into force of the Bankruptcy Law Reform, a Post-Bankruptcy Composition proposal must be approved by the majority (in number) of unsecured creditors, representing at least two-thirds of the aggregate value of the claims recognised by the court. As from the effective date of the Bankruptcy Law Reform, approval of the Post-Bankruptcy Composition proposal will be governed by provisions substantially similar to those of the Pre-Bankruptcy Composition. Once approved by creditors, and ratified by the court, the Post-Bankruptcy Composition is binding on all creditors. If the Post-bankruptcy Composition fails, the bankruptcy proceeding is reopened.

Out-of-court restructurings. A new procedure permitting a debtor to file a petition with the court for the ratification and enforcement of an out-of-court-restructuring has recently been introduced by Law Decree No. 35 of March 14, 2005, enacted as Law No. 80 of May 14, 2005. Such petition may be filed only if (i) creditors holding at least 60% of the subject company’s outstanding debt have agreed to the proposed restructuring, and (ii) an expert’s report ensuring the feasibility of the restructuring (including the regular payment of creditors who have not agreed to the proposed restructuring) is also filed with the court. Creditors and interested third parties may oppose the restructuring within 30 days of the publication of the petition in the Companies’ Register. Once the court has ruled on any such opposition, it can ratify the out-of-court-restructuring.

Statutory priorities. The highest priority claims (after payment of the costs of the proceeding) are the claims of preferential creditors, which include the claims of the Italian tax authorities and social security administrators and claims for employee wages.

Avoidance powers in insolvency. The “claw-back” or avoidance provisions under Italian law may give rise to the revocation of payments or grants of security interests made by the debtor prior to the

declaration of bankruptcy. The key avoidance provisions cover transactions made not in line with prevailing market conditions, preferential transactions and transactions made with a view to defraud creditors.

Under Article 67 of the Bankruptcy Law, a bankruptcy trustee can request that certain transactions of the debtor during the so called “preference period” (starting six or twelve months prior to the declaration of bankruptcy, depending on certain circumstances) be voided.

In particular, the following transactions may be voided if they have been carried out during the year prior to the bankruptcy declaration, unless the debtor’s counterparty proves that it was not aware of the debtor’s insolvency at the time of the transaction:

- transactions where the consideration paid by the debtor exceeds by more than one-fourth the value of what has been given or promised to it;
- payments not made with cash or other normal means of payment; and
- pledges and mortgages granted for pre-existing debts not yet due and payable (pledges and mortgages granted for debts due and payable may also be voided under the same conditions. However, in this case the preference period is reduced to six months).

Anyhow, the above claw back actions are not applicable to the following features: (i) payments of goods and services made during the course of the business; (ii) withdrawal on bank account which did not cause a relevant reduction to the debts of the bankrupt; (iii) sales made at a right price of real estates, which is the first house of the purchaser or of its relatives; (iv) acts, payments and warranties granted on the debtor goods which are included in a recovery plan; (v) acts, payments and warranties in the context of the Pre-Bankruptcy Composition, Controlled Administration and the out-of-court restructuring; (vi) payments made by the bankrupt in favour of employees and collaborators; (vii) payments of debts due and payable made at the due date for the benefit of the Pre-Bankruptcy Composition and the Controlled Administration.

Moreover, “ordinary course” transactions (*i.e.*, conveyances for adequate consideration, payment of due debts, and granting of security interests securing the debtor’s or third parties’ debt) may be voided if (i) they have been carried out during the six months prior to the bankruptcy declaration and (ii) the bankruptcy trustee proves that the debtor’s counterparty was aware of the debtor’s insolvency at the time of the transaction.

In accordance with a new provision introduced by the Bankruptcy Law Reform, the claw-back actions listed above are time-barred three years from the bankruptcy declaration. In no event can transactions be clawed back, once five years from the time of the relevant transaction have passed.

In addition, such claw-back actions may also be carried out, *mutatis mutandis*, under the same conditions by the extraordinary trustee under the New Extraordinary Administration, and—if a divestiture plan is carried out—by the extraordinary trustee under the Prodi bis Extraordinary Administration. The extraordinary trustee under these proceedings may also request that certain transactions and/or payments carried out by the debtor with companies of the same corporate group be clawed back if made within three or five years prior to the insolvency declaration, depending on the circumstances.

Furthermore, Article 2901 of the Italian Civil Code, provides for a general claw-back action (*revocatoria ordinaria*) applicable to certain acts and transactions made by a debtor during the five years prior to the declaration of bankruptcy, upon the occurrence of certain conditions. The requirements of *revocatoria ordinaria* are (i) damage to the interests of the creditors, and (ii) knowledge of both the debtor and the counterparty of the damage to the interests of the creditors.

MANAGEMENT

The Board of Directors

The following table sets forth information on Lottomatica's directors:

<u>Name</u>	<u>Date of Birth</u>	<u>Position</u>
Renzo Pellicoli	July 29, 1951	Chairman of the Board of Directors
Rosario Bifulco	September 14, 1954	Chief Executive Officer
Marco Sala	March 23, 1959	Board Member and Managing Director
Antonio Belloni	March 24, 1950	Board Member
Pietro Boroli	November 21, 1957	Board Member
Severino Antonio Salvemini	October 21, 1950	Independent Board Member
Paolo Ceretti	February 21, 1955	Board Member
Paolo Guglielmo Luigi Ainio	August 26, 1962	Independent Board Member
Marco Boroli	August 25, 1947	Board Member
Marco Drago	February 11, 1946	Board Member
Roberto Drago	January 3, 1951	Board Member
Pier Luigi Celli	July 8, 1942	Independent Board Member
Antonio Tazartes	May 20, 1959	Independent Board Member

On December 22, 2005 the Board of Directors of Lottomatica named an Executive Committee composed of the following persons:

<u>Name</u>	<u>Position</u>
Rosario Bifulco	Chief Executive Officer and Chairman of the Executive Committee
Renzo Pellicoli	Chairman of the Board of Directors
Paolo Ceretti	Board Member
Marco Drago	Board Member
Antonio Tazartes	Board Member
Marco Sala	Board Member
Antonio Belloni	Board Member

W. Bruce Turner, currently GTECH's President and Chief Executive Officer, Robert E. Dewey, GTECH's Chairman of the Board, James F. McCann, a GTECH director and Anthony Ruys, a GTECH director, are expected to join the Board of Directors of Lottomatica upon completion of the Acquisition, subject to the relevant ministerial authorization as required by Lotto concession provisions. Lottomatica currently intends to nominate Mr. Dewey as Vice-Chairman of the Board of Directors, and also has invited Sir Jeremy Hanley, a GTECH director, to join the Board.

With the exception of the directors referred to in the preceding paragraph who are expected to join Lottomatica's Board of Directors upon completion of the Acquisition, each of Lottomatica's directors was elected at a meeting of the shareholders of Lottomatica held on December 16, 2005 and begun his term as board member on the effective date of the merger of New Lottomatica and FinEuroGames S.p.A. into NewGames S.p.A. (December 20, 2005). Such appointments will expire upon approval of the balance sheet for the fiscal year ending on December 31, 2007. The address for each of the members of the Board of Directors and their legal domicile is c/o Lottomatica, Rome, Viale del Campo Boario 56/D, Lottomatica's corporate headquarters.

The Chief Executive Officer Rosario Bifulco intends, after the completion of the Acquisition, to resign from his position as Chief Executive Officer of Lottomatica.

In addition, Lottomatica intends to appoint Marco Sala as Chief Executive Officer in charge of Italian activities.

Senior Management

The following table sets forth information on Lottomatica's senior management:

Name	Date of Birth	Position
Marco Sala	March 23, 1959	Managing Director
Emanuela Chiti	June 22, 1955	Audit, Quality and Security Director
Fabio Celadon	May 3, 1971	Finance Director
Claudia Ricchetti	July 10, 1965	General Counsel and Company Secretary Director
Gabriella Fabotti	February 20, 1965	Planning, Administration, and Control Director
Mario Bondone	March 19, 1950	Director of Resources and Shared Services
Giovanni Rando Mazzarino	November 21, 1955	Head of IT and Operations
Andrea Faelli	April 13, 1967	Director of Sales
Fabrizio Feliziani	October 5, 1953	International Relations and Development
Giuliano Frosini	September 18, 1968	Head of External Communications and Corporate Image
Federico Tasso	September 23, 1957	Head of Services
Massimo Palumbo	January 30, 1964	Director of Contact Center
Renato Ascoli*	December 13, 1961	Head of Games

* Starts May 15, 2006.

W. Bruce Turner, Walter G. DeSocio and Jaymin B. Patel are expected to become executive officers of Lottomatica upon completion of the Acquisition as Chief Executive Officer, Chief Administrative Officer and Chief Financial Officer, respectively. They will also keep their current positions within GTECH.

Biographies of Directors and Senior Management of Lottomatica

Certain biographical information relating to the members of Lottomatica's Board of Directors and senior management is set forth below:

Renzo Pellicoli is the Chairman of the Board of Directors. He is a consultant with Xantos S.a.S. in Paris. He has served on the Board of Directors and Executive Committee of De Agostini since 2003 and is a Director and member of the Executive Committee of Toro Assicurazioni S.p.A. He served as the Director of the Gruppo Telecom Italia Business Unit. In addition, in 1997 he served as the Chief Executive Officer of Seat Pagine Gialle S.p.A. Prior to that time he served as General Director of Advertising and Vice General Director of the magazine division of the Mondadori Group, General Director of the Costa Crociere Group. He began his career as a journalist at the Giornale di Bergamo daily newspaper and then went on to become director of programming at Bergamo TV. He was also a director of various television networks from 1978 to 1984.

Rosario Bifulco is a Director and Chief Executive Officer of Lottomatica. He has held a number of positions with Techint Group since 1993, including Managing Director of Techosp and Humanitas Mirasole, Manager of the Hygiene and Consulting Engineering and Services Departments, member of Techint Europe's Presiding Committee, member of the Board of Directors of Techint SIV, Pomini, Dielve and Medsystem, member of Techint Group's International Management Committee and Executive Vice President of the European Division. He has served as a member of the Management Committee of Magneti Marelli and of the Management Board of CIRSEA, deputy Manager of the Bus Division of IVECO Fiat, Manager of Coordination and Development at FIDIS, Manager of the Accessories Division at Gilardini Turin (while also taking over the department of Auto Component Consolidation and the marketing and sales department of Gilardini as a whole for the non-captive market). He holds a degree in mechanical engineering and a Master's degree in Business Administration.

Marco Sala is a Board Member and Managing Director of Lottomatica. He joined Kraft in 1985 where he covered different responsibilities in the Marketing Area. In 1993 he became Marketing Director of the Fresh Food Division and two years later he took on the position of Sales Director for the same division. From 1997 to March 2001 he worked for Magneti Marelli (a FIAT Group company) with the responsibility of the Spare Parts Division. Two years later, he expanded his responsibility also to the Lubricants Division. In April 2001 he joined SEAT Pagine Gialle as the Head of the Directories Business for the Republic of Italy. In November he became responsible for the Directories Business Area, managing also the international companies: Thomson (U.K.), Euredit (France) and Kompass (the Republic of Italy). After a short assignment as CEO for Buffetti, in March 2003 he joined Lottomatica. He holds a degree in Business & Economics at Bocconi University.

Antonio Belloni is a member of Lottomatica's Board of Directors. He has held a number of positions with the De Agostini Group since 1998. Presently he is the Vice-President-Chief Executive Officer and a member of the Executive Committee of De Agostini S.p.A., a Director and member of the Executive Committee of De Agostini Editore S.p.A., Chairman of the Board of Directors and of the Administration Committee of Toro Assicurazioni S.p.A., President and Managing Director of De Agostini Partecipazioni S.p.A., Director and member of the Executive Committee of Coeclerici S.p.A. From 1990 until 1998 he served as Managing Director of Camfin S.p.A. Prior to that time, he served as Managing Director of Andrea Merzario S.p.A. of Genoa, Bassetti International S.p.A. and he has served as General Director and member of the Board of Directors of Gruppo Bassetti S.p.A. He holds a degree in Business and Economics with honors from the University of Genoa.

Pietro Boroli is a member of Lottomatica's Board of Directors. He has been the Chairman and a member of the De Agostini Editore Executive Committee since 2003 and chairs numerous companies belonging to the Publishing Group, of which he is also Administrator. He is also a Director of m-dis Distribuzione Media S.p.A. and Mikado Film S.p.A. He has been the General Director of the De Agostini Geographic Institute since 1993. He has been a member of the Board of Directors of the De Agostini Geographic Institute since 1986, managed many De Agostini magazines, and has been a freelance journalist since 1987. He is currently active in various De Agostini companies and associations, is a member of the Fieg Presiding Committee and Chairman of the FIEG Advertising Committee. He has been with the De Agostini Group since 1979 and he has held a number of positions, including Advertising Director in 1984, Sales Manager in charge of paperback books and magazines in 1985, and Director of the Collector's Division in 1990. He holds a degree in Political Science, with an emphasis in Economics, from the University of Pavia.

Severino Antonio Salvemini is a member of Lottomatica's Board of Directors. He has held, and continues to hold, numerous academic and non-academic posts since 1975. He is currently professor of Business Management at the Bocconi University of Milan and director of the Degree Course in Economics for the Arts, Culture and Communication at this university. He has been the Chairman of the Board of Mikado S.p.A. since 2002. He has written several books and articles and has been listed in the Register of Freelance Journalists since 1988, the year in which he was awarded the National Prize for Organisational Development by AISL (the Italian Association for Labor Research). He holds a degree in Business Management with honors.

Paolo Ceretti is a member of Lottomatica's Board of Directors. He has been General Director of De Agostini since 2004 as well as a Director and Member of the Finance Committee of Toro Assicurazioni S.p.A., DEA Factor S.p.A., De Agostini Editore S.p.A., De Agostini Holdings S.p.A. In March 2002 he became the Managing Director and General Director of Global Value S.p.A. From 1993 to 1999 he was Director of Strategic Planning and Development for Ifil S.p.A. in Turin and went on to become the Managing Director and General Director of Ciaoholding/Ciaoweb in Milan. He held a number of significant positions with the FIAT Group in Turin from 1996 to 2002. He earned the title of Doctor in Accounting and he is a certified public accountant registered with the Italian Institute of Auditors and he holds a degree in Business and Economics with honors.

Paolo Guglielmo Luigi Ainio is a member of Lottomatica's Board of Directors. He serves as General Director of Mediapolis, formerly known as Media and Communication Services, which merged with Aino Media, a company he founded in 1988. He founded Matrix Company in 1995 and served as its Managing Director until 2002. Commencing in 1994, he serves as Managing Director of CIA Medianetwork. He has also served as a General Director of Centro Media.

Marco Boroli is a member of Lottomatica's Board of Directors. In 1975 he became a manager of Lottomatica and in 1978 he was named General Vice Director. In 1983 he became the General Director with the responsibility for the management of the book sector. In 1986 he was named Delegate Director and in 1990 Vice President. He became the President of the De Agostini Geographical Institute in May 1996. Dr. Marco Boroli assumed the role of deputy Vice President of the parent company holding De Agostini S.p.A. in March 1999 and he is a member of the executive committee of De Agostini S.p.A. Within the Group he is also the President of De Agostini Book Marketing, board member and member of the executive committee of Lottomatica S.p.A. and De Agostini Editore S.p.A., and board member of Toro Assicurazioni S.p.A. He holds a degree in Political Science.

Marco Drago is a member of Lottomatica's Board of Directors. He is the President of De Agostini, the De Agostini Group Holding Company, and a member of the Board of Directors of a number of De Agostini Group companies. He is currently also President and a member of the De Agostini Executive Committee, Director and member of the Executive Committee of De Agostini Editore S.p.A., Administrator and member of the Executive Committee of Toro Assicurazioni S.p.A., Administrator of De Agostini International BV and of Editions Atlas (France) S.a.S., Vice President of Grupo Planeta De Agostini S.L., Director of Antena 3 de Television S.A. (Spain), Techosp S.p.A., and Vice President of De Agostini Communications S.A. He has been with the De Agostini Group since 1969 and has held a number of positions with the De Agostini Group. He holds a degree in Business and Economics.

Roberto Drago is a member of Lottomatica's Board of Directors. He is Vice President and member of the Executive Committee of De Agostini, President of DEA Factor S.p.A., Vice President of De Agostini Invest S.A., Director of De Agostini Editore, Grupo Planeta De Agostini S.L. and Finanziaria Canova S.p.A., Director and member of the Executive Committee of Toro Assicurazioni S.p.A., and the Director of Banche Popolari Unite S.p.A. and BPU Banca International S.A. He has been with the De Agostini Group since 1976 and has held a number of positions within the group, including Vice President of the Finance Division of De Agostini S.p.A., Executive Vice President, General Director of Finanziaria De Agostini, which handles the Group's shareholder, legal, fiscal, and financial services, and director of foreign procedures and shareholder relations at the Istituto Geografico De Agostini S.p.A. He holds a degree in Business and Economics.

Pier Luigi Celli is a member of Lottomatica's Board of Directors. He became General Director of RAI in 1998 and remained in this position until 2001, when he became Executive President of IPSE 2000. From 1983 to 1988 he was the Director of Human Resources and Organisation for RAI, then the Olivetti Group, and finally ENEL. He began his career as the Director of the Research Department at the Bolzano Department of Industry and was in charge of five Professional Training Centers. In 1982 he became Manager of Executive Training and Organisation for ENI, of which he later became Vice Director of Human Resources and Organisation. He holds a degree in Sociology with honors.

Antonio Tazartes is a member of Lottomatica's Board of Directors. He has been with Investitori Associati S.p.A. of Milan since 1993. From 1989 until 1993 he served as the Managing Director of Bain & Co. Prior to that time, he worked at Laboratoires Gani in Paris and as a part-time Junior Associate at the Law Offices of Erede Bianchi Gilberti in Milan. He holds a Master's Degree in Business Administration, with specialisation in Marketing and Finance, and a Master's Degree in Law from New York University.

Emanuela Chiti has been Director of Auditing, Quality and Security of Lottomatica since 1997. From 1980 to 1997 she was employed by Sogei, most recently as a project manager.

Mario Bondone has been serving as Lottomatica's Human Resources and Administrative Director since 2005. He held management positions in the HR sector at I.T. TELECOM S.p.A. and at Telecom Italia Group. He worked at SEAT Pagine Gialle S.p.A. from 1974 to 2002 (1977 Deputy HR Director; HR Management and Industrial relations; 1990 Deputy HR Director; 1992 HR Director). Mr. Bondone holds a degree in Law.

Fabio Celadon has been Lottomatica's Finance Director since 2004, after having served as Chief Financial Officer from 2002 to 2004. Prior to this, he was a partner with Atlantis Capital Partners, a private equity start-up, worked for Morgan Stanley in London in the mergers and acquisitions department, and served as Finance Director of Pavo, an Italian private company. Mr. Celadon holds a Law degree from the LUISS University in Rome and an MBA from Columbia Business School in New York.

Gabriella Fabotti joined Lottomatica in 2004 after serving as CFO at I.T. TELECOM S.p.A., and currently serves as Planning, Administration and Control Director. In 2002-2003 she worked at SEAT Pagine Gialle S.p.A. as Planning, Administration and Control Manager—Directories Division—and in 1999-2002 she served as Consolidated Financial Statement and Reporting Manager at Pirelli—Cable Sector. Mrs. Fabotti was Planning and Control Manager at Gillette Group Italy (1998-1999) and Ansaldo Trasmissioni Distribuzione S.p.A. (1994-1998). She started her career as Administration and Control Manager at Consorzio Genova Ricerche in 1991. Mrs. Fabotti holds a degree in Business and Economics.

Andrea Faelli has been Purchasing and Logistics Director of Lottomatica since 2002. From 2001 to 2002 she worked for Ipse 2000 (in Project Business and Quality Management). From 1998 to 2001 he served as Structure Process Organisation Manager for Rai.

Fabrizio Feliziani joined Lottomatica in 1998 and currently heads the Lotto business unit. Prior to this, he served as Services Director and CEO of Lottomatica Sistemi. Between 1998 and 2001 he was Sales Director and General Manager of LIS. From 1986 to 1997 he worked at Olivetti as Sales and Marketing Director and before, from 1981, at IBM. Mr. Feliziani holds a degree in Engineering.

Giuliano Frosini, External Communication and Corporate Image Director, joined Lottomatica in 2004, after having been Managing Director of the newspaper "Il Riformista". From 2000, he worked for Sviluppo Italia (Head of the Development Service and, from 2001, Head of the Technical Secretary). Before 2000, he served as Senior Executive at the Society for the Youth and Advisor for the Negotiated Programming at the Ministry of Welfare in 1999, Head of the Technical Secretary at the Ministry of Welfare in 1998, Participant in a Public Affairs international program in the United States in 1997, Lieutenant to the Mayor of the municipality of Naples in 1995, Lieutenant for the Standing Committees Presidency of the Italian Senate in 1994. Mr. Frosini holds a degree in Electronic Engineering.

Giovanni Rando Mazzarino, Head of IT Operations, joined Lottomatica in 2003. Prior to that, he served as CIO at SEA. In 1992 he took up the role of Plant Manager—Pre-Press at ILTE and in 1989 was Development, Operation and Sales Manager at SEAT—STET Division—Saritel TLC Integrated Services. He started his career at OLTECO (Olivetti Telecomunicazioni) as Design, Production and Sales Manager at PABX and TLC. Mr. Mazzarino holds a degree in Electronic Engineering.

Claudia Ricchetti has been serving as Lottomatica's General Counsel and Company Secretary since 2003. In 2002 she took up the role of Legal Director in SEAT Pagine Gialle S.p.A. Between 1996 and 2002 she was Legal Department Manager at Cecchi Gori Communications and in 1995-1996 she practiced law at a law firm based in Rome. In the period 1990-1995 she worked in the Legal Department of Cerved S.p.A. Mrs. Ricchetti holds a degree in Law.

Massimo Palumbo has been Managing Director of Lottomatica Sistemi since 2002. From 2002 to 2003 he was Technology Director for Lottomatica. From 1997 to 2002 he was a Program Manager for Accenture. From 1991 to 1997 he was a software programmer and analyst for Bull HN Italy.

Federico Tasso joined Lottomatica in 2006 and now heads the Services business unit. From 2000 to 2005 he served as CEO of GE Money Italy (GE Capital Servizi Finanziari S.p.A. / GE Consumer Finance). In 1990-1999 he held various management roles at Kraft Food Italia: Trade Marketing & Sales Operations Manager, Sales Director for the Processed Meat and Specialty Products Division, Supply Chain and Customer Services Director. Between 1988 and 1990 he served as Organisation Manager of FIAT S.p.A.'s Central Department. From 1987 to 1988 he was Senior Consultant at A.T. Kearney and from 1984 to 1986 Junior Consultant at SOI Org. Mr. Tasso holds a degree in Aeronautic Engineering and an MBA from SDA Bocconi University.

The following existing executive officers of GTECH are expected to become executive officers of Lottomatica following consummation of the Acquisition. Certain biographical information relating to such individuals is set forth below:

W. Bruce Turner is presently the President and Chief Executive Officer of GTECH and is expected to become Chief Executive Officer of Lottomatica following the Acquisition. He has served as CEO of GTECH since August 2002. Previously, Mr. Turner served as Chairman of GTECH from July 2000 until August 2002, and as GTECH's acting Chief Executive Officer from August 2000 through March 2001. Prior to this, Mr. Turner was an independent consultant and private investor from February 1999 to July 2000. Mr. Turner was a Managing Director, Equity Research, for Salomon Smith Barney (formerly Salomon Brothers) from January 1994 until February 1999; and Director, Leisure Equity Research for Raymond James & Associates from October 1989 until January 1994.

Walter G. DeSocio has served as Senior Vice President, General Counsel and Secretary of GTECH since January 1, 2005 and is expected to serve as Chief Administrative Officer of Lottomatica following the Acquisition. Previously, Mr. DeSocio served from September 2002 to December 2004 as Chief Administrative Officer, General Counsel, and Corporate Secretary at Internap Network Services Corporation. Prior to joining Internap, Mr. DeSocio served from June 1999 to September 2002 as General Counsel and Senior Vice President of Regulatory Affairs at Concert B.V., the multi-billion dollar global communications business owned by AT&T and BT Group, and from June 1996 to June 1999, as AT&T's Chief Regional Counsel for Europe, Middle East and Africa.

Jaymin B. Patel has served as Senior Vice President and Chief Financial Officer of GTECH since January 2000. Previously, beginning in 1994 Mr. Patel was employed by GTECH in a series of increasingly responsible positions including, from April 1998 until January 2000, as GTECH's Vice President, Financial Planning and Business Evaluation. Prior to his arrival at GTECH, Mr. Patel served as a Chartered Accountant with PriceWaterhouse in London.

Family Relationships

The directors Pietro Boroli and Marco Boroli, as well as the directors Marco Drago and Roberto Drago, are brothers. The above-mentioned directors Boroli and Drago are fourth-degree relatives.

Governance and Board Committees

Lottomatica is managed by a Board of Directors, which pursuant to its by-laws, must be composed of not less than 7 and not more than 15 members. At the meeting of shareholders of Lottomatica (then New Games S.p.A.) held on September 21, 2005, the number of members of the Board of Directors was set at 13.

In accordance with the by-laws, the Board of Directors has complete power of ordinary and extraordinary administration of Lottomatica and may perform all acts it deems advisable for the achievement of Lottomatica's corporate purposes, except for the actions reserved by applicable law or the Lottomatica's by-laws to meetings of shareholders. The Chairman of the Board of Directors is appointed by the Board of Directors. The Board of Directors may also appoint one or more Vice-Chairmen to substitute the Chairman in his absence or if he is unable to act. The Chairman, and the Vice Chairman and/or each of Chairmen and/or the Managing Director and/or each of the Managing Directors, if so

appointed and if so resolved by the Board of Directors, are the legal representative of Lottomatica. The Chairman reports periodically to the Board of Directors on the activity of Lottomatica.

In accordance with Italian law, the Board of Directors may not delegate certain of its responsibilities, such as the approval of the draft financial statements, increases in share capital (if such power has been delegated by the shareholders' meeting to the Board of Directors) and the reduction of share capital.

The Board of Directors of Lottomatica has appointed an Executive Committee, a Compensation Committee and an Internal Audit Committee. The members of the executive committee are Messrs. Rosario Bifulco, Paolo Ceretti, Marco Drago, Renzo Pellicoli, Antonio Tazartes, Marco Sala and Antonio Belloni.

The tasks delegated to the Executive Committee are the following:

- budget and long terms plans proposals to be submitted to the Board of Directors;
- control on the execution of the budget, long terms plans and strategic plans;
- macro-organisation of Lottomatica and its subsidiaries directly or indirectly owned;
- decision regarding the appointment of Lottomatica's top managers (and their compensations); approval of the earning scheme of Lottomatica and its subsidiaries directly or indirectly owned with the prior advice of the Remuneration Committee of Lottomatica;
- identifying Lottomatica and its directly or indirectly owned subsidiaries' counsels, and approval of their duties that, even if contemplated in the budget, require an expenditure higher than €350,000;
- indication and adjudication of the gambling competitions, involving an expenditure higher than €10,000,000 but lower than €50,000,000, with also the possibility to (i) execute, amend and terminate the related agreements, (ii) draft the specifications and the relevant clauses, including the arbitration one, and (iii) perform any necessary action in order to define and execute the pertinent procedures;
- proposals for extraordinary transactions whose value exceeds €50,000,000 to be submitted for the Board of Directors approval; and
- investments and expenses, even if contemplated in the budget, which require an expenditure, also in the future, higher than €10,000,000 but lower than €50,000,000; and that have to be submitted to the Board of Directors for its approval.

The Internal Audit Committee is empowered with the following proposing and advising tasks *vis-à-vis* the Board of Directors to:

- assess the appropriateness of the internal audit system;
- assess the working plan prepared by the persons in charge of the internal audit and to receive periodical reports from them;
- assess the proposal of the accounting firm in order to obtain the assignment of the related project, as well as the working plan prepared for review and the results expressed in the report and in the letter of advice;
- monitor compliance with and the periodic update of the corporate governance rules adopted by Lottomatica;
- report to the Board of Directors, at least every six months, upon the approval of the financial statements and the half-year report, on the activity carried out, on the appropriateness of the internal audit system, and on the periodic update of the corporate governance rules adopted by Lottomatica; and
- carry out the further proposing and/or advising tasks assigned to it by the Board of Directors, with specific reference to the relation with the accounting firm.

The Compensation Committee is entitled to present proposals to the Board of Directors for the compensation of the Managing Director, of the directors with special offices, as well as, upon instructions

of the Managing Director, for the assessment of the compensation criteria for the senior management of Lottomatica.

The Board of Auditors

The shareholders of Lottomatica elect a Board of Auditors at the shareholders meetings, as required by the Italian Civil Code. The Board of Auditors is composed of three regular auditors and two alternates. At the regular annual meeting of shareholders of Lottomatica (then NewGames S.p.A.) held on September 21, 2005, the following persons were elected to the Board of Auditors, effective the date of the merger (December 20, 2005), to serve on such board until the approval of the balance sheet for the fiscal year ending December 31, 2007.

Name	Date of Birth	Position
Francesco Martinelli	October 23, 1942	Chairman of the Board of Auditors
Paolo Andrea Pio Colombo	April 12, 1960	Statutory Auditor
Angelo Gaviani	September 7, 1946	Statutory Auditor
Marco Squazzini Viscontini	January 25, 1956	Alternate Auditor
Giulio Gasloli	January 17, 1962	Alternate Auditor

The address for each of the members of the Board of Auditors is c/o Lottomatica, Rome, Viale del Campo Boario 56/D.

The Italian Civil Code and the by-laws require that:

- at least one of the regular and one of the alternate auditors be selected from among the registered members of the certified public accountant registry, which is held by the Ministry of Justice;
- the members of the Board of Auditors are appointed for a period of three years until the date of the shareholders' meeting called for the approval of the financial statements relating to the third year of such appointment. The termination of the auditors' offices due to the expiration of the their term is effective only when the new board is appointed; and
- the appointment of each auditor can be revoked only for cause, and any revocation of an appointment must be approved by a competent court.

Biographies of Statutory Auditors

Francesco Martinelli holds a degree in Business and Economics. He is a certified public accountant and registered with the Italian Institute of Auditors since 1995 and the Register of Accountants and Tax Advisors of Rome and Lazio since 1970. He is a freelance certified public accountant assisting companies operating in various product sectors and specialises in corporate, administrative, and fiscal organisation. He is the Chairman of the Board of Statutory Auditors and a statutory auditor of various companies, including several BNL Group companies (BNL Edizioni, BNL Gestioni, etc.), Alitalia Airport S.p.A. Aviofin S.p.A., Advera S.p.A., Consorzio Pegaso, Retebase 2001 S.p.A., Servizibase 2001 S.p.A., Arianna 2001 S.p.A. (FIT group), several companies belonging to the Lottomatica S.p.A. group (LIS S.p.A., LOTTOMATICA SISTEMI, PCC GS S.p.A., Consorzio Lotterie Nazionali, Consorzio Lottomatica Giochi Sportivi, Carta Lis S.p.A., Videolot Gestione S.p.A.), Banksiel, and Finsiel S.p.A., as well as Ansaldo Trasporti S.p.A., ILVA S.p.A., Serfactoring, Consorzio ICT Lazio, and Banca Impresa Lazio. He is a member of the Board of Auditors of the ICE—the Italian Trade Commission, a trustee in bankruptcy, an expert witness at the Civil and Criminal Court of Rome, a member of the Study Commission at the Ministry of Finance, and chief adjuster for administrative compulsory liquidations. He has also been a Lecturer on tax law and practice since 1999, and is currently teaching tax practices at the school of Public Administration at Link Campus University, and also teaches management training courses organised by the Commune of Cassino.

Paolo Andrea Pio Colombo holds a degree in Business Management from the Università Bocconi of Milan. He is a licensed auditor and permanent lecturer at the “Accounting and Financial Statements” chair of the Università Bocconi of Milan. He has operated his own private practice since 1993, and since 2004

acts in an “of counsel” capacity for the Law Offices of Tremonti, Vitali, Romagnoli, Piccardi and Associates. He has been and continues to be a member of the Board of Directors and auditor of several industrial and financial groups, among the most significant of which are: Gruppo Mediaset, Gruppo Mediagroup, Versace, Sintesi, Gruppo BPL, Gruppo Credit Suisse Italy, Banca Intesa, ENI, Saipem, Pirelli Labs, and Montedison.

Angelo Gaviani holds a degree in Business and Economics from the Università Cattolica Sacro Cuore of Milan. He has been registered with the Board of Accountants and Tax Advisors of Novara since February 12, 1977. He has worked as an auditor since 1995 and is Chairman of the Board of Statutory Auditors of several companies, primarily in the insurance and publishing sectors, and he is also a Consultant to the Court on the management of bankruptcy proceedings.

Marco Sguazzini Viscontini holds a degree in Business Management from the Università Bocconi. He has been a member of the Society of Accountants and Tax Advisors of Novara since 1985 and an auditor since 1995. From 1986 to 1998 he was in charge of shareholder services for Gruppo Finanziaria De Agostini S.p.A. He has been in private practice since January 1, 1999 and maintains an office in Novara, he is an auditor for several important companies that operate in the industrial, commercial, and financial sectors, among which are Sotheby Italia S.R.L., Deoflor S.p.A., De Agostini Editore S.p.A., and Mercantile Leasing S.p.A.

Giulio Gaslioli holds a degree in Business and Economics from the Università Cattolica Sacro Cuore in Milan in 1987. He has been registered with the Board of Accountants and Tax Advisors of Novara since 1991 and became an accounting auditor in 1995. He is a statutory auditor and Chairman of the Board of statutory auditors of numerous companies and a consultant to the Court of Novara, for which he has managed several bankruptcy proceedings.

Independent Auditors

The Italian Finance Act requires Italian companies whose shares are listed on an Italian or EU regulated market to appoint a firm of independent auditors that is mandated to verify under CONSOB’s supervision (i) during the fiscal year, that the company’s accounting records are correctly kept and accurately reflect the company’s activities, and (ii) that the financial statements, including the consolidated financial statements, present fairly the financial position of the company and the results of operations in accordance with Italian regulations governing financial statements. The independent auditors express their opinion on the financial statements in a report that may be consulted by the shareholders prior to the relevant shareholders’ meeting.

On September 21, 2005, Lottomatica’s shareholders’ meeting renewed the engagement of Reconta Ernst & Young S.p.A. as Lottomatica’s external independent auditors for the period from 2005-2007. Pursuant to Article 159 of the Italian Finance Act listed companies may appoint the same external auditors for not more than two consecutive six-year terms.

Service Contracts

Among the members of the Board of Directors and the Board of Statutory Auditors, only Mr. Rosario Bifulco and Mr. Marco Sala are employees of Lottomatica and so are entitled pursuant to Italian law to receive an indemnity (*trattamento di fine rapporto*) at the end of their employment.

In connection with the Acquisition W. Bruce Turner, current President and Chief Executive Officer of GTECH is proposed as a member of the Board of Directors of Lottomatica in the role of Chief Operating Officer, and also as the Director General (as such, W. Bruce Turner will have the right to receive severance pay in accordance with the stipulations of law). W. Bruce Turner will also keep his current position with GTECH.

Each of Marc A. Crisafulli, Walter G. DeSocio, Timothy B. Nyman, Jaymin B. Patel and Donald R. Sweitzer have entered into a change of control agreement with GTECH providing for three-year employment terms for such covered executives and each of William M. Pieri and Robert I. Plourde have

entered into a change of control agreement with GTECH providing for two-year employment terms for such covered executives. Upon certain termination events of any such executives during the applicable three-year or two-year period following the merger, such executive will be entitled to certain payments pursuant to the terms of such agreements.

New Employment Agreements—GTECH Officers

Prior to the closing of the Acquisition, certain of GTECH's existing executive officers (the "***Covered Officers***"), will enter into new employment agreements with Lottomatica or GTECH that will take effect after completion of the proposed Merger. As of the date of this Offering Circular, Messrs. Turner, Patel, and DeSocio, Mr. Donald Sweitzer, GTECH's Senior Vice President, Global Business Development and Public Affairs, and Ms. Cornelia H. Lavery O'Connor, GTECH's Senior Vice President and Chief Marketing Officer, have entered into such agreements. In the case of Mr. Turner, the new employment agreement will replace his existing employment agreement. In the case of the other Covered Officers (with the exception of Ms. Lavery O'Connor, who does not currently have an employment agreement or change in control agreement with GTECH), their new employment agreements will replace their existing severance agreements, change in control agreements, and restrictive (non-competition) agreements with GTECH.

New Employment Agreement with W. Bruce Turner. The new employment agreement between Mr. Turner and Lottomatica will have a five-year term that will commence upon completion of the proposed Merger. Pursuant to the new employment agreement, Mr. Turner will serve as Chief Executive Officer of Lottomatica and GTECH and, if elected, will serve as Managing Director of Lottomatica. His annual base salary pursuant to the agreement will be U.S.\$850,000 (which is a U.S.\$50,000 increase from his current annual base salary), and he will be entitled to a level of benefits during the term of the agreement that is substantially similar to the level of benefits provided generally to other senior executives of Lottomatica, and executive benefits substantially equivalent to the benefits that Mr. Turner is currently entitled to receive. During the term, Mr. Turner will be eligible for a performance bonus ranging from 0% to 200% of his annual base salary, with a target bonus of 100% of his base salary, which is equivalent to his bonus range and target bonus pursuant to his current employment agreement.

Pursuant to the new employment agreement, in the event of a termination of Mr. Turner's employment by Lottomatica for any reason other than cause or a resignation by Mr. Turner for good reason (as such terms are defined in Mr. Turner's new agreement) during the 18 month period following a change in control (which includes the proposed Merger), he will be entitled to substantially the same payments and benefits set forth in his current employment agreement.

Mr. Turner's current employment agreement provides that if his employment is terminated by GTECH for any reason other than cause, or in the event that he resigns for good reason (as such terms are defined in his employment agreement), within 18 months after completion of the proposed Merger, GTECH will pay Mr. Turner a lump-sum cash payment in an amount equal to 2.99 times the sum of (i) Mr. Turner's then-current annual base salary plus (ii) the average performance bonus paid or payable to Mr. Turner for the three most recent full fiscal years of GTECH plus (iii) the maximum amount allowable under GTECH's Executive Perquisite Program. In addition, GTECH will pay Mr. Turner any prorated performance bonus up to the date of such termination calculated by reference to Mr. Turner's target performance bonus, as determined by GTECH's Compensation Committee for the year of termination, and any other amounts accrued through the date of termination. In addition, Mr. Turner (together with his beneficiaries and dependents) will become fully vested in, and will continue for up to seven years (and until Mr. Turner reaches age 65 if he qualifies under GTECH's Retirement Plan) to participate fully (at no additional cost to Mr. Turner) in all life insurance, accident and health and other welfare plans maintained or sponsored by GTECH prior to termination of his employment on terms at least as favourable to Mr. Turner as those in effect prior to termination. In such circumstances, Mr. Turner will also become fully vested in GTECH's 401(k) plan and all supplemental retirement plans, and GTECH will be required to pay Mr. Turner an amount equal to the sum of all benefits he has accrued under GTECH's supplemental

retirement plans, plus 2.99 times the average benefit accrued and/or GTECH contributions made to GTECH's 401(k) plan and supplemental retirement plans over the last three fiscal years prior to termination.

Mr. Turner's employment agreement further provides that in the event that any payments that Mr. Turner receives from GTECH become subject to the excise tax on golden parachute payments, Mr. Turner will be entitled to receive a gross-up payment that will be in an amount sufficient to put him in the same after-tax position that he would have been in had no excise tax been imposed on the payments.

In the event of a qualifying termination of Mr. Turner's employment, other than during the 18-month period following a change in control, Mr. Turner will be entitled to receive: (i) an amount equal to 18 months of his most recent annual base salary, payable in installments over 18 months, (ii) a lump-sum cash payment in an amount equal to 1.5 times the average performance bonus paid or payable to Mr. Turner with respect to the three most recently completed fiscal years of employment and (iii) a prorated performance bonus, if any, payable with respect to the fiscal year of termination, payable at the same time as other executives receive such bonuses and based on the executive's actual performance during the year. In addition, Mr. Turner will continue to receive certain life insurance, perquisite and tax preparation benefits for 18 months following termination, and will continue to receive certain medical benefits for the remainder of the term of the employment agreement, plus an additional period of up to five and a half years thereafter (and until Mr. Turner reaches age 65, if he qualifies under Lottomatica's Retirement Plan). In the event of a qualifying termination, Mr. Turner will fully vest in all benefits accrued under any employee benefit plans, other than qualified retirement plans, and to the extent that Mr. Turner is not fully vested in all qualified retirement plans, he will receive a payment equal to any unvested portion of his accounts in such retirement plans. Furthermore, any unvested equity awards granted pursuant to the new employment agreement (as described below) then held by Mr. Turner will become fully vested, and Mr. Turner will be entitled to exercise any stock options that he holds until the earlier of 18 months from the date of termination of his employment or the date such stock options expire.

In the event of a termination of Mr. Turner's employment as a result of retirement (which cannot occur until the fifth anniversary of the proposed Merger and until the sum of his age and years of service with Lottomatica and GTECH is at least 65), Mr. Turner will be entitled to continued medical benefits until age 65. In addition, any vested stock options that he holds will remain exercisable until they expire, and he will be entitled to accelerated vesting of some or all of the unvested stock options and restricted stock units that were granted pursuant to his employment agreement. The percentage of unvested awards that accelerates will depend on his age and years of service at the time of retirement. The new employment agreement provides that Lottomatica will enter into a tax equalisation agreement with Mr. Turner to make Mr. Turner whole to the extent that his total tax liability under both United States and Italian tax laws is in excess of the total tax liability if he was only subject to tax under United States laws.

New Employment Agreements with Other Executive Officers. The new employment agreements with Messrs. Patel, DeSocio, and Ms. Laverty O'Connor will have a five-year term that will commence upon completion of the proposed Merger. The new employment agreement with Mr. Sweitzer will have a two-year term, subject to three one-year extensions at Mr. Sweitzer's option, that will commence upon completion of the proposed Merger. Pursuant to the new employment agreements, Mr. Patel will serve as Chief Financial Officer of Lottomatica and GTECH, Mr. DeSocio will serve as Chief Administrative Officer of Lottomatica and GTECH and the other Covered Officers will continue to serve in their current capacities with GTECH following completion of the proposed Merger. The annual base salaries of the Covered Officers will remain at the current levels (except for Mr. DeSocio, whose annual base salary will increase by U.S.\$25,000, and Mr. Patel, whose annual base salary will increase by U.S.\$35,000), and they will be entitled to a level of benefits during the term of their new employment agreements that are substantially similar to the level of benefits provided generally to other senior executives of Lottomatica, and executive perquisites substantially equivalent to the perquisites that the executives are currently entitled to receive. Each Covered Officer's target bonus will remain at the same percentage of annual base

salary that is currently in effect (except that Mr. DeSocio's target bonus will increase from 65% of his annual base salary to 75% of his annual base salary).

Pursuant to the new employment agreements, in the event of a termination of a Covered Officer's employment by Lottomatica for any reason other than cause or a resignation by the executive officer for good reason (as such terms are defined in the new agreements) during the 18-month period following a change in control (which includes the proposed Merger), the executive officer will be entitled to substantially the same payments and benefits set forth in his current change in control agreement (except in the case of Ms. Lavery O'Connor, who does not have a change in control agreement with GTECH). Pursuant to the current change in control agreements, executives would be entitled to severance and other post-termination benefits in the event of a termination of employment during the three-year period following a change in control.

The existing change in control agreements between GTECH and each of the Covered Officers provide that if, at any time during the three-year period following the completion of the proposed Merger, an executive's employment is terminated by GTECH for any reason or the executive resigns for good reason (as defined in the agreement), each change in control agreement provides that with respect to the year in which his employment is terminated, he will receive his base salary, bonus, and other compensation and benefits through the date of termination in accordance with GTECH's policies in effect immediately prior to completion of the proposed Merger. In the event that a covered executive's employment is terminated involuntarily other than for cause (as defined in the applicable agreement) or such executive resigns for good reason (as defined in the applicable agreement) prior to the third anniversary of completion of the proposed merger, GTECH is also obligated to pay the executive a lump-sum cash payment in an amount equal to 2.99 times the sum of (i) his then-current annual base salary plus (ii) the total cash bonus received by the executive during the most recent full fiscal year plus (iii) the maximum amount allowable under GTECH's Executive Perquisite Program. In addition, the covered executive (together with his beneficiaries and dependents) will become fully vested in and continue to participate for up to three years at no cost to the executive in all life insurance, accident and health and other welfare plans maintained or sponsored by GTECH prior to termination of his employment on terms at least as favorable to the executive as in effect immediately prior to termination. In such circumstances, the executive will also become fully vested in GTECH's 401(k) plan and all supplemental retirement plans, and GTECH will be required to pay the executive an amount equal to the sum of all benefits he has accrued under GTECH's supplemental retirement plans, and 2.99 times the average benefit accrued and/or GTECH contributions made to GTECH's 401(k) plan and supplemental retirement plans over the last three fiscal years prior to termination.

The change in control agreements further provide that in the event that any payments that the executive receives from GTECH become subject to the excise tax on golden parachute payments, the executive will be entitled to receive a gross-up payment that will be in an amount sufficient to put him in the same after-tax position that he would have been in had no excise tax been imposed on the payments.

The new employment agreements will also provide for certain payments and benefits to an executive in the event of qualifying termination of the executive's employment that is not within 18 months after a change in control. Upon such a termination, the executive will be entitled to receive: (i) an amount equal to 18 months of the executive's most recent annual base salary, payable in installments over 18 months, (ii) a lump-sum cash payment in an amount equal to 1.5 times the average performance bonus paid or payable to the executive for his or her three most recent completed fiscal years of employment and (iii) a prorated performance bonus, if any, payable with respect to the fiscal year of termination, payable at the same time as other executives receive such bonuses and based on the executive's actual performance during the year. In addition, the executive will continue to receive certain life insurance, perquisite and tax preparation benefits for 18 months following termination, and will continue to receive certain medical benefits for the remainder of the term of the employment agreement and an additional period of 18 months thereafter. The executive will fully vest in all benefits accrued under any employee benefit plans, other than qualified retirement plans, and to the extent that the executive is not fully vested in all qualified

retirement plans, he or she will receive a payment equal to any unvested portion of his or her accounts in such retirement plans. Furthermore, any unvested retention equity awards (or, in the case of Mr. Patel, any unvested equity awards) granted pursuant to the new employment agreement (as described below) then held by the executive will become fully vested, and the executive will be entitled to exercise any vested stock options that he or she holds until the earlier of 18 months from the date of termination of employment or the date such stock options expire.

In the event of a termination of an executive's employment as a result of retirement (which cannot occur until the fifth anniversary of the proposed Merger and until the sum of his or her age and years of service with Lottomatica and GTECH is at least 65), any vested stock options that the executive holds will remain exercisable until they expire, and the executive will be entitled to accelerated vesting of some or all of the unvested stock restricted stock units that were granted pursuant to the employment agreement. The percentage of unvested awards that accelerates will depend on the executive's age and years of service at the time of retirement.

The new employment agreements provide that Lottomatica will enter into a tax equalisation agreement with the applicable executive to make the executive whole to the extent that his or her total tax liability under both United States and Italian tax laws is in excess of the total tax liability if the executive was only subject to tax under United States laws.

Mr. Sweitzer's new employment agreement will also provide that upon expiration of employment, GTECH will offer to enter into a consulting arrangement with Mr. Sweitzer.

Management Equity Reinvestment. The new employment agreements with each of the Covered Officers (other than Ms. Lavery O'Conner and Mr. Sweitzer) will also provide that each such officer currently holding GTECH shares will invest at least 50% of his net after-tax payments received as Merger consideration or option proceeds to purchase newly issued shares of Lottomatica stock after completion of the proposed Merger, at the Rights Offering subscription price. Pursuant to the terms of the new employment agreements, the shares will not be transferable until the earlier of the three-year anniversary of the effective date of the proposed Merger or the termination of the applicable executive's employment with Lottomatica and/or GTECH. Mr. Sweitzer's agreement provides he will invest an amount, not to exceed U.S.\$1 million, from his net after-tax payments received as Merger consideration or option proceeds to purchase newly issued Shares of Lottomatica stock after completion of the proposed Merger, at the Rights Offering subscription price.

Equity Based Grants. The new employment agreements will provide that the Covered Officers will be eligible for annual grants of stock options and other equity-based awards under Lottomatica's long-term incentive plans. Of such future equity grants, at least 35% will consist of restricted stock units that will be settled in fully vested shares of Lottomatica stock upon the achievement of target performance goals. In addition, within 60 days following completion of the proposed Merger, each Covered Officer (other than Ms. Lavery O'Conner) will be entitled to a grant of equity-based awards set forth in the table below. The value of such awards on the grant date will be split 65% stock options (the value of which will be determined on a Black-Scholes basis) and 35% restricted stock units (the value of which will be determined based on the price of Lottomatica's ordinary shares on the grant date). The stock options will vest in a manner consistent with stock options granted to other senior executives of Lottomatica. The restricted stock units will vest upon the achievement of target performance goals in a manner consistent with the equity compensation policies for other senior executives of Lottomatica.

The new employment agreements provide that Lottomatica may substitute equivalent awards payable in cash for any stock options or restricted stock units granted pursuant to the employment agreements.

The value and number of shares subject to each executive officer's awards will be as provided in the following table:

		Value (U.S. dollars)	Estimated Number of Shares
Mr. Turner	Options	3,900,000	368,620
	RSUs	2,100,000	47,781
	Total	6,000,000	416,401
Mr. DeSocio	Options	796,250	75,259
	RSUs	428,750	9,755
	Total	1,225,000	85,014
Mr. Patel	Options	1,365,000	129,017
	RSUs	735,000	16,723
	Total	2,100,000	145,740
Mr. Sweitzer	Options	731,250	69,116
	RSUs	393,750	8,959
	Total	1,125,000	78,075

Following completion of the proposed Merger, and pursuant to the terms of his or her new employment agreement, each Covered Officer will also be entitled to a retention equity award of restricted stock units with respect to a number of Lottomatica ordinary shares, payable in fully vested shares of Lottomatica stock over a five-year period. The awards will vest and be payable in five annual installments, on each of the first five anniversaries of the completion of the proposed Merger, provided that such officer is still employed by Lottomatica on the relevant vesting dates. The Covered Officers will be entitled to restricted stock units with respect to the following numbers of shares that have the following values (based on a price of Lottomatica's stock equal to U.S.\$43.95 per share): Turner (232,500, U.S.\$10,218,375), Patel (82,600, U.S.\$3,630,270), DeSocio (34,500, U.S.\$1,516,275), and Lavery O'Connor (12,500, U.S.\$549,375). Mr Sweitzer will be entitled to 16,000 restricted stock units with a value of U.S.\$703,200 for his two year employment term, with an additional award of 8,000 restricted stock units with a value of U.S.\$351,600 for each year his employment term is extended. In the event of a subsequent change in control following the proposed Merger, any Lottomatica equity awards then held by such officer that have not vested will become fully vested and, in the case of stock options, immediately exercisable.

Arrangements with Other Executive Officers. Prior to completion of the proposed Merger, Messrs. Pieri and Plourde are expected to enter into amended severance agreements and change in control agreements, in substitution for their existing severance agreements and change in control agreements, containing provisions substantially similar to the terms and conditions summarised above with respect to such matters for the Covered Officers. In consideration of such amended severance agreements and change of control agreements, Messrs. Pieri and Plourde will each invest 25% of his net after-tax payments received as Merger consideration to purchase newly issued ordinary shares of Lottomatica after completion of the proposed Merger, at the Rights Offering subscription price. Both Messrs. Pieri and Plourde are also expected to receive a grant of equity-based awards that have values of U.S.\$175,000 and U.S.\$350,000, respectively. In addition, Messrs. Pieri and Plourde are expected to receive a grant of retention equity awards of restricted stock units on the same terms and conditions as summarised above with respect to the Covered Officers that have a value of U.S.\$472,463 and U.S.\$560,363, respectively.

Interests of Members of the Board of Directors, Board of Statutory Auditors and Senior Management in Lottomatica's Share Capital

To the best of the knowledge of Lottomatica, as of the date of this Offering Circular, none of the directors, statutory auditors or senior managers of Lottomatica own, directly or indirectly any shares of Lottomatica, except for Ms. Emanuela Chiti, Chief of Internal Audits of Lottomatica, who holds 15,808

shares, Mr. Severino Antonio Salvemini, a member of the Board of Directors, who holds 2,000 shares, Mr. Marco Sala, who holds 50 shares, Mr. Rosario Bifulco, who holds 276,000 shares, Mr. Antonio Belloni, who holds 240,667 shares, Mr. Mario Bondone, who holds 460 shares and Mr. Fabrizio Feliziani, Head of Lotto Business Unit, who holds 6,092 shares.

Conflict of Interests

To the best of the knowledge of Lottomatica on the date of this Offering Circular, there are no potential private interests or other obligations of the members of the board of directors and the board of auditors that may be considered to be in conflict with the obligations of Lottomatica.

To the best of the knowledge of Lottomatica on the date of this Offering Circular, there are no potential private interests or other obligations of the principal directors of Lottomatica that may be considered to be in conflict with the obligations of Lottomatica.

To the best of the knowledge of Lottomatica on the date of this Offering Circular, there are no agreements among shareholders, clients, suppliers or others in terms of the choice of the members of the corporate bodies or the principal directors and agreements relating to transfer of the shares of Lottomatica held by the members of the corporate bodies and/or the principal directors.

New Borsa Italiana S.p.A. Corporate Governance Code

Lottomatica is presently verifying its policies and procedures for compliance with the new Corporate Governance for Italian listed companies, which was announced in March 2006. Based on its initial review, Lottomatica believes that it already is substantially in conformity with a large part of the new code of conduct, subject to certain measures which it intends to implement by the end of the 2006 fiscal year (for example, in relation to the composition of the Board of Directors, the nomination procedure for administrators and auditors, and certain matters relating to internal control). Adoption of the code is voluntary; however a listed company will be required to disclose whether it has adopted the code, in whole or in part, beginning in 2007.

In particular, with reference to the composition of the Board of Directors, Lottomatica intends to consider the new and more precise notions of non-executive and independent directors set out in the new code of conduct.

With reference to the procedure of the nomination of directors and auditors, while continuing to abide by certain requirements introduced in the Law No. 262 of December 28, 2005 (the so-called “*Law for the safeguard of savings*”) in the matter of list voting for the nomination of directors, of the rights of the minority to elect at least one director and the president of the board of statutory auditors, and of secret voting, Lottomatica intends to increase the period during which an overview of the personal and professional characteristics of the candidates proposed by the shareholders, as well as of the assignments held by the same candidates, will be deposited at the company headquarters, from 10 to 15 days prior to the shareholders’ meeting. This to allow the shareholders to knowingly exercise their right to vote, especially where represented at the assembly by proxy.

Finally, with regards to the internal control system, Lottomatica intends to continue to seek to improve the coordination between the various levels of control and the interested company functions, especially following the purchase of GTECH, so as to avoid overlaps and voids, and to thereby ensure maximum control efficiency.

Compensation of Directors, Statutory Auditors and Senior Management

For the year ended December 31, 2005, the aggregate compensation, exclusive of bonuses, paid by Lottomatica to members of the Board of Directors and the Board of Statutory Auditors was approximately €799,000 and €202,000, respectively. The aggregate compensation paid by Lottomatica to members of its senior management was approximately €14,523,000.

Set forth below is the annual compensation amounts approved by the shareholders and the Board of Directors with respect to the directors of Lottomatica for the year ended December 31, 2005:

		€ gross annual amount per share
Renzo PELLICCIOLI	(Board Member)	15,000.00
	(Executive Committee)	10,000.00
	(Compensation Committee)	7,500.00
Rosario BIFULCO	(CEO)	362,000.00
	(Director)	260,379.00
	(Board Member)	15,000.00
	(Executive Committee)	10,000.00
	(Benefit)	160,061.00
Marco SALA	(Director)	461,684.00
	(Board Member)	15,000.00
	(Executive Committee)	10,000.00
	(Benefit)	114,998.00
Paolo Guglielmo Luigi AINIO .	(Board Member)	15,000.00
	(Internal Audit Committee)	10,000.00
	(Compensation Committee)	7,500.00
Sergio BARONCI*	(Board Member)	15,000.00
Antonio BELLONI	(Board Member)	15,000.00
	(Executive Committee)	10,000.00
	(Chairman)	110,685.00
Marco BOROLI	(Board Member)	15,000.00
Pietro BOROLI	(Board Member)	15,000.00
Sabino CASSESE*	(Board Member)	13,750.00
Pier Luigi CELLI	(Board Member)	15,000.00
	(Compensation Committee)	15,000.00
Paolo CERETTI	(Board Member)	15,000.00
	(Executive Committee)	10,000.00
	(Internal Audit Committee)	10,000.00
Marco DRAGO	(Board Member)	15,000.00
	(Executive Committee)	10,000.00
Roberto DRAGO	(Board Member)	15,000.00
Michele RAINERO*	(Board Member)	15,000.00
Severino Antonio SALVEMINI .	(Board Member)	15,000.00
	(Internal Audit Committee)	20,000.00
Antonio TAZARTES	(Board Member)	15,000.00
	(Executive Committee)	10,000.00
Giorgio VINCENLINI*	(Board Member)	4,445.00

* These persons are no longer directors of Lottomatica.

Stock Options

The following table indicates the options assigned, exercised, and exercisable as of March 31, 2006:

Stock Option Plans in Effect on March 31, 2006

	No. of shares assigned		No. of options in circulation on January 1, 2006 (assigned net those exercised and freed in previous fiscal years)		No. of options in circulation on January 1, 2006 (due net those exercised and freed in previous fiscal years)		No. of options exercised up to March 31, 2006	No. of options in circulation on March 31, 2006 (due/assigned (2005-2010 plan) net those exercised and freed in previous fiscal years)
	No. of options	Exercise price	No. of options	Exercise price	No. of options	Exercise price	No. of options	No. of options
2003—2005 Stock option plan—								
President	661,000	14.63	240,667	14.63	240,667	14.63	440,667	—
2003—2005 Stock option plan—								
Director General	2,026,000	14.63	2,026,000	14.63	2,026,000	14.63	1,750,000	276,000
2003—2005 Stock option plan Co—								
Director General	1,012,000	14.63	1,012,000	14.63	1,012,000	14.63	337,333	674,667
2003—2005 Stock option plan Directors .	825,000	14.63	613,750	14.63	583,108	14.63	198,071	385,037
2004—2005 Stock option plan Directors .	245,675	18.338	223,175	18.338	223,175	18.338	35,625	187,550
2005—2010 Stock option plan President and AD	124,476	26.47	124,476	26.47	—	—	—	124,476
2005—2010 Stock option plan Director General	95,336	26.47	95,336	26.47	—	—	—	95,336
2005—2010 Stock option plan Directors .	297,580	26.47	277,420	26.47	—	—	—	277,420
Total	5,287,067	—	4,612,824	—	4,084,950	—	2,761,696	2,020,486

On April 27, 2006 the Board of Directors of Lottomatica, in order to take into account the potential impact of the price per share that will be fixed in relation to the Rights Offering on the rights of the beneficiaries of the stock option plans 2003-2005, 2004-2005 and 2005-2010, resolved (i) to reduce the exercise price of the stock options not exercised pursuant to the relevant stock option plan, in the event that Borsa Italiana S.p.A., within the Rights Offering, sets out of an adjustment ratio for the option agreements relating to Lottomatica shares, and (ii) to reduce, in such a case, the option price of the aforementioned stock options, by multiplying this price for the adjustment ratio fixed by Borsa Italiana S.p.A. pursuant to Article IA.9.1.10 of the Instructions of the Regulation of the markets organized and managed by Borsa Italiana S.p.A.

In connection with the Acquisition, several managers of GTECH, which Lottomatica believes to have proven abilities and professional experience, are recipients of an incentive plan, investing a part of the money received in Lottomatica shares as a result of the Merger for the sale of the GTECH shares that they hold. For this purpose, on April 12, 2006 the Assembly of Lottomatica decided, in an extraordinary session, to attribute to the Board of Directors, for a maximum period of five years beginning on the date of the respective decision, in accordance with article 2443 of the civil code, the right to increase the share capital, in one or more installments, for a maximum total amount of €50,000,000, with the exclusion of the option right, in accordance with article 2441, last section of the civil code, to the service of stock attribution plan to the employees of Lottomatica and/or its subsidiaries (the “*2006 Stock Attribution Plan to Employees of Lottomatica and/or its subsidiaries*”) and approved the plan itself in an ordinary session.

The 2006 Stock Attribution Plan to Employees of Lottomatica and/or its subsidiaries is reserved for the aforementioned current managers of GTECH who have made the decision to make the aforementioned investment (on the condition that they are employees of Lottomatica and/or of its subsidiaries) and possibly to other employees of Lottomatica and/or its subsidiaries, which in the realm of the managerial reorganisation resulting from the acquisition of GTECH will assume or maintain significant roles and responsibilities.

Considering that the 2006 Stock Attribution Plan to Employees of Lottomatica and/or its subsidiaries is related to the Acquisition, its implementation is subordinated to the completion of the Acquisition in accordance with the terms and conditions of the Merger Agreement.

Description of Possible Agreements for Participation in the Capital of Lottomatica on the part of the Employees

On the date of this Offering Circular there are no agreements for the participation in the capital of Lottomatica on the part of the employees.

PRINCIPAL SHAREHOLDERS

As of April 13, 2006, De Agostini owns, directly and indirectly, approximately 56.3% of Lottomatica's capital stock.

De Agostini is a company owned by several members of the Drago and Boroli families. None of the members of these families holds more than 9% of De Agostini's capital stock and among these members, there is no shareholders' agreement in place, within the meaning of the provisions of Article 122 of the Italian Finance Act. As such, there is no one person who controls De Agostini pursuant to Article 93 of the Italian Finance Act.

The De Agostini Group is a multinational Italian company that commenced operations in the publishing industry. As of today, its revenues are, for the most part, generated by insurance-type activities. In 2001, it celebrated 100 years of activity and today it is a holding company with equity investments in 4 industrial sectors and in the financial field, coordinating its various activities through the following sub-holding companies:

- De Agostini Editore: this company operates in 30 countries and publishes in 13 languages. It is organised into business areas, depending on the type of activity: Collectible, Direct Marketing, General Cultural Great Works, Books, Schools and Maps, Theme Portals, Magazines.
- De Agostini Communications: this company operates in the production, distribution and broadcasting of contents for television, cinema and all other media. It holds a significant presence in the television and radio industries in Spain through the broadcaster Antena 3 de Television S.A.
- Lottomatica: this company operates, as shown in previous section IV, in the gaming industry (Lotto, Totocalcio, Scratch & Win, etc.) and in the area of automated services for citizens and companies (Motor Vehicle license duty payment, RAI TV license fee, land and mobile phone reloading, sporting and event tickets, etc.)
- Toro Assicurazioni S.p.A.: this company operates mainly in property and casualty insurance and is also present in Life insurance. Toro is also the parent company to Nuova Tirrena, Augusta Assicurazioni (with the subsidiary Augusta Vita) and Toro Targa Assicurazioni.
- De Agostini Invest: this company manages a significant portfolio of equity investments Private Equity funds aimed at industries with high growth potential and innovation.

Based on information received from filings made with the CONSOB, as of April 13, 2006, the shareholders that hold, directly or indirectly, shares with voting rights exceeding 2% of the ordinary share capital of Lottomatica, are:

Shareholders	No. of Shares	Percentages of the Capital of Lottomatica
De Agostini S.p.A.	49,019,647	53.365%
Nuova Tirrena S.p.A.	2,656,618	2.892%
FMR Corp.	2,629,955	2.863%
Fidelity International Limited	2,987,441	3.252%
BNP PARIBAS S.A.	2,058,650	2.241%
BPU Pramerica SGR S.p.A.	1,892,742	2.061%
Mediobanca S.p.A.	1,837,970	2.001%

De Agostini has agreed, subject to certain conditions, to exercise its full, direct and indirect, *pro rata* share of the rights offering (€0.8 billion).

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In the ordinary course of its business, Lottomatica carries out transactions with related parties in accordance with established market practice and specific legal provisions. These transactions allow advantages from the use of common services and capacities, from synergies with Lottomatica group of companies and from the application of unitary policies in the financial field. In particular, the transactions concern the provision of management, financial, and business services, such as the management of accounting, the issue of loans and the provision of professional and administrative services (personnel management services, accounting, software systems, planning, the call center, the leasing of spaces for the use as offices with the provision of additional services, etc.).

All the transactions with related parties, including transactions within the Lottomatica group of companies carried out by Lottomatica during the course of the fiscal years 2003, 2004, and 2005, and in the course of the fiscal year 2006 up to the date of this Offering Circular, fall under ordinary operations, and they are regulated by market conditions or on the basis of specific stipulations of law; no atypical and/or unusual activities were conducted in the same period.

The following is an indication of the transactions conducted with related parties over the course of the last three-year period:

- the transfer of RTI Videolot shares from Triplet S.p.A. (Lottomatica) to New Lottomatica executed on May 12, 2005. Pursuant to the relevant agreement New Lottomatica acquired 58,800 shares of RTI Videolot for a consideration of €14,700;
- the transfer of Triplet S.p.A. (Lottomatica) shares from New Lottomatica to De Agostini executed on May 12, 2005. Pursuant to the relevant agreement De Agostini acquired 120,000 shares of Lottomatica for a consideration of €265,222;
- the contribution in kind of FinEuroGames S.p.A. shares into NewGames S.p.A. executed by De Agostini in July 18, 2005: this contribution constitutes a transaction between related parties because De Agostini held the entire share capital of NewGames S.p.A. on the date of the transaction. For this reason, the total share base which was the subject of the contribution was valued by an expert named in accordance with article 2343 of the civil code;
- the merger of New Lottomatica and FinEuroGames S.p.A. into NewGames S.p.A. executed in December 14, 2005 constitutes a transaction between related parties, in light of the fact that NewGames S.p.A. held the entire share capital of FinEuroGames S.p.A., which controlled the rights of New Lottomatica. Even in light of these circumstances—although there do not seem to be any potential conflicts of interest in the present case between the parties participating in the merger—the boards of directors of the companies participating in the merger have both granted the MCC S.p.A. the assignment of supporting them in respect of the determinations of their competence in the exchange relations and to provide an opinion on the congruity from a financial point of view, the so-called “*fairness opinion*”; and
- the contribution in kind of the Video lottery branch of business of Lottomatica to RTI Videolot executed in December 2005. The Video lottery branch of business, previously the object of a business rental contract between Lottomatica and RTI Videolot, was contributed by Lottomatica into RTI Videolot in December 2005.

The valuation and the “*fairness opinion*” indicated above were made public during the quotation procedure for the Lottomatica at the same time as the merger.

For the purposes of the description of the guarantee of Lottomatica must issue to Gold Acquisition Corp., and to the benefit of the banks for the issue of the Senior Credit Facilities, see “Description of Certain Indebtedness—Senior Credit Facilities”.

In order to guarantee that the transactions with related parties occur in accordance with formal and substantial fairness principles, the Board of Directors of Lottomatica has adopted, on March 4, 2003, in the area of projects intended to ensure compliance with the Code of Conduct, an “Internal regulation concerning the corporate transactions within the group and with other related parties”.

In short, such regulation provides:

- (a) a definition of transactions within the group, of transactions with other related parties, of unusual or atypical transactions, and of transactions to be concluded at standard conditions, in accordance with what was provided by the CONSOB ruling on such point;
- (b) the determination of the principles related to the resolutions on transactions within the group and with other related parties, which provide, in short, a reservation to the exclusive competence of the Board of Directors to resolve on the amount limits for the possible attribution to one or more directors of the decision and the execution of the transactions of the previous point, with the specific duty to provide information to the Board of Directors in the next meeting;
- (c) the provision that the board will adopt the relevant resolution on the point after valuation and based on proper information related to the nature of the connection, the method of executing the transaction, the conditions, including economic conditions for its execution, the valuation procedure followed, the justification for the transaction, the interests involved, and the possible risks for Lottomatica;
- (d) the provision that the Board use independent experts, where the nature, the value, or other characteristics of the transactions so require, so that they express a non-binding opinion, according to the specific case, on the economic conditions of the transaction, its legitimacy, and/or on its technical aspects;
- (e) the provision of an information procedure for the quarterly collection of the aggregate data related to transactions within the group and transactions with other related parties; and
- (f) the provision of an information procedure, in application of article 150 of the Italian Finance Act, for the quarterly communication to the Board of Auditors on the part of the Board of Directors on the transactions within the group and transactions with other related parties.

In addition, in connection with the Acquisition, De Agostini has entered into the following agreement:

The De Agostini Undertakings

Concurrently with the Merger Agreement, on January 10, 2006, De Agostini entered into an agreement with GTECH pursuant to which De Agostini has agreed, subject to certain conditions, to vote in favour of the Rights Offering in connection with the completion of the merger and to exercise its full, direct and indirect, *pro rata* share of such Rights Offering (thereby assuring that the issue will be approved by such shareholders). De Agostini also will enter into a similar undertaking for the benefit of underwriters of the Rights Offering, and of the Company subject to certain conditions.

Guarantee

In connection with the Acquisition, Lottomatica is committed to issue a guarantee in favor of Acquisition Subsidiary and to the benefit of the banks in connection with the Senior Credit Facilities.

For additional information on transactions between Lottomatica and related parties please see note 34 to Lottomatica’s audited consolidated financial statements for the year ended December 31, 2005 and note 33 to Lottomatica’s unaudited interim consolidated financial statements for the three-month period ended March 31, 2006.

Purchase of Securities by De Agostini's Subsidiary

Toro Assicurazioni S.p.A., a subsidiary owned 65.5% by De Agostini, has agreed to purchase a total of approximately €20.0 million of Securities, in this Offering (equal in the aggregate to approximately 2.6% of the Securities offered). Such subsidiary of De Agostini will be entitled to participate in and vote at meetings of Securityholders in proportion to the amount of Securities it will own.

DESCRIPTION OF CERTAIN INDEBTEDNESS

Senior Credit Facilities

In connection with the Acquisition, Acquisition Subsidiary (“**Borrower**”), an indirect subsidiary of Lottomatica (in such capacity, the “**Parent**”) that will be merged with and into GTECH, has entered into the Senior Credit Facilities Agreement, on terms substantially as described below, with Credit Suisse International, Credit Suisse, London Branch and Goldman Sachs Credit Partners L.P., and certain other lenders as original lenders, Bank of America, N.A., as agent, and certain other parties thereto. The obligations of the Borrower under the Senior Credit Facilities Agreement rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally. The obligations of the Borrower are guaranteed on a senior, unsecured basis as described below. The Senior Credit Facilities mature 6 years from the closing of the Acquisition and may be pre-paid in minimum amounts at any time prior to maturity without premium or penalty, subject to an indemnity for break costs.

Term Facility, Revolving Facility and Guarantee Facility

The Senior Credit Facilities consist of:

- a maximum of U.S.\$2.26 billion senior term loan facilities (the “**Term Facilities**”);
- a maximum of U.S.\$250 million senior revolving credit facility (the “**Revolving Facility**”); and
- a maximum of U.S.\$250 million senior guarantee facility (the “**Guarantee Facility**”).

Pursuant to the Term Facilities, lenders have agreed to advance up to U.S.\$1.710 billion in Term Facility A loans and up to U.S.\$550 million in Term Facility B loans. Term Facility A loans are only available to be applied to payment of the purchase price for the GTECH shares, to pay the costs of the Acquisition and to refinance certain existing indebtedness of GTECH and its subsidiaries. Term Facility B loans are only available to be applied towards the refinancing of the GTECH senior notes and to pay the costs associated with the redemption thereof.

Pursuant to the Revolving Facility, lenders have agreed to advance revolving facility loans available in U.S. dollars, euros, Sterling or certain other approved currencies in an amount of up to the equivalent of U.S.\$250 million to finance working capital requirements and for general corporate purposes of the Parent, Borrower and their respective subsidiaries, excluding acquisitions/mergers or prepayment of the Term Facilities. The Revolving Facility may not be utilised unless Term Facility A has been utilised in full and/or cancelled.

The lenders have agreed to make available to the Borrower a Guarantee Facility, available in U.S. dollars, euros, Sterling or certain other approved currencies, in an amount of up to the equivalent of U.S.\$250 million. The Guarantee Facility may be utilised by the Borrower to provide letters of credit, guarantees or other instruments of similar nature, each as required in the ordinary course of business of the Parent, the Borrower and their respective subsidiaries. The Guarantee Facility may not be utilised unless Term Facility A has been utilised in full and/or cancelled.

If the Borrower and the Lenders agree, a Lender may provide “Ancillary Facilities” in place of all or part of that Lender’s unutilised Revolving Facility commitment.

Interest Rate

The interest rate applicable to loans made under the Term Facilities and Revolving Facility is equal to LIBOR, or, in the case of loans in Euros, to EURIBOR, in each case, increased by the margin (equal to 0.75%, with forecast for revisions decreasing to 0.45% when certain predetermined financial parameters are met) and other mandatory costs, if any. However, if at any time the Parent, the Borrower and their

respective subsidiaries as a group fail to maintain a corporate credit rating from Moody's and S&P, respectively, of Baa3/BBB—, the margin increases to 1.5% per annum until such time as the required ratings are reinstated, in which case the margin will once again return to be determined in accordance with the criteria described above.

Representations, Warranties and Covenants

The Senior Credit Facilities Agreement contains representations, warranties and covenants customary for such facilities. The Parent is required to ensure that it, the Borrower and their respective subsidiaries as a group meet certain financial covenants concerning a minimum ratio of EBITDA to Total Net Interest Costs, a maximum ratio of Total Net Debt to EBITDA and a maximum amount of capital expenditure over certain specified periods (with certain provisions permitting Parent, the Borrower and their respective subsidiaries as a group to carry forward specified permitted capital expenditures to the extent unused). The limitation on capital expenditure is not applicable for so long as Parent, the Borrower and their respective subsidiaries as a group maintain a corporate rating upgrade to Baa2/BBB by, respectively, Moody's Investors Services and Standard and Poor's.

The Senior Credit Facilities Agreement contains negative covenants limiting, among other things (and subject to certain exceptions), the activities of the obligors. These negative covenants include restrictions on disposals of assets, change of business, mergers, demergers and reorganisations, the grant and incurrence of financial indebtedness (including guarantees), acquisitions and joint ventures, movement of cash, grant of security, the redemption, repurchase and acquisition of capital stock, the making of payments (including dividends and any other returns to investors) subject to a certain fixed charge cover ratio, variation of the merger documents, variation of material contracts and the documentation in relation to the Rights Offering, transactions with affiliates, the activities of Invest Games and Holdings other than as holding companies and certain amendments to the Securities documentation.

In addition, the Senior Credit Facilities Agreement contains positive covenants providing that the Parent will use commercially reasonable efforts to maintain a corporate credit rating from Moody's and Standard and Poor's, respectively, of at least Baa3/BBB—, the Borrower will exercise (or shall procure the exercise of) the call options under the existing GTECH senior notes within five business days after completion of the Acquisition pursuant to the Merger Agreement, certain specified sections of the structure memorandum and certain other customary covenants.

The Senior Credit Facilities Agreement prohibits Lottomatica from: (i) declaring, making or paying any dividend, charge, fee or other distribution (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital); (ii) repaying or distributing any dividend or share premium reserve; (iii) paying or allowing any member of the group to pay any management, advisory or other fee to or to the order of any of the shareholders of Lottomatica; or (iv) redeeming, repurchasing, defeasing, retiring or repaying any of its share capital or resolving to do so (except in connection with share capital owned by management of Lottomatica as part of an employee compensation plan, including, without limitation, stock based compensation and management incentive plans), unless (i) Lottomatica's Fixed Charge Cover Ratio (generally defined in the Senior Credit Facilities Agreement as the ratio of the Combined Group's free cash-flow before debt service to total debt service) of the preceding year (adjusted to reflect the proposed amount) is not less than 1.15x and (ii) no Event of Default (as defined in the Senior Credit Facilities Agreement) shall have occurred and be continuing.

Events of Default

The Senior Credit Facilities Agreement contains customary events of default that are subject to certain exceptions and concepts of materiality and grace periods. An event of default may arise in circumstances of, among others, non-payment of obligations, breach of a financial covenant, breach of an undertaking, misrepresentation, unlawfulness or repudiation of a material provision in the finance

documents, certain cross-defaults to other indebtedness of the Parent (and, following completion of the Acquisition, the Combined Group), insolvency proceedings, receivership, administration, winding up, attachments and creditors' process, cessation of business, rescission or termination of material contracts, commencement or threat of litigation, breach of the Intercreditor Deed or other relevant agreements, the occurrence of a material adverse effect (where a "material adverse effect" means (following completion of the Acquisition) a material adverse effect on (a) the ability of the Parent, the Borrower or the other obligors (taken as a whole) to perform in a timely manner its obligations under any of the finance documents; (b) the business, condition (financial or otherwise), assets, revenues or operations of the group taken as a whole; (c) any finance party's ability to exercise or enforce any of its rights or remedies under any of the finance documents; or (d) the legality, validity or enforceability against the obligors of any finance document), material audit qualification and ERISA events.

Guarantee

The Senior Credit Facilities Agreement provides that each of the Parent and Holdings, and on and after the closing date of the Merger pursuant to the Merger Agreement, GTECH Corporation, GTECH Holdings Corporation and GTECH Rhode Island Corporation irrevocably and unconditionally, jointly and severally:

- (a) guarantees to each finance party under the Senior Credit Facilities Agreement as primary obligor the punctual performance by the Borrower of all the Borrower's obligations under the Senior Credit Facilities Agreement and other finance documents and the punctual payment when due by the Borrower of all sums payable thereunder;
- (b) undertakes with each finance party under the Senior Credit Facilities Agreement that whenever the Borrower fails to perform any obligation or pay any of the indebtedness referred to in paragraph (a) above, it will perform such obligation or pay to such finance party such sum on demand (and, in respect of the Parent only, within certain specified time periods); and
- (c) indemnifies each finance party under the Senior Credit Facilities Agreement against any cost, loss or liability suffered by that finance party if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal.

The Parent's maximum aggregate liability under its guarantee will not exceed U.S.\$3,864 million (or its equivalent in other currencies).

The Senior Credit Facilities Agreement allows for voluntary prepayments, and requires mandatory prepayment in full or in part in certain circumstances, including:

- with 75% of the net proceeds of a flotation of shares of common stock of Holdings, GTECH or any of its subsidiaries on an exchange in publicly offered securities until the Total Debt to EBITDA ratio (as defined therein) is reduced to 2:1 following which 50% of the remaining proceeds will be applied in mandatory prepayment;
- proceeds of asset disposals which, when aggregated with other applicable asset disposals, amount to more than U.S.\$50 million; and
- upon the receipt of the proceeds of certain insurance claims which, when aggregated with other insurance claim proceeds, exceed U.S.\$15 million in any calendar year.

All amounts accrued under the finance documents referred to in the Senior Credit Facilities Agreement are also required to be repaid in full upon (i) a change of control (as defined in the Senior Credit Facilities Agreement) of Lottomatica, (ii) Lottomatica ceasing to control GTECH or any person or group of persons gaining direct or indirect control of GTECH, or (iii) a sale of all or substantially all of the assets of Lottomatica and its subsidiaries or GTECH and its subsidiaries.

Lottomatica's 4.80% Senior Notes due 2008

Lottomatica has outstanding €360.0 million of 4.80% senior notes due 2008 (the “**2008 Notes**”). In connection with the Acquisition, Lottomatica and certain subsidiaries will enter into a deed poll pursuant to which the 2008 Notes will be guaranteed by substantially the same subsidiaries as those guaranteeing or borrowing under the Senior Credit Facilities. The 2008 Notes accrue interest annually in arrear at a rate of 4.80% per annum. Payments on the 2008 Notes are made in euro. The 2008 Notes constitute *obbligazioni* pursuant to Articles 2410 et seq. of the Italian Civil Code. The 2008 Notes rank *pari passu* with other unconditional unsubordinated obligations of Lottomatica. Unless previously redeemed or cancelled, the 2008 Notes will be redeemed at their principal amount December 22, 2008. The 2008 Notes are subject to redemption in whole, but not in part, at their principal amount at the option of Lottomatica at any time in the event of certain changes affecting taxation in the Republic of Italy. The 2008 Notes do not contain any material covenants and are subject to customary events of default provisions.

Intercreditor Deed

The Trust Deed for the Securities provides that the Trustee is authorised (without any further consent of Securityholders) on behalf of the Securityholders to enter into the Intercreditor Deed in favour of the lenders under the Senior Credit Facilities to give effect to the subordination of the Securities.

The Intercreditor Deed provides that in the event of the commencement of (i) a voluntary or involuntary liquidation, dissolution or winding-up of Lottomatica due to corporate action or administrative and/or a court order, or (ii) the occurrence of any insolvency proceedings, subject to applicable bankruptcy law, all claims against Lottomatica in respect of the Securities will be subordinated to the prior payment in full of its liabilities under the financing documents referred to in any Senior Credit Facilities Agreement (the “**Senior Liabilities**”).

If upon or following the occurrence of any of the above insolvency events in relation to Lottomatica and at any time prior to the date when all Senior Liabilities have been irrevocably discharged and no commitments remain outstanding thereunder (the “**Senior Discharge Date**”), the Trustee receives any distribution in cash or in kind in respect of the Securities, the Trustee must notify the agent under the Intercreditor Deed and will be obliged to promptly pay such amount to the agent for application towards the Senior Liabilities.

The provisions of the Intercreditor Agreement may not be amended or modified without the written consent of the Trustee if such amendment or modification affects the rights or obligations of the Trustee, on behalf of the Securityholders, thereunder. The Intercreditor Deed also provides that such provisions constitute a continuing agreement with holders of Senior Liabilities, or of any refinancing, replacement, extension, supplement or restructuring of such liabilities (the “**Refinanced Senior Liabilities**”).

The Trust Deed also provides that each Securityholder, by accepting a Security, will be deemed to have:

- appointed and authorised the Trustee to enter into and give effect to the provisions of the Intercreditor Deed;
- authorised the Trustee to become a party to any future intercreditor arrangements with the holders of any Refinanced Senior Liabilities to ensure that such holders benefit from the same provisions as are set out above in relation to the Senior Liabilities; and
- agreed to be bound by the provisions of the Intercreditor Deed and the provisions of any such future intercreditor arrangements.

GTECH Indebtedness

As of February 25, 2006 GTECH had three series of senior notes outstanding:

- approximately U.S.\$148.8 million in aggregate principal amount of 5.25% senior notes due December 2014;
- approximately U.S.\$249.7 million in aggregate principal amount of 4.75% senior notes due October 2010; and
- approximately U.S.\$149.7 million in aggregate principal amount of 4.50% senior notes due December 2009.

The terms of the Senior Credit Facilities Agreement require that the borrower thereunder exercise (or cause the exercise of) the call options under the terms of these senior notes within five business days after completion of the Acquisition.

Generally, under the terms of the indentures applicable to these senior notes, GTECH may redeem all or part of the senior notes prior to their maturity at any time on at least 30 days' notice at a redemption price equal to the greater of (i) 100% of the principal amount of the notes being redeemed and (ii) the sum of the present values of the principal amount of the senior notes being redeemed and the remaining scheduled payments of interest on such senior notes, discounted from their respective scheduled payment dates to the redemption date on a semi-annual basis at the treasury rate (as defined in the relevant indentures) plus 20 basis points, in the case of the 5.25% notes, 20 basis points, in the case of the 4.75% notes, and 15 basis points, in the case of the 4.50% notes, plus, in each case, accrued interest to the redemption date. Lottomatica anticipates costs of approximately U.S.\$10.0 million in connection with the refinancing of such indebtedness.

As of April 25, 2006, there was approximately U.S.\$6.0 million in aggregate principal amount of GTECH'S Convertible Debentures outstanding. Such Convertible Debentures are convertible into shares of GTECH common stock and, if still outstanding following completion of the Acquisition, will become convertible into cash. In addition, GTECH has a U.S.\$500 million credit facility which was undrawn as of March 31, 2006, excluding U.S.\$2.5 million of letters of credit. This existing credit facility will be terminated upon, or prior to completion of, the Acquisition.

TERMS AND CONDITIONS OF THE SECURITIES

The following, except for the paragraphs in italics, are the terms and conditions of the Securities substantially in the form in which they will be endorsed on any certificates representing the Securities:

The issue of the €750,000,000 Subordinated Interest-Deferrable Capital Securities due 2066 (the “**Securities**”, which expression shall include any further securities issued pursuant to Condition 14 and forming a single series with the Securities) was authorised by a resolution of the Board of Directors of Lottomatica S.p.A., (the “**Issuer**”) on April 27, 2006 and registered with the company register of Rome on May 5, 2006. The Securities are constituted by a Trust Deed dated May 17, 2006 (the “**Trust Deed**”) between the Issuer and J.P. Morgan Corporate Trustee Services Limited (the “**Trustee**” which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Securityholders (as defined below). These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed. Capitalised terms used in these Conditions and not defined herein shall have the meaning given to them in the Trust Deed. The Trust Deed shall also set out the forms of the Global Certificates and Definitive Certificates (each as defined below) from time to time representing the Securities. Copies of the Trust Deed and of the Paying and Transfer Agency Agreement dated May 17, 2006 (the “**Paying Agency Agreement**”) relating to the Securities between the Issuer, the Trustee, JPMorgan Chase Bank, N.A. as agent bank (the “**Agent Bank**” which expression includes any bank appointed as the Agent Bank from time to time), J.P. Morgan Bank Luxembourg S.A. as registrar (the “**Registrar**” which expression includes any bank appointed as the Registrar from time to time), JPMorgan Chase Bank, N.A. as the initial principal paying and transfer agent (the “**Principal Paying and Transfer Agent**”) and the other paying and transfer agents named therein (together with the Principal Paying and Transfer Agent, the “**Paying and Transfer Agents**”) are available for inspection during usual business hours at the principal office of the Trustee (presently at Trinity Tower, 9 Thomas More Street, London E1W 1YT) and at the specified offices of the Registrar and the Paying and Transfer Agents. The Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and an intercreditor agreement dated May 17, 2006 (the “**Intercreditor Agreement**”) and entered into among the Issuer, the Trustee, the Bank of America, N.A., as senior agent (the “**Senior Agent**”) and the other parties named therein, and are deemed to have notice of those provisions applicable to them of the Paying Agency Agreement.

The Intercreditor Agreement will provide that in the event of (i) the commencement of a voluntary or involuntary liquidation, dissolution or winding-up of the Issuer due to corporate action or an administrative and/or court order, or (ii) the occurrence of any Insolvency Proceedings, subject to applicable bankruptcy law, the payment rights of the Securityholders and the Trustee (except in respect of the Trustee’s rights to receive its fees, costs and expenses and its remuneration) in respect of the Securities are subordinated to the claims in respect of the Senior Liabilities (as defined in the Intercreditor Agreement) and any amounts received by the Trustee (except as aforesaid) prior to the discharge in full of the Senior Liabilities shall be paid to the Senior Agent for application towards the Senior Liabilities.

1. FORM AND DENOMINATION, TITLE AND TRANSFERS

1.1 Form and denomination

The Securities are issued in registered form in an initial aggregate principal amount of €750,000,000, each in the denomination of €50,000 and integral multiples of €1,000 above such amount (each, an “**Authorised Denomination**”).

The Securities are being offered and sold in offshore transactions in reliance on Regulation S under the Securities Act, and may be offered and sold to qualified institutional buyers in reliance on an exemption from the registration requirements of the Securities Act (including the exemption provided by Rule 144A).

Securities sold in reliance on Regulation S shall be known as “**Unrestricted Securities**”. The Unrestricted Securities are initially evidenced by a single global certificate in registered form without interest coupons (the “**Unrestricted Global Certificate**”). The Unrestricted Global Certificate shall be deposited with a common depository (the “**Common Depository**”) of Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) and registered in the name of a nominee of the Common Depository.

Securities sold to qualified institutional buyers in reliance on an exemption from the registration requirements of the Securities Act (including the exemption provided by Rule 144A) shall be known as “**Restricted Securities**”. Restricted Securities are initially evidenced by a single global certificate in registered form without interest coupons (the “**Restricted Global Certificate**” and, together with the Unrestricted Global Certificate, the “**Global Certificates**”). The Restricted Global Certificate shall be deposited with the Common Depository of Euroclear and Clearstream, Luxembourg and registered in the name of a nominee of the Common Depository. The Restricted Global Certificate is subject to certain restrictions on transfer set forth therein and in the Paying Agency Agreement and bears the legend regarding such restrictions as set out in the Trust Deed.

Except in the limited circumstances set out therein, the Global Certificates shall not be exchangeable for definitive certificates (“**Definitive Certificates**” and, together with the Global Certificates, the “**Certificates**”).

1.2 Title

Title to the Securities passes only by transfer and registration in the Register as described below. The registered holder of any Security shall (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the related Certificate issued in respect of it (other than a duly executed transfer thereof)) and no person (including, without limitation, the Issuer and the Trustee) shall be liable for so treating the holder. In these Conditions, “**Securityholders**” and “**holder**” means the persons or person in whose name a Security is registered.

1.3 Register

The Issuer will cause to be kept at the specified office of the Registrar and in accordance with the terms of the Paying Agency Agreement, a register (the “**Register**”) on which shall be entered the names and addresses of the holders and the particulars of the Securities held by them and of all transfers of, and payments on, the Securities. If Definitive Certificates are issued, each Securityholder will be entitled to receive only one Definitive Certificate in respect of its entire holding.

1.4 Transfers

Subject to the provisions contained herein and in the Paying Agency Agreement, and mandatory provisions of applicable law, the Securities may be transferred, in whole or in part in an Authorised Denomination, by the delivery of the Certificate issued in respect of such Security, with the form of transfer on the back duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of the Registrar or any Paying and Transfer Agent. No transfer of title shall be valid unless entered on the Register.

*Ownership of interests in the Global Certificates (“**Book-Entry Interests**”) shall be limited to persons that have accounts with Euroclear and Clearstream, Luxembourg, or persons that may hold interests through their participants. Book-Entry Interests shall be shown on, and transfers thereof shall be effected only through, records maintained in book-entry form by Euroclear and Clearstream, Luxembourg and their participants. Transfers of beneficial interests in the Securities will be subject to the applicable rules and procedures of*

Euroclear and Clearstream, Luxembourg and their respective direct or indirect participants, which rules and procedures may change from time to time.

1.5 Delivery of Certificates

Each new Certificate to be issued upon a transfer of Securities will, within seven business days (at the place of the specified office of the Registrar or the relevant Paying and Transfer Agent) of receipt by the Registrar or the relevant Paying and Transfer Agent of the form of transfer (duly completed), be mailed by uninsured mail at the risk of the holder entitled to the Securities to the address specified in the form of transfer. For the purposes of this Condition 1.5 and Condition 1.6, unless otherwise specified, “**business day**” means a day which is both a day on which commercial banks and foreign exchange markets settle payment and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and Milan and the city in which the specified office of the Registrar or the relevant Paying and Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all the Securities in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Securities not so transferred shall, within seven business days of deposit or surrender of the original Certificate with or to the Registrar or the relevant Paying and Transfer Agent, be mailed free of charge to the holder of the Securities not so transferred at the Issuer’s expense by uninsured mail, at the risk of such holder, to the address of such holder appearing on the Register.

Registration of any transfer of Securities and the issuance of new Certificates will be effected without charge by or on behalf of the Issuer, the Registrar or any of the Paying and Transfer Agents, subject to (a) payment (or the giving of such indemnity as the Issuer, the Registrar or any of the Paying and Transfer Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer, (b) the Registrar being satisfied with the documents of title and/or the identity of the person making the application for transfer and (c) the Registrar being satisfied that the regulations concerning transfer of the Securities have been complied with.

All transfers of Securities and entries on the Register will be made subject to the detailed regulations concerning the transfer of Securities set forth in the Paying Agency Agreement. These regulations may be changed by the Issuer from time to time, with the prior written approval of the Trustee and the Registrar to reflect changes in applicable laws. A copy of the current regulations will be mailed (at the Issuer’s expense) by the Registrar to any Securityholder who requests a copy.

1.6 Closed Periods

Neither the Issuer nor the Registrar will be required to register the transfer of any Security (or part thereof) (a) during the period of 15 days immediately prior to the Maturity Date or any earlier date fixed for redemption of the Securities pursuant to Condition 6 and (b) during the period of 15 days ending on (and including) the due date in respect of any payment of interest in respect of the Securities.

2. STATUS

The Securities constitute *obbligazioni* pursuant to Articles 2410-*et seq.* of the Italian Civil Code. The obligations of the Issuer under the Securities constitute its direct, unsecured and subordinated obligations as set out herein.

In the event of (i) the commencement of a voluntary or involuntary liquidation, dissolution or winding-up of the Issuer due to corporate action or an administrative and/or court order, or (ii) the occurrence of any Insolvency Proceedings, subject to applicable bankruptcy law, the rights of the Securityholders and the Trustee to payments of principal, accrued but unpaid Scheduled Interest Amounts,

Optionally Deferred Interest and Additional Amounts thereon, if any, payable in respect of the Securities (regardless of whether such amounts have become payable before, or as a result of, such event) will rank:

- (a) *pari passu* and without any preference among themselves;
- (b) *pari passu* with any other present or future obligations of the Issuer under any Liquidation Parity Securities;
- (c) junior to the claims of all other unsubordinated and subordinated creditors (including any claims pursuant to Article 2411, first paragraph, of the Italian Civil Code) of the Issuer, other than holders of Liquidation Parity Securities; and
- (d) in priority to (i) the claims of holders of ordinary shares of the Issuer, (ii) the claims of holders of any financial instruments (*strumenti finanziari*) issued by the Issuer pursuant to Article 2349 of the Italian Civil Code, (iii) any claims in respect of any savings shares and any preference shares of the Issuer and any other equity interest in the Issuer and (iv) any claims against the Issuer which, by their terms or by operation of law, rank *pari passu* with the claims described in (i), (ii) or (iii) above (together, “**Junior Obligations**”).

In the event of (i) the commencement of a voluntary or involuntary liquidation, dissolution or winding-up of the Issuer due to corporate action or an administrative and/or court order, or (ii) the occurrence of any Insolvency Proceedings, subject to applicable bankruptcy law, the rights of the Securityholders and the Trustee to payment of unpaid Equity Funded Deferred Interest and Additional Amounts thereon, if any, payable in respect of the Securities (regardless of whether such amounts have become payable before, or as a result of, such event) will rank:

- (a) *pari passu* and without any preference among themselves;
- (b) in priority to (i) the claims of holders of ordinary shares of the Issuer, (ii) the claims of holders of any financial instruments (*strumenti finanziari*) issued by the Issuer pursuant to Article 2349 of the Italian Civil Code, (iii) any claims in respect of any savings shares and any preference shares of the Issuer and any other equity interest in the Issuer to the extent that such claims relate to the nominal capital thereof and (iv) any claims against the Issuer which, by their terms or by operation of law, rank *pari passu* with the claims described in (i), (ii) or (iii) above; and
- (c) junior to the claims of all unsubordinated and subordinated creditors (including any claims pursuant to Article 2411, first paragraph, of the Italian Civil Code) of the Issuer, including holders of Liquidation Parity Securities and the holders of any preference shares and any savings shares of the Issuer and any other equity interest (other than ordinary shares) in the Issuer (to the extent that such claims do not relate to the nominal capital thereof).

A Securityholder may not, subject to mandatory provisions of applicable law, set-off any claims arising under the Securities against any claims the Issuer may have against it.

As at the date of this Offering Circular no Liquidation Parity Securities, savings shares, preference shares or other equity instruments which may be issued by the Issuer pursuant to Article 2349 of the Italian Civil Code were outstanding.

3. INTEREST

3.1 Fixed Rate Payment Dates

Subject to Condition 6.4, the Securities bear interest on their aggregate principal amount, on a daily basis, at a rate of 8.25% per annum (the “**Fixed Interest Rate**”) from (and including) the Issue Date to (but excluding) the Reset Date payable (subject to Condition 4) annually in arrear on March 31 in each year (each, a “**Fixed Rate Payment Date**”), commencing on March 31, 2007 and ending on (and including) the Reset Date.

The period beginning on (and including) the Issue Date and ending on (but excluding) the first Fixed Rate Payment Date and each successive period beginning on (and including) a Fixed Rate Payment Date and ending on (but excluding) the next succeeding Fixed Rate Payment Date, regardless of any deferral of payments in accordance with Condition 4, is called a “**Fixed Rate Interest Period**”. The amount of interest payable for the Fixed Rate Interest Period or part thereof on each Security determined in accordance with this Condition 3.1 is called a “**Fixed Rate Interest Amount**”. The Fixed Rate Interest Amount scheduled to be paid (subject to Condition 4) in respect of each full Fixed Rate Interest Period shall be €4,125 per €50,000 in principal amount of the Securities, except that the first Fixed Rate Interest Amount scheduled to be paid (subject to Condition 4) on March 31, 2007 in respect of the period from (and including) May 17, 2006 to (but excluding) March 31, 2007, shall be €3,593.84 per €50,000 in principal amount of the Securities. Where, prior to the Reset Date, interest is to be calculated in respect of a period which is shorter than a Fixed Rate Interest Period, the day-count fraction used will be the number of days in the relevant period, from (and including) the date from which interest begins to accrue to (but excluding) the date on which it becomes payable, divided by the number of days in the Fixed Rate Interest Period in which the relevant period falls.

3.2 Floating Rate Payment Dates

Subject to Condition 6.4, the Securities bear interest on their aggregate principal amount from (and including) the Reset Date to (but excluding) the Maturity Date at the rates determined in accordance with Conditions 3.3 and 3.4, but in any case, will be no greater than the maximum rate in respect of each Floating Rate Interest Period (as defined below) permitted by then applicable Italian law (the “**Floating Interest Rate**”) payable (subject to Condition 4) semi-annually in arrear on or about March 31 and September 30 in each year (each a “**Floating Rate Payment Date**” and together with the Fixed Rate Payment Dates, the “**Interest Payment Dates**”) commencing on the Floating Rate Payment Date falling in September, 2016 and ending on (and including) the Maturity Date. If any Floating Rate Payment Date would otherwise fall on a day which is not a business day, it shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding business day.

The period beginning on (and including) the Reset Date and ending on (but excluding) the first Floating Rate Payment Date and each successive period beginning on (and including) a Floating Rate Payment Date and ending on (but excluding) the next succeeding Floating Rate Payment Date, regardless of any deferral of payments in accordance with Condition 4, is called a “**Floating Rate Interest Period**” and, together with each Fixed Rate Interest Period, an “**Interest Period**”. The amount of interest payable in respect of the relevant Floating Rate Interest Period or part thereof determined in accordance with this Condition 3.2 and Conditions 3.3 and 3.4 is called a “**Floating Rate Interest Amount**”, and, together with each Fixed Rate Interest Amount, a “**Scheduled Interest Amount**” (which shall include interest accrued which becomes payable in respect of part of an Interest Period).

3.3 Floating Interest Rate

The Floating Interest Rate in respect of the Securities will be determined by the Agent Bank on the following basis:

- (a) On the second business day before the beginning of each Floating Rate Interest Period (the “**Interest Determination Date**”) the Agent Bank will determine the Euro Interbank Offered Rate (“**EURIBOR**”) for six-month euro deposits as at 11.00 a.m. (Brussels time) on the relevant Interest Determination Date. Such offered rate will be that which appears on the display designated as page “**248**” on the Telerate Monitor (or such other page or service as may replace it for the purpose of displaying such rates). The Floating Interest Rate for such Floating Rate Interest Period shall be the aggregate of the Margin and the rate which so appears, as determined by the Agent Bank.

- (b) If for any reason such offered rate does not so appear, or if the relevant page is unavailable, the Agent Bank will determine EURIBOR based on quotations from five major banks in the Euro-zone interbank market chosen by the Agent Bank (the “*Reference Banks*”) for a period of six months as at 11.00 a.m. (Brussels time) on the relevant Interest Determination Date. The Floating Interest Rate for such Floating Rate Interest Period shall be the aggregate of the Margin and the arithmetic mean (rounded, if necessary, to the nearest fifth decimal place, with 0.000005 being rounded upwards) of such quotations (or of such of them, being at least two, as are so provided), as determined by the Agent Bank.
- (c) If the relevant Floating Interest Rate cannot be determined in accordance with the above provisions, the Floating Interest Rate for such Floating Rate Interest Period shall be the Floating Interest Rate determined as at the last preceding Interest Determination Date or, if none, the Fixed Interest Rate.

3.4 Determination of Floating Interest Rate and calculation of Floating Rate Interest Amount

The Agent Bank will, as soon as practicable after 11.00 a.m. (Brussels time) on each Interest Determination Date, determine the Floating Interest Rate and the Floating Rate Interest Amount for the relevant Floating Rate Interest Period. The Floating Rate Interest Amount shall be calculated by applying the Floating Interest Rate to each €50,000 in principal amount of the Securities, multiplying such product by the actual number of days in the Floating Rate Interest Period concerned (or, in respect of any shorter period, such shorter period) divided by 360 and rounding the resulting figure to the nearest €0.01 (€0.005 being rounded upwards). The determination of the Floating Interest Rate and the Floating Rate Interest Amount by the Agent Bank shall (in the absence of manifest error, wilful default, bad faith and gross negligence) be final and binding upon all parties.

3.5 Publication of Floating Interest Rate and Floating Rate Interest Amount

The Agent Bank will cause the Floating Interest Rate and the corresponding Floating Rate Interest Amount for each Floating Rate Interest Period and the relevant Floating Rate Payment Date to be notified to the Issuer, the Trustee, the Registrar, each of the Paying and Transfer Agents and any stock exchange on which the Securities are for the time being listed and to be notified to Securityholders (in accordance with Condition 15) as soon as possible after their determination, but in no event later than the second business day thereafter. The Floating Rate Interest Amount and Floating Rate Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Floating Rate Interest Period.

3.6 Determination or calculation by Trustee

If the Agent Bank does not at any time for any reason so determine the Floating Interest Rate or calculate the corresponding Floating Rate Interest Amount for a Floating Rate Interest Period, the Trustee (or an agent appointed by it) shall do so and such determination or calculation shall be deemed to have been made by the Agent Bank. In doing so, the Trustee shall apply the provisions of Conditions 3.2 to 3.4 (inclusive), with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall determine and/or calculate the same in such manner as it shall deem fair and reasonable in all the circumstances.

3.7 Scheduled Interest Amounts

Each Security will cease to bear interest from the due date for redemption thereof unless, upon due presentation of the relevant Certificate representing such Security, payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest in accordance with this Condition 3 (both before and after judgment) until whichever is the earlier of (a) the day on which all sums payable in

respect of such Security up to (but excluding) that day are received by or on behalf of the relevant Securityholder, and (b) the day seven days after the Trustee or the Principal Paying and Transfer Agent has notified Securityholders of receipt of all sums payable in respect of all the Securities up to (but excluding) that seventh day (except to the extent that there is failure in the subsequent payment to the relevant Securityholders under these Conditions).

3.8 Notifications etc. to be binding

All notifications, opinions, determinations, certifications, conditions, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 3, whether by the Agent Bank or the Trustee (or its agent), shall (in the absence of wilful default, bad faith, gross negligence or manifest or proven error) be binding on the Issuer, the Agent Bank, the Trustee, the Registrar, the Paying and Transfer Agents and on all Securityholders and (in the absence of wilful default, bad faith and gross negligence) no liability to the Securityholders or the Issuer shall attach to the Agent Bank or the Trustee (or its agent) in connection with the exercise or non-exercise by them of any of their powers, duties or discretions.

4. DEFERRALS OF INTEREST

The Issuer shall pay each Scheduled Interest Amount on the relevant Interest Payment Date subject to and in accordance with these Conditions, in particular the provisions relating to interest deferral set out in this Condition 4.

4.1 Optional deferral of interest

- (a) Subject to Conditions 4.1(b), 4.2 and 4.3, the Issuer may, by giving notice (an “*Optional Deferral Notice*”) to the Principal Paying and Transfer Agent, the Registrar and the Trustee (in an Officer’s Certificate of the Issuer) and the Securityholders in accordance with Condition 15, not less than ten business days prior to an Interest Payment Date, at its sole discretion elect to defer payment of any Scheduled Interest Amount (or part thereof) on the Securities. Any Scheduled Interest Amount (or part thereof) not paid pursuant to the provisions of this Condition 4.1 (“*Optionally Deferred Interest*”, which term does not include any Old Optionally Deferred Interest), shall be deemed accrued on the relevant Interest Payment Date notwithstanding deferral of the payment thereof, and shall remain accrued until paid in full but shall not itself accrue interest. Non-payment of any Scheduled Interest Amount (or part thereof) pursuant to the provisions of this Condition 4.1 shall not constitute an Enforcement Event or otherwise be subject to enforcement except as provided in Condition 9.
- (b) Optionally Deferred Interest may be paid by the Issuer at its discretion in cash at any time (having given not less than seven business days notice thereof to the Principal Paying and Transfer Agent, the Registrar, the Trustee and the Securityholders in accordance with Condition 15) on or before the fifth anniversary of the Interest Payment Date on which payment thereof was first deferred in accordance with this Condition 4.1, and during such period will become immediately payable in cash on the date which is the earliest to occur of:
 - (i) the date on which the Issuer next pays any interest amount in respect of the Securities or any interest amount is payable in respect of the Securities (unless payment thereof is deferred by the Issuer pursuant to these Conditions);
 - (ii) the date on which a Capital Payment is next made;
 - (iii) the due date for redemption of the Securities, whether at their Maturity Date, any Early Redemption Date or the date on which the Securities become immediately due and repayable pursuant to Condition 9;

- (iv) the date which is 180 days after the date on which any petition is filed by any third party in connection with any Insolvency Proceedings in respect of the Issuer, where such petition has not been dismissed by such 180th day; and
- (v) the date on which an order is made or a resolution is passed for the voluntary or involuntary liquidation, dissolution or winding up of, or an administrative and/or court order is made for any Insolvency Proceedings in respect of, the Issuer, or the date on which the Issuer takes any corporate action for the purposes of opening, or initiates or consents to, Insolvency Proceedings in respect of it.

Any Optionally Deferred Interest that has not been paid in full in cash by the Issuer on or before the fifth anniversary of the Interest Payment Date on which payment thereof was first deferred in accordance with this Condition 4.1 shall, from such fifth anniversary, no longer be referred to as Optionally Deferred Interest but shall be referred to as “*Old Optionally Deferred Interest*”, and may only be paid pursuant to Conditions 4.3 and 5.

4.2 Mandatory deferral of interest

The Issuer shall not pay any Scheduled Interest Amount on an Interest Payment Date if, as at the relevant Test Date, a Mandatory Deferral Event has occurred, unless and to the extent that the Issuer has available cash proceeds raised from the offer, issue and sale or contribution of Issuer Equity during the six month period ending on such Interest Payment Date and specified at the time of such offer, issue and sale or contribution to be for the purpose of enabling the payment of all or part of such Scheduled Interest Amount. Any Scheduled Interest Amount (or part thereof) not paid pursuant to the provisions of this Condition 4.2 (“*Mandatorily Deferred Interest*”) shall be deemed accrued on the relevant Interest Payment Date notwithstanding deferral of the payment thereof, and shall remain accrued until paid in full but shall not itself accrue interest. Non-payment of any Scheduled Interest Amount (or part thereof) pursuant to this Condition 4.2 shall not constitute an Enforcement Event or otherwise be subject to enforcement except as provided in Condition 9. Mandatorily Deferred Interest may only be paid pursuant to Conditions 4.3 and 5.

A “*Mandatory Deferral Event*” shall be deemed to occur in respect of an Interest Payment Date if the Coverage Ratio as of the relevant Test Date is less than or equal to 1.35.

The Issuer will give to the Principal Paying and Transfer Agent, the Registrar and the Trustee (in an Officer’s Certificate of the Issuer) and the Securityholders in accordance with Condition 15 notice not later than five business days prior to the relevant Interest Payment Date of the occurrence of a Mandatory Deferral Event as at the relevant Test Date.

An Officer’s Certificate of the Issuer addressed to the Trustee as to the amount of Capital Expenditure, EBITDA, ESOP Cashflow, Interest Expense and Taxes Paid, as to the Coverage Ratio or as to whether a Mandatory Deferral Event has occurred or will occur or not occur at any time may, in the absence of manifest error be relied upon by the Trustee and, if so relied upon, shall be conclusive and binding on the Issuer and the Securityholders.

4.3 Equity Funded Deferred Interest

For so long as any Old Optionally Deferred Interest or Mandatorily Deferred Interest (together, “*Equity Funded Deferred Interest*”) remains unpaid, the Issuer must take all steps necessary (in compliance with applicable law) to fund payment of the same pursuant to Condition 5.2, but such Equity Funded Deferred Interest will become immediately payable in cash on the date which is the earliest to occur of:

- (a) 7 business days following the settlement of an issue, offer and sale or contribution of Issuer Equity in accordance with Condition 5, to the extent of the proceeds thereof received by the Issuer;

- (b) the tenth anniversary of the Interest Payment Date on which such payment thereof was first deferred in accordance with these Conditions;
- (c) the due date for redemption of the Securities, whether at the Maturity Date, any Early Redemption Date, or the date on which the Securities become immediately due and repayable pursuant to Condition 9.3;
- (d) the date which is 180 days after the date on which any petition is filed by any third party in connection with any Insolvency Proceedings in respect of the Issuer, where such petition has not been dismissed by such 180th day; and
- (e) the date on which an order is made or a resolution is passed for the voluntary or involuntary liquidation, dissolution or winding up of, or an administrative and/or court order is made for any Insolvency Proceedings in respect of, the Issuer, or the date on which the Issuer takes any corporate action for the purposes of opening, or initiates or consents to, Insolvency Proceedings in respect of it.

5. EQUITY FUNDING OF EQUITY FUNDED DEFERRED INTEREST

5.1 Authorised Equity

For so long as any Securities are outstanding (as defined in the Trust Deed), the Issuer undertakes to take all steps necessary (in compliance with applicable law) to keep available, as of the date of each Annual General Meeting, Sufficient Authorised Equity.

Such steps shall include, but not be limited to the following:

- (a) if, in the opinion of the board of directors of the Issuer prior to the date of each Annual General Meeting, the Issuer will not have available on the date of such Annual General Meeting a sufficient amount of Authorised Equity to fund the payment of all outstanding Equity Funded Deferred Interest, the board of directors of the Issuer shall, in compliance with any applicable law, propose a resolution at such Annual General Meeting for shareholders to resolve on the authorisation for the issuance of ordinary shares in such number as will enable the Issuer to (i) pay in full all accrued and unpaid Equity Funded Deferred Interest pursuant to Condition 5.2 and (ii) after doing so, have available Sufficient Authorised Equity. The Issuer shall estimate the number of ordinary shares required for this purpose based on the prevailing market price for such ordinary shares on or around the time of proposing such resolution; and
- (b) if any resolution relating to the authorisation and issuance of new ordinary shares for the payment of Equity Funded Deferred Interest proposed as provided in Condition 5.1(a) is not approved and adopted by the shareholders of the Issuer at such Annual General Meeting, the board of directors of the Issuer shall, in compliance with applicable law, propose a similar resolution at the next Annual General Meeting of the Issuer. This process shall be repeated, in compliance with applicable law, until the relevant resolution is approved and adopted.

If the Issuer does not have a sufficient number of ordinary shares available for issue, then the Issuer shall give notice thereof to the Trustee (in an Officer's Certificate of the Issuer) and the Securityholders in accordance with Condition 15. The Issuer shall thereafter give notice to the Trustee (in an Officer's Certificate signed of the Issuer) and the Securityholders in accordance with Condition 15 of the subsequent approval and adoption by the shareholders of the Issuer of any resolution relating to the authorisation for issuance of ordinary shares to fund the payment of such unpaid Equity Funded Deferred Interest, promptly following the date of the Annual General Meeting at which such resolution is passed.

The shareholders of the Issuer have initially authorised for issuance Authorised Equity of up to €170 million in connection with these provisions.

5.2 Payment of Equity Funded Deferred Interest

For as long as any Equity Funded Deferred Interest (or part thereof) remains unpaid, the Issuer must, after obtaining all shareholder authorisations for the issue or creation of Issuer Equity, in compliance with any applicable law and subject to Condition 5.3, promptly fund the full payment in cash of such Equity Funded Deferred Interest, using the proceeds derived from the issue, offer and sale or contribution of Issuer Equity raised in accordance with this Condition 5.2.

Promptly following the date on which Mandatorily Deferred Interest or Old Optionally Deferred Interest, as the case may be, arises, the Issuer shall, after obtaining all shareholder authorisations for the issue or creation of Issuer Equity, in compliance with any applicable law and subject to Condition 5.3:

- (i) procure the issue, offer and sale or contribution of such amount of Issuer Equity as will result in proceeds received by the Issuer, after any expenses relating thereto, of not less than the aggregate amount of unpaid Equity Funded Deferred Interest; and
- (ii) deliver to the Trustee or to the Principal Paying Agent a cash amount equal to the amount of unpaid Equity Funded Deferred Interest as soon as practicable, but in any event within twenty business days following the settlement of the relevant issue, offer and sale or contribution of Issuer Equity. If such cash amount is received by the Trustee, the Trustee shall pay such amount to the Principal Paying and Transfer Agent. The Principal Paying and Transfer Agent shall pay the amount received by it to the Securityholders in respect of the relevant Equity Funded Deferred Interest within ten business days following receipt thereof by the Principal Paying and Transfer Agent (such date, the “*Equity Funded Deferred Interest Payment Date*”).

If the proceeds of the issue, offer and sale or contribution of Issuer Equity received by the Issuer pursuant to paragraph (i) above are insufficient to pay in full all unpaid Equity Funded Deferred Interest on the relevant Equity Funded Deferred Interest Payment Date, then: (A) the Issuer’s obligations pursuant to this Condition 5.2 shall continue until all unpaid Equity Funded Deferred Interest has been paid in full; and (B) any payment in respect of Equity Funded Deferred Interest made to Securityholders on such Equity Funded Deferred Interest Payment Date will be applied *pro rata* to all Securityholders and the Issuer shall be released and discharged from its obligations under this Condition 5.2 only to the extent of such amount applied, and the Securityholders shall have no further claim against the Issuer to that extent (without prejudice to any claims in respect of any amount of Equity Funded Deferred Interest that remains unpaid).

5.3 Market Disruption Event

The Issuer shall not be obliged to pay Equity Funded Deferred Interest pursuant to Condition 5.2 if a Market Disruption Event has occurred and for so long as it is continuing, but the Issuer’s obligations contained in Condition 5.2 shall recommence immediately upon the cessation of such Market Disruption Event. The Issuer shall, as soon as practicable after becoming aware of the occurrence of a Market Disruption Event at any time whilst any Equity Funded Deferred Interest remains unpaid, notify the same to the Trustee (in an Officer’s Certificate of the Issuer) and to the Securityholders in accordance with Condition 15. An Officer’s Certificate of the Issuer addressed to the Trustee as to the occurrence of a Market Disruption Event may be relied upon by the Trustee as sufficient evidence thereof and if so relied upon shall be conclusive and binding on the Issuer, the Trustee and the Securityholders.

5.4 Capital Restriction

Until such time as all unpaid Equity Funded Deferred Interest has been paid in full in cash in accordance with Conditions 4.3 and 5.2 (and, in the case of paragraph (c) below, for a period of one year thereafter) the Issuer:

- (a) shall not declare or make a payment of, or resolve on the declaration or payment of, a distribution or any other similar payment with respect to any Junior Obligations (other than ordinary share capital) or Distribution Parity Securities, other than a payment in the form of Issuer Equity; and
- (b) subject to paragraph (c) below, shall not redeem, repurchase or acquire any Junior Obligations or Parity Securities for any consideration, other than the purchase of fractional interests in Junior Obligations or Parity Securities pursuant to any conversion or exchange provisions of such Junior Obligations or Parity Securities; and
- (c) shall not redeem, repurchase or acquire any Issuer Equity for any consideration, other than (i) in connection with any existing or future employee benefit plan, directors' and senior management's stock based compensation, directors' stock option plan or similar arrangement; or (ii) a reclassification of Issuer Equity or exchange or conversion of one class or series of Issuer Equity into another class or series of Issuer Equity; or (iii) the purchase of fractional interests in Issuer Equity pursuant to any conversion or exchange provisions of such Issuer Equity,

such restrictions shall be called the "**Capital Restriction**".

As at the date of this Offering Circular, no Parity Securities or Junior Obligations falling within the exceptions to Condition 5.4(b) above were outstanding.

6. REDEMPTION AND PURCHASE

The Securities may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

6.1 Maturity date

If not redeemed or purchased and cancelled earlier, the Securities will be redeemed on the Maturity Date at their principal amount together with any accrued and unpaid Scheduled Interest Amount, any unpaid Optionally Deferred Interest and Equity Funded Deferred Interest (which Equity Funded Deferred Interest may only be paid from the proceeds of the issue, offer and sale or contribution of Issuer Equity as described in Condition 5) together with any Additional Amounts thereon (the "**Redemption Price**").

6.2 Redemption at the option of the Issuer

On giving not less than 30 nor more than 60 days' notice to the Trustee and the Securityholders in accordance with Condition 15 (which notice shall be irrevocable and shall specify the date fixed for redemption) the Issuer may, at its option, redeem all but not some only of the Securities in cash on the Reset Date or on any Floating Rate Payment Date thereafter, at the Redemption Price.

Upon the expiry of any such notice, the Issuer shall be obliged to redeem the Securities in accordance with this Condition 6.2 and in accordance with mandatory provisions of applicable Italian law.

6.3 Redemption for taxation reasons

On giving not less than 30 nor more than 60 days' notice to the Trustee and the Securityholders in accordance with Condition 15 (which notice shall be irrevocable and shall specify the date fixed for

redemption), the Issuer may, at its option, redeem all but not some only of the Securities in cash on any date prior to the Reset Date:

- (a) upon the occurrence of a Withholding Tax Event, at the Redemption Price; or
- (b) upon the occurrence of a Tax Event, at the Make-Whole Price together with any accrued and unpaid Scheduled Interest Amount, any unpaid Optionally Deferred Interest and Equity Funded Deferred Interest (which Equity Funded Deferred Interest may only be paid from the proceeds of the issue, offer and sale or contribution of Issuer Equity as described in Condition 5) and any Additional Amounts thereon.

Prior to the publication of any notice of redemption pursuant to the above paragraphs, the Issuer shall deliver or procure that there is delivered to the Trustee:

- (A) an Officer's Certificate of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred (including, in the case of a Withholding Tax Event, that such obligation to pay Additional Amounts cannot be avoided by the Issuer taking reasonable measures available to it); and
- (B) an opinion of an independent legal advisor of recognised standing under the laws of the Relevant Taxing Jurisdiction to the effect that either (1) the Issuer has or will become obliged to pay such Additional Amounts as a result of a Withholding Tax Event, or (2) that a Tax Event has occurred.

Upon the expiry of any such notice, the Issuer shall be obliged to redeem the Securities in accordance with this Condition 6.3 and in accordance with mandatory provisions of applicable Italian law.

Notwithstanding the foregoing, no such notice of redemption will be given in respect of the occurrence of a Withholding Tax Event (a) earlier than 90 days prior to the earliest date on which the Issuer would be obliged to make such payment of Additional Amounts or withholding if any amounts in respect of the Securities were then payable and (b) unless at the time such notice is given, the obligation to pay Additional Amounts remains in effect.

6.4 Change of Control Call Event

- (a) If at any time while the Securities are outstanding a Change of Control Event occurs prior to the Reset Date, the Issuer may, not later than 60 days following the occurrence of such Change of Control Event and on giving not less than 30 nor more than 60 days' notice to the Trustee and the Securityholders in accordance with Condition 15 (which notice shall be irrevocable and shall specify the date fixed for redemption), at its option, redeem all but not some only of the Securities in cash at the Make-Whole Price together with any accrued and unpaid Scheduled Interest Amount, any unpaid Optionally Deferred Interest and Equity Funded Deferred Interest (which Equity Funded Deferred Interest may only be paid from the proceeds of the issue, offer and sale or contribution of Issuer Equity as described in Condition 5) and any Additional Amounts thereon.
- (b) If at any time while the Securities are outstanding a Change of Control Event occurs on or after the Reset Date, the Issuer may, on the next Floating Rate Payment Date thereafter or, if the next succeeding Floating Rate Payment Date falls less than 30 days from the date such Change of Control Event occurs, then on the next Floating Rate Payment Date thereafter), on giving not less than 30 nor more than 60 days' notice to the Trustee and the Securityholders in accordance with Condition 15 (which notice shall be irrevocable and shall specify the date fixed for redemption), at its option, redeem all but not some only of the Securities in cash at the Redemption Price.

Upon the expiry of any such notice, the Issuer shall be obliged to redeem the Securities in accordance with this Condition 6.4 and in accordance with mandatory provisions of applicable Italian law.

If a Change of Control Event occurs and the Issuer does not elect to redeem the Securities by giving notice to the Trustee and the Securityholders in accordance with the provisions of Condition 6.4(a) or (b), as the case may be, within the periods described therein, then the Securities shall, from the date on which the Change of Control Event occurred, bear interest on their aggregate principal amount at a rate which is (a) prior to the Reset Date, equal to the Change of Control Fixed Rate or (b) from (and including) the Reset Date, equal to the Change of Control Floating Rate.

The Issuer has covenanted in the Trust Deed that, for so long as any Securities remain outstanding, on the occurrence of a Change of Control Event, the Issuer will launch a tender offer for its outstanding €360 million 4.80% Senior Notes due 2008 (the “Senior Notes”) at 100% of their aggregate principal amount. Such tender offer shall be launched within a period of 20 days from the occurrence of such Change of Control Event, and shall be made available, subject to applicable laws, to all holders of the Senior Notes.

6.5 Mandatory Redemption Event

If a Mandatory Redemption Event occurs, the Issuer shall redeem all, but not some only, of the Securities on the Mandatory Redemption Date at 101% of their aggregate principal amount together with any accrued and unpaid Scheduled Interest Amount and any Additional Amounts thereon. Any such redemption shall be in accordance with mandatory provisions of applicable Italian law.

The Issuer will, within five business days after a Mandatory Redemption Event occurs, give notice thereof to the Trustee (in an Officer’s Certificate of the Issuer) and the Securityholders in accordance with Condition 15 and specifying the Mandatory Redemption Date.

Any failure by the Issuer to give notice as required by this Condition 6.5 shall not release the Issuer from its obligation to redeem the Securities on the Mandatory Redemption Date.

6.6 Purchase

The Issuer or any of its subsidiaries may, at any time, purchase Securities in the open market or otherwise at any price. Any purchase by tender shall be made available to all Securityholders alike, by means of a public cash tender offer bid or a public exchange tender offer, in accordance with applicable laws and regulations. Any Securities so purchased, pending cancellation in accordance with Condition 6.7, shall not entitle the holder to vote at any meetings of the Securityholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Securityholders or for the purposes of Condition 12.1.

6.7 Replacement

The Issuer’s intention is (other than in relation to a mandatory redemption pursuant to Condition 6.5 above) only to redeem, repurchase or otherwise acquire the Securities for cash consideration prior to the Maturity Date if the Issuer has received from parties that are not members of the Issuer Group cash proceeds at least amounting to such consideration within a period of six months prior to such redemption, repurchase or other acquisition from the issue, offer and sale or contribution of (a) Issuer Equity or (b) other securities which contain terms that are substantially the same as the Securities in respect of (i) enforcement rights and remedies of holders thereof, (ii) subordination of such holders’ claims in the event of a liquidation, dissolution or winding up or Insolvency Proceedings in respect of the Issuer, (iii) initial maturity and any early redemption provisions, (iv) the payment, deferral or non-payment of scheduled distributions, (v) scheduled step up in distribution rate, if any, and (vi) replacement conditions pertaining to early redemption, repurchase or acquisition of such other securities.

6.8 Cancellation

All Securities so redeemed or purchased in accordance with this Condition 6 will be cancelled and may not be re-issued or resold.

7. PAYMENTS

7.1 Method of Payment

- (a) Subject to Condition 4, payments of principal in respect of the Securities will be made to the person shown in the Register at the close of business on the seventh business day in London, Milan and the city in which the specified office of the Registrar is located before the due date for the relevant payment (the “**Record Date**”), and against presentation and surrender (or, in the case of a partial payment, endorsement) of the relevant Certificate at the specified office of the Registrar or any Paying and Transfer Agent by euro cheque drawn on, or by transfer to a euro account maintained by the payee with, a bank in a city in which banks have access to the TARGET System.
- (b) Payments of interest due on an Interest Payment Date and payments in respect of Optionally Deferred Interest and Equity Funded Deferred Interest will be made to the person shown in the Register at the close of business on the relevant Record Date. Such payments on each Security shall be made by euro cheque drawn on, or by transfer to a euro account maintained by the payee with, a bank in a city in which banks have access to the TARGET System.
- (c) Where payment is to be made by cheque, the cheque will be mailed, on the business day in London, Milan and the city in which the specified office of the Registrar is located preceding the due date for payment or, in the case of payments referred to in Condition 7.1(a), if later, on the business day (in the city on which the specified office of the Registrar or the relevant Paying and Transfer Agent with whom the Certificate is deposited is located) on which the relevant Certificate is presented for surrender or endorsement, as applicable (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, at the expense of the holder) to the holder (or the first named of joint holders) of the Securities at its address appearing in the Register.
- (d) Securityholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due (i) as a result of the due date not being a business day, (ii) if the Securityholder is late in presenting the relevant Certificate for surrender (or endorsement, as applicable) or (iii) if a cheque mailed in accordance with this Condition 7.1 arrives after the date for payment.

7.2 Payments subject to laws

All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Securityholders in respect of such payments.

7.3 Payments on business days

A Certificate may only be presented for payment on a day which is a business day in the place of presentation (and, in the case of payment by transfer to a euro account, in a city where banks have access to the TARGET System). No further interest or other payment will be made if the day on which the relevant Certificate may be presented for payment under this paragraph is a day falling after the due date. In this Condition 7 “**business day**” means a day on which commercial banks and foreign exchange markets settle payment and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the relevant city.

7.4 Agents

The initial Registrar, Paying and Transfer Agents and Agent Bank and their initial specified offices are listed below. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of any Paying and Transfer Agent or the Agent Bank and appoint additional or other

agents, provided that it will, at all times while any Security is outstanding, maintain (a) a Registrar, (b) a Principal Paying and Transfer Agent (and for so long as any amounts remain payable in respect of the Securities), (c) an Agent Bank, (d) Paying and Transfer Agents having specified offices in at least two major European cities approved by the Trustee (including Luxembourg, so long as the Securities are listed on the Luxembourg Stock Exchange) and (e) a Paying and Transfer Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any other law implementing or complying with, or introduced in order to conform to, such Directive.

If any of the Registrar, Agent Bank or Principal Paying and Transfer Agent is unable or unwilling to act as such or if it fails to make any determination or calculation or otherwise fails to perform its duties under these Conditions or the Paying Agency Agreement, as the case may be, the Issuer shall appoint, on terms acceptable to the Trustee, an independent investment bank acceptable to the Trustee to act as such in its place.

7.5 Fractions

When making payments to Securityholders, if the relevant payment is not of an amount which is a whole multiple of €0.01, such payment will be rounded down to the nearest €0.01.

8. TAXATION

8.1 Additional Amounts

All payments in respect of principal, premium (if any) and interest (including, without limitation, any Optionally Deferred Interest and Equity Funded Deferred Interest) by or on behalf of the Issuer in respect of the Securities shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges (including, without limitation, any interest, penalties and other similar liabilities related thereto) of whatever nature imposed, levied, collected, withheld or assessed by or within the Republic of Italy or the United States of America or any political subdivision thereof or therein that has the power to tax (each a “**Relevant Taxing Jurisdiction**”) (such amounts being hereafter referred to as “**Taxes**”), unless such withholding or deduction is required by law (including, but not limited to, as a consequence of any change in tax law or any change in the interpretation of Tax law). In such event the Issuer shall pay such additional amounts (“**Additional Amounts**”) as will result in the receipt by the Securityholders (which for all purposes of this Condition 8 shall include the beneficial owners of the Securities) of the same amounts as would have been received by them had no such withholding or deduction been required; except that no such Additional Amounts shall be due from the Issuer to the extent that the relevant Tax is a direct result of one or more of the following circumstances:

(a) Other connection

in respect of any Securityholder who is liable to such Taxes by reason of his having some present or future connection with the Relevant Taxing Jurisdiction (other than by reason of (i) the mere receipt or holding of the Security or (ii) the mere receipt of payments under the Securities); or

(b) Declaration of non-residence or other exemption claim

in respect of any Securityholder who would not be liable or subject to the withholding or deduction by making a declaration (including, without limitation, a U.S. Internal Revenue Service Form W-8 BEN or W-9) of non-residence or other similar claim for exemption (in each case, which the relevant Securityholder was legally entitled to make) to the relevant tax authority after notification by the Issuer of the requirement to comply with the same (which notification shall be accomplished by providing written notice of the same to the Trustee, the Principal Paying and Transfer Agent and the relevant clearing systems and by publication of an appropriate notice in at least two international economic newspapers, which publication shall be made at a time which

would enable the Securityholders, acting reasonably, to comply with such requirement, provided that Securityholders shall be deemed to have received notification of any such requirement to make a declaration or similar claim to the extent that such requirement is described under the heading “Tax Considerations—Italian Tax Considerations” in the Offering Circular dated May 10, 2006, in relation to the Securities); or

(c) Presentation more than 30 days after the Relevant Date

in respect of any Certificate presented for payment (where presentation is required) more than 30 days after the Relevant Date except to the extent that the Securityholder thereof would have been entitled to such Additional Amounts on presenting such Certificate for payment on the last day of such period of 30 days; or

(d) *Imposta sostitutiva* levied pursuant to Decree No. 239

where such withholding or deduction is in relation to the substitute tax (*imposta sostitutiva*), currently levied at the rate of 12.5%, regulated by Italian Legislative Decree No. 239 of April 1, 1996, as amended or supplemented (“**Decree 239**”), except where the exemption provided for by Decree No. 239 is not applicable due to any action or omission of the Issuer; or

(e) European Council Directive

where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any other law implementing or complying with, or introduced in order to conform to, such Directive; or

(f) Payment by another Paying and Transfer Agent

in respect of any Certificate presented for payment (where presentation is required) by or on behalf of a Securityholder who would have been able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying and Transfer Agent in a Member State of the European Union; or

(g) U.S. Backup Withholding

where such withholding or deduction is in respect of backup withholding imposed under Section 3406 of the United States Internal Revenue Code of 1986, as amended (the “**Code**”) and the U.S. Treasury regulations thereunder.

Such Additional Amounts will also not be payable where, had the beneficial owner of the Security been the registered Securityholder, it would not have been entitled to payment of Additional Amounts by reason of Conditions 8.1(a) to (g) (inclusive) above.

The Issuer will (i) make such withholding or deduction required by applicable law and (ii) remit the full amount withheld or deducted to the relevant taxing authority in accordance with applicable law.

At least 30 calendar days prior to each date on which any payment under or with respect to the Securities is payable, if the Issuer will be obliged to pay Additional Amounts with respect to such payment (unless such obligation to pay Additional Amounts arises after the 30th day prior to the date on which payment under or with respect to the Securities is payable, in which case it will be promptly thereafter), the Issuer will deliver to the Trustee an Officer’s Certificate of the Issuer stating that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Trustee, the Registrar or the Paying and Transfer Agent, as the case may be, to pay such Additional Amounts to Securityholders on the relevant payment date. The Trustee shall, without further investigation, be entitled to rely absolutely on each such Officer’s Certificate as conclusive proof that such payments are necessary. The Issuer will promptly publish a notice in accordance with the provisions set forth in

Condition 15 stating that such Additional Amounts will be payable and describing the obligation to pay such amounts.

Upon request, the Issuer will make reasonable efforts to furnish to the Trustee or a Securityholder within a reasonable time certified copies of Tax receipts evidencing the payment by the Issuer of any Taxes imposed or levied by a Relevant Taxing Jurisdiction, in such form as provided in the normal course by the taxing authority imposing such Taxes and as is reasonably available to the Issuer. If, notwithstanding the efforts of the Issuer to obtain such receipts, the same are not obtainable, the Issuer will provide the Trustee or Securityholder with other evidence reasonably satisfactory to the Trustee or such Securityholder of such payments by the Issuer. The Issuer will attach to each copy a certificate stating that the amount of Taxes evidenced by the certified copy was paid in connection with payments in respect of the principal amount of Securities then outstanding.

The Trust Deed shall further provide that if the Issuer becomes subject to the taxing jurisdiction of any country or any political subdivision thereof or therein that has the power to tax (an “***Additional Taxing Jurisdiction***”) other than or in addition to a Relevant Taxing Jurisdiction, this Condition 8 shall be deemed to apply as if references therein to “***Taxes***” included taxes imposed by way of withholding or deduction by any such Additional Taxing Jurisdiction (or any political subdivision thereof or therein).

In addition, the Issuer will pay (i) all present and future stamp, issue, registration, court, documentation, or any excise or property taxes or other similar taxes, charges and duties, including interest and penalties with respect thereto, imposed by any Relevant Taxing Jurisdiction in respect of the execution, issue, delivery or registration of the Securities, the Trust Deed, or any other document or instrument referred to therein, and any such taxes, charges, or similar levies imposed by any jurisdiction as a result of, or in connection with, the enforcement of the Securities, the Trust Deed or any other such document or instrument, or (ii) any stamp, court, or documentary taxes (or similar charges or levies) imposed with respect to the receipt of any payments with respect to the Securities.

The preceding provisions will survive any termination, defeasance or discharge of the Trust Deed and redemption of the Securities and shall apply *mutatis mutandis* to any jurisdiction in which the Issuer is organised, incorporated or otherwise resident for tax purposes and any political subdivision or taxing authority or agency thereof or therein.

8.2 References

Any reference in these Conditions to principal, interest and/or any other amounts in respect of the Securities shall be deemed to include any Additional Amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

9. ENFORCEMENT EVENTS

9.1 Enforcement Events

An “***Enforcement Event***” shall have occurred if:

- (a) the Issuer fails to pay any Optionally Deferred Interest in respect of the Securities within fifteen business days of the due date for payment thereof;
- (b) the Issuer fails to pay in full any Equity Funded Deferred Interest, in the manner described herein by the tenth anniversary of the Interest Payment Date on which payment of the relevant Scheduled Interest Amount was first deferred in accordance with these Conditions, or the Issuer breaches the Capital Restriction;
- (c) the Issuer defaults in the performance or observance of any of its other obligations in respect of the Securities (other than any of its obligations under the Trust Deed) and such default (i) is, in the reasonable opinion of the Trustee, incapable of remedy or (ii) being a default which is, in the

reasonable opinion of the Trustee, capable of remedy, remains unremedied for 60 days or such longer period as the Trustee may agree after the Trustee has given notice thereof to the Issuer;

- (d) any petition is filed by any third party in connection with any Insolvency Proceedings in respect of the Issuer, and such petition is not dismissed within 180 days of such filing; or
- (e) an order is made or a resolution is passed for the voluntary or involuntary liquidation, dissolution or winding up of, or an administrative and/or court order is made for any Insolvency Proceedings in respect of, the Issuer, or the Issuer takes any corporate action for the purposes of opening, or initiates or consents to, Insolvency Proceedings in respect of it.

9.2 Enforcement in respect of Optionally Deferred Interest

Upon the occurrence of an Enforcement Event described in Condition 9.1(a) and subject to mandatory provisions of applicable law, the Trustee at its discretion may, and if so instructed by Securityholders holding not less than 25% in aggregate principal amount of the outstanding Securities or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) shall, subject in each case to its being indemnified and/or secured to its satisfaction, by written notice addressed to the Issuer, institute proceedings to obtain payment of the amounts due, provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it and the Trustee shall not, in these circumstances, be entitled to declare the principal amount of the Securities due and payable.

The proviso to this Condition 9.2 shall not apply to amounts due to the Trustee in its personal capacity under the Trust Deed.

9.3 Enforcement in respect of Equity Funded Deferred Interest and Capital Restriction

Upon the occurrence of an Enforcement Event described in Condition 9.1(b) above and subject to Condition 12.1 and mandatory provisions of applicable law, the Trustee at its discretion may, and if so instructed by Securityholders holding not less than 25% in aggregate principal amount of the outstanding Securities or if so directed by an Extraordinary Resolution shall, subject in each case to it being indemnified and/or secured to its satisfaction, (a) give notice to the Issuer that the Securities are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with any accrued and unpaid Scheduled Interest Amount, any Deferred Interest and any Additional Amounts thereon, and/or (b) institute steps in order to obtain a judgment against the Issuer for any amounts due in respect of the Securities, including the institution of Insolvency Proceedings.

9.4 Enforcement in respect of Breach of Other Obligations

Upon the occurrence of an Enforcement Event described in Condition 9.1(c) above or upon the breach by the Issuer of any of its obligations under the Trust Deed and subject to mandatory provisions of applicable law, the Trustee at its discretion may, and if so instructed by Securityholders holding not less than 25% in aggregate principal amount of the outstanding Securities or if so directed by an Extraordinary Resolution shall, subject in each case to it being indemnified and/or secured to its satisfaction, institute such proceedings and/or take any other action against the Issuer as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer under the Securities or the Trust Deed (other than as provided in Conditions 9.2 and 9.3); provided that the Issuer shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it and the Trustee shall not, in these circumstances, be entitled to declare the principal amount of the Securities due and repayable.

The proviso to this Condition 9.4 shall not apply to amounts due to the Trustee in its personal capacity under the Trust Deed.

9.5 Enforcement in respect of Insolvency Proceedings

Upon the occurrence of an Enforcement Event described in Condition 9.1(d) or (e) above and subject to Condition 12.1 and mandatory provisions of applicable law, the Trustee at its discretion may, and if so instructed by Securityholders holding not less than 25% in aggregate principal amount of the outstanding Securities or if so directed by an Extraordinary Resolution shall, subject in each case to it being indemnified and/or secured to its satisfaction, (a) give notice to the Issuer that the Securities are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with any accrued and unpaid Scheduled Interest Amount, any Deferred Interest and any Additional Amounts thereon, and/or (b) institute steps in order to obtain a judgment against the Issuer for any amounts due in respect of the Securities, including filing a proof of claim and participating in the relevant Insolvency Proceedings or proceedings for the liquidation, dissolution or winding-up of the Issuer.

9.6 Non-Payment of Principal

If the Issuer shall default in the payment of principal or premium in respect of any Security which has become due and repayable, or fails to redeem the Securities when obliged to do so, in each case in accordance with the terms hereof, the Trustee at its discretion may, and if so instructed by Securityholders holding not less than 25% in aggregate principal amount of the outstanding Securities or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) shall, subject in each case to its being indemnified and/or secured to its satisfaction, institute proceedings to obtain payment of the amounts due, including the institution of Insolvency Proceedings.

9.7 Other Remedies and Rights of Securityholders

No remedy against the Issuer other than the institution of the steps or the proceedings or taking of other action by the Trustee referred to in Conditions 9.2, 9.3, 9.4, 9.5 and 9.6, subject to mandatory provisions of applicable law (including, without limitation, Article 2419 of the Italian Civil Code), shall be available to the Trustee or the Securityholders whether for the recovery of amounts owing in respect of the Securities or in respect of any breach by the Issuer of any other obligation, condition, or provision binding on it under the Securities or the Trust Deed, provided that the second paragraph of Conditions 9.2 and 9.4 shall apply to this Condition 9.7.

9.8 Holders not entitled to proceed directly

No Securityholder shall, subject to mandatory provisions of applicable law (including, without limitation, Article 2419 of the Italian Civil Code), be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing.

10. PRESCRIPTION

Claims against the Issuer for payment in respect of the Securities shall be prescribed and become void unless made within a period of 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of such payment and thereafter any principal, interest or other sums payable in respect of such Securities shall be forfeited and revert to the Issuer.

11. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Paying and Transfer Agent in Luxembourg (for so long as the Securities are listed on the Luxembourg Stock Exchange, otherwise at the specified office of the Registrar) subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the

light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. MEETINGS OF SECURITYHOLDERS, MODIFICATION AND WAIVER

12.1 Meetings of Securityholders

The Trust Deed contains provisions for convening meetings of Securityholders to consider any matter affecting their interests, including a modification of any of these Conditions or any provisions of the Trust Deed in accordance with Article 2415 of the Italian Civil Code and any other applicable provisions of law. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the board of directors of the Issuer or by the Securityholders' Representative and shall be convened upon the request in writing of Securityholders holding not less than 5% in aggregate principal amount of the Securities for the time being outstanding. Such a meeting will be validly held if (a) there are one or more persons present, being or representing Securityholders holding at least one half of the aggregate principal amount of the Securities for the time being outstanding, or (b) at any adjourned meeting, following adjournment of the first meeting for lack of quorum, there are one or more persons present being or representing Securityholders holding more than one third of the aggregate principal amount of the Securities for the time being outstanding, or (c) in the case of a third meeting following a further adjournment for lack of quorum, there are one or more persons present being or representing Securityholders holding at least one-fifth of the aggregate principal amount of the Securities for the time being outstanding, *provided, however, that* if the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the Maturity Date or the dates on which, or manner in which, interest is payable in respect of the Securities, (ii) to reduce or cancel the principal amount of, or interest on or to vary the method of calculating the rate of interest on, the Securities, (iii) to change the currency of payment of the Securities, (iv) to modify the provisions relating to status, (v) to modify the provisions concerning the quorum required at any meeting of Securityholders or the majority required to pass an Extraordinary Resolution or (vi) relating to any other matters provided under Article 2415 paragraph 3, of the Italian Civil Code (each, a “**Reserved Matter**”), the necessary quorum shall always be at least one half of the aggregate principal amount of the Securities for the time being outstanding. The majority required to pass a resolution at any meeting convened to vote on an Extraordinary Resolution (including any meeting convened following adjournment of the previous meeting for want of quorum) shall be one or more persons present being or representing Securityholders holding at least two thirds of the aggregate principal amount of the Securities represented at the meeting; *provided, however, that* a Reserved Matter may only be sanctioned by an Extraordinary Resolution passed at a meeting of Securityholders by one or more persons present being or representing Securityholders holding at least one half of the aggregate principal amount of the Securities for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on all Securityholders (whether or not they were present at the meeting at which such resolution was passed).

All Extraordinary Resolutions shall be recorded pursuant to Article 2415 of the Italian Civil Code.

12.2 Securityholders' Representative

A representative of Securityholders (the “**Securityholders' Representative**”, or *rappresentante comune*, who might, subject to mandatory provisions of Italian law, also be the same legal entity as the Trustee) can be appointed pursuant to Article 2417 of the Italian Civil Code. If the Securityholders' Representative is not appointed by a meeting of Securityholders, the Securityholders' Representative shall be appointed by a decree of the President of the Court where the Issuer has its registered office at the request of one or more Securityholders, or at the request of the board of directors of the Issuer. The Securityholders' Representative shall remain appointed for a maximum period of three years, but may be re-appointed for a further three year period thereafter.

12.3 Modification and Waiver

The Trustee may agree, without the consent of the Securityholders, to (i) any modification of any of the provisions of the Trust Deed or the Intercreditor Agreement which, in its opinion, is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification, and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed (except a Reserved Matter) which is in the opinion of the Trustee not materially prejudicial to the interests of the Securityholders. Any such modification, authorisation or waiver shall be binding on the Securityholders and, if the Trustee so requires, such modification, authorisation or waiver shall be notified to the Securityholders as soon as practicable in accordance with Condition 15.

12.4 Entitlement of the Trustee

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of Securityholders as a class but shall not have regard to any interests arising from circumstances particular to individual Securityholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Securityholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Securityholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Securityholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

13. INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

14. FURTHER ISSUES

The Issuer may from time to time without the consent of the Securityholders create and issue further securities having the same terms and conditions as the Securities in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with, and have the same ISIN and Common Code numbers as, the Securities. References in these Conditions to the Securities include (unless the context requires otherwise) any such securities and forming a single series with the Securities. Any further securities forming a single series with the Securities shall be constituted by a deed supplemental to the Trust Deed.

15. NOTICES

Notices to Securityholders shall be validly given when: (i) delivered in person or when sent by first class registered or certified mail, postage pre-paid, to them at their respective addresses as set out in the Register; or (ii) so long as the Securities are listed on the Luxembourg Stock Exchange and the rules of that stock exchange so require, notices will be published in a leading newspaper having general circulation in Luxembourg (which is expected to be *d'Wort*) *provided, however, that* any notice relating to the calling of a meeting of Securityholders pursuant to Condition 12 shall also be published in the *Gazzetta Ufficiale* of the Republic of Italy or in a daily newspaper as specified in the by-laws of the Issuer and having general circulation in the Republic of Italy, at least 30 days prior to the meeting (exclusive of the day on which the notice is published and of the day on which the meeting is to be held). Any notice shall be deemed to have

been given on the date of publication or, if published more than once or on different dates, on the first date on which publication is made in all required publications, provided that, if notices are mailed, such notice shall be deemed to have been given on the later of such publication and the fifth day after being so mailed. Failure to mail a notice or communication to any holder, or any defect in any such notice or communication, shall not affect its validity with respect to other holders. If a notice or communication is mailed in the manner provided above, it shall be deemed validly given, whether or not the addressee receives it.

While any Securities are represented by a Global Certificate, notices may be delivered to Euroclear and Clearstream, Luxembourg, each of which shall give notice of such notice to holders of Book-Entry Interests instead of publication as described above.

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Securities under the Contracts (Rights of Third Parties) Act 1999.

17. GOVERNING LAW

17.1 Governing Law

The Trust Deed and the Securities are governed by and shall be construed in accordance with English law, save that Conditions 2 and 12.1, and Clause 2.4 of the Trust Deed, are governed by and shall be construed in accordance with the laws of the Republic of Italy, and are subject to mandatory provisions of Italian law.

17.2 Jurisdiction

The courts of England are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Securities and accordingly any legal action or proceedings arising out of or in connection with the Securities ("*Proceedings*") may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the non-exclusive jurisdiction of such courts.

17.3 Agent for Service of Process

The Issuer has irrevocably appointed an agent in England to receive service of process in any Proceedings in England based on any of the Securities or the Trust Deed.

18. DEFINITIONS

"*Acquisition*" means the acquisition by Gold Acquisition Corp. of the all of the outstanding shares in the share capital of GTECH Holdings Corporation ("*GTECH*") on the terms of the Merger Agreement and any other related documents. "*Additional Amounts*" has the meaning given to it in Condition 8.

"*Additional Taxing Jurisdiction*" has the meaning given to it in Condition 8.

"*Advance Capital Contributions*" means any irrevocable, unconditional and non-reimbursable (except upon the voluntary or involuntary liquidation, dissolution or winding-up of, the Issuer) capital contribution made or to be made by a shareholder of the Issuer (*versamento in conto futuro aumento di capitale*).

"*Agent Bank*" has the meaning given to it in the preamble.

"*Annual General Meeting*" means the shareholders' meeting of the Issuer convened for the purpose of approving its annual financial statements and, in accordance with these Conditions, the authorisation and issuance of ordinary shares of the Issuer.

“Audited Accounts” means, as at a Test Date, the most recent annual consolidated audited financial statements of the Issuer Group taken as a whole, prepared in accordance with IFRS and having been approved by the board of directors of the Issuer and filed with the competent companies’ registrar.

“Authorised Denomination” has the meaning given to it in Condition 1.1.

“Authorised Equity” means from time to time, ordinary shares authorised for issuance pursuant to a resolution approved and adopted by the shareholders of the Issuer or, to the extent delegated by such resolution, the board of directors of the Issuer, in connection with the Securities.

“Benchmark Rate” means 0.75% plus the annualised offer yield to maturity, as calculated by the Agent Bank to be the average of three market quotations, of the then current Euro government benchmark security selected by the Agent Bank, after consultation with the Issuer, as having a maturity comparable to the remaining term of the Securities to the Reset Date that would be used, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the Reset Date.

“Book-Entry Interests” has the meaning given to it in Condition 1.

“business day” means, except in Conditions 1 and 7, a day which is both a day on which commercial banks and foreign exchange markets settle payment and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and Milan and a day on which the TARGET System is operating.

“Capital Expenditure” means the amount in euros of capital expenditure incurred by the Issuer Group in respect of the annual financial period ending on the date of the relevant Audited Accounts, as determined in accordance with such Audited Accounts.

“Capital Payment” means:

- (a) the redemption, repurchase or acquisition of any Parity Securities, or Junior Obligations for any consideration, other than (i) in connection with any existing or future employee benefit plan, directors’ and senior management’s stock based compensation, directors’ stock option plan or similar arrangement; or (ii) a reclassification of Issuer Equity or exchange or conversion of one class or series of Issuer Equity into another class or series of Issuer Equity; or (iii) the purchase of fractional interests in Parity Securities or Junior Obligations pursuant to any conversion or exchange provisions of such Parity Securities or Junior Obligations; or
- (b) the declaration or payment of, or the resolution of, a dividend or distribution or any other similar payment with respect to any Distribution Parity Securities or Junior Obligations, other than a payment in the form of Issuer Equity.

“Capital Restriction” has the meaning given to it in Condition 5.4.

A **“Change of Control”** will be deemed to have occurred if after the Issue Date any person or persons acting in concert or any person or persons acting on behalf of such persons(s) become a Majority Holder (whether or not any necessary approvals therefor have been obtained) provided that a Change of Control shall not be deemed to have occurred if the Principal Shareholder continues, without interruption, to be the Majority Holder.

A **“Change of Control Downgrade”** shall be deemed to have occurred if a relevant Rating Agency publicly announces that in connection with, anticipation of or as a result of, a Change of Control occurring, the Corporate Credit Rating or Corporate Family Rating assigned to the Issuer by such Rating Agency is withdrawn, or downgraded to a rating of or below BB+ by S&P or Ba1 by Moody’s (or their respective equivalents at such time).

A “**Change of Control Event**” shall be deemed to have occurred on the earliest date on which both a Change of Control Downgrade and the respective Change of Control have occurred.

“**Change of Control Fixed Rate**” means the Fixed Interest Rate plus an additional margin of 5% per annum or, if lower, the maximum rate permitted by then applicable Italian law.

“**Change of Control Floating Rate**” means, in respect of a Floating Rate Interest Period, the relevant Floating Interest Rate determined in accordance with Conditions 3.3 and 3.4, plus an additional margin of 5% per annum or, if lower, the maximum rate permitted by then applicable Italian law.

“**Clearstream, Luxembourg**” has the meaning given to it in Condition 1.

“**Code**” has the meaning given to it in Condition 8.

“**Common Depositary**” has the meaning given to it in Condition 1.

“**Corporate Credit Rating**” means the corporate credit rating assigned from time to time to the Issuer by S&P, representing the highest rating that S&P may assign to any unsecured obligation of any member of the Issuer Group, and being on the Issue Date, BBB.

“**Corporate Family Rating**” means the corporate family rating assigned from time to time to the Issuer by Moody’s, representing the highest rating that Moody’s may assign to any unsecured obligation of any member of the Issuer Group, and being on the Issue Date, Baa3.

“**Coverage Ratio**” means the ratio (to be calculated to the fourth decimal place, with 0.00005 being rounded upwards) of (a) Free Cash-flow Before Debt Service, divided by (b) Interest Expense, in each case in respect of the annual financial period ending on the date of the relevant Audited Accounts.

“**Decree 239**” has the meaning given to it in Condition 8.

“**Definitive Certificates**” has the meaning given to it in Condition 1.

“**Deferred Interest**” means any unpaid Optionally Deferred Interest and any unpaid Equity Funded Deferred Interest.

“**Distribution Parity Securities**” means any securities (including Liquidation Parity Securities) or other instruments issued, entered into or guaranteed by the Issuer which, in each case, by their terms or by operation of law, constitute obligations of the Issuer to make periodic payments, taking into account provisions for the Issuer to suspend or defer such payments at its discretion or subject to certain conditions, that are substantially the same as those of the Securities.

“**Early Redemption Date**” means any date fixed for redemption of the Securities (other than the Maturity Date) in accordance with the provisions of Condition 6.

“**EBITDA**” means the amount in euros of the consolidated net pre-taxation profits of the Issuer Group, as adjusted by (without double counting):

- (a) adding back the amount of Interest Expense;
- (b) adding back the amount of depreciation and amortisation expense, if any;
- (c) eliminating the effect of any extraordinary item or any non-cash items;
- (d) eliminating the effect of any revaluation of an asset, or any loss or gain on the disposal of an asset (otherwise than in the ordinary course of trading); and
- (e) excluding the amount of any EBITDA attributable to minority shareholders in members of the Issuer Group,

in each case, in respect of the annual financial period ending on the date of the relevant Audited Accounts and as determined in accordance with such Audited Accounts.

“Enforcement Event” has the meaning given to it in Condition 9.1.

“Equity Funded Deferred Interest” has the meaning given to it in Condition 4.3.

“Equity Funded Deferred Interest Payment Date” has the meaning given to it in Condition 5.2(ii).

“ESOP Cashflow” means the cash amount, in euros, if any, received by the Issuer or any member of the Issuer Group in respect of the exercise of stock options by employees in respect of the annual financial period ending on the date of the relevant Audited Accounts, as determined in accordance with such Audited Accounts.

“EURIBOR” has the meaning given to it in Condition 3.3(a).

“Euro-zone” means the region comprised of Member States of the European Union that adopt or have adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on the European Union.

“Euroclear” has the meaning given to it in Condition 1.

“Fixed Interest Rate” has the meaning given to it in Condition 3.1.

“Fixed Rate Interest Amount” has the meaning given to it in Condition 3.1.

“Fixed Rate Interest Period” has the meaning given to it in Condition 3.1.

“Fixed Rate Payment Date” has the meaning given to it in Condition 3.1.

“Floating Interest Rate” has the meaning given to it in Condition 3.2.

“Floating Rate Interest Amount” has the meaning given to it in Condition 3.2.

“Floating Rate Interest Period” has the meaning given to it in Condition 3.2.

“Floating Rate Payment Date” has the meaning given to it in Condition 3.2.

“Free Cash-flow Before Debt Service” means EBITDA plus ESOP Cashflow less Capital Expenditure less Taxes Paid, in each case in respect of the annual financial period ending on the date of the relevant Audited Accounts.

“Global Certificates” has the meaning given to it in Condition 1.

“IFRS” means the International Financial Reporting Standards issued by the International Accounting Standards Board, as from time to time adopted by the European Commission for use in the European Union.

“Insolvency Law” means Royal Decree No. 267 of March 16, 1942, as amended and supplemented from time to time.

“Insolvency Proceedings” means any insolvency proceedings or proceedings equivalent or analogous thereto including, but not limited to, temporary extraordinary administration (*gestione provvisoria*), bankruptcy (*fallimento*), arrangement with creditors (*concordato preventivo*), adjustment of creditors' claims (*concordato fallimentare*), controlled administration (*amministrazione controllata*), forced administrative liquidation (*liquidazione coatta amministrativa*), extraordinary administration (*amministrazione straordinaria*) and extraordinary administration of large companies in insolvency (*amministrazione straordinaria delle grandi imprese in stato di insolvenza*), as set out in the Insolvency Law and/or any other applicable law.

“Interest Determination Date” has the meaning given to it in Condition 3.3(a).

“Interest Expense” means the amount of (a) the expense relating to interest and amounts in the nature of interest, discount, acceptance and commitment fees, amounts payable under interest rate hedging

agreements and the interest element of payments under finance leases (including interest expense relating to the Securities), less (b) the income relating to interest and amounts in the nature of interest or premium, or amounts receivable under interest rate hedging agreements, in each case in respect of the annual financial period ending on the date of the relevant Audited Accounts, as determined in accordance with such Audited Accounts, plus (c) the amount of accrued but unpaid Deferred Interest, if any, as of the relevant Test Date.

“Interest Payment Date” has the meaning given to it in Condition 3.2.

“Interest Period” has the meaning given to it in Condition 3.2.

“Issue Date” means May 17, 2006.

“Issuer Equity” means all present or future ordinary share capital and Advance Capital Contributions of the Issuer.

“Issuer Group” means the Issuer and its consolidated subsidiaries.

“Junior Obligations” has the meaning given to it in Condition 2.

“Liquidation Parity Securities” means any securities (including Distribution Parity Securities) or instruments issued, entered into or guaranteed by the Issuer which, in each case, rank (or in relation to which the Issuer’s payment obligations under any relevant guarantee rank), by their terms or by operation of law, *pari passu* with the claims of the holders of the Securities as regards entitlement to distributions representing principal on the voluntary or involuntary liquidation, dissolution or winding up of the Issuer.

“Majority Holder” means the beneficial owner, directly or indirectly, of:

- (a) more than 50% of the ordinary share capital of the Issuer; or
- (b) such number of shares in the capital of the Issuer carrying more than 50% of the voting rights pursuant to Article 105 of the 1998 Financial Act (Legislative Decree No. 58/1998).

“Make-Whole Price” means, per Security, the higher of (a) the principal amount of such Security and (b) the Net Present Value.

“Mandatorily Deferred Interest” has the meaning given to it in Condition 4.2.

“Mandatory Redemption Date” means the date which is twenty business days following the occurrence of a Mandatory Redemption Event.

A **“Mandatory Redemption Event”** shall occur if the Acquisition does not occur by October 10, 2006 or, if earlier, the Merger Agreement is terminated in accordance with its terms.

“Margin” means 5.05% per annum.

“Market Disruption Event” means any one of the following events or circumstances:

- (a) the occurrence of an outbreak or escalation of hostilities involving the Republic of Italy, the United Kingdom or the United States of America, or the declaration by the Republic of Italy, the United Kingdom or the United States of America of a national emergency or war or act of terrorism or other material national or international calamity or crisis;
- (b) the occurrence of a general banking moratorium on commercial banking activities by any relevant authority, or the occurrence of a material disruption in commercial banking or securities settlement or clearance services in each case in the Republic of Italy, the United Kingdom or the United States of America;
- (c) a change in national or international financial, political or economic conditions or currency exchange rates or exchange controls in the Republic of Italy, the United Kingdom or the United

States of America, including, without limitation as a result of an act of terrorism or the effect of international market conditions on the financial markets in the Republic of Italy, the United Kingdom or the United States of America; or

- (d) trading generally on the Luxembourg Stock Exchange, the *Mercato Telematico Azionario*, the London Stock Exchange or the New York Stock Exchange has been suspended or materially limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices for securities have been required by any such exchanges or by order of any governmental authority;

in each case (a) to (d) above, having the effect that trading in the Issuer's ordinary shares is suspended or materially limited on any stock exchange or in any over-the-counter market; or

- (e) all consents, clearances, approvals, authorisations, orders, registrations or qualifications of or with any governmental or regulatory authority having jurisdiction over the Issuer required in connection with the issue of the Issuer's ordinary shares have not been obtained despite the Issuer's best endeavours to obtain them; or
- (f) the occurrence of any event which would, in the Issuer's opinion, result in the offering documents relating to the issue of the Issuer's ordinary shares containing an untrue statement of a material fact or omitting to state a material fact therein or necessary in order to make the statements therein not misleading, and either (i) the disclosure of that event at such time, in the Issuer's opinion, would have a material adverse effect on the Issuer's and the Issuer Group's business; or (ii) the disclosure relates to a previously undisclosed proposed or pending material business transaction, the disclosure of which would impede the Issuer's ability to consummate such transaction; provided that no suspension period as contemplated by this paragraph shall exceed 90 days in any 360-day period.

“Maturity Date” means the Interest Payment Date falling in March, 2066.

“Merger Agreement” means the merger agreement dated January 10, 2006 relating to the sale and purchase of all of the outstanding shares in the share capital of GTECH and made between, *inter alios*, Gold Acquisition Corp., the Issuer, Gold Holding Co. and GTECH.

“Net Present Value” means, with respect to any Security, the sum of (i) the present value of the principal amount as at the Reset Date plus (ii) the present values of all Scheduled Interest Amounts that would otherwise be payable on such Security during the period from the relevant Early Redemption Date to (and including) the Reset Date (excluding accrued but unpaid interest), such present values calculated using a discount rate equal to the Benchmark Rate as of 11.00 a.m. London time five business days prior to the date fixed for redemption, and discounting the relevant amounts to the date fixed for redemption of the Securities.

“Officer's Certificate” means a certificate signed by the chief financial officer or two directors of the Issuer.

“Old Optionally Deferred Interest” has the meaning given to it in Condition 4.1.

“Optional Deferral Notice” has the meaning given to it in Condition 4.1.

“Optionally Deferred Interest” has the meaning given to it in Condition 4.1.

“Parity Securities” means all Distribution Parity Securities and Liquidation Parity Securities of the Issuer.

“Paying and Transfer Agents” has the meaning given to it in the preamble.

“Principal Paying and Transfer Agent” has the meaning given to it in the preamble.

“Principal Shareholder” means De Agostini S.p.A. and its subsidiaries, as of the Issue Date.

“Proceedings” has the meaning given to it in Condition 18.2.

“Rating Agency” means Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies Inc (***“S&P”***), or any of its subsidiaries and their successors or Moody’s Investors Service Limited (***“Moody’s”***) or any of its subsidiaries and their successors or any rating agency substituted for any of them by the Issuer from time to time with the prior written approval of the Trustee.

“Redemption Price” has the meaning given to it in Condition 6.1.

“Reference Banks” has the meaning given to it in Condition 3.3(b).

“Register” has the meaning given to it in Condition 1.3.

“Registrar” has the meaning given to it in the preamble.

“Regulation S” means Regulation S under the Securities Act.

“Relevant Date” means whichever is the later of (i) the date on which such payment first becomes payable and (ii) if the full amount payable has not been received by the Principal Paying and Transfer Agent or the Trustee on or prior to such date, the date on which, the full amount payable having been so received, notice to that effect shall have been given to the Securityholders.

“Relevant Taxing Jurisdiction” has the meaning given to it in Condition 8.

“Reserved Matters” has the meaning given to it in Condition 12.1.

“Reset Date” means March 31, 2016.

“Restricted Securities” has the meaning given to it in Condition 1.

“Restricted Global Certificate” has the meaning given to it in Condition 1.

“Rule 144A” means Rule 144A under the Securities Act.

“Scheduled Interest Amount” has the meaning given to it in Condition 3.2.

“Securities” has the meaning given to it in the preamble.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Securityholder” means a registered holder of Securities.

“Sufficient Authorised Equity” means, as of an Annual General Meeting, an amount of Authorised Equity that would enable the Issuer to pay in full, pursuant to Condition 5.2, an amount of Equity Funded Deferred Interest equal to the aggregate of the Scheduled Interest Amounts expected to accrue on the Securities during the two years following the date of such Annual General Meeting. The board of directors of the Issuer shall estimate such amounts at the time of such Annual General Meeting based on prevailing market prices for the Issuer’s ordinary shares, interest and foreign exchange rates, as applicable.

“TARGET System” means the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) System or any successor thereto.

A ***“Tax Event”*** means the receipt by the Issuer of an opinion of counsel in the Republic of Italy (experienced in such matters) to the effect that, as a result of (a) any amendment to, clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations thereunder) of the Republic of Italy affecting taxation, (b) any governmental action or (c) any amendment to, clarification of, or change in the official position or the interpretation of such governmental action that differs from the previously generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, which amendment, clarification or change is effective, or such

pronouncement or decision is announced, on or after the Issue Date, there is a more than insubstantial risk that the treatment of any of the Issuer's items of income or expense with respect to the Securities as lawfully reflected on the tax returns (including estimated returns) filed (or to be filed) by the Issuer will not be respected by a taxing authority, which results in the Issuer being subject to a more than a *de minimis* amount of additional taxes, duties or other governmental charges with respect to the Securities in the Republic of Italy.

“**Taxes**” has the meaning given to it in Condition 8.

“**Taxes Paid**” means the amount, or equivalent aggregate amount in euros, paid by the Issuer or any member of the Issuer Group in respect of corporation or income taxes, or similar in respect of the annual financial period ending on the date of the relevant Audited Accounts, as determined in accordance with such Audited Accounts.

“**Test Date**” means the tenth business day prior to an Interest Payment Date.

“**Trust Deed**” has the meaning given to it in the preamble.

“**Trustee**” has the meaning given to it in the preamble.

“**Unrestricted Global Certificate**” has the meaning given to it in Condition 1.

“**Unrestricted Securities**” has the meaning given to it in Condition 1.

A “**Withholding Tax Event**” shall mean:

- (a) any change in, or amendment to, the laws or treaties (or any regulations or rulings promulgated thereunder) of any Relevant Taxing Jurisdiction affecting taxation which becomes effective on or after the Issue Date; or, if the Relevant Taxing Jurisdiction has changed since the Issue Date, the date on which the then current Relevant Taxing Jurisdiction became the Relevant Taxing Jurisdiction; or
- (b) any change in the official application, administration, or interpretation of the laws, treaties, regulations or rulings of any Relevant Taxing Jurisdiction (including a holding, judgment, or order by a court of competent jurisdiction), on or after the Issue Date or, if the Relevant Taxing Jurisdiction has changed since the Issue Date, the date on which the then current Relevant Taxing Jurisdiction became the Relevant Taxing Jurisdiction,

in either case, resulting in a requirement for the Issuer to pay Additional Amounts in respect of payments on the Securities which the Issuer cannot avoid by the use of reasonable measures available to it.

TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of Securities.

The Republic of Italy

The Securities offered pursuant to this Offering Circular may not be offered or sold directly or indirectly, in the Republic of Italy, other than to (i) to professional investors (*investitori professionali*) within the meaning set forth under Article 100, paragraph 1, section (a) and Article 30, paragraph 2, of the Italian Finance Act and as defined under Article 31, paragraph 2 of the Regulation on Intermediaries or (ii) pursuant to Article 100 of the Italian Finance Act and Article 33, paragraph 1, of the Regulation on Issuers, and, in any event, in each case, in compliance with applicable Italian laws and regulations and with any requirements or limitations which may be imposed by CONSOB or the Bank of Italy.

Professional Investors include persons defined as professional investors in Article 31, paragraph 2 of the Regulation on Intermediaries, in accordance with Article 100, paragraph 1, section (a) and Article 30, paragraph 2 of the Italian Finance Act, such as authorised intermediaries (as defined under Article 25 of the Regulation on Intermediaries), asset management companies, SICAVs, pension funds, insurance companies, foreign persons who, pursuant to the law in force in their home country, carry on the activities carried on by the foregoing persons, companies and entities that issue financial instruments traded in regulated markets, companies registered under Articles 106, 107 and 113 of the Italian Banking Act, financial salespersons, natural persons who document their possession of professional qualifications referred to in the Italian Finance Act in relation to the persons performing administrative, managerial or control functions in SIMs, banking foundations and companies or legal persons possessing specific expertise and experience in matters of transactions in financial instruments expressly declared in writing by their legal representatives.

The Securities cannot be offered or sold to any individual in the Republic of Italy either in the primary market or the secondary market.

Any offer or delivery of Securities or any distribution of a preliminary Offering Circular or of the final Offering Circular within the Republic of Italy must be conducted either by banks, investment firms (as defined in the Italian Finance Act) or financial companies enrolled in the special register provided for by Article 107 of the Italian Banking Act, to the extent such entities are authorised to engage in the placement and/or purchase of financial instruments in the Republic of Italy in accordance with the relevant provisions of the Italian Finance Act, the Regulation on Intermediaries and/or any other applicable laws and regulations. Any such offer must be effected in compliance with Article 129 of the Italian Banking Act and the implementing instructions of the Bank of Italy, as well as in accordance with any other securities, tax and exchange control laws and regulations and other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

United States

The Securities have not been registered under the Securities Act and may not be offered or sold within the United States except:

- to qualified institutional buyers in reliance on an exemption from the registration requirements of the Securities Act (including the exemption provided by Rule 144A) (Securities so offered being the “*Restricted Securities*”); and
- in offshore transactions in reliance on Regulation S (Securities so offered being the “*Unrestricted Securities*”).

Restricted Securities

Each purchaser of Restricted Securities will be deemed to have acknowledged, represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

- (a) The purchaser (i) is a QIB, (ii) is aware, and each beneficial owner of the Restricted Securities has been advised, that the sale to it is being made in reliance on an exemption from registration under the Securities Act (including Rule 144A) and (iii) is acquiring the Restricted Securities for its own account or for the account of a QIB.
- (b) The purchaser understands and acknowledges that the Securities are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the Securities have not been and will not be registered under the Securities Act and:
 - (i) that if in the future it decides to offer, sell, encumber, pledge or otherwise dispose of any of the Restricted Securities, such Restricted Securities may be reoffered, resold, pledged or otherwise transferred only
 - (A) in the United States in a transaction meeting the requirements of Rule 144A to a person that is (I) a QIB or a purchaser that the seller and any person acting on the seller's behalf reasonably believe is a QIB, in each case purchasing for its own account or for the account of a QIB, and (II) aware that the offer, sale, pledge or other transfer is being made in reliance on Rule 144A (in which case additional transfer restrictions may apply),
 - (B) in an offshore transaction meeting the requirements of Regulation S to a person other than a U.S. Person,
 - (C) pursuant to an effective registration statement under the Securities Act or
 - (D) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available),
 - in each case in accordance with any applicable securities laws of the states of the United States and other jurisdictions and subject to the right of the Issuer and the Trustee prior to any such offer, sale, pledge or other transfer pursuant to clauses (B) or (D) to require the delivery of an opinion of counsel, certification and/or other information reasonably satisfactory to each of them, and
 - (ii) that the purchaser will, and each subsequent holder is required to, notify each subsequent purchaser of the Restricted Securities from it of the resale restrictions referred to in (i) above;
- (c) The purchaser understands that the Restricted Securities will, until the expiration of the applicable holding period with respect to the Restricted Securities set forth in Rule 144(k) of the Securities Act, unless otherwise agreed by the Issuer and the holder thereof, bear a legend substantially to the following effect:

THE RESTRICTED SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND MAY NOT BE OFFERED, SOLD, ENCUMBERED, PLEDGED OR OTHERWISE DISPOSED OF EXCEPT (1) IN THE UNITED STATES IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT IS (A) A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) OR A PURCHASER THAT THE SELLER AND ANY PERSON ACTING ON THE SELLER'S

BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, AND (B) AWARE THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A (IN WHICH CASE ADDITIONAL TRANSFER RESTRICTIONS MAY APPLY), (2) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"), (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS AND SUBJECT TO THE RIGHT OF THE ISSUER AND THE TRUSTEE PRIOR TO ANY SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER PURSUANT TO CLAUSES (2) OR (4) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION REASONABLY SATISFACTORY TO EACH OF THEM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THE RESTRICTED SECURITIES EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS AND THAT NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THIS RESTRICTED GLOBAL CERTIFICATE AND AGREES THAT IT WILL NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

THIS LEGEND WILL BE REMOVED UPON THE EARLIER OF (A) THE TRANSFER OF THE RESTRICTED SECURITIES EVIDENCED HEREBY PURSUANT TO CLAUSE (3) ABOVE OR (B) THE DATE WHICH IS TWO YEARS AFTER THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES, OR ANY SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144(k) UNDER THE SECURITIES ACT.

- (d) The purchaser acknowledges that none of the Issuer, the Joint Lead Managers or any person representing the Issuer or the Joint Lead Managers has made any representation to it with respect to the Issuer or the offer or sale of any of the Securities, other than the information contained in this Offering Circular, which Offering Circular has been delivered to it and upon which it is relying in making its investment decision with respect to the Securities. It acknowledges that the Joint Lead Managers make no representation or warranty as to the accuracy or completeness of the Offering Circular. It has had access to such financial and other information concerning the Issuer and the Securities as it deemed necessary in connection with its decision to purchase any of the Securities, including an opportunity to ask questions of, and request information from, the Issuer and the Joint Lead Managers.
- (e) The purchaser acknowledges that the Issuer, the Joint Lead Managers, the Trustee, the Registrar, their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Securities for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Unrestricted Securities

Each purchaser of Unrestricted Securities will be deemed to have acknowledged, represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

- (a) The purchaser (i) is purchasing the Securities in an offshore transaction complying with the provisions of Regulation S and (ii) is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.
- (b) The purchaser understands and acknowledges that the Securities are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that the Securities have not been and will not be registered under the Securities Act.
- (c) The purchaser acknowledges that none of the Issuer, the Joint Lead Managers or any person representing the Issuer or the Joint Lead Managers has made any representation to it with respect to the Issuer or the offer or sale of any of the Securities, other than the information contained in this Offering Circular, which Offering Circular has been delivered to it and upon which it is relying in making its investment decision with respect to the Securities. It acknowledges that the Joint Lead Managers make no representation or warranty as to the accuracy or completeness of the Offering Circular. It has had access to such financial and other information concerning the Issuer and the Securities as it deemed necessary in connection with its decision to purchase any of the Securities, including an opportunity to ask questions of, and request information from, the Issuer and the Joint Lead Managers.
- (d) The purchaser acknowledges that the Issuer, the Joint Lead Managers, the Trustee, the Registrar, their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

BOOK-ENTRY; DELIVERY AND FORM

General

Securities sold to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act will initially be represented by a single global certificate in registered form without interest coupons attached (the “*Restricted Global Certificate*”). Securities sold to non-U.S. persons in reliance on Regulation S under the U.S. Securities Act will initially be represented by a single global certificate in registered form without interest coupons attached (the “*Unrestricted Global Certificate*” and, together with the Restricted Global Certificates, the “*Global Certificates*”).

The Global Certificates will be deposited on or about May 17, 2006 with a common depository and registered in the name of the nominee of the common depository for the accounts of Euroclear and Clearstream, Luxembourg.

Ownership of interests in the Restricted Global Certificate (“*Restricted Book-Entry Interests*”) and ownership of interests in the Unrestricted Global Certificate (“*Unrestricted Book-Entry Interests*”, and together with the Restricted Book-Entry Interests, the “*Book-Entry Interests*”) will be limited to persons that have accounts with Euroclear and/or Clearstream, Luxembourg or persons that may hold interests through such participants. Euroclear and Clearstream, Luxembourg, will hold interests in the Global Certificates on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositories. Except under the limited circumstances described below, Book-Entry Interests will not be held in definitive certificated form.

Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream, Luxembourg and their participants. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive certificated form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the Securities are in global form, “holders” of Book-Entry Interests will not be considered the owners or “holders” of Securities for any purpose.

In addition, the Global Certificates will contain provisions which modify the terms and conditions of the Securities as they apply to Securities evidenced by the Global Certificates. The following is a summary of certain of those provisions.

Notices. So long as all the Securities are represented by the Global Certificates and the Global Certificates are held on behalf of Euroclear and Clearstream, Luxembourg, notices to the holders of such Securities may be given by delivery of the relevant notice to the relevant clearing system.

Trustee. In considering the interests of Securityholders the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to such information as may have been made available to it by or on behalf of Euroclear and Clearstream, Luxembourg or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of Securities and (b) consider such interests on the basis that such accountholders were the holders of the Securities.

Meetings. At a meeting of Securityholders, the holder of a Global Certificate shall be treated as having one vote in respect of each €1,000 principal amount of Securities represented by such Global Certificate. The Trustee may allow to attend and speak (but not to vote) at any meeting of Securityholders any accountholder (or the representative of any such person) of Euroclear and Clearstream, Luxembourg with interest in the Securities represented by the Global Certificates on appropriate confirmation of entitlement and proof of his identity.

Cancellation. Cancellation of any Security following its purchase or redemption will be effected by reduction in the principal amount of the Securities in the Register.

Neither Lottomatica nor the Trustee will have any responsibility, or be liable, for any aspect of the records relating to the Book-Entry Interests.

Redemption of the Global Certificates

In the event any Global Certificate (or any portion thereof) is redeemed, Euroclear and/or Clearstream, Luxembourg, as applicable, will redeem an equal amount of the Book-Entry Interests in such Global Certificate from the amount received by it in respect of the redemption of such Global Certificate. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by Euroclear or Clearstream, Luxembourg, as applicable, in connection with the redemption of such Global Certificate (or any portion thereof).

Payments on Global Certificates

Lottomatica will make payments of amounts owing in respect of the Global Certificates (including principal, premium, if any, and interest) to the Principal Paying and Transfer Agent. The Principal Paying and Transfer Agent will, in turn, make such payments to the common depositary for Euroclear and Clearstream, Luxembourg which will distribute such payments to participants in accordance with their customary procedures. All payments in respect of the Securities shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Republic of Italy or the United States of America or any political subdivision thereof or therein that has power to tax, unless such withholding or deduction is required by law. In such event, the Issuer shall pay such additional amounts as will result in the receipt by Securityholders of the same amounts as would have been received by them had no such withholding or deduction been required, subject to certain exceptions and requirements. See “Terms and Conditions of the Securities—Taxation”. Lottomatica expects that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Under the terms of the Trust Deed, the Issuer and the Trustee will treat the registered holder of the Global Certificates (*i.e.*, Euroclear or Clearstream, Luxembourg (or their respective nominees)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, neither the Issuer nor the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspects of the records of Euroclear, Clearstream, Luxembourg or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest or for maintaining, supervising or reviewing the records of Euroclear, Clearstream, Luxembourg or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest; or
- Euroclear, Clearstream, Luxembourg or any participant or indirect participant.

Currency and Payment for the Global Certificates

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Certificates, will be paid in euro.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream, Luxembourg have advised Lottomatica that they will take any action permitted to be taken by a holder of Securities only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Certificates are credited and only in respect of such portion of the aggregate principal amount of Securities as to which such participant or participants has or have given such direction. Euroclear and Clearstream, Luxembourg will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Certificates.

However, if there is an Enforcement Event under the Securities, each of Euroclear and Clearstream, Luxembourg reserves the right to exchange the Global Certificates for definitive certificates in registered form (“*Definitive Certificates*”), and to distribute such Definitive Certificates to their participants.

Transfers

Transfers between participants in Euroclear and Clearstream, Luxembourg will be done in accordance with Euroclear and Clearstream, Luxembourg rules and will be settled in immediately available funds. If a holder requires physical delivery of Definitive Certificates for any reason, including to sell the Securities to persons in states which require physical delivery of such Securities or to pledge such Securities, such holder must transfer its interests in the Global Certificates in accordance with the normal procedures of Euroclear and Clearstream, Luxembourg and in accordance with the procedures set forth in the Paying Agency Agreement.

The Restricted Global Certificate will bear a legend to the effect set forth in “Notice to Investors”. Book-Entry Interests in the Global Certificates will be subject to the restrictions on transfers and certification requirements discussed in “Notice to U.S. Investors”.

Restricted Book-Entry Interests may be transferred to a person who takes delivery in the form of Unrestricted Book-Entry Interests only upon delivery by the transferor of a written certification (in the form provided in the Paying Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144A under the U.S. Securities Act or any other exemption (if available under the U.S. Securities Act). In connection with transfers involving an exchange of Restricted Book-Entry Interests for Unrestricted Book-Entry Interests, appropriate adjustments will be made to reflect a decrease in the principal amount of the Restricted Global Certificate and a corresponding increase in the principal amount of the Unrestricted Global Certificate.

Unrestricted Book-Entry Interests may only be made to a person who takes delivery in the form of Restricted Book-Entry Interests only upon delivery by the transferor of a written certification (in the form provided in the Paying Agency Agreement) to the effect that such transfer is being made to a person who the transferor reasonably believes is a “qualified institutional buyer” within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A, or otherwise in accordance with the transfer restrictions described under “Transfer Restrictions” and in accordance with any applicable securities laws of any other jurisdiction. See “Notice to Investors”. In connection with transfers involving an exchange of Unrestricted Book-Entry Interests for Restricted Book-Entry Interests, appropriate adjustments will be made to reflect a decrease in the principal amount of the Unrestricted Global Certificate and a corresponding increase in the principal amount of the Restricted Global Certificate.

Any Book-Entry Interest in one of the Global Certificates that is transferred to a person who takes delivery in the form of a Book-Entry Interest in the other Global Certificate will, upon transfer, cease to be a Book-Entry Interest in the first-mentioned Global Certificate and become a Book-Entry Interest in the other Global Certificate, and accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Certificate for as long as it remains such a Book-Entry Interest.

Definitive Certificates

Under the terms of the Global Certificates, owners of Book-Entry Interests will receive Definitive Certificates:

- if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so;

- if Euroclear or Clearstream, Luxembourg notifies Lottomatica that it is unwilling or unable to continue as a depository for the Global Certificates, and a successor depository is not appointed by Lottomatica within 120 days;
- if there shall have occurred and be continuing an Enforcement Event; or
- if instructions have been given for the transfer of an interest in Securities evidenced by a Global Certificate to a person who would otherwise take delivery thereof in the form of an interest in the Securities evidenced by the other Global Certificate where the other Global Certificate has been exchanged for Definitive Certificates.

In the case of the issuance of Definitive Certificates, the holder of a Definitive Certificate may transfer such certificate by surrendering it to the Registrar or a Paying and Transfer Agent. In the event of a partial transfer or a partial redemption of a holding of Securities represented by one Definitive Certificate, a Definitive Certificate will be issued to the transferee in respect of the part transferred and a new Definitive Certificate in respect of the balance of the holding not transferred or redeemed will be issued to the transferor or holder, as applicable; provided that no Definitive Certificate in a denomination less than €50,000 will be issued. Lottomatica will bear the cost of preparing, printing, packaging and delivering the Definitive Certificates.

Lottomatica will not be required to register the transfer or exchange of Definitive Certificates for a period of 15 calendar days preceding (a) the date for any payment of interest on the Securities or (b) any date fixed for redemption of the Securities. In the event of the transfer of any Definitive Certificate, the Registrar may require a holder, among other things, to furnish appropriate endorsements and transfer documents as described in the Paying Agency Agreement. Lottomatica may require a holder to pay any taxes and fees required by law and permitted by the Trust Deed and the Securities.

If Definitive Certificates are issued and a holder thereof claims that such Definitive Certificate has been lost, destroyed or wrongfully taken, or if such Definitive Certificate is mutilated and is surrendered to the Registrar or at the office of a Paying and Transfer Agent, Lottomatica will issue and the Registrar will authenticate a replacement Definitive Certificate if the Registrar's and Lottomatica's requirements are met. Lottomatica or the Registrar may require a holder requesting replacement of a Definitive Certificate to furnish an indemnity bond sufficient in the judgment of both to protect Lottomatica, the Registrar and the Paying and Transfer Agents from any loss which any of them may suffer if a Definitive Certificate is replaced.

Securities represented by Definitive Certificates may be transferred and exchanged only after the transferor first delivers to the Registrar or a Paying and Transfer Agent written certification (in the form provided by the Paying Agency Agreement) to the effect that such transfer will comply with the transfer restrictions applicable to such Securities. See "Transfer Restrictions".

For so long as the Securities are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, if Definitive Certificates are issued, Lottomatica will publish a notice in Luxembourg in the manner described in "Terms and Conditions of the Securities—Notices" and send a copy of such notice to the Luxembourg Stock Exchange.

Information Concerning Euroclear and Clearstream, Luxembourg

All Book-Entry Interests will be subject to the operations and procedures of Euroclear and Clearstream, Luxembourg as applicable. Lottomatica has provided the above summary of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither Lottomatica nor the Joint Lead Managers are responsible for those operations or procedures.

Initial Settlement

Initial settlement for the Securities will be made in euro. Book-Entry Interests owned through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream, Luxembourg holders on the business day following the settlement date against payment for value on the settlement date.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

Lottomatica and some of its subsidiaries are joint stock companies (*società per azioni* or *S.p.A.*) incorporated under the laws of the Republic of Italy.

Even following completion of the Acquisition, most of the directors, officers and other executives of Lottomatica will not be residents or citizens of the United States. Furthermore, even following completion of the Acquisition, a substantial part of the assets of Lottomatica will be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon Lottomatica or such persons or to enforce against them judgments of U.S. courts predicated upon the civil liability provisions of U.S. federal or state securities laws. It may be possible for investors to effect service of process within the Republic of Italy upon those persons or Lottomatica or over its subsidiaries provided that the requirements of The Hague Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters of November 15, 1965 are complied with.

Lottomatica has been advised by its Italian counsel, that, in general, final, enforceable and conclusive judgments rendered by U.S. courts, even if obtained by default, may not require retrial and will be enforceable in the Republic of Italy, provided that pursuant to Article 64 of Italian Law No. 218 of May 31, 1995 (*Riforma del sistema italiano di diritto internazionale privato*) the following conditions are met:

- the U.S. court which rendered the final judgment had jurisdiction according to Italian law principles of jurisdiction;
- the relevant summons and complaint was appropriately served on the defendants in accordance with U.S. law and during the proceeding the essential rights of the defendants have not been violated;
- the parties to the proceeding appeared before the court in accordance with U.S. law or, in the event of default by the defendants, the U.S. court declared such default in accordance with U.S. law;
- the judgment is final and not subject to any further appeal in accordance with U.S. law;
- there is no conflicting final judgment previously rendered by an Italian court;
- there is no action pending in the Republic of Italy among the same parties and arising from the same facts and circumstances which commenced prior to the action in the United States; and
- the provisions of such judgment would not violate Italian public policy.

In addition, Lottomatica has also been advised by its Italian counsel that if an original action is brought before an Italian court, the Italian court may refuse to apply U.S. law provisions or to grant some of the remedies sought (e.g., punitive damages) if their application violates Italian public policy.

TAX CONSIDERATIONS

Italian Tax Considerations

The statements herein regarding Italian taxation are based on the laws and published practice of the Italian tax authorities in effect in the Republic of Italy as of the date of this offering memorandum and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Securities and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Legislative Decree No. 344 of December 12, 2003 published in the Italian Official Gazette No. 291 of December 16, 2003 (Ordinary Supplement No. 190), effective as of January 1, 2004, introduced the reform of taxation of corporations and of certain financial income amending Presidential Decree No. 917 of December 22, 1986 (“**Decree No. 917**”). Prospective purchasers of the Securities are advised to consult their own tax advisors concerning the overall tax consequences of their acquiring, holding and disposing of Securities and receiving payments on interest, principal and/or other amounts under the Securities, including in particular the effect of any state, regional and local tax laws.

Tax Treatment of the Securities

Pursuant to Legislative Decree No. 239 of April 1, 1996 (“**Decree No. 239**”), as amended and restated, and pursuant to Article 44, paragraph 2(c) of Decree No. 917, in general, interest and other proceeds (including the difference between the redemption amount and the issue price) in respect of securities that qualify as bonds or debentures similar to bonds (*obbligazioni o titoli simili alle obbligazioni*) and that are issued by Italian banks or listed companies (*i.e.*, the so called *Grandi Emittenti*) may be subject to an Italian substitute tax (*imposta sostitutiva*) depending on the legal status of the beneficial owner of such interest and other proceeds. For these purposes, debentures similar to bonds are defined as securities that incorporate an unconditional obligation to pay, at maturity, an amount not less than their nominal value and that do not give any right to directly or indirectly participate in the management of the relevant issuer or of the business in relation to which they are issued.

Italian Resident Securityholders—Applicability of the Imposta Sostitutiva

In particular, pursuant to Decree No. 239, as amended and restated, payments of interest and other proceeds (including the original issue discount) in respect of the Securities to Italian resident beneficial owners (either when interest and other proceeds are paid or when payment thereof is obtained by a beneficial owner on a transfer of the Securities) will be subject to final *imposta sostitutiva* (substitute tax) at a 12.5% rate in the Republic of Italy if made to Italian resident beneficial owners that are: (i) private individuals holding Securities not in connection with an entrepreneurial activity (unless they have entrusted the management of their financial assets, including the Securities, to an Italian authorised financial intermediary and have opted for the *Risparmio Gestito* regime provided for by Article 7 of Legislative Decree No. 461 of November 21, 1997, the “**Asset Management Option**”), (ii) partnerships (other than *società in nome collettivo*, *società in accomandita semplice* or similar partnerships), *de facto* partnerships not carrying out commercial activities and professional associations, (iii) public and private entities, other than companies, not carrying out commercial activities as their exclusive or principal activity, or (iv) entities exempt from corporate income tax.

In case the Securities are held by an individual or by an entity indicated above under (iii), in either case in connection with an entrepreneurial activity, interest and other proceeds relating to the Securities will be subject to the *imposta sostitutiva* and will be included in the relevant beneficial owner’s income tax return. As a consequence, the interest and other proceeds will be subject to the ordinary income tax and the *imposta sostitutiva* may be recovered as a deduction from the income tax due.

The 12.5% *imposta sostitutiva* will be applied by the Italian resident qualified financial intermediaries provided by law (including banks, *società di intermediazione mobiliare* (or SIMs), fiduciary companies, *società di gestione del risparmio* (or SGRs), stock brokers and other qualified entities expressly indicated in Ministerial Decrees, as well as permanent establishments in the Republic of Italy of banks or intermediaries resident outside the Republic of Italy—collectively referred to as “*Intermediaries*” and each as an “*Intermediary*”) that will intervene, in any way, in the collection of interest and other proceeds on the Securities or, also as transferee, in the transfer of the Securities.

If interest and other proceeds on the Securities are not collected through an Italian resident qualified Intermediary and as such no *imposta sostitutiva* is levied, the Italian resident beneficial owners listed above under (i) to (iv) will be required to include interest and other proceeds in their annual income tax return and subject them to final substitute tax at a rate of 12.5%, unless an option is allowed and made for a different regime.

Italian Resident Securityholders—Imposta Sostitutiva Not Applicable

Pursuant to Decree No. 239, as amended and restated, payments of interest and other proceeds (including the original issue discount) in respect of the Securities to Italian resident beneficial owners will not be subject to the *imposta sostitutiva* at the rate of 12.5% if made to beneficial owners that are: (i) Italian resident individuals holding Securities not in connection with entrepreneurial activity who have entrusted the management of their financial assets, including the Securities, to an Italian authorised financial intermediary and have opted for the Asset Management Option, (ii) Italian resident collective investment funds and SICAVs and pension funds referred to in Legislative Decree No. 124 of April 21, 1993, (iii) Italian resident real estate investment funds, (iv) Italian resident corporations or permanent establishments in the Republic of Italy of non-resident corporations to which the Securities are effectively connected, (v) Italian resident partnerships qualified as *società in nome collettivo* or *società in accomandita semplice* and other similar partnerships, even *de facto*, carrying out a commercial activity, or (vi) public and private entities, other than companies, carrying out commercial activities and holding Securities in connection with the same commercial activities.

If the Securities are part of an investment portfolio managed on a discretionary basis by an Italian authorised intermediary and the beneficial owner of the Securities has opted for the Asset Management Option, annual substitute tax at a rate of 12.5% (the “*Asset Management Tax*”) applies on the increase in value of the managed assets accrued, even if not realized, at the end of each tax year (which increase includes interest, premium and other proceeds accrued on Securities). The Asset Management Tax is applied on behalf of the taxpayer by the managing authorised intermediary.

Italian resident collective investment funds and SICAVs are subject to a 12.5% annual substitute tax (the “*Collective Investment Fund Tax*”) on the increase in value of the managed assets accrued at the end of each tax year (which increase includes interest and other proceeds accrued on Securities).

Italian resident pension funds subject to the regime provided by Articles 14, 14 *ter* and 14 *quater*, paragraph 1, of Italian Legislative Decree No. 124 of April 21, 1993, are subject to an 11% annual substitute tax (the “*Pension Fund Tax*”) on the increase in value of the managed assets accrued at the end of each tax year (which increase includes interest and other proceeds accrued on Securities).

Pursuant to Law Decree No. 351 of September 25, 2001, converted into law with amendments by Law No. 410 of November 23, 2001 (“*Decree No. 351*”), Italian resident real estate investment funds established starting from September 26, 2001 pursuant to Article 37 of the Italian Finance Act and Article 14 *bis* of Law No. 86 of January 25, 1994, or in any case subject to the tax treatment provided for by Decree No. 351 as a consequence of an election for application of such treatment having been promptly made by the managing company, are not subject to any taxation at the fund level.

Interest and other proceeds on the Securities accrued to (a) Italian resident corporations or to permanent establishments in the Republic of Italy of foreign companies to which the Securities are effectively connected, (b) to Italian resident partnerships qualified as *società in nome collettivo* or *società in accomandita semplice* or similar partnerships carrying out a commercial activity; and (c) to Italian resident public and private entities, carrying out commercial activities and holding the Securities in connection with the same commercial activities, generally will be included in the taxable business income for income tax purposes (and, in certain cases, depending on the status of the Securityholder, may also be included in the taxable net value of production for purposes of regional tax on productive activities, *IRAP*) of such beneficial owners, subject to tax in the Republic of Italy in accordance with ordinary tax rules.

To ensure payment of interest and other proceeds in respect of the Securities without application of the *imposta sostitutiva*, where allowed, investors indicated herein under (i) to (vi) above must be the beneficial owners of payments of interest and other proceeds on the Securities and must timely deposit the Securities, together with the coupons relating to such Securities, directly or indirectly, with an Italian authorised financial intermediary (including non-resident entities and companies that participate in a centralised management system of securities and hold a direct relationship with the Ministry of Economy and Finances—Revenues Agency).

Non-Italian Resident Securityholders

Pursuant to Decree No. 239 payments of interest and other proceeds in respect of the Securities will not be subject to the *imposta sostitutiva* if made to non-Italian resident beneficial owners of the Securities with no permanent establishment in the Republic of Italy to which the Securities are effectively connected, provided that:

- (a) they are resident in a country which allows an adequate exchange of information. With reference to this condition, according to Ministerial Decree of December 12, 2001, the current list of the countries allowing an adequate exchange of information is that contained in the Ministerial Decree of September 4, 1996, as subsequently amended and supplemented (which currently includes, *inter alia*, the United States). The exemption from the *imposta sostitutiva* also applies to (i) non resident “institutional investors” (*i.e.*, entities whose activity consists in making or managing investments on their own behalf or on behalf of other persons, as defined by the Revenue Agency Circular dated March 1, 2002, No. 23/E), even if they are not treated as taxpayers in their country of residence, but provided that they are located in a country which allows an adequate exchange of information, (ii) international organisations created pursuant to international treaties that are effective in the Republic of Italy, and (iii) central banks or entities managing also the official reserves of the State;
- (b) the Securities are deposited directly or indirectly: (i) with a bank or an Italian securities dealing firm (“*SIM*”) resident in the Republic of Italy, (ii) with the Italian permanent establishment of a non-resident bank or brokerage company which is electronically connected with the Italian Ministry of Economy and Finance, or (iii) with a non-resident entity or company which has an account with a centralised clearance and settlement system (such as Euroclear or Clearstream, Luxembourg) which has a direct relationship with the Italian Ministry of Economy and Finances; or (iv) with a centralised managing company of financial instruments, authorised in accordance with Article 80 of the Italian Finance Act;
- (c) the banks or brokers mentioned in (b) above receive a self-declaration from the beneficial owner of the interest which states that the beneficial owner is a resident of that country. The self-declaration, which must be in conformity with the model approved by the Ministry of Economy and Finances (approved by Decree of the Ministry of Economy and Finances of December 12, 2001, published in the Ordinary Supplement No. 287 to the Official Gazette No. 301 of December 29, 2001), is valid until revoked by the investor and does not have to be

filed if an equivalent self-declaration (including Form 116/IMP) has been submitted to the same intermediary for the same or different purposes; in the case of institutional investors not subject to tax, the institutional investor shall be regarded as the beneficial owner and the relevant self-declaration shall be produced by the management company; and

- (d) the banks or brokers mentioned in (b) and (c) above receive all necessary information to identify the non-resident beneficial owner of the deposited debt securities, and all necessary information in order to determine the amount of interest that such beneficial owner is entitled to receive.

Non-resident holders are subject to *imposta sostitutiva* at the rate of 12.5% on interest and other proceeds on the Securities if any of the above conditions (a), (b), (c) or (d) are not satisfied.

Early Redemption

Without prejudice to the above provisions, in the event that the Securities are redeemed, in full or in part, prior to eighteen months from their date of issue, the Issuer will be required to pay an additional amount equal to 20% of the interest, premium and other proceeds accrued up to the time of the early redemption. In accordance with one interpretation of Italian fiscal law, the above 20% additional amount may be due also in the event of purchase of Securities by the Issuer with subsequent cancellation thereof prior to eighteen months from the date of issue.

Capital Gains Tax

Capital Gains Realised by Italian Resident Securityholders

Any capital gain realised upon the sale for consideration or redemption of the Securities would be treated as part of the taxable business income (and, in certain cases, may also be included in the taxable net value of production for IRAP purposes), subject to tax in the Republic of Italy according to the relevant tax provisions, if realised by Securityholders that are:

- Italian resident corporations;
- Italian resident partnerships qualified as *società in nome collettivo* or *società in accomandita semplice* and other similar partnerships, even *de facto*, carrying on a commercial activity;
- permanent establishments in the Republic of Italy of foreign corporations to which the Securities are effectively connected;
- Italian resident individuals carrying out a commercial activity, as to any capital gains realized within the scope of the commercial activity carried out; or
- public or private entities, other than companies, carrying out commercial activities, holding Securities in connection with the same commercial activities.

Pursuant to Legislative Decree No. 461 of November 21, 1997, any capital gain realised by Italian resident individuals holding Securities not in connection with an entrepreneurial activity and certain other persons upon sale for consideration or redemption of the Securities would be subject to an *imposta sostitutiva* at the current rate of 12.5%. Under the tax return regime, which is the standard regime for taxation of capital gains realised by Italian resident individuals not engaged in an entrepreneurial activity, *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any relevant incurred capital loss, realised by Italian resident individual holders of Securities holding Securities not in connection with an entrepreneurial activity pursuant to all disposals of Securities carried out during any given fiscal year. Italian resident individuals holding Securities not in connection with entrepreneurial activity must report overall capital gains realised in any tax year, net of any relevant incurred capital loss, in the annual tax return to be filed for such year and pay *imposta sostitutiva* on such gains together with any

income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains of the same kind realised in any of the four succeeding tax years.

As an alternative to the tax return regime, Italian resident individual Securityholders holding the Securities not in connection with entrepreneurial activity may elect to pay a 12.5% *imposta sostitutiva* separately on capital gains realised on each sale or redemption of the Securities (the *Risparmio Amministrato* regime). Such separate taxation of capital gains is allowed subject to (i) the Securities being deposited with Italian banks, SIMs or certain authorised financial intermediaries; and (ii) an express election for the *Risparmio Amministrato* regime being timely made in writing by the relevant Securityholder. Under the *Risparmio Amministrato* regime, the financial intermediary is responsible for accounting for *imposta sostitutiva* in respect of capital gains realised on each sale or redemption of the Securities (as well as in respect of capital gains realised at revocation of its mandate), net of any relevant incurred capital loss, and is required to pay the relevant amount to the Italian fiscal authorities on behalf of the taxpayer, by deducting a corresponding amount from proceeds to be credited to the Securityholder. Under the *Risparmio Amministrato* regime, where a sale or redemption of the Securities results in capital loss, such loss may be deducted from capital gains of the same kind subsequently realised within the same relationship of deposit in the same tax year or in the following tax years up to the fourth. Under the *Risparmio Amministrato* regime, the Securityholder is not required to declare capital gains in its annual tax declaration and remains anonymous.

Any capital gains accrued on Securities held not in connection with entrepreneurial activity by Italian resident individuals who have elected for the Asset Management Option will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to the Asset Management Tax to be applied on behalf of the taxpayer by the managing authorised intermediary. Under the Asset Management Option, any depreciation of the managed assets accrued at year end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the Asset Management Option, the Securityholder is not required to report capital gains realised in its annual tax declaration and remains anonymous.

In the case of Securities held by Italian resident collective investment funds or SICAVs, capital gains on Securities will be included in the computation of the taxable basis of the Collective Investment Fund Tax.

In the case of Securities held by Italian resident pension funds subject to the regime provided by Articles 14, 14 *ter* and 14 *quater*, paragraph 1, of Legislative Decree No. 124 of April 21, 1993, capital gains on Securities will be included in the computation of the taxable basis of the Pension Fund Tax.

Capital Gains Realised by Non-Italian Resident Securityholders

Capital gains realised by beneficial owners who are not resident in the Republic of Italy for tax purposes from the sale or redemption of the Securities are not subject to Italian taxation, provided that the Securities are held outside the Republic of Italy.

However, pursuant Legislative Decree No. 259 of July 21, 1999, any capital gains realised by non-Italian residents without a permanent establishment in the Republic of Italy to which the Securities are effectively connected through the sale for consideration or redemption of the Securities are exempt for taxation in the Republic of Italy to the extent that the Securities are listed on a regulated market in the Republic of Italy or abroad (including the Luxembourg Stock Exchange) and in certain cases subject to timely filing of documentation stating that the holder is not resident in the Republic of Italy, even if the Securities are held in the Republic of Italy and regardless of the provisions set forth by any applicable double tax treaty.

Italian Inheritance and Gift Tax

According to Law No. 383 of October 18, 2001 (“**Law No. 383**”), Italian inheritance and gift tax, previously generally payable on transfer of securities on death or by gift, was abolished as of October 25, 2001.

However, according to the current literal interpretation of Law No. 333, for donees other than spouses, direct descendants or ancestors and other relatives within the fourth degree, if and to the extent that the value of the gift to any such donee exceeds €180,759.91, the gift of Securities may be subject to the ordinary transfer taxes that would apply if the Securities had been transferred for consideration. In this respect, the Italian Tax authorities have expressed the view that the transfer tax described in paragraph—Transfer Tax—below (*tassa sui contratti di borsa*) should not be considered as a “transfer tax ordinarily applicable” to transfers for consideration.

Moreover, an anti-avoidance rule is provided by Law No. 383 for any gift of assets (such as Securities) which, if sold for consideration, would give rise to capital gains subject to Italian *imposta sostitutiva* on capital gains. In particular, if the donee sells Securities for consideration within five years from the receipt thereof as a gift, the donee will be required to pay the relevant Italian *imposta sostitutiva* on capital gains, where applicable, as if the gift had never taken place.

Transfer Tax

Italian Legislative Decree No. 435 of November 21, 1997 (“**Decree No. 435**”), which partly amended the regime set forth by Royal Decree No. 3278 of December 30, 1923, governs the application of Italian transfer tax on the transfer of securities (so-called *tassa sui contratti di borsa*), with Italian transfer tax being in general applicable as follows in relation to transfers of Securities executed in the Republic of Italy:

- (i) €0.0083 for every €51.65 (or fraction thereof) of the price at which the Securities are transferred, when the transfer is effected between private subjects directly or through an intermediary other than a bank or other authorised intermediaries governed by Legislative Decree No. 451 of July 23, 1996, as superseded by the Italian Finance Act, or stockbroker (the “**Qualified Intermediaries**”);
- (ii) €0.00465 for every €51.65 (or fraction thereof) of the price at which the Securities are transferred, when the transfer is effected (i) between private subjects and Qualified Intermediaries, or (ii) between private subjects through Qualified Intermediaries; and
- (iii) €0.00465 for every €51.65 (or fraction thereof) of the price at which the Securities are transferred, when the transfer is effected between Qualified Intermediaries.

However, in the cases indicated above under (ii) and (iii), the amount of applicable transfer tax may not exceed €929.62 for each transaction.

The transfer tax does not apply, *inter alia*, to: (i) contracts entered into on regulated markets (e.g. the Luxembourg Stock Exchange) relating to the transfer of securities, including contracts between the intermediary and its principal or between Qualified Intermediaries, or (ii) off-market transactions regarding securities listed on regulated markets, provided that the contracts are entered into: (a) between Qualified Intermediaries, (b) between Qualified Intermediaries, on the one hand, and non-Italian residents, on the other hand, or (c) between Qualified Intermediaries, even if non-resident in the Republic of Italy, on the one hand, and undertakings for collective investment of saving income, on the other hand; (iii) contracts related to sales of securities occurring in the context of a public sale offering (*offerta pubblica di vendita*) aimed at a listing on regulated markets, or involving financial instruments already listed on regulated markets; and (iv) contracts regarding securities not listed on a regulated market entered into between Qualified Intermediaries, on the one hand, and non-Italian residents, on the other hand.

For transfer tax purposes, transfers of securities to or by Italian residents are presumed to be executed in the Republic of Italy. Moreover, contracts for the transfer of Securities executed outside the Republic of Italy between non-Italian residents will have legal effect (*efficacia giuridica*) in the Republic of Italy to the extent that transfer tax is paid.

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “*EU Savings Directive*”), EU member states are required from July 1, 2005 to provide to the tax authorities of another member state details of payments of interest (or similar income) made by a person within its jurisdiction to an individual resident in that other member state. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories, including, *inter alia*, Switzerland, have agreed to adopt similar measures (which will be a withholding system in the case of Switzerland) with effect from the same date.

Implementation in the Republic of Italy of the EU Savings Directive

The Republic of Italy has implemented the EU Savings Directive through Legislative Decree No. 84 of April 18, 2005 (“*Decree No. 84*”). Under Decree No. 84, subject to a number of important conditions being met, in the case of interest paid starting from July 1, 2005 to individuals who qualify as beneficial owners of the interest payment and are resident for tax purposes in another EU member state, Italian qualified paying agents shall report to the Italian Tax Authorities details of the relevant payments and personal information on the individual beneficial owner. Such information is transmitted by the Italian Tax Authorities to the competent foreign tax authorities of the State of residence of the beneficial owner.

Certain United States Federal Income Tax Considerations for U.S. Holders

NOTICE PURSUANT TO U.S. TREASURY DEPARTMENT CIRCULAR 230: THE DISCUSSION UNDER THIS HEADING “Certain United States Federal Income Tax Considerations for U.S. Holders” IS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAX PENALTIES THAT MAY BE IMPOSED UNDER U.S. TAX LAWS. THE DISCUSSION WAS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE SECURITIES ADDRESSED HEREIN. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion is a summary of certain material U.S. federal income tax consequences of the purchase, ownership and disposition of Securities by a U.S. Holder (defined below), but does not purport to be a complete analysis of all potential tax considerations relevant to a decision to purchase Securities. This summary is based upon the Code, U.S. Treasury regulations issued thereunder, and judicial and administrative interpretations thereof, each as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. This discussion does not address all of the U.S. federal income tax consequences that may be relevant to a U.S. Holder in light of such holder’s particular circumstances or the U.S. federal income tax consequences to U.S. Holders subject to special rules, such as certain financial institutions, insurance companies, dealers in securities or currencies, traders in securities, U.S. Holders whose functional currency is not the U.S. dollar, persons owning (directly, indirectly or constructively) 10% or more of the Issuer’s outstanding shares, persons that are residents of the Republic of Italy for Italian tax purposes or that conduct a business or have a permanent establishment in the Republic of Italy, tax-exempt organisations, regulated investment companies, real estate investment trusts, partnerships or other pass-through entities, persons liable for alternative minimum tax, and persons holding the Securities as part of a “*straddle*,” “*hedge*,” “*conversion transaction*” or other integrated transaction, all of whom may be subject to U.S. federal income tax rules that differ significantly from those summarised below. In addition, this summary does not discuss any state, local, or non-U.S. tax considerations, or any U.S. federal tax considerations other than income tax considerations (for example, U.S. federal estate or gift tax

considerations). This discussion is limited to U.S. Holders who purchase Securities for cash at original issue at their “*issue price*” (the first price at which a substantial part of the Securities are sold to the public for cash, excluding sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) and who hold the Securities as capital assets within the meaning of section 1221 of the Code (generally, property held for investment).

For purposes of this discussion, a “**U.S. Holder**” is a beneficial owner of a Security that is, for U.S. federal income tax purposes: (i) an individual who is a citizen or resident of the United States, (ii) a corporation or any entity taxable as a corporation created or organised in the United States or under the laws of the United States, any state thereof or the District of Columbia, (iii) any estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or if a valid election is in place to treat the trust as a United States person.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) holds the Securities, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to the U.S. federal income tax and other consequences of acquiring, holding or disposing of the Securities.

Prospective investors should consult their tax advisors concerning the tax consequences of the purchase, ownership and disposition of Securities in light of their particular circumstances, including the effect of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign and other tax laws.

Classification of the Securities

The Securities are novel financial instruments and there is no statutory or judicial authority that directly addresses the U.S. federal income tax treatment of the Securities or other instruments having substantially similar terms. Because the Securities contain both significant debt and significant equity characteristics, there is substantial uncertainty regarding the appropriate classification of the Securities as debt or equity for U.S. federal income tax purposes. To the extent the Issuer is required to take a position regarding the classification of the Securities for U.S. federal income tax purposes, in the absence of an administrative determination or judicial ruling to the contrary, the Issuer intends to treat the Securities as indebtedness for U.S. federal income tax purposes. No rulings have been or will be sought from the IRS with respect to the classification of the Securities, however, and there can be no assurance that the IRS will not assert, or that a court will not hold, that the Securities should be treated as equity for U.S. federal income tax purposes.

Set forth below is a summary of certain material U.S. federal income tax consequences of the purchase, ownership and disposition of the Securities assuming that they are properly classified as indebtedness for U.S. federal income tax purposes. There follows a discussion of certain material U.S. federal income tax consequences if the Securities are instead treated as equity. Prospective investors are strongly urged to consult their tax advisors as to the proper classification of the Securities and the U.S. federal income and other tax consequences to them of such classification. U.S. Holders who file a U.S. federal income tax return classifying the Securities as equity should consult their tax advisors regarding the possible need to file a notification of inconsistent treatment with such return pursuant to Code section 385(c)(2).

U.S. Federal Income Tax Considerations to U.S. Holders if the Securities are Classified as Debt

The CPDI and VRDI Regulations

The Issuer has the option, and under certain circumstances may be required, to defer payments of interest on the Securities. See “Terms and Conditions of the Securities—Deferrals of Interest”. In addition, in certain circumstances the Issuer may be required to pay additional amounts with respect to the Securities. See, e.g., “Terms and Conditions of the Securities—Redemption and Purchase—Change of Control Call Event”, “Terms and Conditions of the Securities—Redemption and Purchase—Mandatory Redemption Event” and “Terms and Conditions of the Securities—Taxation—Additional Amounts”. Furthermore, beginning on the Reset Date, the interest rate on the Securities will float subject to the maximum rate permitted by then applicable Italian law. See “Terms and Conditions of the Securities—Interest”. Certain instruments that provide for contingent payments are treated as “contingent payment debt instruments” for U.S. federal income tax purposes and are subject to special rules under U.S. Treasury regulations (the “**CPDI Regulations**”). However, under the CPDI Regulations, certain payments or possible payments are not treated as contingencies or are excepted in cases in which the payments or possible payments are remote, incidental, or satisfy certain other exceptions. Although no statutory or judicial authority directly addresses the U.S. federal income tax treatment of the Securities or other instruments having substantially similar terms and there is substantial uncertainty regarding the applicability of the CPDI Regulations to the Securities, to the extent the Issuer is required to take a position with respect to the applicability of the CPDI Regulations to the Securities, in the absence of an administrative determination or judicial ruling to the contrary the Issuer intends to treat the Securities as not subject to the CPDI Regulations unless and until the Issuer actually defers the payment of interest or additional amounts become payable with respect to the Securities. Accordingly, the Issuer is not providing holders with a “comparable yield” or “projected payment schedule” within the meaning of the CPDI Regulations.

If the Securities were nevertheless characterised as contingent payment debt instruments, then a U.S. Holder would be required to accrue interest income on the Securities on a constant yield basis at the Securities’ “comparable yield” (*i.e.*, the yield at which the Issuer would issue a debt instrument with terms and conditions similar to those of the Securities but without the possibility of the contingent payments described above) regardless of the U.S. Holder’s regular method of tax accounting. It is possible that pursuant to the CPDI Regulations a U.S. Holder would be required to accrue income in excess of actual payments of interest regardless of whether such additional income was actually paid; however, certain adjustments would be made to reflect payments actually made on the Securities, which adjustments could decrease or further increase the U.S. Holder’s taxable income. Furthermore, if the CPDI Regulations applied, any taxable gain or loss recognised upon the sale, redemption or other disposition of a Security would generally be treated as ordinary interest income or, subject to certain limitations, ordinary loss and such ordinary income or loss would generally have the same source as any interest income accrued on the Security.

Assuming the Securities are not subject to the CPDI Regulations, the Securities should be treated as “variable rate debt instruments” under U.S. Treasury regulations governing certain instruments having a variable rate of interest, including instruments such as the Securities that have a period of fixed rate interest followed by a period of floating rate interest (the “**VRDI Regulations**”). In certain circumstances, these regulations require a holder to include amounts (“original issue discount”) in income in advance of the receipt of corresponding cash payments. Although it is not entirely clear how these rules should be applied to the Securities, to the extent the Issuer is required and in the absence of an administrative determination or judicial ruling to the contrary, it intends to take the position that no original issue discount should arise with respect to the Securities under the VRDI Regulations and, accordingly, that interest with respect to the Securities will be taxable to U.S. Holders as discussed in “—Payments of Interest” below.

If the IRS successfully asserted that the Securities are subject to either the CPDI Regulations or the original issue discount provisions of the VRDI Regulations, either at the time of issuance or at some other point during the term of the Securities (e.g., on the Reset Date), the timing, amount, character and source of income or loss recognised by a U.S. Holder with respect to the U.S. Holder's Securities could be significantly affected. Given the lack of guidance regarding the proper treatment of instruments such as the Securities, prospective investors are urged to consult their tax advisors with respect to the potential applicability of the CPDI Regulations and the original issue discount provisions of the VRDI Regulations. The remainder of this section assumes that neither the CPDI Regulations nor the original issue discount provisions of the VRDI Regulations are applicable to the Securities.

Payments of Interest

It is expected, and assumed for purposes of this discussion, that the Securities will be issued at par or at a discount that is “*de minimis*” within the meaning of the relevant U.S. Treasury regulations. Assuming that is the case, subject to the discussion above under “—The CPDI and VRDI Regulations”, the Securities will not be treated as issued with original issue discount and payments of stated interest on the Securities generally will be taxable to a U.S. Holder as ordinary income at the time such payments are received or accrued, in accordance with the U.S. Holder's method of tax accounting.

A U.S. Holder that holds Securities and uses the cash method of accounting for U.S. federal income tax purposes and receives a payment of stated interest on the Securities will be required to include in ordinary income the U.S. dollar value of the euro interest payment (determined on the date such payment is received) regardless of whether the payment is in fact converted to U.S. dollars on such date. Generally, a cash method U.S. Holder will not recognise exchange gain or loss with respect to the receipt of such payment, but may have exchange gain or loss attributable to the actual disposition of the euros so received.

A U.S. Holder that holds Securities and uses the accrual method of accounting for U.S. federal income tax purposes will be required to include in income the U.S. dollar value of the amount of interest income in euros that has accrued with respect to a Security during an accrual period. The U.S. dollar value of such accrued interest will be determined by translating such interest at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. A U.S. Holder may elect, however, to translate such accrued interest using the rate of exchange on the last day of the accrual period or, with respect to an accrual period that spans two taxable years, using the rate of exchange on the last day of the taxable year. If the last day of an accrual period is within five business days of the date of receipt of the accrued interest, a U.S. Holder may translate such interest using the rate of exchange on the date of receipt. The above election, if made, also will apply to other debt obligations held by the U.S. Holder and may not be revoked without the consent of the IRS. A U.S. Holder that uses the accrual method of accounting for U.S. federal income tax purposes will recognise exchange gain or loss with respect to accrued interest on the date such interest is received. The amount of exchange gain or loss recognised will equal the difference, if any, between (i) the U.S. dollar value of the euro payment received (determined on the date such payment is received) in respect of such accrual period, and (ii) the U.S. dollar value of interest income that has accrued during such accrual period (as determined above). This gain or loss generally will constitute ordinary income or loss and will be treated as U.S. source ordinary income or loss, but generally will not be treated as interest income or expense. A U.S. Holder that uses the accrual method may have additional exchange gain or loss upon the disposition of the euros it receives.

Foreign Tax Credit and Foreign Taxes

For U.S. federal tax credit purposes, interest income on a Security generally should constitute foreign source income and, with certain exceptions, generally should be considered “*passive*” (or, after December 31, 2006, “*passive category*”) income, which is treated separately from other types of income in computing the foreign tax credit allowable to U.S. Holders under U.S. federal income tax laws. Gain or

loss on the sale, exchange, retirement or other taxable disposition of a Security (including foreign currency gain or loss) generally will be treated as U.S. source income or loss for foreign tax credit purposes.

Subject to a number of limitations and restrictions, Italian taxes, if any, withheld from payments on the Securities may be eligible to be claimed as a credit against the U.S. Holder's U.S. federal income taxes. Among other limitations and restrictions, U.S. Holders that are eligible for benefits of the U.S.-Republic of Italy Income Tax Convention will not be entitled to a foreign tax credit for the amount of any Italian taxes withheld in excess of the amount that would have been withheld at the maximum rate under the Income Tax Convention and a U.S. Holder may not be entitled to a foreign tax credit for taxes withheld in excess of the Italian statutory rate if the IRS determines that the U.S. Holder was entitled to a refund of the excess amount withheld. Should any foreign tax be withheld from payments to a U.S. Holder on a Security, the gross amount withheld (including any amounts withheld with respect to any Additional Amounts paid to a U.S. Holder) will be included in the holder's income. Any Additional Amounts paid generally should constitute foreign source income to a U.S. Holder and should be translated into the U.S. dollar value by the U.S. Holder in accordance with the rules governing interest as described above. The rules relating to crediting foreign taxes are quite complex and fact specific. U.S. Holders should consult with their tax advisors with regard to the availability of a credit with respect to any foreign taxes paid, the application of foreign tax credit limitations to their particular circumstances and the possibility of claiming a deduction rather than a credit with respect to Italian taxes withheld.

Sale, Exchange, Redemption or Other Disposition of Securities

Generally, upon the sale, exchange, redemption or other taxable disposition of a Security, a U.S. Holder will recognise taxable gain or loss equal to the difference between (i) the amount realised on the sale, exchange, redemption or other taxable disposition (less any amount attributable to accrued but unpaid interest, which will be taxable as ordinary interest income to the extent not previously included in income) and (ii) the U.S. Holder's adjusted tax basis in the Security. If a U.S. Holder receives foreign currency on such a sale, exchange, redemption or other taxable disposition, the amount realised generally will be based on the U.S. dollar value of the foreign currency on the date of the disposition. In the case of a Security that is traded on an established securities market, a cash basis U.S. Holder and, if it so elects, an accrual basis U.S. Holder will determine the U.S. dollar value of the amount realised by translating the foreign currency to U.S. dollars at the spot rate on the settlement date of the sale. If the U.S. dollar value of the foreign currency taken into account by a U.S. Holder in determining its amount realised differs from the U.S. dollar value of such foreign currency when received, the U.S. Holder will have exchange gain or loss. The U.S. Holder may have additional exchange gain or loss upon the disposition of such foreign currency.

A U.S. Holder's tax basis in a Security generally will equal the cost of such Security to such U.S. Holder. If a U.S. Holder uses foreign currency to purchase a Security, the cost of the Security will generally be the U.S. dollar value of the foreign currency purchase price on the date of purchase. In the case of a Capital Security that is traded on an established securities market, a cash basis U.S. holder, and, if it so elects, an accrual basis U.S. holder, will determine the U.S. dollar value of the cost of such Capital Security by translating the amount paid at the spot rate on the settlement date of the purchase. The conversion of U.S. dollars to a foreign currency and the immediate use of that currency to purchase a Capital Security generally will not result in taxable gain or loss for a U.S. holder.

The special election available to accrual basis U.S. Holders in regard to the purchase and sale of Securities traded on an established securities market, which is discussed in the preceding paragraphs, must be applied consistently by a U.S. Holder to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Gain or loss recognised by a U.S. Holder upon disposition of a Security generally will be U.S. source gain or loss and, except as discussed below with respect to exchange gain or loss, generally will be capital

gain or loss and will be long-term capital gain or loss if at the time of the sale, exchange, redemption or other taxable disposition the Security has been held by such U.S. Holder for more than one year. Long-term capital gain recognised by a non-corporate U.S. Holder generally will be subject to taxation at a reduced rate. The deductibility of capital losses is subject to significant limitations.

Foreign Currency Exchange Gain or Loss

Gain or loss recognised upon the sale, exchange, redemption or other taxable disposition of a Security that is attributable to fluctuations in currency exchange rates will be ordinary income or loss and generally will be treated as U.S. source ordinary income or loss, but generally will not be treated as interest income or expense. Gain or loss attributable to fluctuations in exchange rates with respect to the principal amount of the Security generally will equal the difference between (i) the U.S. dollar value of the euro principal amount of the Security determined on the date payment is received with respect to the sale, exchange, redemption or other taxable disposition of the Security, and (ii) the U.S. dollar value of the euro principal amount of the Security, determined on the date the U.S. Holder acquired such Security. In addition, upon the sale, exchange, retirement or other taxable disposition of a Security, an accrual method U.S. Holder may realise exchange gain or loss attributable to amounts received in respect of accrued and unpaid interest. Any such exchange gain or loss with respect to accrued interest will be determined in the same manner as discussed under “—Payments of Interest”. However, upon a sale, exchange, retirement or other taxable disposition of a Security, a U.S. Holder will realise exchange gain or loss with respect to principal and accrued interest only to the extent of the total gain or loss realised on the disposition. Prospective investors should consult their tax advisors with respect to the treatment of exchange gains and losses.

U.S. Federal Income Tax Considerations to U.S. Holders if the Securities are Classified as Equity

The following discussion summarises certain material U.S. federal income tax consequences to U.S. Holders in the event that the Securities are properly classified as equity for U.S. federal income tax purposes.

Payments on Securities

Subject to the Passive Foreign Investment Company (“**PFIC**”) rules discussed below, U.S. Holders generally will include in income as a dividend the gross amount of any “interest” and any Additional Amounts paid by the Issuer (before reduction for Italian withholding taxes, if any) in respect of the Securities. The amount includible in gross income should be the U.S. dollar value of the euro on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars at that time. Payments received with respect to the Securities will not be eligible for the dividends received deduction generally allowed to U.S. corporate shareholders in respect of dividends received from other U.S. corporations, nor are they expected to be eligible for the reduced rate of taxation available to non-corporate U.S. Holders with respect to certain dividends received before 2009.

A redemption of the Securities by the Issuer (including a redemption on the Mandatory Redemption Date) generally will be treated under section 302 of the Code as a distribution in the full amount of the redemption proceeds which is taxable as a dividend (with the consequences summarised above) rather than a sale or exchange of the redeemed Securities, unless the redemption results in a “complete termination” of a U.S. Holder’s ownership interests in the Issuer or is “not essentially equivalent to a dividend” with respect to a U.S. Holder (in each case within the meaning of section 302(b) of the Code). In applying the above tests, a U.S. Holder may, under constructive ownership rules, be deemed to own stock or Securities in the Issuer in addition to the stock or Securities actually owned by the U.S. Holder, including stock or Securities owned by other persons or stock or Securities underlying a U.S. Holder’s option to purchase. If a U.S. Holder does not actually or constructively own any of the shares of the Issuer or Securities after the redemption, such U.S. Holder should meet the “complete termination” test described above. If a U.S. Holder actually or constructively owns any of the shares of the Issuer or Securities after the

redemption, whether a U.S. Holder meets the “not essentially equivalent to a dividend” test described above will depend on the facts and circumstances of such U.S. Holder. Based on existing case law and rulings, shareholders owning only a small amount of the Issuer’s stock after a redemption of the Securities (taking into account the constructive ownership rules) generally should be able to satisfy the “not essentially equivalent to a dividend” test. U.S. Holders should consult their own tax advisors as to whether, based on their particular circumstances, a redemption by the Issuer of Securities may be treated as a distribution (rather than as a sale or exchange) for U.S. federal income tax purposes and, if so treated, what happens with respect to their tax basis in the Securities.

For foreign tax credit limitation purposes, it is expected that the amount of any dividend payments will be income to a U.S. Holder from sources outside the U.S. Any gain or loss realised on a subsequent sale or disposition of euros received as a dividend generally will be U.S. source ordinary income or loss. Should any foreign tax be withheld from payments to a U.S. Holder on a Security, the gross amount withheld (including any amounts withheld with respect to any Additional Amounts paid to a U.S. Holder) will be included in the Holder’s income. Any Additional Amounts paid generally should constitute foreign source income to a U.S. Holder and generally should be translated into their U.S. dollar value by the U.S. Holder in accordance with the rules governing dividends as described above. Pursuant to certain restrictions under the foreign tax credit rules, U.S. Holders should assume that, in the event the Securities are properly classified as equity for U.S. federal income tax purposes, they will not be entitled to a credit for any foreign withholding taxes arising in connection with any payment on the Securities but such taxes should be deductible for U.S. federal income tax purposes. U.S. Holders should consult their tax advisors with regard to the application of the foreign tax credit rules to any foreign taxes imposed with respect to payments on the Securities in the event that the Securities are properly classified as equity for U.S. federal income tax purposes.

Gain on Disposition of Securities

Subject to the PFIC rules discussed below, upon a sale or other disposition of the Securities a U.S. Holder generally will recognise gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. dollar amount realised on the sale or disposition and the U.S. Holder’s adjusted tax basis in the Securities. Generally, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder’s holding period for the Securities exceeds one year and will be gain or loss from sources within the United States for foreign tax credit limitation purposes. For non-corporate U.S. Holders, the U.S. income tax rate applicable to net long-term capital gain currently will not exceed 15%. The deductibility of capital losses is subject to significant limitations.

Passive Foreign Investment Company Rules

The Issuer does not expect to be a PFIC for the year ended December 31, 2006 and does not expect to become a PFIC in future taxable years. However, because PFIC status is determined on an annual basis and because the Issuer’s income and assets and the nature of its activities may vary from time to time, the Issuer cannot assure prospective investors that it will not be considered a PFIC for any taxable year. The Issuer would be a PFIC for U.S. federal income tax purposes in any taxable year if 75% or more of its gross income would be passive income, or on average at least 50% of the gross value of its assets is held for the production of, or produces, passive income. In making the above determination, the Issuer is treated as earning its proportionate share of any income and owning its proportionate share of any asset of any company in which it is considered to own, directly or indirectly, 25% or more of the shares by value.

If the Issuer were considered a PFIC at any time when a U.S. Holder held the Securities, it generally will continue to be treated as a PFIC with respect to that U.S. Holder, and the U.S. Holder would be subject to special rules with respect to (a) any gain realised on the disposition of the Securities (which for these purposes includes a pledge of a Security or the entering into of certain constructive disposition transactions), and (b) any “excess distribution” by the Issuer to the U.S. Holder in respect of the

Securities. Under the PFIC rules, (i) the gain or excess distribution would be allocated ratably over the U.S. Holder's holding period for the Securities, (ii) the amount allocated to the taxable year in which the gain or excess distribution was realized or to any year before the Issuer became a PFIC would be taxable as ordinary income, and (iii) the amount allocated to each other taxable year would be subject to tax at the highest tax rate in effect in that year and an interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such year.

A U.S. Holder may be able to avoid many of these adverse tax consequences if it may and does elect to mark the Securities to market on an annual basis. U.S. Holders are urged to consult their tax advisors about the PFIC rules, including the advisability, procedure and timing of making a mark-to-market election and the U.S. Holder's eligibility to file such an election (including whether the Securities will be treated as "publicly traded" for such purpose).

Additional U.S. Federal Income Tax Considerations

Tax Return Disclosure Requirement

U.S. Treasury regulations that apply to "reportable transactions" require the reporting of certain transactions to the IRS based on any of several indicia, including the recognition of foreign currency and certain other losses in excess of a threshold amount. U.S. Holders are advised to consult their tax advisors regarding these rules, including any requirement to file IRS Form 8886 (Reportable Transaction Disclosure Statement).

Information Reporting and Backup Withholding

Payments (including payments of proceeds) in respect of the Securities that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting to the IRS and to 28% backup withholding. Backup withholding will not apply, however, (i) to a holder who furnishes a correct taxpayer identification number and makes any other required certification, or (ii) to a holder that otherwise establishes an exemption from backup withholding. To avoid backup withholding, U.S. persons (including those who are required to establish their exempt status) generally must provide an accurately completed IRS Form W-9 (Request for Taxpayer Identification Number and Certification). Non-U.S. holders generally should not be subject to U.S. information reporting or back-up withholding. However, these holders may be required to provide certification of non-U.S. status (generally in IRS Form W-8BEN) in connection with payments received in the United States or through certain U.S.-related financial intermediaries.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder will be allowed as a refund or a credit against such holder's U.S. federal income tax liability, provided that the holder has timely complied with applicable reporting obligations or refund claim procedures.

PLAN OF DISTRIBUTION

Pursuant to and subject to the terms and conditions contained in a subscription agreement dated May 10, 2006 (the “*Subscription Agreement*”) entered into among the Issuer and Credit Suisse Securities (Europe) Limited and Goldman Sachs International (the “*Joint Lead Managers*”), the Issuer has agreed to sell, and each Joint Lead Manager has severally agreed with the Issuer to procure subscribers for, or failing which to subscribe for, up to the aggregate principal amount of Securities set forth opposite its name below:

<u>Joint Lead Managers</u>	<u>Aggregate Principal Amount of Securities (€)</u>	<u>Percentage</u>
Credit Suisse Securities (Europe) Limited	375,000,000	50.0%
Goldman Sachs International	375,000,000	50.0%
Total	<u>750,000,000</u>	<u>100.0%</u>

Purchase of Securities by De Agostini’s Subsidiary

Toro Assicurazioni S.p.A., a subsidiary owned 65.5% by De Agostini, has agreed to purchase a total of approximately €20.0 million of Securities, in this Offering (equal in the aggregate to approximately 2.6% of the Securities offered). Such subsidiary of De Agostini will be entitled to participate in and vote at meetings of Securityholders in proportion to the amount of Securities that it will own.

The Issuer has agreed to indemnify the Joint Lead Managers against certain liabilities and to reimburse the Joint Lead Managers for certain of their expenses in connection with the offering of the Securities described herein (the “*Offering*”).

The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to various conditions, including the approval of certain legal matters by their counsel. In addition, the Subscription Agreement may be terminated by the Joint Lead Managers if various events occur, including but not limited to any state of facts, change, development, effect or occurrence (subject to certain specific exceptions which are substantially consistent with the exceptions to the definition of material adverse effect in the Merger Agreement) that, in the reasonable opinion of the Joint Lead Managers is materially adverse to the business, assets, financial condition or results of operations of the Issuer, GTECH and their respective subsidiaries, taken as a whole.

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, or to or for the account or benefit of U.S. persons, except to QIBs in reliance on an exemption from registration under the Securities Act (including Rule 144A) and to non-U.S. persons in offshore transactions in reliance on Regulation S. Each of the Joint Lead Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S. Resales of the Securities are restricted as described herein and under “Transfer Restrictions”.

No action has been or will be taken in any jurisdiction, including the United States and the United Kingdom, by the Issuer or the Joint Lead Managers that would permit a public offering of the Securities or possession, circulation or distribution of this Offering Circular or any other material relating to the Issuer and the Securities in any jurisdiction where action for this purpose is required. Accordingly, the Securities may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Securities may be distributed or published, in or from any jurisdiction, except in compliance with any applicable rules and regulations of any such jurisdiction. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose hands this Offering

Circular comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each jurisdiction in or from which they purchase, offer, sell or deliver the Securities or have in their possession, circulate or distribute this Offering Circular or such other offering material or advertisements, in all cases at their own expense. See “Transfer Restrictions”.

United Kingdom

Each Joint Lead Manager has also represented and agreed that: (i) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (“*FSMA*”)) received by it in connection with the issue or sale of any Securities in circumstances in which section 21(1) of the FSMA does not apply to the Issuer and (ii) it has complied, and will comply, with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from, or otherwise involving the United Kingdom.

Hong Kong

Each of the Joint Lead Managers has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong by means of any document, any Securities other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and rules made under that Ordinance; or (b) in other circumstances which do not result in the Offering Circular being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purpose of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong other than with respect to the Securities which are or are intended to be disposed of to any persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

The Republic of Italy

No application has been made by the Joint Lead Managers to obtain an authorisation from CONSOB for the public offering of the Securities in the Republic of Italy.

Each Manager has agreed that it has not offered, delivered or sold, and will not offer, deliver or sell, directly or indirectly, any Securities, or deliver, distribute or make available any offering material relating to the Securities, in the Republic of Italy, other than (i) to professional investors (*investori professionali*) within the meaning set forth under Article 100, paragraph 1, section (a) and Article 30, paragraph 2, of the Italian Finance Act, and as defined under Article 31, paragraph 2 of the Regulation on Intermediaries or (ii) pursuant to Article 100 of the Italian Finance Act and Article 33, paragraph 1, of the Regulation on Issuers, and, in any event, in each case, in compliance with applicable Italian laws and regulations and with any requirements or limitations which may be imposed by CONSOB or the Bank of Italy.

Any offer or delivery of Securities or any distribution of this Offering Circular within the Republic of Italy in connection with the Offering must be conducted either by banks, investment firms (as defined in the Italian Finance Act) or financial companies enrolled in the special register provided for by Article 107 the Italian Banking Act, to the extent such entities are authorised to engage in the placement and/or purchase of financial instruments in the Republic of Italy in accordance with the relevant provisions of the

Italian Finance Act, the Regulation on Intermediaries and/or any other applicable laws and regulations. Any such offer must be effected in compliance with Article 129 of the Italian Banking Act and the implementing instructions of the Bank of Italy, as well as in accordance with any other securities, tax and exchange control laws and regulations and other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

In any event, the Securities cannot be offered or sold to any individuals in the Republic of Italy, either on the primary market or the secondary market.

Singapore

This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Securities may not be circulated or distributed, nor may the Securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than U.S.\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- (2) where no consideration is or will be given for the transfer; or
- (3) where the transfer is by operation of law.

The Securities are a new issue of securities for which there is currently no market. Application has been made for the Securities to be admitted to the official list and to be traded on the regulated market of the Luxembourg Stock Exchange, a regulated market for the purposes of Directive 93/22/EC. There can be no assurance that the Securities will be or remain listed, or eligible for trading. The Joint Lead Managers have advised the Issuer that they intend to make a market in the Securities as permitted by applicable law. They are not obligated, however, to make a market in the Securities and any market-making may be discontinued at any time at their sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the Securities.

In connection with the Offering, Credit Suisse Securities (Europe) Limited as stabilising manager (or any person acting for it) may over-allot (provided that the aggregate principal amount of Securities allotted does not exceed 105% of the aggregate principal amount of the Securities) or effect transactions with the view to supporting the market price of the Securities at a level higher than that which might otherwise prevail. However, there can be no assurance that the stabilising manager (or any person acting on its behalf) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Securities is made and, if begun, may be discontinued at any time, but must end no later than 30 days after the Issue Date and 60 days after the date of the allotment of the Securities. Such stabilising shall be in compliance with all applicable laws, regulations and rules, including Regulation M under the Securities Act.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the Joint Lead Managers.
- Stabilising transactions permit bids to purchase the underlying security so long as the stabilising bids do not exceed a specified maximum.
- Covering transactions involve purchases of the Securities in the open market after the distribution has been completed in order to cover short positions.
- Penalty bids permit the Joint Lead Managers to reclaim a selling concession from a broker/dealer when the Securities originally sold by such broker/dealer are purchased in a stabilising or covering transaction to cover short positions.

In the ordinary course of the Joint Lead Managers' respective businesses, the Joint Lead Managers and their affiliates may, from time to time, engage in commercial and investment banking transactions with the Issuer. Certain of the Joint Lead Managers are acting as underwriters in connection with Lottomatica's proposed Rights Offering (see "The Transactions—The Financing"). In addition, in connection with Lottomatica's Senior Credit Facilities which were entered into on or about May 5, 2006 (see "Description of Certain Indebtedness—Senior Credit Facilities"), Credit Suisse International and Goldman Sachs International are acting as term loan arrangers; Credit Suisse, London Branch and Goldman Sachs International are acting as revolving facility arrangers and guarantee facility arrangers; Credit Suisse International and Goldman Sachs International are acting as term loan bookrunners; Credit Suisse, London Branch and Goldman Sachs International are acting as revolving facility bookrunners and guarantee facility bookrunners; Credit Suisse International and Goldman Sachs Credit Partners L.P. are acting as term loan underwriters and Credit Suisse, London Branch and Goldman Sachs Credit Partners L.P. are acting as revolving facility underwriters and guarantee facility underwriters. In addition, Credit Suisse International, Credit Suisse, London Branch and Goldman Sachs Credit Partners L.P. are original lenders under the Senior Credit Facilities.

INDEPENDENT AUDITORS

The consolidated financial statements of Lottomatica as of and for the years ended December 31, 2003, 2004 and 2005 appearing in this Offering Circular have been audited by Reconta Ernst & Young S.p.A., independent auditor, as stated in its reports appearing herein. Reconta Ernst & Young S.p.A. is registered under no. 2 in the Special Register (*Albo Speciale*) maintained by CONSOB and set out at Article 161 of the Italian Finance Act and under no. 70945 in the Register of Accountancy Auditors (*Registro dei Revisori Contabili*), in compliance with the provisions of the Legislative Decree No. 88 of January 27, 1992. Reconta Ernst & Young S.p.A., is also a member of ASSIREVI, the Italian association of auditing firms. The address of Reconta Ernst & Young S.p.A. is Via G. D. Romagnosi 18/A, Rome, Italy, 00196. The consolidated financial statements of GTECH as of and for the years ended February 28, 2004, February 26, 2005 and February 25, 2006 appearing in this Offering Circular have been audited by Ernst & Young LLP, independent auditor, as stated in its reports appearing herein. Ernst & Young LLP is registered with the Public Company Accounting Oversight Board. The address of Ernst & Young LLP is 200 Clarendon Street, Boston, MA 02116, USA. The consolidated financial statements of GTECH as of and for the period ended December 31, 2005 prepared in accordance with IFRS appearing in this Offering Circular have been audited by Ernst & Young LLP, independent auditors, as stated in its report appearing herein.

LEGAL MATTERS

The validity of the Securities and certain other legal matters are being passed upon for Lottomatica by Bonelli Erede Pappalardo, Milan, Italy, with respect to matters of Italian law. Certain legal matters will be passed upon for Lottomatica by Dewey Ballantine LLP, New York and London, England with respect to matters of United States and English law. Certain legal matters will be passed upon for the Initial Purchasers by Shearman & Sterling LLP, Rome, Italy with respect to matters of United States and English law and by Gianni, Origoni, Grippo & Partners, Rome, Italy with respect to matters under Italian law.

WHERE PROSPECTIVE SECURITYHOLDERS CAN FIND ADDITIONAL INFORMATION

Each purchaser of the Securities from a Manager will be furnished a copy of this Offering Circular and any related supplements to this Offering Circular. In addition, this Offering Circular will be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). Each person receiving this Offering Circular and any related supplements to this Offering Circular acknowledges that:

- (1) such person has been afforded an opportunity to request from Lottomatica, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;
- (2) such person has not relied on the Joint Lead Managers or any person affiliated with the Joint Lead Managers in connection with its investigation of the accuracy of such information or its investment decision; and
- (3) except as provided pursuant to clause (1) above, no person has been authorised to give any information or to make any representation concerning the Securities offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorised by either Lottomatica or the Joint Lead Managers.

For so long as any of the Securities remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act, Lottomatica will, during any period in which it is not subject to Section 13 or 15(d) under the U.S. Securities Exchange Act of 1934, as amended, nor exempt from reporting thereunder pursuant to Rule 12g3-2(b), make available to any holder or beneficial holder of a Security, or to any prospective purchaser of a Security designated by such holder or beneficial holder, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the U.S. Securities

Act upon the written request of any such holder or beneficial owner. Any such request should be directed to the Chief Financial Officer of Lottomatica.

Lottomatica will provide Securityholders with copies of the Trust Deed and the form of the Securities. Securityholders may request copies of such documents by contacting Lottomatica's Chief Financial Officer, at Viale del Campo Boario 56/D, 00153 Rome, Italy.

Lottomatica is not currently subject to the periodic reporting and other information requirements of the U.S. Exchange Act. However, pursuant to the Trust Deed governing the Securities, each of Lottomatica and the Issuer have agreed to furnish periodic information to the holders of the Securities. See "Terms and Conditions of the Securities".

So long as the Securities are listed on the Luxembourg Stock Exchange, and the rules and regulations of such stock exchange so require, copies of such information will also be available for review during the normal business hours on any business day at the specified office of Lottomatica's paying agent in Luxembourg and, as the case may be, on the website of the Luxembourg Stock Exchange (www.bourse.lu).

GTECH currently files annual, quarterly and current reports, proxy statements and other information with the SEC. Prospective Securityholders may read and copy all reports, statements or other information that GTECH has filed at the SEC's public reference room at 100 Fifth Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. GTECH's SEC filings are also available to the public from commercial document retrieval services and the internet website maintained by the SEC at <http://www.sec.gov>.

INCORPORATION BY REFERENCE

This Offering Circular incorporates by reference the documents set forth below that GTECH has previously filed with the SEC. These documents contain important information about GTECH and its finances. The information incorporated by reference is deemed to be part of this Offering Circular, except for any information superseded by information in, or incorporated by reference in, this Offering Circular. The information incorporated by reference is given for informational purposes only.

- Annual Report on Form 10-K for the fiscal year ended February 25, 2006; and
- Current Report on Form 8-K dated April 6, 2006.

LISTING AND GENERAL INFORMATION

Admission to Trading and Listing

Application will be made for the Securities to be admitted to the official list and to trading on the regulated market of the Luxembourg Stock Exchange, in accordance with the rules and regulations of such exchange. Lottomatica estimates that the total expenses related to the admission to trading of the Securities will be approximately €14,000.

Luxembourg Listing Information

For so long as the Securities are listed on the Luxembourg Stock Exchange and the rules and regulations of that exchange require, copies of the following documents may be inspected and obtained at the specified office of the paying agent in Luxembourg during normal business hours on any weekday:

- the memorandum and articles of incorporation of Lottomatica;
- the consolidated financial statements of Lottomatica for fiscal years ended December 31, 2005, 2004 and 2003;
- the consolidated financial statements of Lottomatica for the three-month period ended March 31, 2006;
- the consolidated financial statements of GTECH for fiscal years ended February 25, 2006, February 25, 2005 and February 28, 2004;
- the consolidated financial statements of GTECH for the period ended December 31, 2005;
- the Trust Deed;
- the Subscription Agreement;
- the Paying Agency Agreement; and
- the Intercreditor Deed.

Lottomatica has appointed J.P. Morgan Bank Luxembourg S.A. as Luxembourg listing agent, Paying and Transfer Agent and Registrar and JP Morgan Chase Bank, N.A. Principal Paying and Transfer Agent to make payments on, and in relation to transfers of, the Securities. Lottomatica reserves the right to vary such appointments in accordance with the terms of the Trust Deed and the Paying Agency Agreement.

Lottomatica accepts responsibility for the information contained in this Offering Circular. To Lottomatica's best knowledge, except as otherwise noted, the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of this Offering Circular. This Offering Circular may only be used for the purposes for which it has been published.

Clearing Information

The Securities sold pursuant to Regulation S and the Securities sold pursuant to Rule 144A of the U.S. Securities Act have been accepted for clearance through the facilities of Euroclear and Clearstream under common codes 025409566 and 025409574, respectively. The international securities identification number ("*ISIN*") for the Securities sold pursuant to Regulation S is XS0254095663 and the ISIN for the Securities sold pursuant to Rule 144A is XS0254095747.

The address for Euroclear is 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium and the address of Clearstream is 42 Avenue J.F. Kennedy, 1855 Luxembourg.

Legal Information

Lottomatica was incorporated as a *società per azioni* which was formed under the laws of the Republic of Italy on May 25, 2004 and shall remain valid until December 31, 2070. This date was extended by a resolution of an extraordinary shareholders' meeting of Lottomatica which was held on April 12, 2006. The

extraordinary shareholders' meeting also resolved on a capital increase of up to approximately €1.5 billion, for the purposes of the Rights Offering and the issue of the Securities, as part of its obligations to keep available Authorised Equity for the payment of deferred interest, if any. Lottomatica has an authorised share capital of €91,858,114, comprised of 91,858,114 ordinary shares with a nominal value of €1.00 per share.

Lottomatica's corporate seat and principal executive offices are located at Viale del Campo Boario 56/D, Rome, Italy. Lottomatica is registered with the *Registro delle Imprese* of Rome with registered number and tax code 08028081001.

Pursuant to Article 4 of its by-laws, the corporate purpose of Lottomatica is the conduct of any activity related to the organisation, management and implementation of games and/or instant or traditional lotteries such as, for example, games of skill, forecast games, types of drawing and wagers, directly and through licenses received by it, in the Republic of Italy and abroad. In particular, Lottomatica can organise and manage, as a concessionaire of the Ministry of Economy and Finances, the Lotto concession, as provided for in Article 1 of the Ministerial Decree No. 4832/GAB of March 17, 1993, and subsequent articles. Lottomatica can likewise perform every activity related to the services entrusted to it by public administrations or licensed to tobacco shops' receiving offices, including the collection of automobile taxes. Lottomatica can perform any other activity entrusted by the granting administrations related to the services of the activities related to the concession. Lottomatica can carry out all industrial, financial, commercial, movable and real estate operations regardless of whether such activities are instrumental to the pursuit of its business purpose, including the issue of guarantees and collateral securities and the purchase or transfer of industrial monopolies, licenses and patents. Lottomatica may hold interests and share in profits in other companies and established or to be established and consortiums, in the Republic of Italy or abroad, which are necessary, connected or instrumental to its business purpose and may generally carry out any operation deemed necessary or suitable in relation to the activity referred to in Article 106 and subsequent articles, of the Italian Banking Act and related provisions.

Lottomatica has obtained all necessary consents, approvals and authorisations in the Republic of Italy in connection with the issuance of and performance of its obligations under the Securities. The creation and issuance of the Securities has been authorised by a resolution of Lottomatica's Board of Directors dated April 27, 2006.

There has been no material adverse change in Lottomatica's prospects since December 31, 2005.

During the 12 months preceding the date of this Offering Circular, except as set forth in "Business—Lottomatica—Legal Proceedings" neither Lottomatica or any of its subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which Lottomatica is aware) which may have, or have had, significant effects on Lottomatica's and or the Lottomatica Group's financial position or profitability.

Except with respect to the Acquisition and the transactions contemplated with respect thereto (See "The Transactions—The Acquisition"), there has been no significant change in Lottomatica's financial or trading position since December 31, 2005.

Auditors

Reconta Ernst & Young S.p.A. have been engaged as Lottomatica's auditors and Ernst & Young LLP have been engaged as GTECH's auditors.

Financial Year

Lottomatica's financial year begins on January 1 and ends on December 31 of each year. Lottomatica will prepare and publish quarterly and annual consolidated financial statements.

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AND FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of
Lottomatica S.p.A.

We have audited the accompanying consolidated balance sheet of Lottomatica S.p.A. (the “Company”) and its subsidiaries (together with the Company, the “Group”) as of December 31, 2005 and the related consolidated statement of income, cash flows and shareholders’ equity for the year then ended and the related explanatory notes. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. These consolidated financial statements represent the first consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the EU.

We conducted our audit in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Commission). Those standards and procedures require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

With respect to the comparative consolidated financial data for the year ended December 31, 2004, restated in accordance with IFRS as adopted by the EU, reference should be made to our report dated September 27, 2005.

In our opinion the consolidated financial statements referred to above give a true and fair view of the consolidated financial position of the Group as of December 31, 2005 and the consolidated results of its operations and its cash flows for the year then ended, in accordance with IFRS as adopted by the EU.

We draw your attention to the fact that the consolidated financial statements reflect the merger of the former Lottomatica S.p.A. and FinEuroGames S.p.A. into NewGames S.p.A., that changed its company’s name into Lottomatica S.p.A.. The effects of the merger on the consolidated financial statements are fully described in the explanatory notes.

Reconta Ernst & Young S.p.A.

Rome, Italy
March 20, 2006

LOTTOMATICA S.p.A. and Subsidiaries
CONSOLIDATED BALANCE SHEET

As of December 31, 2005

(All amounts in thousand of Euro, except share and per share data)

	December 31,	
	<i>Notes</i>	2005
ASSETS		
Non-current assets		
Property, plant and equipment	3)	158,248
Goodwill	4)	663,613
Intangible assets	5)	10,774
Financial assets		452
Other non-current assets		570
Deferred taxes	30)	55,009
Total non-current assets		888,666
Current assets		
Inventory	6)	14,436
Accounts receivable trade and other receivables	7)	116,263
Investments in securities available for sale	8)	31,791
Current financial assets	9)	189,808
Tax receivables	10)	3,370
Cash and cash equivalents	11)	246,163
Total current assets		601,831
TOTAL ASSETS		1,490,497
LIABILITIES AND SHAREHOLDERS' EQUITY		
Non-current liabilities		
Long-term debt	13)	359,653
Termination indemnities	14)	7,618
Deferred taxes	30)	44,233
Long term provision	15)	8,587
Total non-current liabilities		420,091
Current liabilities		
Accounts payable trade and other payables	16)	305,006
Derivative instruments	17)	263
Short-term borrowings	18)	7,260
Current portion of long-term debt	13)	473
Other current liabilities	19)	233,620
Tax payables	20)	11,020
Other		509
Total current liabilities		558,151
Shareholders' equity	12)	
Share capital: 89,009,280 ordinary shares authorised, issued and outstanding, per value Euro 1.00 at December 31, 2005		89,009
Additional paid-in capital		261,844
Other reserves		41,450
Retained earnings		112,391
Total shareholders' equity		504,694
Minority interest		7,561
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,490,497

The accompanying notes are an integral part of these consolidated financial statements.

LOTTOMATICA S.p.A. and Subsidiaries
CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 2005

(All amounts in thousand of Euro, except share and per share data)

	<i>Notes</i>	2005
Revenues	21)	569,154
Other revenue and income	22)	13,520
Total revenues		582,674
Raw materials and consumables	23)	31,065
Services costs	24)	188,493
Personnel costs	25)	72,276
Depreciation, amortization and write-downs	26)	53,643
Other operating costs	27)	24,854
Total operating costs		370,331
Operating income		212,343
Financial expenses, net	28)	(16,064)
Equity investees' expenses	29)	(34)
Income before income taxes		196,245
Income taxes	30)	82,013
Net income for the year		114,232
Minority interest		1,841
Group's net income for the year		112,391
Earning per ordinary share—basic	31)	1.28
Earning per ordinary share—diluted		1.23

The accompanying notes are an integral part of these consolidated financial statements.

LOTTOMATICA S.p.A. and Subsidiaries
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2005
(All amounts in thousand of Euro)

	<u>2005</u>
Cash flow from operating activities:	
Income before income taxes	196,245
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	38,410
Amortization	8,531
Loss on disposal of property, plant and equipment	493
Write-downs of property, plant and equipment	4,786
Other non-monetary charges	35,498
Income taxes	(82,013)
Cash flow from operating activities before changes in net working capital	201,950
Changes in net working capital	(11,209)
Net cash provided by operating activities[a]	190,741
Cash flow used in investing activities:	
Additions to property, plant and equipment	(86,067)
Additions to intangible assets	(7,787)
Proceeds from disposals of property, plant and equipment	2,556
Net cash used in investing activities[b]	(91,298)
Cash flow used in financing activities:	
Repayments of long-term debt	(150,000)
Net change in short-term borrowings	42,834
Dividend paid	(67,983)
Proceeds from share capital increase	70,500
Other	9,185
Net cash used in financing activities[c]	(95,464)
Net increase in cash and cash equivalents [a + b + c]	3,979
Cash and cash equivalents at the beginning of the year	120
Cash and cash equivalents at the beginning of the year—merged companies	242,064
Cash and cash equivalents at the end of the year	246,163

The amount paid during the current fiscal year, for taxes and interest were, respectively, €/000 29,802 and €/000 17,346.

The accompanying notes are an integral part of these consolidated financial statements.

LOTTOMATICA S.p.A. and Subsidiaries
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the year ended December 31, 2005
(All amounts in thousand of Euro)

	Shareholders' equity					Total minority interest	Total Equity
	Share capital	Additional paid in capital	Merger reserve	Other reserves	Retained earnings		
Balance at January 1, 2005	120				(46)	74	74
Assets contribution and merger	88,889	271,609	22,737			383,235	388,955
Other movements and reclassifications		(9,765)		18,713	46	8,994	8,994
Net income for the year					112,391	1,841	114,232
Balance at December 31, 2005	89,009	261,844	22,737	18,713	112,391	7,561	512,255

The accompanying notes are an integral part of these consolidated financial statements.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As of December 31, 2005
(All amounts in thousand of Euro, unless otherwise indicated)

1. Form, Structure, Basis of Presentation and Consolidated Group

General Information

Lottomatica S.p.A. (“Lottomatica” or the “Company” and, together with its subsidiaries, the “Lottomatica Group”) is the Italian government’s concessionaire to manage the Lotto and other public games as well as the parent company of a group operating in the market of gaming, automated services for individuals and entities and box office services. Moreover, the Company provides:

- systems and products for games;
- hardware and software terminals and systems to process games and sports/horse racing betting;
- assistance service for operations management and Help Desk for the Italian National Horse Racing Pari-Mutuel.

Lottomatica’s registered office is located in Rome, in Viale del Campo Boario and it is incorporated in the Republic of Italy.

The parent company of Lottomatica S.p.A. is De Agostini S.p.A.

The publication of Lottomatica Group’s consolidated financial statements for the year ended December 31, 2005, was authorized by a resolution passed by the Board of Directors on March 9, 2006. At the same meeting, the Board of Directors proposed to distribute a dividend of Euro 1.30 per share.

The Merger Transaction

The year 2005 was characterized by the merger by incorporation of Lottomatica S.p.A. (the “Former Lottomatica”) and FinEuroGames S.p.A. (“FinEuroGames”) into NewGames S.p.A. (“NewGames” or “Lottomatica” as renamed after the merger). The accompanying financial statements are the first consolidated financial statements of the incorporating company that was an inactive company until December 31, 2004. FinEuroGames, which was the holding company of the Former Lottomatica within the De Agostini Group, was contributed to NewGames by De Agostini S.p.A. before the Merger, on July 14, 2005. Collectively this series of transactions is referred to as the “Merger”.

On December 14, 2005, the Merger act for the incorporation of Former Lottomatica and FinEuroGames into NewGames (which on December 20, 2005, subsequently changed its company name to Lottomatica S.p.A.) was finalized.

The Merger is governed by articles 2501 and subsequent of the Italian Civil Code as well as the Consob Regulations, taking into consideration the fact that the Lottomatica shares are traded on the Italian Stock Exchange.

Particularly, in order for the Merger to be effective:

- (i) the extraordinary shareholders’ meeting of NewGames resolved to increase the share capital to service the Merger for a maximum of €39,989,633.00 through the issue of up to 39,989,633 ordinary shares at nominal value of €1.00 each, in order to allow the share exchange of the Lottomatica ordinary shares that belong to third parties’ shareholders, other than FinEuroGames

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2005

(All amounts in thousand of Euro, unless otherwise indicated)

1. Form, Structure, Basis of Presentation and Consolidated Group (Continued)

and NewGames, in an exchange ratio of 1 (one) NewGames ordinary share for 1 (one) Lottomatica ordinary share;

- (ii) all Former Lottomatica ordinary shares, each with a par value of €1.00, owned by FinEuroGames and—as the case may be—by NewGames, in the moment prior to the effective date of the Merger have been cancelled without share exchange;
- (iii) all FinEuroGames ordinary shares, with a par value of €1.00 each, representing the entire share capital, owned by NewGames on the effective date of the Merger have been cancelled without share exchange.

On the effective date of the Merger, therefore, all the Former Lottomatica shareholders, other than FinEuroGames and—as the case may be—NewGames, received in a share exchange NewGames ordinary shares coming from the share capital increase to service the Merger, with a par value of €1.00 each, having the same rights and the same characteristics of the Lottomatica shares outstanding.

The ordinary shares of the Company, resulting from the Merger, are listed and traded on the Italian Stock Exchange. With resolution issued on December 20, 2005, the Italian Stock Exchange has admitted the Company's shares at the Stock-Exchange for trading on the Telematic Stock Market; the start date of trading of the Company's shares on the Telematic Stock Market coincided with the effective date of the Merger in order to guarantee a seamless continuity with the listing of the Former Lottomatica ordinary shares.

In the individual financial statements of the Company resulting from the Merger, prepared in accordance with Italian accounting principles, goodwill of €000 830,758 arose from the cancellation of FinEuroGames and Former Lottomatica shares as a result of the merger, due to the difference between the carrying values of the investments and the respective share owned of net equity. This difference was largely affected by transactions among companies under common control within the De Agostini Group. In the preparation of the accompanying consolidated financial statements in accordance with IFRS as adopted by the EU, because such IFRS principles do not contain explicit applicable principles with reference to the accounting for business combination of entities under common control, therefore, reference has been made to the accounting principles generally accepted in the United States, in particular, Financial Accounting Standard Board Statement ("FAS") 141, *Business Combinations*, and Emerging Issues Task Force ("EITF") Issue 02-5, *Definition of "Common Control"* in relation to FASB Statement No. 141. US GAAP requires that, for transactions qualifying as "reorganizations under common control", that the historical cost basis be carried forward to the entity, based on the premise that due to the fact that the exchange of interests involved were not done on an "arms length" basis, therefore the exchange is not an adequate proxy for fair value. Considering this principle, the difference between the amount of the investment initially recorded and the proportionate share of net equity which emerged from the Merger was adjusted to be in line with the historical value of goodwill reported at the higher level of the De Agostini Group consolidated financial statements. This adjustment was equal to €000 566,313, which essentially represented an increase in the equity of the Group and the related assets and liabilities of the Group. In essence, the net effect of the Merger was to be treated as a capital contribution by the controlling shareholder.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of December 31, 2005
(All amounts in thousand of Euro, unless otherwise indicated)

1. Form, Structure, Basis of Presentation and Consolidated Group (Continued)

The effects of the Merger with respect to third parties, according to which the incorporating company takes over from the incorporated companies all the rights and obligations with full rights in conformity with article 2504-bis of the Civil Code started on December 20, 2005, while the accounting and fiscal effects were retroactive to January 1, 2005, in conformity with article 2501 *bis*, paragraph, 1, points 5 and 6 of the Italian Civil Code. The transaction had no tax effects. As the concept of common control has been applied, the effect has been to adjust retroactively all of the financial statements from the date of the opening date being presented.

Basis of presentation

The 2005 accounting year represents the first consolidated financial statements of the incorporating company NewGames (renamed Lottomatica S.p.A.) and it includes the asset and liabilities coming from the Former Lottomatica and FinEuroGames, at January 1, 2005, incorporated in the Merger and, therefore, it does not present comparative data in the financial statements as NewGames did not own any controlling investments at December 31, 2004, and did not carried out any operating activity in the period then ended.

In order to provide a better understanding of the results of operations and change in financial conditions, in the explanatory notes of the financial statements the comparative data of the prior accounting period related to Former Lottomatica as reported in the consolidated financial statements at December 31, 2004, restated in conformity with the IFRS as adopted by the EU. In 2004 both NewGames and FinEuroGames were not operating and both companies did not have employees.

Further, the tables of the explanatory notes, where significant, provide separate indication of the effects and of the values relating to the Merger transaction, separated from the other movements deriving from the Merger.

The accompanying consolidated financial statements are prepared in accordance with IFRS as adopted by the EU. At December 31, 2005, the Company and its subsidiaries prepared their individual financial statements in accordance with the Italian accounting principles and, for the purpose of the preparation of the consolidated financial statements, they were adjusted to conform with IFRS as adopted by the EU in force at December 31, 2005.

With regard to the Lottomatica non-consolidated financial statements, the IFRS principles will be applied to the December 31, 2006 financial statements, in accordance with article 4, paragraph 1, of Legislative Decree 38 of February 28, 2005.

Until December 31, 2004, Former Lottomatica prepared its consolidated financial statements and the other interim information (quarterly and half-year accounts) in accordance with Italian accounting principles. As of the first semester of 2005, the interim financial statements of the Lottomatica Group were prepared in accordance with IFRS as adopted by the EU.

The schemes utilized in the accompanying consolidated financial statements are prepared in accordance with the following presentation:

—in the Balance Sheet the current and non-current activities have been reported separately;

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of December 31, 2005
(All amounts in thousand of Euro, unless otherwise indicated)

1. Form, Structure, Basis of Presentation and Consolidated Group (Continued)

- in the Income Statement the cost are classified based on their nature;
- the indirect method was used for the Statement of Cash Flows.

The amounts are expressed in thousands (except share and per share data) of Euro unless otherwise specified.

The financial statements at December 31, 2005 have been prepared on the going concern assumption.

Entities Consolidated

The individual entities included in the consolidation of the Lottomatica Group at December 31, 2005, includes the following:

- *LIS Lottomatica Italia Servizi S.p.A.* controlled by Lottomatica S.p.A. with a investment quota equal to 92.5% (92.5% at December 31, 2004), that manages the services for people and companies through the network of the lotto game;
- *Lottomatica Sistemi S.p.A.* 100% controlled by Lottomatica S.p.A. (100% at December 31, 2004), that manages the Multiarea Elaboration Center in Naples, and carries out technical assistance activities through the help-desk service and commercial assistance;
- *Cirmatica Gaming S.A.* 100% controlled by Lottomatica S.p.A., whose purpose is the acquisition, the management and the administration of financial and shareholding investments;
- *PCC Giochi e Servizi S.p.A.* 100% controlled by Lottomatica Sistemi S.p.A. (100% at December 31, 2004). The company operates in the field of specialized paper support products;
- *Consorzio Lottomatica Giochi Sportivi*, incorporated on June 3, 2003, of which Lottomatica directly holds a quota of 85%, and indirectly, through the controlled Totobit Informatica Software e Sistemi S.p.A., a quota of 5%. The Consorzio is operative in the collection of the games of chance and sports games, as well as of the totalizer bets;
- *Consorzio Lotterie Nazionali*—incorporated on December 10, 2003 between Lottomatica S.p.A., Scientific Games International, Inc, Arianna 2001 S.p.A., Olivetti Tecnost S.p.A. and Servizi Base 2001 S.p.A.—operative in the management of the instant and deferred-draw National Lotteries.

The investment quotas to the consortium fund are as follows: Lottomatica 63%, Scientific games 20%, Arianna 2001 15%, Olivetti Tecnost 1%, and Servizi Base 1%;

- *RTI Videolot S.p.A.*, 100% controlled by Lottomatica S.p.A., is the concessionaire company for the assignment of the activation and of the operative management of the network for the telematic management of legal gaming through amusement and entertainment devices as well as their linked activities and functions;
- *Videolot Gestione S.p.A.*, 100% controlled by Lottomatica S.p.A. and operating in the video lottery sector as service provider of amusement and entertainment devices;

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2005

(All amounts in thousand of Euro, unless otherwise indicated)

1. Form, Structure, Basis of Presentation and Consolidated Group (Continued)

- *Totobit Informatica Software e Sistemi S.p.A.*, purchased in December 2003 and 100% controlled by Lottomatica Italia Servizi S.p.A., which manages a vast network of multifunction miniterminals—installed at commercial businesses with significant pedestrian traffic, such as bars-collectorships, service stations, newsagents, and others. Its purpose is that of supplying telematic services “for the citizen.”
- *Sed Multitel S.p.A.* 60% controlled by Totobit Informatica Software e Sistemi S.p.A., and 20% by Lottomatica S.p.A., incorporated on November 28, 2002, which has a specialized organization capable of guaranteeing, through the coordination and the management of its own and outsourced processing centers, the necessary technological support linked to the typically transactional activity of the telematic services supplied;
- *TTS S.r.l.* 100% controlled by Totobit Informatica Software e Sistemi S.p.A., which develops and distributes the software product for the elaboration and the development of gaming systems in collectorships; it supplies its customers with accurate technical/system assistance, both by telephone (through an internal call center) as well as on site; it also handles the collection on the territory of the subscription contracts concerning the services supplied by the parent company;
- *LIS Finanziaria S.p.A.*, 100% controlled by Totobit Informatica Software e Sistemi S.p.A., specifically incorporated and registered in the Financial Brokers Register pursuant to article 106 TULB, is the company appointed to manage the financial services that the parent company intends to bring to its network. The company started operating in September 2003;
- *Carta LIS S.p.A.*, incorporated on September 12, 2005, 90% controlled by Lottomatica Italia Servizi S.p.A., which operates in the field of issuing electronic money, through the immediate transformation of the funds received.
- the companies *Lottolatino do Brasil* and *Lottomatica Argentina*, non-operative companies for which the liquidation process has been initiated.
- *Nova Prima S.r.l.* 100% (since December 22, 2005) and whose entry in the consolidation is connected to the announced acquisition of the GTECH group the details of which are laid out in note No. 40 “*Subsequent Events*”.

2. Significant Accounting Policies

Statement of compliance with IFRS

The consolidated financial statements of the Lottomatica Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Community (“EU”).

Consolidation Criteria

The consolidated financial statements include the financial statements of Lottomatica S.p.A. and of its subsidiaries, taking into consideration the jointly-controlled companies (joint ventures), businesses of insignificant size, companies in liquidation and those carrying out unrelated business activities.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of December 31, 2005
(All amounts in thousand of Euro, unless otherwise indicated)

2. Significant Accounting Policies (Continued)

All intercompany balances and transactions, including unrealized gain and losses from transactions among companies of the Group, are eliminated.

The companies for which there exists voting control have been entirely consolidated as of the date of acquisition, that is, the date in which the Group acquires the control, and they cease to be consolidated on the date in which the control is transferred outside the Group. Joint Ventures are accounted for on the equity method of accounting.

The line by line consolidation method is applied, as follows:

- all balance sheet and income statement line items of the consolidated companies are included in consolidation, the value of the investments in the subsidiaries is eliminated against the net equity of the subsidiaries; minority interests, if any, are recognised;
- the difference between the book value of the investment at the date of the acquisition and the fair value of the corresponding quota of net assets: i) if positive, it is classified as “Goodwill”, and subject to annual evaluation in order to identify the eventual loss of value (impairment test); ii) if negative, it is booked directly to the Income Statement;
- the balances and the operation between the consolidated companies are eliminated, as well as the intercompany gain and losses, with the respective deferred fiscal effects;
- the dividends from the consolidated companies are eliminated.

Foreign currency transactions

The functional and reporting currency of the Lottomatica Group is the Euro.

On the balance sheet date, the financial statements of the foreign companies with functional currency other than the Euro have been converted into the presentation currency according to the following modalities:

- the assets and liabilities are translated using the period-end exchange rate;
- the Income Statement items are translated using the average exchange rate of the accounting year;
- Shareholders’ Equity items are translated at historical exchange rates.

The exchange rate differences deriving from the above translation are recognized directly in the shareholders’ equity under the “Translation reserve (difference)” caption.

Property, Plant and Equipment

Property, plant and equipment are recorded at purchase cost, including directly related costs, adjusted by the accumulated depreciation accounted for in various accounting years (adjusted cost method). If the asset is made up of more significant components with different useful lives, depreciation is made for each component. The depreciation charged to the Income Statement is computed in a constant and systematic manner on the basis of rates considered to be representative of the estimated useful life for each single

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of December 31, 2005
(All amounts in thousand of Euro, unless otherwise indicated)

2. Significant Accounting Policies (Continued)

category of asset. Ordinary maintenance expenses are charged to the Income Statement in the period in which they were sustained.

The costs sustained for the leasehold improvements that can be identified are accounted for as an increase of the fixed asset. The amortization period corresponds to the lesser between the remaining useful life of the tangible fixed asset and the remaining duration of the rental agreement.

The carrying value of fixed assets is subject to analysis to identify possible losses in value when events or changes of situations indicate that the book value cannot be recovered. If there is an indication of impairment and in the case where the book value exceeds the estimated net realizable value, the activities are devalued to the estimated net realizable value.

Fixed assets under construction and advance payments include the purchase costs and the advances to suppliers for the purchase of assets still not placed in service; moreover, they include the goods at third parties on consignment basis that have not yet been used. The depreciation of these costs will start when the actual use starts.

The depreciation rates follow:

<u>Property, plant and equipment</u>	<u>Depreciation Criteria</u>
1) Buildings	Lease duration
2) Systems and Machinery	15% - 20%
3) Industrial and Commercial Equipment	25%
4) Other Goods	12%

The carrying value of the fixed assets is reduced by the investment grants from the Italian state. In particular, the contribution grants, recognized when it becomes receivable, is deducted from the book value of the asset and it is amortized to income over the useful life of the asset.

Capital Leases

The assets acquired under capital leases are recognized as assets at their fair value or, if lower, at the present value of the minimum payments due for the lease, including the amount to be paid for exercising the option to purchase. These assets are classified in their respective categories and amortized in a period of time equal to the lower of the duration of the contract or the useful life of the asset. The debt corresponding to the lease agreement is recorded as a debt. In the Income Statement the depreciation of the underlying asset and the interest paid in relation to the financial component of the lease are accounted for in depreciation and interest expense, respectively.

Intangible Assets

As required by IAS 38, reported intangible assets have identifiable characteristics, the capability of producing future economic benefits and are under the control of the Group. Intangible assets are booked at purchase cost, increased by the related costs and by the direct costs necessary to prepare these assets for their intended use.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2005

(All amounts in thousand of Euro, unless otherwise indicated)

2. Significant Accounting Policies (Continued)

The activities acquired through business combinations are recorded at fair value on the date of acquisition. After the initial recognition, the intangible assets are reported in the Balance Sheet at cost, net of the accumulated amortization, calculated at constant rates on the basis of the useful estimated life of the asset, and less any impairment charges. However, if a intangible asset is characterized by an undefined useful life, it is not amortized, but rather is submitted periodically to an impairment analysis to assess if its fair value is at least as much as recorded in the Balance Sheet.

The amortization begins when an asset is available for use, that is, when it is in the necessary position and condition so that it may operate in the way the Company expects. If there is an indication of impairment, then the assets are written down to the higher of their estimated net realizable value or value in use.

Specifically:

- under the item “industrial patent rights” are the costs sustained for application software purchased as property, the costs for application software purchased with a license to use it for an unlimited period of time, and the costs for protected application software produced for internal use;
- under the item “concessions, licenses, marks and similar rights” are the costs sustained for software purchased with the permission for use for a determined period of time for which the payment of a single initial compensation was made for the entire license period; and
- the intangible assets in progress refer to purchases that have not yet started to be used at the Balance Sheet date.

Amortization rates follow:

<u>Intangible assets</u>	<u>Amortization Criteria</u>
1) Industrial Patent Rights	3 years
2) Concessions, Licenses and Marks	3 years
3) Other Non-Tangible Assets	2 years - 5 years

Goodwill

Goodwill acquired during a business combination is initially reported at cost, in that it represents the excess of the purchase price in relation to the ownership quota of the net fair value of the assets acquired and liabilities assumed. After the initial purchase price allocation, goodwill is valued at cost less the eventual accumulated losses in value. Goodwill, as an intangible asset of indefinite useful life, is not amortized, but each year the fair value is reviewed (impairment test), with the consequent inclusion in the Income Statement of the carrying value over the fair value. The impairment test is carried out by comparing the book value and the greater of the net sale price and the value in use of the asset. The fair value is determined based on the best information available to reflect the amount that the entity may obtain, on the date of reference of the Balance Sheet, from the divestiture of an asset into a free transaction among knowledgeable and available parties. Goodwill is assessed for fair value the Cash Generating Unit (“CGU”), which represents the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of December 31, 2005
(All amounts in thousand of Euro, unless otherwise indicated)

2. Significant Accounting Policies (Continued)

Financial Assets

Financial assets are initially recorded at cost, which represents the fair value of the consideration paid. Subsequent to the initial recognition the financial assets are evaluated in relation to their functional destination on the basis of the following criteria.

Financial Assets Held for Trading

These are financial assets purchased with the purpose of obtaining a profit from the short-term price fluctuations. After the initial recognition, these assets are evaluated at fair value and the respective earning or loss is recorded in the Income Statement.

Investments Held to Maturity

These are non-derivative financial assets with fixed or determinable payments. Fixed maturity securities that the Group has the firm intention and capability of maintaining until maturity are evaluated at amortized cost using the effective interest rate criterion. The amortized cost is calculated taking into consideration the eventual discounts or premiums that are divided throughout the entire period of time until maturity.

Financial Assets at Cost

If there is an objective indication of the loss in value of a non-quoted security that is not recorded at fair value in that it cannot be measured in a reliable manner, or of a derivative instrument that is connected to this investment instrument and must be regulated through the delivery of this instrument, the amount of the loss due to reduction of value is equal to the difference between the book value of the asset and the actual value of the expected future financial flows brought up-to-date at the current market interest rate for an analogous financial asset.

Financing Assets

Assets held for financing are accounted for in a manner similar to investments held to maturity.

Financial Assets Available for Sale

This includes the financial assets that do not belong in the previous categories. These assets are evaluated at fair value, with any changes in their fair value being included in shareholders equity until it is ascertained that they have suffered a permanent loss in value, at which point the earnings or the losses accumulated until then are recorded in the Income Statement.

Derivative Financial Instruments

All derivative financial instruments are measured at fair value, as established by IAS 39. The change in the fair value to mark to market the derivative instrument is recorded in the Income Statement.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of December 31, 2005
(All amounts in thousand of Euro, unless otherwise indicated)

2. Significant Accounting Policies (Continued)

Inventory

Inventory is recorded at the lower of the purchase or production cost, including the additional costs, and the net realizable market value. The cost flow assumption is the “weighted average cost” (for paper), of FIFO (for the recharges) and of the specific cost (for tickets).

Accounts Receivable and Payable

Accounts receivable are initially recorded at their nominal value, subsequently evaluated at amortized cost, and devalued in case of credit losses. Payables are at nominal value.

Cash and Cash Equivalent

Cash and cash equivalents are recorded at their nominal value, with an original maturity of 90 days or less.

Long-Term Debt

Long term debt is initially recorded at cost, corresponding to the fair value of the consideration received, net of the related costs of the financing. After the initial recording, the financing is reported in accordance with the amortized cost criterion, using the effective interest rate method.

Long-Term Provision

The provisions for risks and charges relate to liabilities of a determined nature, of certain or probable existence, of which, however, at the date of preparation of the financial statements the amounts or the date of occurrence are undetermined. The provisions are recorded when the existence of a current obligation, legal or implicit is probable, as consequence of past events, and when it is probable that the obligation is onerous and its amount can be reliably estimated. The evaluation of the provision is made at the fair value of each liability. The provisions reexamined at every reporting date and adjusted so that they represent the best estimate of the liability to be incurred.

Employee Benefits

The employee benefits due following the termination of the work relationship (post-employment benefits of the “defined benefits” type) and other long-term benefits are subject to actuarial evaluations. The liability recorded in the financial statements represents the current value of the Group obligation net of the assets servicing the plans.

The Group decided not to use the so-called corridor approach and to record the earnings and losses deriving from modifications of the actuarial hypotheses directly in the Income Statement in the period in which these differences are actuarially determined.

The supplementary severance indemnities are recorded as liabilities and costs when the Company is in the course of interrupting the work relationship of an employee or of a group of employees before normal

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of December 31, 2005
(All amounts in thousand of Euro, unless otherwise indicated)

2. Significant Accounting Policies (Continued)

retirement or it is in the course of providing severance compensations following a proposal that gives incentives for retiring willingly due to overstaffing.

Assets to Be Sold and Losses Associated to Assets to Be Sold

The non current assets (or groups of assets and liabilities) are classified as held for sale should they be available for the immediate termination of their current condition, with the exception of the recurring negotiation conditions for the sale of that type of assets.

These assets are reported:

- at the lesser of the book value and the fair value, net of selling costs, with any write-downs recorded in the Income Statement, or
- the fair value net of the sale costs if it is due to an asset being disposed of in a business combination.

No amortization of the asset occurs when it is classified as held for sale.

The assets and liabilities directly connected to a group of assets subject to sale must be distinctly classified in the balance sheet, as well as the pertinent reserves of earnings or losses directly accumulated in the net equity. The net result of the ceased operations is indicated in a separate line item in the Income Statement.

Stock Option Plan

The Lottomatica stock option plan foresees its regulation through the issuance of instruments representing capital (equity-settled). The fair value is determined on the grant date, with cost recorded as the options vest (under the “Cost of Personnel” item) with a corresponding increase in equity (item “Stock Option Reserve” included in “Other Reserves”). The net effect on shareholders’ equity is zero.

Share based compensation is recognized based on the fair value of the options on the grant date. The Group uses IFRS 2, Share Based Payment, in its valuation and recognition of share based compensation. The recognition of share based compensation requires management to make certain estimates about the fair value of the options at the grant date, including the expected life, the risk free rate, the expected dividend yield and the estimated number of options expected to vest. The valuation of the options is done using a Black-Scholes model. At the maturity of the option the amount recorded under the item “Stock Option Reserve” is reclassified as follows: the quota part of the net assets relating to the exercised options is reclassified under “paid-in capital”, while the part relating to the non-exercised options is reclassified among the Undivided Earnings.

Revenue

Revenue is reported at the current value of the consideration received or due.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of December 31, 2005
(All amounts in thousand of Euro, unless otherwise indicated)

2. Significant Accounting Policies (Continued)

Sale of Goods

Revenue is recognized when the Group transfers the significant risks and benefits connected to the property of the goods, and it ceases to exercise the usual level of activity associated with the property as well as the effective control on the sold goods. The revenue associated with the sale of telephone recharges is recorded net of the costs sustained for the purchase of the same.

Services Performed

The revenue is recorded with reference to the completion stage of the transaction at the balance sheet date. When the result of the services performed cannot be reliably estimated, the proceeds are recorded only in the measure in which the recorded costs will be recoverable. The completion stage of the service derives from the evaluation of the work performed or through the percentage of completion between the ratio of actual costs to the total estimated costs.

In cases where delays in payment are granted to the customers without the maturing of interests, the amount recorded represents the present value of the amount receivable. The difference between the present value and the amount receivable recorded as financial income over the life of the note.

Revenue and costs are recorded net of value-added taxes with the exception of the case in which:

- the tax applied to the purchase of goods or services is not tax-deductible, in which case it is recorded as part of the purchase cost of the asset or part of the cost item recorded in the Income Statement;
- it refers to trade receivables and payables with embedded value of the tax.

Interest Income and Expenses

Interest income and expenses are recorded on an accrual basis, using the effective interest method.

Dividends

They are recorded when the right of the shareholders to receive payment arises.

Purchase Costs of Goods and Services Performed

Purchased goods and services are recognized when the goods and services are actually received, or constructively received, based on the accrual basis of accounting.

Borrowing Costs

The borrowing costs are recorded as costs in the accounting year in which they are sustained. These costs are amortized to interest expense over the life of the underlying debt using the effective interest rate method.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of December 31, 2005
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2. Significant Accounting Policies (Continued)

Current and Deferred Income Taxes

The current income taxes are determined on the basis of the estimated taxes to be paid, applying the fiscal regulations in force in the individual countries.

Temporary differences arise between the values of the assets and liabilities reported in the financial statements and their respective tax values are recorded as deferred taxes (both assets and liabilities). The deferred tax assets are recorded when it is in which it is probable that taxable income will be available against which the deductible temporary difference can be used. Net operating losses tax carryforwards are recognized when their recoverability is probable. Deferred tax assets and liabilities are classified in the balance sheet among the non-current assets and liabilities. Deferred taxes are computed on the basis of the tax rates that are expected to be applied in the year in which these assets are realized or these liabilities are paid, considering the rates effective at the balance sheet date.

Use of Estimates

The key assumptions concerning the future and other significant uncertainties relating to the estimates at the balance sheet date, which may produce significant adjustments in the reported values of the assets and liabilities within the next financial accounting year, are presented hereafter.

Impairment of Goodwill

Goodwill is subject to impairment test for eventual losses in value at least once a year; this test requires an estimate of the value in use of the cash generating unit to which the goodwill is allocated, based on the estimate of the expected cash flows of the segment and their present value based on an adequate discount rate. At December 31, 2005, the reported value of goodwill was €/000 663,613.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2005

(All amounts in thousand of Euro, unless otherwise indicated)

3. Property, Plant and Equipment

They amount to €/000 158,248 (€/000 117,356 at December 31, 2004). The following table shows the break-down with separate indication of the historical cost and of the accumulated depreciation.

	Merger Effect	Movements						Balance at 12/31/2005
		Increases	Depreciation	Decreases	Write-downs	Other changes	Reclassifications	
Lands	456	—	—	—	—	—	—	456
Buildings	10,312	9,028	—	—	0	(1,156)	259	18,443
Equipment and machinery	477,972	43,624	—	3,208	80,836	2,289	3,134	442,975
Ind. and Comm. equipment	1,688	2	—	—	0	(10)	(1,353)	327
Other goods	5,234	1,697	—	17	0	(970)	(55)	5,889
Fixed assets in progress	8,406	29,192	—	—	0	(97)	(2,261)	35,240
Historical cost	504,068	83,543	—	3,225	80,836	56	(276)	503,330
Lands	—	—	—	—	—	—	—	—
Buildings	562	—	1,651	—	0	(1,061)	1	1,153
Equipment and machinery	382,054	32	36,206	1,200	76,084	(460)	(159)	340,389
Ind. and comm. equipment	357	1	81	—	0	—	(118)	321
Other goods	3,739	1	472	12	0	(981)	—	3,219
Accumulated depreciation	386,712	34	38,410	1,212	76,084	(2,502)	(276)	345,082
Lands	456	—	—	—	0	—	—	456
Buildings	9,750	9,028	1,651	—	0	(95)	258	17,290
Equipment and machinery	95,918	43,592	36,206	2,008	4,752	2,749	3,293	102,586
Ind. and comm. equipment	1,331	1	81	—	0	(10)	(1,235)	6
Other goods	1,495	1,696	472	5	0	11	(55)	2,670
Fixed assets in progress	8,406	29,192	—	—	0	(97)	(2,261)	35,240
Net book value	117,356	83,509	38,410	2,013	4,752	2,558	0	158,248

The additions of the year relate principally to:

- *Buildings*: refer to the costs sustained by the Company for the preparation of the new headquarters;
- *Equipment and Machinery*: They almost entirely refer to Lottomatica S.p.A. (€/000 31,332) and they are prevalently connected to the project for the replacement of the terminals initiated in 2005, and that, within 2006, should lead to the replacement of the entirety of the old-generation terminals (essentially the M320 and the M350). Other significant investments have been carried out by LIS for the purchase of printers used in the revenue stamp business (€/000 4,420) and by the companies operating in the field of Video Lotteries (RTI Videolot and Videolot Gestione) (€/000 4,030);
- *Fixed Assets in Progress*: They exclusively refer to terminals and printers that have not yet been installed at the collectorships. In particular they concern, with €/000 25,806, the company Lottomatica S.p.A. in the ambit of the replacement project of the above terminals, and with €/000 3,386 the company LIS for the purchase of the printers used for the revenue stamp business. Since the said investments are not yet functional, they have been inserted amongst the “fixed assets in progress” and they are on consignment basis at third parties.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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3. Property, Plant and Equipment (Continued)

The devaluations referred under the “equipment and machinery” was due to the alignment of the book value of the goods (terminals for Lotto gaming) to their value in use. The devaluations are mainly linked to the mentioned replacement project of the entirety of the terminals that was carried out by the Company (for a net value of €/000 4,752 consisting of goods that had a historical cost of €/000 80,836 and an amortization fund of €/000 76,084), which at the end of December 31, 2005 had a value of zero.

In particular, the devaluations have had an effect on the “Amortizations and devaluations” item of the Income Statement and they have affected the Gaming business sector as the devalued assets are entirely referable to this business sector.

The “other changes” of the item ‘Equipment and machinery’ mainly refer to the value reinstatement carried out by RTI Videolot /€/000 1,417) in order to realign the book value of the goods (the terminals for the Video Lottery business) in relation to their estimated value in use. The reinstatement value is equal to that of the previous devaluation. The reversal is a consequence of the Company’s decision to keep the machinery. The reversal reinstatement has affected the item “Other revenues” of the Income Statement that affected the Gaming business sector as the revalued assets are entirely referable to this business sector.

Moreover, the €/000 534 of the “other changes” refers to the non-deductible VAT on prior year additions still concerning the company RTI Videolot. Further €/000 217 refer to the company Lottomatica S.p.A. and to a reclassification from the intangible assets category (“development costs” item) in the property, plant and equipment category (“equipment and machinery” item) for their allocation, into their correct class, of fixed assets recorded in the previous accounting period.

The reclassifications of the accounting period mainly refer to equipment that were placed in service in 2005 and previously included in the fixed assets in progress.

The book value of the capital leases at December 31, 2005, is of €/000 2,938 (€/000 3,612 in 2004). The balance of the item refers, for the most part, to buildings held by the company Totobit and by PCC.

There are no current contractual commitments for the purchase of fixed assets and there are no goods given as guarantees or liens.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of December 31, 2005
(All amounts in thousand of Euro, unless otherwise indicated)

4. Goodwill

It amounts to €/000 663,613. The balance of the item is due to the incorporated company Lottomatica, equal to €/000 446,648 at December 31, 2004. In detail:

<u>Company</u>	<u>Merger Effect</u>	<u>Increases</u>	<u>Balance at 12/31/2005</u>
—Lis Finanziaria	133		133
—Sed Multitel	1,660		1,660
—Totobit Informatica	31,699	200	31,899
—TTS	172		172
—Tyche	404,016		404,016
—NG FEG Lottomatica	0	216,765	216,765
—PCCGS	6,853		6,853
—EIS games branch	825		825
—TWIN games branch	1,290		1,290
Total	<u>446,648</u>	<u>216,965</u>	<u>663,613</u>

The most significant items that make up the balance are the following:

- Goodwill of €/000 404,016 from the Merger of Lottomatica in Tyche that took place in 2002.
- Goodwill from the contribution of PCC Giochi e Servizi €/000 6,853.
- Goodwill linked to the acquisition of the gaming branch of EIS S.p.A. and of the Twin company branch (totalizer) €/000 2,115.
- Goodwill deriving from the acquisition of Totobit Informatica for €/000 31,899.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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(All amounts in thousand of Euro, unless otherwise indicated)

4. Goodwill (Continued)

- Goodwill of €/000 216,765 deriving from the Merger transaction consummated on December 20, 2005, among NewGames, FinEuroGames and Lottomatica as follows:

Values in €/000

FinEuroGames contribution value in NewGames (a)	874,775
FinEuroGames value (in accordance with the equity method) (b)	308,462
Adjustment to the contribution value (b - a)	(566,313)
FinEuroGames shareholders' equity (book value)	226,512
Carrying value of Lottomatica in FinEuroGames (equity method)	260,578
Consolidated shareholders' equity of Lottomatica pertaining to FinEuroGames	88,808
Merger difference for the cancellation of FinEuroGames shares	648,263
Adjustment to account for FinEuroGames at equity	(566,313)
Merger difference for the cancellation of Lottomatica shares	171,770
Total merger difference, allocated to goodwill	253,720
Consolidation adjustment for FinEuroGames dividends in 2005	(36,955)
Net allocated to goodwill	216,765

Upon first adopting the IFRS as adopted by the EU, the Lottomatica Group chose to not apply IFRS 3 retroactively to the company acquisitions that had taken place before January 1, 2004; consequently goodwill was maintained at the previously determined value in accordance with Italian accounting principles. For further details please refer to that previously explained in the "Merger" paragraph.

Goodwill has been allocated on the basis of IAS 36 to the Gaming (consisting of CGU Lotto, Scratch and Win, and Video Lotteries) and Services Segment as follows:

—Gaming €/000 443,515; and

—Services €/000 220,098

Goodwill was subject to an impairment test on December 31, 2005. Consistent with the provisions of IAS 36, the impairment test was carried out comparing the recoverable value with the respective book value at December 31, 2005.

As a recoverable value, the value in use was selected. The value in use was determined using the Discounted Cash Flow method, computing the net present value of the operating cash flows resulting from the economic-financial projections concerning the period of the concessions granted by the Italian State or up to a maximum of 7 years, based on the assumptions contained in the plan prepared by the management on the basis of the projections of the operating results, the final amount of which was calculated, at the appraisal date, projecting the periods exceeding three years, in accordance with conservative growth rates lower than the historical trend. The estimate of the value in use was carried out through the use of the Discounted Cash Flow model that computes the present value of the future cash flows estimated by applying an appropriate discount rate, in this case the weighted average cost of capital of the Company

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of December 31, 2005
(All amounts in thousand of Euro, unless otherwise indicated)

4. Goodwill (Continued)

(“WACC”). This impairment test showed that the discounted cash flows are greater than the goodwill book value, thereby supporting the goodwill value. Consequently no loss in value was recorded. The discount rate (WACC) used by the Company was determined in measure equal to approximately 8% (average).

5. Intangible Assets

They amount to €/000 10,774 (the balance of the item of the incorporated company Lottomatica at December 31, 2004 is equal to €/000 11,717) and they essentially relate to:

- the “*Rights to Industrial Patents*” equal to €/000 8,859 (€/000 7,755 at December 31, 2004) mainly refer to the Company for €/000 5,420 mainly concerning the software developments linked to the management of Totocalcio and of the Lotto game, and to the software development of Scratch and Win for the Consorzio Lotterie Nazionali (€/000 1,191).

The acquisitions of the period (€/000 6,520) refer, for the most part, to the expenses sustained by the Company and by the controlled companies for the development of application software:

- the “*Concessions, licenses, marks and similar rights*”, equal to €/000 1,452 (€/000 1,960 at December 31, 2004), refer to use licenses and are essentially referable to Consorzio Lotterie Nazionali and to Lottomatica S.p.A.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2005

(All amounts in thousand of Euro, unless otherwise indicated)

5. Intangible Assets (Continued)

Following are the movements that took place in the period:

	Merger Effect	Movements of the period				December 31, 2005
		Increases	Amortization	Decreases	Reclassifications	
Development costs	—	—	—	—	—	—
Patent rights	38,265	6,520	—	—	1,950	46,735
Concessions, licenses	8,042	741	—	—	(188)	8,595
Assets in progress and advances	2,003	324	—	—	(1,950)	377
Other	—	2	—	—	188	190
Historical Cost	48,309	7,587	—	—	—	55,897
Development costs	—	—	—	—	—	—
Patent rights	30,510	—	7,366	—	—	37,876
Concessions, licenses	6,082	—	1,061	—	—	7,143
Assets in progress and advances	—	—	—	—	—	—
Other	—	—	104	—	—	104
Accumulated Amortization	36,592	—	8,531	—	—	45,123
Development costs	—	—	—	—	—	—
Patent rights	7,755	6,520	(7,366)	—	1,950	8,859
Concessions, Licenses	1,960	741	(1,061)	—	(188)	1,452
Assets in progress and advances	2,003	324	—	—	(1,950)	377
Other	—	2	(104)	—	188	86
Net Book Value	11,717	7,587	(8,531)	—	—	10,774

The reclassification (of €/000 1,950) of the item “Fixed assets in progress and down payments” under the “Patent rights” item refer to the costs sustained by the company LIS for the software developed by Tecnost MAEL concerning the new “revenue stamp” business that was launched in 2005.

6. Inventory

Inventory amounts to €/000 14,436 (the balance of the item of the incorporated company Lottomatica at December 31, 2004 amounts to €/000 10,448) consisting of:

	December 31, 2005
Raw, subsidiary and consumable materials	1,272
Work in progress and semifinished goods	86
Finished goods and merchandise	13,078
	14,436

Inventory almost entirely relates to the stocked inventory of Lottomatica connected to the game receipts and cards, as well as the goods in stock of Totobit relating to the activation codes of the pre-paid

LOTTOMATICA S.p.A. and Subsidiaries
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As of December 31, 2005
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6. Inventory (Continued)

Vodafone and Telecom cards purchased in the period, and that will be resold in the ambit of the Company's normal business activity.

7. Accounts receivable trade and other receivable

Accounts receivable trade and other receivable consist of:

	December 31, 2005
Accounts receivable, gross	122,793
Less: Allowance for doubtful accounts	(10,418)
Accounts receivable, net	112,375
Receivables from Parent company	1,442
Other receivables	2,446
	<u>116,263</u>

Trade accounts receivable amount to €/000 112,375 (the balance of the item of the incorporated company Lottomatica at December 31, 2004 is equal to €/000 58,836), net of an allowance for doubtful accounts of €/000 10,418 and consist of:

- €/000 9,629 pertaining to Lottomatica S.p.A. €/000 1,179 of this amount is referable to Sarabet s.r.l. for the compensation due for the management of the Tris totalizer, €/000 1,397 (net of an allowance for doubtful accounts of €/000 7,222) to receivables deriving from the service activities of the horserace and sports betting, €/000 6,269 of invoices from the AAMS relating to the quotas matured during the latest contests of the period, and €/000 784 for other minor clients;
- €/000 35,109 pertaining to LIS S.p.A., almost entirely referable to the sales activity of the telephone recharges of the last days of the month of December (net of a devaluation fund equal to €/000 365);
- €/000 34,071 pertaining to the Totobit Group for credits claimed toward the bet collectors with reference to the transactions of the last ten days of the month of December (net of an allowance of €/000 1,806).
- €/000 10,611 pertaining to Consorzio Lotterie Nazionali in relation to the fee that belongs to the Consorzio for the distribution and sales activities of the instant and deferred lotteries;
- €/000 21,604 pertaining to RTI Videolot (net of a devaluation fund of €/000 1,000) for the amounts to be reversed in the ambit of the collection of entertainment devices.

Accounts receivable are non-interest-bearing and generally mature at 30-90 days.

Accounts receivable amounting to €/000 7,650 are due over the next 12 months.

The determination of the allowance tends to consider the possible risks of losses on receivables on the basis of the best information available at the date of preparation of the financial statements. The allowance increased mainly due to the recording of €/000 1,000 relating to collectibility risks on receivables deriving from the video-lottery business managed by RTI Videolot in 2005.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2005

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7. Accounts receivable trade and other receivable (Continued)

The *Receivables from Parent company* amount to €/000 1,442 and almost entirely consist of the tax receivables toward the Parent company De Agostini S.p.A. in connection with the Group's participation in the consolidated tax return of the Parent and to the Group's VAT procedure. The detail by company is as follows:

<u>Company</u>	<u>VAT receivables</u>	<u>2005 Income Taxes receivable</u>	<u>Trade receivables</u>
Lottomatica Italia Servizi S.p.A.	140		
Lottomatica S.p.A.		611	3
RTI Videolot S.p.A.		70	
Gruppo Totobit		99	
Videolot S.p.A.		519	
Total	<u>140</u>	<u>1,299</u>	<u>3</u>

The *other receivables* amounting to €/000 2,446 are mainly pertaining to Lottomatica.

8. Current financial assets

The amount recorded in the Balance Sheet is equal to €/000 31,971 (the balance of the item of the incorporated company Lottomatica at December 31, 2004 is equal to €/000 72,120), and it mainly refers to:

- €/000 29,357 (€/000 64,529 at December 31, 2004) for investments in Italian government Bonds on the part of Lottomatica, with maturity in 2006;
- €/000 2,431 of financial receivable of which the main component is represented by the financial receivable toward the company Bingo Plus (€/000 1,644);
- €/000 782 to financial receivables toward the AAMS.

The investments in State Bonds (Ordinary Treasury Bonds) held by Lottomatica, have the following characteristics:

<u>Issuer</u>	<u>Type of Title</u>	<u>ISIN</u>	<u>Purchase</u>	<u>Maturity</u>	<u>Nominal Value €/000</u>	<u>Purchase Price €/000</u>	<u>Yield</u>
Treasury	B.O.T.	IT0003795603	01/19/05	06/16/06	30,000.00	29,357.4	2.194%

9. Other Current Assets

Other current assets amount to €/000 189,808 (the balance of the item of the incorporated company Lottomatica at December 31, 2004 is equal to €/000 113,518) and mainly regard the credits toward the bet collectors in the ambit of the various games and services (€/000 183,012 net of an allowance of €/000 3,395). In particular, the credits toward the bet collectors mainly comprise:

- the Consorzio Lotterie Nazionali (€/000 166,712) relating to a credit matured toward the bet collectors for the tickets of the instant and deferred lotteries delivered at the date of December 31,

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2005

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9. Other Current Assets (Continued)

2005. On the basis of contractual agreements, the reversal on the part of the bet collectors (net of the winnings paid and of their fee) takes place, on average, 15 days after delivery;

—Lottomatica Italia Servizi (€/000 15,383 net of an allowance of €/000 386) relating to credits toward bet collectors for amounts still to be cashed for the sales of the Telecom Italia Mobile operator recharges of the last days of the month of December;

—Lottomatica (€/000 915) for amounts to reversed by the bet collectors for the collection of the Tris and sports gaming bets.

—The costs of the announced acquisition of the GTECH group (€/000 3,896). The amounts refer to the invoices issued by the legal consultants who assisted the company, and that will constitute a part of the purchase price.

10. Tax Receivables

The tax receivables amount to €/000 3,370 (the balance of the item of the incorporated company Lottomatica at December 31, 2004 is equal to €/000 29,979) and consist of.

	December 31, 2005
VAT receivables	1,939
Tax receivables (IRES and IRAP)	913
Withholding taxes	102
Tax receivables on termination indemnities	83
Other tax receivables	333
	<u>3,370</u>

In comparison to the data shown by the Lottomatica Group at December 31, 2004, the tax receivables present a decrease of €/000 26,609 essentially due to the reclassification of the IRES receivables to receivables from IRES Parent company for the application of the De Agostini Group national tax consolidation to Lottomatica and LIS.

11. Cash and Cash Equivalents

They amount to €/000 246,163 at December 31, 2005 (the available liquidity of Lottomatica at December 31, 2004 was equal to €/000 241,661) and consist of:

	December 31, 2005
Bank and post office accounts	246,102
Cash on hands	61
	<u>246,163</u>

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11. Cash and Cash Equivalents (Continued)

The cash and cash equivalent balance includes the available liquidity of the Consorzio Lotterie Nazionali, amounting to €/000 87,887, that is shown net of €/000 10,318 related to the amounts to be transferred to the AAMS for the collection on its behalf of the tickets of the Lotteria Italia. The amount is balanced by an equal amount included in the debts towards the AAMS. The cash related to the amount to be reversed to the AAMS for the collection of the instant lottery, usually is reversed during the first half of the following month.

12. Shareholders' Equity

The Shareholders' equity of the Group is equal to €/000 504,694 and it consists of the following:

Share Capital

It is equal to €/000 89,009. This amount has been reached through the following operations carried out in 2005:

- increase in capital: the variation of €/000 48,900 was deliberated on July 14, 2005 in the connection with the FinEuroGames contribution transaction.
- increase due to exchange of shares: the amount of €/000 39,990 refers to the capital increase carried out to service the exchange of shares in the Merger (for the Lottomatica ordinary shares owned by shareholders of the Former Lottomatica other than FinEuroGames in a ratio of one ordinary share for each Lottomatica ordinary share;

At December 31, 2005, the fully subscribed and paid up Lottomatica share capital consists of 89,009,000 ordinary shares, all of which have a nominal value of 1.00 euros each. Hereafter is the movement of the shares issued by the Company during the year:

- at January 1, 2005: 120 shares at €1.00 each;
- issuance of July 14, 2005, following the contribution of the FinEuroGames investment, of 48,900 shares at €1.00 each
- issuance on December 20, 2005, following the Merger transaction, of 39,989 shares at €1.00 each.

Additional paid in capital

The item amounts to €/000 261,844. The amount of additional paid-in capital that resulted at the time of contribution of FinEuroGames S.p.A. into NewGames S.p.A. (€/000 830,758) was adjusted in consolidation by €/000 554,603, principally due to the effects of the Merger as described in Note 1 to these financial statements.

The *Additional paid in capital reserve* has also been used to carve out the stock option reserve with €/000 9,428 deriving from the Lottomatica S.p.A. financial statements. This reserve was accounted for at December 31, 2004 at the time of transition to IFRS as adopted by the EU.

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12. Shareholders' Equity (Continued)

Other items of the shareholders' equity amount to €/000 41,450 and include:

- Stock option reserve.* The reserve is equal to €/000 18,422 and acknowledges the accounting effect of recording the effects of recording share based compensation;
- Other reserves* of €/000 291. They are determined by the results of the consolidated Group, and by the consolidation adjustments and reclassifications carried out at December 31, 2005; the item also includes the asset impacts following the First Time Application of the international accounting principles, as well as the deposit in future capital increases account (€/0000 180) of the parent company;
- Merger reserve:* it is equal to €/000 22,737 and it is linked to the increase in capital, of €/000 39,990, carried out in order to guarantee the share exchange of the Lottomatica ordinary shares owned by the shareholders of said company other than FinEuroGames (whose Lottomatica shares have been cancelled without share exchange).

Retained Earnings

The consolidated net result at December 31, 2005, amounts to €/000 114,232. The amount attributable to minority interests amounts to €/000 1,841.

13. Long-Term Debt

At December 31, 2004, FinEuroGames had long term debt of €/000 150,000, which were entirely paid off in the first months of 2005. All the debts deriving from the effect of the Merger are virtually all amounts originally payable by Lottomatica; therefore, the following comparison with the previous accounting period refers to the balances present in Lottomatica at December 31, 2004.

The non-current portion of long-term debt, amounting to €/000 359,653 at December 31, 2005, mainly refers to the value at amortized cost, of long-term notes of €/000 358,443 (the balance of the item of the incorporated Lottomatica at December 31, 2004 is equal to €/000 358,032).

The Long-Term Notes (nominal value of the debt €/000 360,000, nominal value of each bond €1,000, number of bonds 360,000) were underwritten in London on December 18, 2003 and they were executed on December 22, 2003, through the issuance of the notes (all of which were placed). 56% of the placement took place in the Republic of Italy, 19% in England and the remaining percentage in other European countries. The nominal yield rate is of 4.8% with sole payment at maturity on December 22, 2008. The effective rate (internal yield rate) on the entire transaction is 4.97%.

The current portion of long term debt, amounting to €/000 473 at December 31, 2005, is unchanged compared to December 31, 2004 and represents the interest quota of the year on the bond.

14. Termination Indemnities

The reserve, recorded net of advances paid, at December 31, 2005, is equal to €/000 7,618 (the balance of the item of the incorporated company Lottomatica at December 31, 2004 is equal to €/000 7,105).

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14. Termination Indemnities (Continued)

The accrual for termination indemnities is on an actuarial basis as required by IAS 19.

Balance at December 31, 2004	7,105
Service cost for the period	1,531
Financial expense	260
Actuarial gain/(losses)	—
Indemnities paid	<u>(1,278)</u>
Balance at December 31, 2005	<u>7,618</u>

The Termination Indemnities falls within the defined benefit plans. The provision has been calculated using the actuarial approach of projected unitary credit.

This methodology is articulated in the following phases:

- on the basis of a series of financial hypotheses (increment of the cost of living, salary increment, etc.), the possible future services that could be supplied in favor of each employee enrolled in the program in case of retirement, death, disability, resignation, etc., were projected. The estimate of the future services will include eventual increments corresponding to the increased seniority matured as well as to the presumable growth of the retribution level received on the date of evaluation;
- on the date of evaluation, the actual average value of the future services was calculated on the basis of the adopted annual interest rate and of the probability that each service has of actually being supplied;
- the company liabilities were defined for the company singling out the quota of the actual average value of the future services that refers to the service already matured by the employee in the company on the date of evaluation;
- the reserve recognized for IFRS purposes was singled out, this on the basis of the liabilities determined in the previous point and of the reserve appropriated in the Financial statement for Italian civil purposes.

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14. Termination Indemnities (Continued)

In more detail, the adopted assumptions are the following:

<u>Financial Assumptions</u>	<u>Executives</u>	<u>Non-Executives</u>
Increase of the cost of living	2.0% per year	2.0% per year
Actualization rate	4.0% per year	4.0% per year
Retribution increase		
—age equal or under 40	2.75% per year	2.5% per year
—age over 40 but equal or younger than 55	2.5% per year	2.25% per year
—age over 55	2.25% per year	2.0% per year
<u>Demographic Assumptions</u>	<u>Executives</u>	<u>Non-Executives</u>
Probability of death	RG 48 mortality tables published by the National Department for General Accounts	RG 48 mortality tables published by the National Department for General Accounts
Probability of disability	Unisex tables prepared by the C.N.R reduced by 70%	Unisex tables prepared by the C.N.R reduced by 70%
Probability of resignations		
—up to age 50	4% each year	3% each year
—over age 50	Nil	Nil
Probability of retirement		
—at the age of 60	35% (100% for women)	60% (100% for women)
—later but before the age of 65	20% each year	10% each year
—at the age of 65	100%	100%
Probability of receiving at the beginning of the year an advance of the appropriated severance reserve equal to 70%	3% each year	3% each year

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15. Long term provision

They are equal to €/000 8,587 (the balance of the item of the incorporated company Lottomatica at December 31, 2004 is equal to €/000 17,842).

	<u>Merger Effects</u>	<u>Increases</u>	<u>Utilization and changes</u>	<u>Balance at December 31, 2005</u>
Penalties	1,558	1,200		2,758
Legal dispute reserve	11,838		(10,174)	1,664
Sweepstakes	189	347	(122)	414
Reserve for investments	104			104
Tax contingencies reserve	694		(694)	—
Other reserves	3,459	788	(600)	3,647
	<u>17,842</u>	<u>2,335</u>	<u>(11,590)</u>	<u>8,587</u>

The other reserves include the *retirement pension and other similar obligations fund* equal to €/000 1,500, which refers virtually all to the appropriations carried out by the Company as indemnities to be recognized to some members of the Board of Directors in case of termination of the work relationship, in accordance with that deliberated by the Compensation Committee.

The *penalty* fund comprises presumed costs that the AAMS may request for delays in activating entertainment devices with regard to the foreseen deadlines of the concession.

It is currently not possible to estimate the timing concerning the possible disbursement.

16. Accounts Payable and Other Payable

They amount to €/000 305,006 (the balance of the item of the incorporated company Lottomatica at December 31, 2004 is equal to €/000 179,908) and essentially regard debts toward suppliers (€/000 259,525) both for the recorded and not liquidated invoices at December 31, 2005, as well as for the invoices to be received or other ascertained debts as costs belonging to the period. The debts are linked to the purchases of goods and services for the business activities of the period and for the investment programs already underway.

The balance also includes the debts toward the companies of the De Agostini Group, amounting to €/000 45,481 and detailed as follows:

<u>Company</u>	<u>VAT payables</u>	<u>2005 Income Taxes payable</u>	<u>Accounts payables</u>
Lottomatica Italia Servizi S.p.A.		4,361	283
Lottomatica S.p.A.	3,654	34,772	1,119
Lottomatica Sistemi S.p.A.	330		
Gruppo Totobit	7	955	
Total	<u>3,991</u>	<u>40,088</u>	<u>1,402</u>

Trade payables normally have 60/90-day terms.

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17. Derivative Instruments

Total derivatives value amounted to €/000 263. During 2004, to manage the exchange rate risk linked to the supply of tickets for the instant Lotteries (in US dollars), an amount, equal to 50% of the supplies estimated until the termination of the concession, was covered through derivative instruments. Therefore the Consorzio Lotterie Nazionali has stipulated coverage contracts for a total of USD 48 million, equal to half of the expected value of the supply of tickets until 2010. These contracts include a series of optional knock-in forward strategies, set up for March and September (presumed payment date of the invoices in USD). Though setting a maximum exchange level in the case of appreciation of the dollar, the knock-in forward allows to benefit from the eventual depreciation of the American currency for the interval between the strike and the knock-in: if the trigger is reached at any time during the observation semester of the knock-in period, the purchase of the dollars for the related maturity must take place at the preset strike. The characterizing element of the adopted strategy is to ensure that it is possible to know, from day one, at which level the USD can be purchased in the worst case scenario, that is, when the knock-in has been reached during the period of observation: in these cases the structure works exactly like a forward, that is, like a currency term purchase. The original safety corridor of the coverage concluded in 2004 was 1.2138 (strike), 1.30 (knock-in). The restructuring of the position carried out at a time when the dollar was weak, widening the indifference corridor at no cost and moving the maturity of an operation from March to September 2005, has allowed to neutralize the coverages with March and September currency dates, which were abandoned (not exercised in that out of money) without economic effects. At the end of 2005, there are coverages of USD 40.5 million of the originally stipulated USD 48 million: the indifference corridor, for the 2006 maturities, is 1.182, 1.35 and 1.2138, 1.30 for all the others. Inasmuch as at December 31, 2005 the USD exchange rate is substantially in line with that of the period in which the initial strategy was stipulated, the mark-to-market of the structure is negative by €/000 263; if in the future a new weak phase of the dollar were to occur, the position will be dynamically managed, restructuring it, when possible at zero cost, in order to avoid the activation of the knock-in trigger.

Since requirements of IAS 39, paragraph 71 and subsequent, are not satisfied, hedge accounting is not applied to these derivatives. Therefore, at December 31, 2005, their value was adjusted to the mark-to-market, recording the difference in the financial expense of the Income Statement.

18. Short-Term Borrowings

The amount of €/000 7,260 refers to PCC Giochi e Servizi for the financing with Efibanca, and to the financial lease transactions regarding the companies Totobit S.p.A. and PCC Giochi e Servizi, as well as the debt of the Consorzio Lotterie Nazionali (€/000 6,513) toward the AAMS concerning the winnings to be paid.

In particular, the financing received by Efibanca S.p.A. in favor of PCC Giochi e Servizi has the following characteristics:

- original debt: €/000 705;
- residual debt at 12/31/05: €/000 110;
- concessional interest rate at 3% (this is in fact a concessional loan pursuant to law 64/86).

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19. Other Current Liabilities

Other current liabilities amount to €/000 233,620 (€/000 233,494 at December 31, 2004) and consist of:

	December 31, 2005
Payable to AAMS	109,549
Payable to bet collectors/telephone service providers	102,349
Payable to personnel	10,720
Payable to social security authorities	3,791
Other	7,211
	<u>233,620</u>

The significant items are described hereunder:

- *Payable to AAMS:* €/000 109,549 (€/000 106,143 at December 31, 2004). The amount relates to the debt toward the AAMS for the tickets of the instant lotteries, the payment of which takes place on a monthly basis within the 10th day of the following month, and toward the Lotteria Italia the payment of which takes place 10 days after the final draw.
- *Payable to bet collectors/telephone providers:* €/000 102,349 (€/000 88,109 at December 31, 2004). They refer to the amounts to be recognized to bet collectors/collection service providers carried out by the companies LIS and Lottomatica. In particular the LIS debt (€/000 97,984) represents, almost in its entirety, the debt for the amounts to be reversed to the telephone operators with regard to the contractual dynamic of the gathering of the collections of the bet collectors in the month of September.
- *Payable to personnel:* €/000 10,720 (€/000 9,619 at December 31, 2004). They refer to the accrued compensation to be paid to employees.
- *Payable to social security authorities:* €/000 3,791 (€/000 2,441 at December 31, 2004) refer to the amount due to the social security authorities for amounts withheld from employee compensation.

20. Tax Payables

Tax payables of €/000 11,020 at December 31, 2005 (the balance of the item of the incorporated company Lottomatica at December 31, 2004 is equal to €/000 13,346), consist of:

	December 31, 2005
Income taxes payable (IRES and IRAP)	4,682
IRPEF withholding taxes	1,927
VAT payable	86
Other tax payables	4,325
	<u>11,020</u>

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21. Revenues

They are equal to €/000 569,154 (€/000 569,810 at December 31, 2004) In detail:

	2005	
	Amount	%
Games	503,058	88.4%
-) Lotto Games	432,288	75.95%
-) Tris	1,266	0.22%
-) Games of Chance	5,947	1.04%
-) Video Lotteries	6,398	1.12%
-) Betting Services	2,258	0.40%
-) National Lotteries	54,901	9.65%
Services	63,944	11.2%
-) Telephone recharges LIS network	28,512	5.01%
-) Telephone recharges Totobit network	7,320	1.29%
-) POWER POS activation revenue	7,823	1.37%
-) Sports box office	5,261	0.92%
-) Vehicle license fee	7,628	1.34%
-) Television license fee	606	0.11%
-) Township services	223	0.04%
-) Unified contribution	586	0.10%
-) Other services	5,985	1.05%
PCC GS S.p.A.	2,152	0.4%
Total	569,154	100%

For the preparation of the Income Statement, on the basis of IAS 18 (revenue recognition), the group reported the revenues from telephone recharges net of the costs both for the controlled company LIS and for the Totobit group. This choice has been motivated by the fact that in the transaction the company matures as revenue only the margin between the sale price and the nominal cost of the card.

The same treatment has been followed for the revenues of RTI Videolot that, under the concession and the subsequent ministerial regulations, earns its collection revenues net of the tax revenue (Consolidated Tax Withdrawal) and of the winnings paid, but before the compensations to be paid to service providers and storekeepers (these are included in the operating costs).

22. Other Revenues and Income

They are equal to €/000 13,641 (€/000 14,057 at December 31, 2004). The main items concern:

- the contributions for the fiscal year of the Consorzio Lotterie Nazionali (€/000 1,410);
- the reversal of prior year accruals (€/000 1,100);
- the fees for the management of the Tris national totalizer (€/000 1,875).

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23. Raw Materials and Consumables

They amount to €/000 31,065 (€/000 29,308 at 31/12/2004) and they are detailed as follows:

	<u>2005</u>
Paper support products	17,697
EDP materials and use	2,108
Lottery tickets	10,060
Other	<u>1,200</u>
Total	<u>31,065</u>

24. Services Costs

Total services costs were €/000 188,493 of which €/000 175,512 concern services and €/000 12,981 rental and leases (€/000 218,709 at December 31, 2004). They are made up in the following way:

	<u>2005</u>
Network management	42,460
Maintenance	13,354
Costs of the branches	7,645
Assistance to collectorships	24,214
Research and advertising costs	42,257
3rd party services	29,937
Directors and Statutory Auditors	1,560
Bank expenses and services	1,695
Capitalizable costs	739
Other	11,651
Rental expenses	7,091
Other rental expenses	<u>5,890</u>
Total	<u>188,493</u>

The most significant changes regard:

- the network costs for the technological innovation process initiated at the beginning of 2003 with the migration of the data transmission devices to the IP (Internet Protocol) system that has led to significant savings;
- the maintenance costs for the renegotiation of the existing contracts;
- the support activities for the collectorships based on the development of the business and the volume of business;
- the third-party services mostly linked to the implementation of new business activities initiated in the accounting period (instant and deferred national lotteries, entertainment games, new games linked to Totocalcio, etc.).

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25. Personnel Costs

They amount to €/000 72,276 (€/000 66,215 at December 31, 2004). The details of the single components are listed below:

	<u>2005</u>
-) Salaries and wages	46,620
-) Social costs	14,460
-) Severance	1,791
-) Stock option cost	8,994
-) Other costs	411
Total	<u>72,276</u>

- The items *salaries, wages and social securities costs* include the costs for early termination (€/000 2,100).
- The “*Severance*” item includes the effects of the actualization of the termination indemnities reserve that at December 31, 2005, recorded a reduction of the accounting values of €/000 817.
- The fair value accounting for share-based compensation (€/000 8,994) is valued in accordance with IFRS 2.

The personnel of the group at December 31, 2005, is equal to 1,084 persons.

<u>Level</u>	<u>Number</u>
Executives	58
Cadres	118
Employees	853
Blue-collar employees	55
Total	<u>1,084</u>

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26. Depreciation, Amortization and Write Downs

They amount to €/000 53,643 (€/000 62,622 at December 31, 2004) and they consist of:

	<u>2005</u>
Amortization of:	
industrial patent rights	7,366
concessions, licenses and marks	1,061
other intangible assets	<u>104</u>
Total amortization expense	8,531
Depreciation of:	
Building	1,651
Equipment and machinery	36,206
Industrial and commercial equipment	81
Other assets	<u>472</u>
Total depreciation expense	38,410
Write-down and provision:	
Write-down of property, plant and equipment	4,752
Allowance for doubtful accounts	<u>1,950</u>
Total write-down and provision	6,702
	<u>53,643</u>

The *write-down of property, plant and equipment*, amounting to €/000 4,752, refer to fixed assets that Lottomatica no longer uses, and essentially regards, as mentioned previously, the goods for which it is was not possible to complete the amortization process due to the project for replacement of all the terminals.

The *Allowance for doubtful accounts* amounting to €/000 1,950 refers to:

- Totobit S.p.A., €/000 450 as coverage of the credits given the existing credit mass;
- Lottomatica, €/000 1,500 (Bingo Plus) regarding the prefigured risk concerning the possibility of encashment of the entire credit.

27. Other Operating Costs

Total operating costs amounted to €/000 24,854 (€/000 39,662 at December 31, 2004) and regard:

- *Other management costs:* €/000 22,465. The most significant amounts are related to the costs connected to the Merger of FinEuroGames and Lottomatica in NewGames (€/000 1,321), the recording of what is owed to the Financial Administration (€/000 1,000), for the savings deriving from the use of the network for activities other than the Lotto (article 9 of Directorial Decree November 15, 2000), for other taxes (€/000 582), for the amount recognized by the AAMS linked to the malfunction of the Lotto collection network that occurred on June 18, 2005 (€/000 7,588), for the costs connected to the arbitration proceedings involving the AAMS with the purpose of defining the duration of the Lotto concession (€/000 6,039), for the costs of restructuring the company, and for the accrual of the costs that do not belong to the current accounting period, allocated here in accordance with the IFRS as adopted by the EU.

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27. Other Operating Costs (Continued)

- *Provisions for risks:* €/000 1,016. The amount almost entirely refers to the provision carried out by Lottomatica as representative of RTI for the collection of legal gaming.
- *Other provisions:* €/000 1,373 essentially relate to the Lottomatica provisions for the sweepstakes.

28. Financial Expenses, net

At December 31, 2005, the total financial expense was €/000 16,064 (€/000 16,975 at December 31, 2004) detailed as follows:

	<u>2005</u>
Bank interest income	4,020
Other interest income	4,130
Total interest income	8,150
Bank interest expense	(190)
Foreign exchange losses	(977)
Other interest expense	(23,047)
Total interest expense	(24,214)
	<u>(16,064)</u>

The *interest income* mainly refers to the interest income on bank deposits and to the mark-to-market valuation of the derivative financial instruments, and to €/000 1,500 interest on securities.

The most relevant part of the interest expense (€/000 17,471) is related to the interest expense matured on the Long-Term Notes, as well as by €/000 1,545 for the amounts recognized to the bondholders as consent fee for the approval at the Shareholders Meeting of the Merger plan.

29. Equity Investments expenses

They are equal to €/000 34 (€/000 812 at December 31, 2004) and they refer to the loss realized in the sale of the company Triplet, transferred in the month of May 2005 to the Parent Company De Agostini S.p.A.

30. Income Taxes

Income taxes at December 31, 2005, amounts to €/000 82,013 of which €/000 61,843 for current taxes (IRES €/000 50,642 and IRAP €/000 11,201), €/000 2,136 for taxes paid in advance, and €/000 18,034 for deferred taxes:

	<u>2005</u>
Corporate income tax (IRES)	50,642
Local income tax (IRAP)	11,201
Deferred taxes, net	20,170
	<u>82,013</u>

€/000 949 of the taxes of the accounting period refer to adjustments of current taxes of the previous accounting period.

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30. Income Taxes (Continued)

The tables regarding the components of the deferred taxes, as well as the reconciliation between the statutory tax rate and the effective tax rate follows:

Deferred Taxes Components

<u>Description</u>	<u>Income Statement</u>	<u>Balance Sheet</u>
<i>Deferred tax assets:</i>		
Goodwill amortization	(9,195)	7,924
Sogei and Cos Goodwill amortization	916	4,533
Tax Depreciation and amortization	1,230	11,519
Tax Goodwill Amortization	1,195	14,021
Result premiums + MBO	(2,498)	53
Result premium + MBO	1,918	2,604
Depreciation, amortization and write-down	(529)	449
Write-downs	1,845	3,089
Provisions for risk and other	(1,031)	479
Provisions for risk and other	2,750	6,065
Tax assets on prior years NOL	(321)	
Deferred tax assets on IFRS differences	4,396	4,273
Deferred tax assets on consolidation effects	1,459	
Total Deferred Tax Assets	<u>2,135</u>	<u>55,009</u>
<i>Deferred taxes liabilities:</i>		
Depreciation and allowance for doubtful accounts	1,294	6,643
Return of advanced amortizations	(1,987)	269
Deferred tax liabilities on IFRS differences	18,407	37,015
Deferred tax liabilities on IAS 17	50	
Deferred tax liabilities on consolidation and other	271	306
Total Deferred tax liabilities	<u>18,035</u>	<u>44,233</u>
Current portion of deferred tax liabilities		<u>509</u>
Net effect on Income Statement	<u>20,170</u>	

The net deferred tax assets amounting to €/000 55,009 (the balance of the item of the incorporated company Lottomatica at December 31, 2004 is equal to €/000 55,797) with a decrease equal to €/000 788 compared to the data of the Lottomatica Group at December 31, 2004.

The most significant tax assets are due to taxes paid in previous years by Lottomatica S.p.A., of which the main items are linked to:

- the tax amortization of the deficit of the Lottomatica S.p.A. Merger into Tyche related to step up the tax basis related to the prior merger with Tyco,

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30. Income Taxes (Continued)

- the devaluation of the investments held in Lottomatica Sistemi S.p.A. and Twin, which has now been liquidated;
- the fiscal amortization of the Sogei goodwill.

The amount concerning Lottomatica Sistemi derives from the recording, carried out in the previous accounting years, of the deferred taxes on the write-down of goodwill carried out on December 31, 2003.

The net deferred tax liabilities amounting to €/000 44,233 (the balance of the item of the incorporated company Lottomatica at December 31, 2004 is equal to €/000 25,990) and it is mainly determined by the fiscal effect deriving from the elimination of the goodwill amortizations (€/000 36,881).

	<u>2005</u>	<u>Tax Rate</u>
IRES tax		
Statutory rate		33.00%
Result before taxes	196,245	
Theoretical IRES taxes, at statutory rate	64,761	33.00%
<i>Permanent differences:</i>		
—Goodwill amortization	69,926	
—Result premium and MBO	6,640	
—Dividends	373	
—Write-down of investments	545	
—Accruals	4,076	
—Other increasing variations	12,890	
—Dividends	(43,461)	
—Amortization of fiscal deficit	(3,208)	
—Goodwill	(5,407)	
—Investment devaluation	(4,428)	
—Other decreasing variations	(21,560)	
—IAS adjustments not IRES taxable	(102,758)	
—Adjustments to the funded debt not IRES taxable	43,767	
Taxable Income	<u>153,460</u>	
Current IRES taxes	50,642	25.81%

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30. Income Taxes (Continued)

	<u>2005</u>	<u>Tax Rate</u>
IRAP tax		
Statutory rate		4.25%
Difference between the production value and costs	134,650	
Theoretical IRAP taxes, at statutory rate	5,723	4.25%
Permanent differences:		
—Write-downs	7,447	
—IRAP Deductible costs	(46,515)	
—Personnel costs	60,878	
—IRAP non-deductible costs	113,460	
—Revenues not IRAP taxable	(6,671)	
—IRAP deductions	(143)	
—IAS adjustments not IRAP deductible	448	
Taxable Income	<u>263,554</u>	
Current IRAP taxes	11,200	8.32%

31. Earnings per share

The basic earning per share is calculated by dividing the net earning of the period attributable to the Group by the weighted average number of the ordinary shares in circulation during the period.

The diluted earning per share is calculated by dividing the net earning of the period attributable to the ordinary shareholders of the ordinary shares in circulation during the period, adjusted for the dilution effects of the options.

In the table the revenue and the information of the share are reported for the purpose of calculating the per-share basic and diluted earning at December 31, 2005.

<u>Earning per basic share</u>	<u>2005 Fiscal period</u>	<u>2004 Fiscal Period</u>
Net result	114,232	86,033
Weighted average number of circulating ordinary shares (000) . .	89,009	88,832
Earning per basic share (€/1000 shares)	<u>1.28</u>	<u>0.97</u>
<u>Earning per diluted share</u>	<u>2005 Fiscal period</u>	<u>2004 Fiscal Period</u>
Net result	114,232	86,033
Weighted average number of circulating ordinary shares (000) . .	89,009	88,832
Number of options (000)	4,103	849
Earning per diluted share (€/1000 shares)	<u>1.23</u>	<u>0.96</u>

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31. Earnings per share (Continued)

In particular, considering the characteristics of the operation, in order to determine the denominator of the per-share basic earning (given by the weighted average of the ordinary shares in circulation) we have considered, for the 2005 accounting year, the share capital as constituted on the effective date of the Merger (December 20, 2005), which is also the start date of the negotiations of the incorporating company's shares on the Telematic Stock Market, organized and managed by Borsa Italiana S.p.A.

32. Financial Lease and Rental Contracts

The Group has signed capital and operating agreements for various equipment and machinery, as well as for real estate. These leases foresee renewal clauses, but no purchase options or clauses on rent revaluations. The renewal may take place at will of the lessee. The following table details the amount of the future minimum lease payments from financial leases and rental contracts:

	2005	
	Equipment and Machinery Rentals	Building Rentals
Within one year	584	153
Greater than one year but lesser than 5 years	451	484
Total lease rentals	1,035	637

33. Financial Risk Management: Objectives and Criteria

The Group's main financial instruments, apart from the derivatives, are: the issuance of bonds for €/000 360,000, bank deposits (time deposits and sight deposits) and state bonds (Ordinary Treasury Bonds). In order to cover the exposure deriving from the purchase by Consorzio Lotterie Nazionali of semi-finished products for the production of the Scratch and Win tickets, derivative exchange contracts have been stipulated for an amount equal to 50% of the supplies estimated for the time period until the expiry of the concession through derivative instruments. For further details on the characteristics of these products please see the Exchange Derivatives section of the present document. The current coverage was proposed by the Financial Direction and approved by the Chief Executive Officer together with the Company. A policy on the negotiation of derivative coverage instruments for exchange and rate risks, which will specify in detail tasks, responsibilities, areas of autonomy and information flows is under preparation.

Liquidity Policy

After the approval on the part of the Group-Leader Executive Committee, in 2004 the Lottomatica Board of Directors approved a Liquidity Policy. This policy has the following objectives: maintain the invested capital; the coherence between the investment portfolio characteristics and the cash-flow and financial needs of the companies of the Group; obtaining an adequate remuneration.

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33. Financial Risk Management: Objectives and Criteria (Continued)

The regulations are articulated in the following “dimension of risk”—“rules” grid:

Expiration: the duration of the positions can not exceed 12 months (corporate risk) or 18 months (sovereign risk);

Credit Risk: it is possible to employ resources exclusively in instruments subject to rating (minimum level P-2/A-2/F-2, A3/A-/A-);

Risk Diversification: the highest exposure toward a single name may not exceed 20% of the portfolio; it is not possible to hold more than 5% of the issuance or of the issuing program if it concerns quoted or negotiable instruments; with regard to non-negotiable instruments (for example, bank deposits), the following limits are set:

- A1/P1/F Maximum equivalents of 100 million Euros, for a maximum period of 3 months
- Split Rating Maximum equivalents of 50 million Euros, for a maximum period of 3 months
- A2/P2/F2 Maximum equivalents of 50 million Euros, for a maximum period of 1 month

Country Risk: only investments in countries of the euro area, Switzerland, the United Kingdom and the United States are permitted.

Authorized Products: Following is a binding list of the products that can be invested in: Liquidity Funds, Current Account and Time Deposits with banks, Certificates of Deposit (CDs), Repos, Commercial Paper (CPs), Banker's Acceptance, Asset Backed Commercial Paper—ABCPs, Treasury / Supranational / Corporate Bond & Notes.

34. Related Parties Transactions

Following is a list of the economic effects and of the financial relationships with the correlated parties of the Lottomatica Group at 12/31/2005.

Related Parties—Principal Income Statement Items 2005

Thousands of Euro	Controlling, Controlled and indirectly Linked	Nature of the Transaction
Costs for services	477	Relationships held with De Agostini S.p.A.
Goods benefit by third parties	2,715	Relationships held with ISIM S.p.A.

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34. Related Parties Transactions (Continued)

Correlated Parties—Principal Property Items at 12/31/2005

Thousands of Euro	Controlling, Controlled and Indirectly Linked	Nature of the Operation
Receivable	611	Relationships held with De Agostini S.p.A. (Tributary IRES credit—Grantor Lottomatica S.p.A.)
Receivable	70	Relationships held with De Agostini S.p.A. (IRES credit—Grantor RTI Videolotterie S.p.A.)
Receivable	91	Relationships held with De Agostini S.p.A. (IRES credit—Grantor Lis Finanziaria S.p.A.)
Receivable	140	Relationships held with De Agostini S.p.A. (VAT credit—Grantor Lottomatica Italia Servizi S.p.A.)
Receivable	8	Relationships held with De Agostini S.p.A. (IRES credit—Grantor Totobit S.p.A.)
Receivable	519	Relationships held with De Agostini S.p.A. (IRES credit—Grantor Videolot Gestione S.p.A.)
Receivable	3	Relationships held with De Agostini S.p.A. (Commercial credit—Grantor Lottomatica S.p.A.)
Payable	4,361	Relationship held with De Agostini S.p.A. (IRES debt—Grantor Lottomatica Italia Servizi S.p.A.)
Payable	3,654	Relationship held with De Agostini S.p.A. (IRES debt—Grantor Lottomatica S.p.A.)
Payable	173	Relationship held with De Agostini S.p.A. (Commercial debt—Grantor Lottomatica S.p.A.)
Payable	34,772	Relationship held with De Agostini S.p.A. (IRES debt—Grantor Lottomatica S.p.A.)
Payable	330	Relationship held with De Agostini S.p.A. (VAT debt—Grantor Lottomatica Sistemi S.p.A.)
Payable	4	Relationship held with De Agostini S.p.A. (VAT debt—Grantor SED Multitel S.p.A.)
Payable	3	Relationship held with De Agostini S.p.A. (VAT debt—Grantor Totobit S.p.A.)
Payable	955	Relationship held with De Agostini S.p.A. (IRES debt—Grantor Totobit S.p.A.)
Payable	946	Relationship held with DeA Factor S.p.A. (Supplier debt—Grantor Lottomatica S.p.A.)
Payable	85	Relationship held with DeA Factor S.p.A. (Supplier debt—Grantor Totobit S.p.A.)
Payable	283	Relationship held with DeA Factor S.p.A. (Supplier debt—Grantor Lottomatica Italia Servizi S.p.A.)

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34. Related Parties Transactions (Continued)

All the operations that came into being with related parties, including the intercompany ones, fall within the ordinary management activity, they are regulated at market conditions or on the basis of specific regulatory dispositions; no atypical and/or unusual operations are noted.

In particular it is to be pointed out that Lottomatica Group S.p.A. performs, with the parent company De Agostini S.p.A., services concerning the redebiting of the costs regarding the Board of Directors. The relationships with the company ISIM, belonging to the Toro Group, refer to the renting of the building in which the Lottomatica Group is housed.

Finally, the Lottomatica Group, as of 2004, as a consolidated company, participates in the National Fiscal Funded Debt for the Companies of the De Agostini S.p.A. Group.

Benefits to management with strategic responsibilities

BOARD OF DIRECTORS OF LOTTOMATICA S.p.A.

First and last name	Position	Term of office	Expiration of office	Short-term compensation (euro)	Benefit due after termination of the employment relationship (euro)
Antonio Belloni	Chairman	04/03/03-12/04/05	12/04/2005	\$110,685	
	Board Member	24/09/02-31/12/05	31/12/07	\$ 25,000	
Rosario Bifulco	Managing Director and General Manager	02/12/02-12/04/05	31/12/04	\$101,162	
	Chairman/Managing Director	12/04/05-31/12/05	31/12/07	\$285,838	\$10,091
	Executive	01/01/05-31/12/05		\$280,880	
	Board Member and Joint General Manager	14/04/03-12/04/05	31/12/04	\$ 15,000	
Marco Sala	General Manager and Board Member	12/04/05-31/12/05	31/12/07	\$ 25,000	\$18,281
	Executive	01/01/05-31/12/05		\$465,598	
Paolo Ainio	Board Member	24/09/02-31/12/05	31/12/07	\$ 32,500	
Sergio Baronci	Board Member	24/09/02-21/08/05	31/12/07	\$ 15,000	
Marco Boroli	Board Member	24/09/02-31/12/05	31/12/07	\$ 15,000	
Pietro Boroli	Board Member	12/04/05-31/12/05	31/12/07	\$ 15,000	
Sabino Cassesse	Board Member	24/06/04-11/11/05	11/11/05	\$ 13,750	
Pier Luigi Celli	Board Member	14/04/03-31/12/05	31/12/07	\$ 30,000	
Paolo Ceretti	Board Member	13/05/04-31/12/05	31/12/07	\$ 35,000	
Marco Drago	Board Member	24/09/02-31/12/05	31/12/07	\$ 25,000	
Roberto Drago	Board Member	24/09/02-31/12/05	31/12/07	\$ 15,000	
Lorenzo Pellicioli	Board Member	12/04/05-31/12/05	31/12/07	\$ 32,500	
Severino Salvemini	Board Member	14/03/03-31/12/05	31/12/07	\$ 35,000	
Michele Reinero	Board Member	24/09/02-12/4/05	31/12/04	\$ 15,000	
Antonio Tazartes	Board Member	24/09/02-31/12/05	31/12/07	\$ 25,000	
Giorgio Vincenzini	Board Member	14/04/03-12/04/05	12/4/05	\$ 4,445	

* The company was merged, effective from December 20, 2005, into NewGames S.p.A., which at the same time took on the name of Lottomatica S.p.A.

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35. Stock Option Plans

Following the aforementioned Merger operation, NewGames S.p.A. took over the rights and obligations of Lottomatica S.p.A. including those regarding the stock option plans in favor of company exponents and employees of the Lottomatica group.

2003-2005 Plans

The extraordinary shareholders' meeting of the incorporating NewGames S.p.A. of September 21, 2005, deliberated, with effect on the effective date of the above-mentioned merger, and in conformity with that deliberated by the incorporated Lottomatica S.p.A., in the extraordinary shareholders' meeting of April 14, 2003, and in the meeting of the Board of Directors of June 11, 2003, setting the date of December 31, 2008, as underwriting deadline:

1. a paid increase of the share capital, in divisible form, of €2,439,110.00 maximum, with issuance, also in multiple tranches, of maximum 2,439,110 new ordinary shares with nominal value of 1.00 euro each, regular rights of enjoyment, with the exclusion of the right of option in conformity with article 2441, paragraph 5, of the Civil Code, servicing the exercise of the 2,439,110 already assigned and still exercisable options in the ambit of the stock option plan reserved for the employees of the incorporated Lottomatica S.p.A. and of other companies directly or indirectly controlled by the same;
2. a paid increase of the share capital, in divisible form, of maximum €1,422,667.00 with issuance, also in multiple tranches, of maximum 1,422,667 new ordinary shares with nominal value of 1.00 euro each, regular rights of enjoyment, with the exclusion of the right of option in conformity with article 2441, paragraph 5, of the Civil Code, servicing the exercise of the 1,422.667 already assigned and still exercisable options in the ambit of the stock option plan reserved for the administrators of the incorporated Lottomatica S.p.A.

The extraordinary shareholders' meeting of the incorporating Lottomatica S.p.A. of September 21, 2005, also deliberated, always with effect on the effective date of the above-mentioned Merger, and in conformity with that deliberated by the incorporating Lottomatica S.p.A. in the extraordinary shareholders' meeting of April 14, 2003, and in the meeting of the Board or Directors of May 13, 2004, and setting as deadline, the date of December 31, 2008, for underwriting a paid increase of the share capital in divisible form, of maximum €223,175.00 with issuance, also in multiple tranches, of maximum 223.175 new ordinary shares with nominal value of 1.00 euro each, regular rights of enjoyment, with the exclusion of the right of option in conformity with article 2441, paragraph 5, of the Civil Code, servicing the exercise of the 223,175 already assigned and still exercisable options in the ambit of the stock option plan reserved for the employees of the incorporated Lottomatica S.p.A. and of other companies directly or indirectly controlled by the same.

Today, the stock options, of which in the 2003-2005 plans, have all matured and they have become or will become exercisable, on a case by case basis, at the recurrence of the assumptions indicated in their respective regulations within 2008.

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35. Stock Option Plans (Continued)

2005-2010 Plans

The same extraordinary shareholders' meeting of the incorporated NewGames S.p.A. of September 21, 2005, has also deliberated, still with effect on the effective date of the above-mentioned merger, and in conformity with that deliberated on April 12, 2005, by the incorporated Lottomatica S.p.A. in the extraordinary shareholders' meeting and in the meetings of the Board of Directors of May 12 and/or of July 15, 2005, setting as underwriting deadline the date of December 31, 2010:

- a paid increase of the share capital in divisible form, of maximum €297,580.00 with issuance, also in multiple tranches, of maximum 297,580 new ordinary shares with nominal value of 1.00 euro each, regular rights of enjoyment, with the exclusion of the right of option in conformity with article 2441, paragraph 5, of the Civil Code, servicing the exercise of the 297,580 options already assigned by the incorporated Lottomatica S.p.A. and still exercisable in the ambit of the stock option plan reserved for the executives of the incorporated Lottomatica S.p.A. and/or of its controlled companies;
- a paid increase of the share capital, in divisible form, of maximum €57,016 with issuance, also in multiple tranches, of maximum 57,016 new ordinary shares with nominal value of 1.00 euro each, regular rights of enjoyment, with the exclusion of the right of option in conformity with article 2441, paragraph 5, of the Civil Code, to the service of exercising of 57,016 options already assigned and still able to be exercised in the real of the stock option plan reserved for administrators of the former Lottomatica S.p.A.;
- a paid increase of the share capital, in divisible form, of maximum €219,812 with issuance, also in multiple tranches, of maximum 219,812.00 new ordinary shares with nominal value of 1.00 euro each, regular rights of enjoyment, with the exclusion of the right of option in conformity with article 2441, paragraph 5, of the Civil Code, servicing the exercise of the 219,812 options already assigned by the incorporated Lottomatica S.p.A. and still exercisable in the ambit of the stock option plan reserved for the administrators of the incorporated Lottomatica S.p.A.

The right of exercise of the options for the 2005-2010 plans is subordinated to the following maturity conditions: the employment within the Group on the start date of when the options can be exercised and the achievement on the part of the group of a determined level of total consolidated EBITDA in the 2005-2007 period.

For the purposes of the evaluation of the stock option plans, Black and Scholes was adopted.

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35. Stock Option Plans (Continued)

The hypotheses regarding the determination of the fair value of the stock option plans are summarized in the following table:

Stock Option Plans in Existence at December 31, 2005

	Options in circulation at period begin		Options assigned during period		Options cancelled during period		Options exercised during period		Options in circulation at period end		Exercisable options at period end
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Average expiry (Years)	Number of options
2003-2005 plan											
President	531,000	14.63	0		220,333	14.63	70,000	26.21	240,667		240,667
2003-2005 plan											
General Dir.	2,026,000	14.63	0						2,026,000	2006	
2003-2005 plan Co-											
General Dir.	1,012,000	14.63	0						1,012,000	2006	
2003-2005 plan											
Executives	647,300	14.63	0		46,100	14.63			601,200	2008	
2004-2005 plan											
Executives	245,675	18.338	0		22,500	18.338			223,175	2008	
2005-2010 plan											
President			124,476	26.47					124,476	2010	
2005-2010 plan											
General Dir.			95,336	26.47					95,336	2010	
2005-2010 plan											
Executives			297,580	26.47	20,160	18.338			277,420	2010	
			President	AD/DG/ConDG	Executives	Executives	President	General			
			2003-2005	2003-2005	2003-2005	2004-2005	2005-2010	Director			
Number of options assigned			660,999	3,080,000	825,000	245,675	124,426	2005-2010	95,336		297,580
Average market price on the date of assignment			15.38	15.38	15.38	18.63	27.40	27.40			27.40
Average price of the accounting year			14.63	14.63	14.63	18.34	26.47	26.47			26.47
Duration of the option (residual years)			0	0	0	0	2	2			2
Expected volatility			39%	39%	39%	39%	31%	31%			31%
Expected dividends			2%	2%	2%	2%	4.50%	4.50%			4.50%
Free-risk rate			2.15% / 2.56%	2.6%	2.56% / 3.08%	3.14% / 3.44%	2.60%	2.60%			2.60%

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36. Segment Reporting

Segment Reporting	Games		Services		Not Assigned		Consolidated	
	12/31/2005	12/31/2004	12/31/2005	12/31/2004	12/31/2005	12/31/2004	12/31/2005	12/31/2004
	(Thousands of Euros)							
Third parties Revenues	512,220	532,200	64,707	48,925	5,747	4,649	582,674	585,774
Intercompany revenues	—	—	—	—	—	—	—	—
Total revenues	512,220	532,200	64,707	48,925	5,747	4,649	582,674	585,774
Other costs relating to segments	218,111	246,620	27,672	22,405	68,516	69,739	314,299	338,764
Other provisions	2,219	15,130	170	—	—	—	2,389	15,130
Gross margin	291,890	270,450	36,865	26,520	(62,769)	(65,090)	265,986	231,880
Depreciation and Amortization	35,369	45,888	4,627	6,003	6,945	9,011	46,941	60,902
Write-off of Fixed Assets	4,752	—	—	—	—	—	4,752	—
Allowance for doubtful accounts	—	508	450	1,212	1,500	—	1,950	1,720
Operating income	251,769	224,054	31,788	19,305	(71,214)	(74,101)	212,343	169,258
Financial expenses, net							(16,064)	(16,957)
Equity investees' expenses							(34)	812
Income taxes							(82,013)	(68,236)
Net income for the year							114,232	84,877
Income/Loss on equity investments	—	—	—	—	—	—	—	—
Capital expenditure	57,290	24,905	12,189	5,440	24,375	9,758	93,854	40,104
Total segment assets	789,047	614,530	330,996	257,738	370,454	287,890	1,490,497	1,160,158
Total segment liabilities	240,094	209,208	211,239	183,848	526,909	457,877	978,242	850,934
Total intangible and fixed assets	561,738	386,909	240,002	165,315	30,895	20,498	832,635	572,721

The identification of the segments in the Lottomatica group was performed taking into consideration the nature of the business carried out. In particular the segments identified are: gaming and services. All the businesses are carried out in the Republic of Italy.

With regard to the assets/liabilities and costs that are not specifically attributable to single sectors, specific partition parameters have been outlined. The assets/liabilities and costs that are not attributable through specific parameters have been indicated separately in the table under the “not attributed” heading.

37. Significant Legal Proceedings

DATASIEL—SISTEMI TECNOLOGIE DI INFORMATICA S.p.A. Arbitration

On April 22, 2003, the company Datasiel—Sistemi Tecnologie di Informatica S.p.A. brought an arbitration procedure against Lottomatica in order to have Lottomatica accept that the contract expiry date for the contract concluded between the same and Lottomatica, relative to the management service of the Area Elaboration Center of Genoa, had been set no earlier than April 17, 2012. Lottomatica contested this statement and requested to ascertain the already occurred expiry of the contract.

On October 10, 2003, Lottomatica presented a counter request for the violation of the contractual guarantee of competitiveness regarding the considerations exercised by Datasiel, requesting condemnation to the restitution in its favor of the greater sums received by Datasiel for the services supplied. On

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37. Significant Legal Proceedings (Continued)

November 10 the reconciliation attempt was expressed as failed. On February 23, 2004, the President of the Arbitration Board, adhering to a request by Lottomatica whose aim was that of determining the value of the counter request, called for a court-appointed expert. By decree of March 29, 2004, the President of the Arbitration Board decided on the questions to submit to the court-appointed expert, including most of the requests formulated by Lottomatica. The court-appointed expert was assigned the task of verifying whether the contractual costs foreseen to be at Lottomatica's expense could be considered competitive when compared to those applied on the national and international market for analogous services, and if, consequently, the same could be considered justified with regard to the services carried out by Datasiel, taking into consideration the quantity and quality of the supplied services. The court-appointed expert was further asked to verify whether the consideration had been determined in the various years of the contract duration on the basis of a costs-services ratio calculated in respect of contractual prescriptions.

The operations concluded on July 2, 2004. The Arbitration Board, accepting the request formulated by Lottomatica's attorney, consented the parties to formulate their respective observations and counter deductions relative to the court-appointed expert and deliberated to defer the deadline for the deposit of the arbitration award by 180 days, granting the parties time until September 20 to deposit preliminary pleadings, until November 8, 2004, for the clarification of questions, until November 30, 2004, for the deposit of the final statements, and until December 13, 2004, for the objections.

With arbitration award given on July 26, 2005, the Arbitration Board:

1. ascertained the validity and efficacy of the contract stipulated between the parties, as well as the non-fulfillment of Lottomatica's assumed contractual obligations, declaring the same Lottomatica obliged to fulfill the previously-mentioned contract and to pay to Datasiel a total amount of €2,500,000 as damage compensation for its non-fulfillment;
2. ascertained the violation on the part of Datasiel of the guarantee obligations correlated to the non-competition clause of the above-mentioned contract, and condemned the same Datasiel to pay Lottomatica a total amount of €2,100,000.

The arbitration expenses have been entirely paid.

The given arbitration award exposes Lottomatica to the risk of having to pay Datasiel further damages as the fulfillment of the contract is no longer actual nor possible. Lottomatica, with the help of its attorney, on December 29, 2005, provided to deposit the act of contest of the above arbitration reward with the Court of Appeals of Rome, requesting that the nullity of the arbitration award issued pursuant to article 825 of the Civil Procedure Code (CPC) is ascertained *per errores in procedendo*. The first hearing is set for March 21, 2006.

TICKET ONE S.p.A. Dispute

On August 12, 2003, Ticket One S.p.A. a company which operates in the service sector, and, in particular, in that of box offices, brought to the TAR Lazio (Regional Administrative Tribunal of the Lazio region) of an appeal aimed at obtaining, among other things, the investigation of the obligation of Lottomatica to make its network available to third parties at the same conditions practiced toward the controlled company Lottomatica Italia Servizi S.p.A.

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37. Significant Legal Proceedings (Continued)

Prior to the notification of the mentioned appeal, in a note dated March 12, 2003, the company Ticket One had formalized, out of court, its own request to have the Lottomatica telematic network at its disposal. Lottomatica responded to this note by Ticket One by refusing the requests contained therein.

On December 3, 2003, the company Ticket One also served a writ summons in a civil action (Civil Tribunal of Rome) substantially repeating the same claims formulated in administrative office. Ticket One also requested €10 million in compensation, for presumed unfair competition practices, for the illegitimate use of the network on the part of Lottomatica and LIS, further to the injunction against any further act of unfair competition, and subordinately, putting the network at their disposal.

Lottomatica and LIS proceeded to the customary appearance by attorney for both and in consideration of the proposition on the part of Ticket One of the same requests before two different judges, proposed to appeal and challenge the jurisdiction of the court before the United Sections of the Court of Cassation requesting the suspension of the judgments themselves.

The TAR Lazio, in the hearing of June 24, 2004, accepting the request presented by Lottomatica and LIS, suspended the sentence and decided to place the acts in arrest of judgment. The Civil Judge, after reserving himself on the Lottomatica motion of arrest of judgment, awaiting the result of the Preventive Jurisdiction Regulation or, however, in subordination, of the definition of the administrative sentence, with order dated July 28, 2004, rejected the motion advanced by Lottomatica and LIS and adjourned to the following hearing of December 9, 2004, for the prosecution of the sentence. At the hearing of December 9, 2004, the Judge granted the Parties a term of 30 days to deposit pleadings containing clarifications or modifications of the requests, of the already proposed exceptions, and a term of 30 further days for the responses pursuant to article 183, paragraph 5, CPC, adjourning to the hearing of December 7, 2005. At the hearing of December 7, 2005, the Judge reserved himself on the admission of the evidence. When the judge dropped his reservation, he admitted the direct evidence and adjourned the hearing to June 21, 2006 for the discussion of the texts indicated by the parties.

In the meantime, on September 29, 2005, the hearing took place at the Court of Cassation regarding the challenge to the jurisdiction of the court. With ordinance of February 9, 2006, the Court of Cassation had declared the appeal proposed by Lottomatica and LIS inadmissible.

In the opinion of the attorneys that assist Lottomatica and LIS, the claims advanced by Ticket One are groundless.

Antitrust (Lottomatica—Sisal)

On July 16, 2003, the Italian Competition and Market Authority (“AGCM”—Autorità Garante per la Concorrenza ed il Mercato) initiated a procedure that intended to ascertain an alleged understanding between Lottomatica and its competitor Sisal in the gaming sector, and on July 18, 2003, the Authority itself had carried out an inspection of the Lottomatica offices. Lottomatica presented a motion of confidentiality on the acquired documents that was partly accepted, partly deferred and partly rejected. On June 10, 2004, the Authority carried out a new inspection of the Lottomatica offices and it acquired further documents concerning which Lottomatica presented a motion of confidentiality. On June 14, 2004, the

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Authority presented a request for information to Lottomatica on the value of the gaming market, as well as on its turnover and on the investments undertaken by Lottomatica between 2000 and 2003.

During the proceedings, in addition to the parties Sisal and Lottomatica, the following parties were also heard: FIT (“Federazione Italiana Tabaccai”, or Italian Tobacconist Federation), the foreign operator G-TECH, the former Chief Executive Officer of the company Formula Giochi and the Association of Toto bet collectors (“UTIS Unione Totoricevitori Italiani Sportivi” or Union of Italian Sports Toto Bet Collectors), and finally the AAMS.

Lottomatica accessed the proceeding records as necessary to verify the content of the previous hearings and all of the available documentation gathered from time to time by the Authority, in order to better assess the elements in the possession of the Authority and adjust its own defensive strategy accordingly.

In a notice dated August 3, 2004, as a result of the documentation gathered and the hearings held, the Authority sent the findings of its preliminary investigation, alleging an understanding between Lottomatica and Sisal. Lottomatica filed its final pleading and on October 13, 2004, the final hearing was held. At the meeting of November 25, 2004, the Competition and Market Authority resolved to close the preliminary investigation, fining Lottomatica and Sisal, by an amount, pursuant to the regulation in force, proportionate to their individual turnover, respectively of €8 million and €2.8 million.. Moreover, the Authority also ordered Lottomatica and Sisal to end their conduct tending to distort competition, requiring them to communicate the adopted measures within 90 days.

Lottomatica challenged the foundation of the accusations made against it by the Authority, and therefore filed an appeal through its attorneys to TAR against the above-mentioned decision, requesting the suspension of the order itself.

At the hearing of March 2, 2005, the TAR rejected the request to suspend payment of the monetary sanction and accepted the ancillary request of suspension, given the generic contents of the warning formulated by the Authority.

The hearing to discuss the matter was scheduled for March 4, 2005.

On March 24, 2005, Stanley International Betting Limited, having served its own opposing appeal to the appeals filed by Sisal and Lottomatica, requested that the Authority order be confirmed.

The Authority, in compliance with the ordinance issued by the TAR Lazio on March 2, 2005, notified the deliberation reached in its meeting of March 31, 2005, to Lottomatica and Sisal

Lottomatica and Sisal, with additional motivations challenged the aforementioned deliberation of the Authority once again contesting its generic nature.

By a ruling published on June 15, 2005, the TAR Lazio rejected the appeals and the additional motivations presented by Lottomatica and Sisal. On November 30, 2005, the motivations of the legitimacy of the sanction imposed by the Authority were made known. Lottomatica, with the help of its attorneys, is preparing to file an appeal against the decision taken by the magistrate, the terms of which will expire on March 30, 2006. In any case, and with reservation, Lottomatica has, however provided to pay the fine of

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37. Significant Legal Proceedings (Continued)

the sanction and comply with the injunction, by sending to all the bet collectors the communication requested by the Authority in which they were informed about the possibility for the bet collectors themselves to associate with other operators for games other than the Lotto, the Lotteries and Scratch and Win lotteries. In a note dated October 2005, the Authority notified Lottomatica of having acknowledged that the order in question had been duly complied with.

Video Lotteries

SAPAR—Associazione Nazionale Apparecchi per Pubbliche Attrazioni Ricreative (National Association for Public Recreational Devices)—and FM S.r.l., with reference to the tender called for by the Autonomous Administration of the State Monopolies in April 2004 for the selection of the concessionaires for the activation and handling of entertainment devices (video lotteries)—concluded in June 2004 with the stipulation of the concession agreements with the ten selected operators (among which RTI Lottomatica)—brought an appeal before the TAR Lazio in order to obtain, among other things, the voiding, following suspension, of the tender.

Lottomatica and the other concessionaires appealed in court.

The TAR Lazio, with ordinance dated June 9, 2004, rejected the suspension request presented by the SAPAR plaintiffs. The suspension and annulment of the tender in question was also requested in a separate appeal before the TAR Lazio by a group of video-lottery service providers. At the hearing of September 29, 2004, the TAR Lazio rejected this suspension request. This appeal was then reunited with that of SAPAR and FM.

The TAR Lazio rejected the adverse appeals in the sentence issued on May 5, 2005. The mentioned sentence of May 5, 2005, therefore also concerns this last appeal.

On November 3, 2005, SAPAR and FM brought the appeal before the State Council, re-proposing the reasons that were not accepted by the TAR. According to the attorneys assisting Lottomatica, there is reason to believe that the appeal will be rejected as well. As of today, the date of the hearing for discussion of the appeal has not been scheduled.

Deferred and Instant-Draw National Lotteries

Lottomatica participated, as representative of a Temporary Company Grouping in course of incorporation, to the tender called by the Autonomous Administration of the State Monopolies for the assignment of the management service of the deferred and instant-draw national lotteries.

In a note dated July 30, 2001, addressed to Lottomatica, the State Monopolies informed that the tender had been won by the company RTI Lottomatica (formed, beyond Lottomatica, by the companies SCIENTIFIC GAMES, Arianna 2001 S.p.A., Poligrafico Calcografia & Cartevalori S.p.A., EIS, Tecnost Sistemi S.p.A., and Servizi Base 2001 S.p.A.) in course of incorporation.

The tender has been subject to various appeals that can be summarized as follows:

- *SISAL appeal*: given the renunciation to appear presented by Sisal at the hearing of April 10, 2002, the appeal can be considered definitely concluded;

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37. Significant Legal Proceedings (Continued)

- *appeal of CONSIRIUM, a consortium in course of incorporation* (formed by Autogrill, GTECH Corporation, Oberthur Gaming Technologies and others): the suspension request was renounced at the hearing of June 17, 2003. The appeal was then rejected by the TAR Lazio. On November 18, 2003 the hearing discussing the question before the State Council was held. During the hearing, the State Council, acknowledging the declaration presented by the Lottomatica attorney concerning the occurred Merger by incorporation of Lottomatica into Tyche, and the consequent name change of the incorporating company into Lottomatica, declared the interruption of the litigation pursuant to article 300 of the Civil Procedure Code. Only the companies GTECH CORPORATION and OBERTHUR GAMING TECHNOLOGIES s.a.s. provided to give notification of the reinstatement. At the hearing dated October 28, 2004, the appealing companies requested the cancellation of the case from the roll.
- *appeal of Consorzio ESULTALIA* (formed by Snai, Venturini e C. S.p.A., Poste Italiane (Italian Post) and ETI): Poste and ETI appeared *ad adiuvandum* in the appeal brought by Snai and Venturini having as subject the impugnement of the award of July 30, 2001. At the hearing of May 14, 2003, Poste and ETI had requested the cancellation of the case from the roll. Snai and Venturini, on July 21, 2003, notified all the subjects involved about their renunciation of the appeal, making the award non-impugnable, following which the stipulation of the Concession Agreement on the part of RTI Lottomatica took place. It should be noted that in December 2002, Snai, Venturini, Poste and ETI requested the Administration to proceed to award in their favor. The Administration with a note dated January 21, 2003, replied that it could not proceed with the award until the case was defined. This note was subject to impugnement on the part of Snai and Venturini, under the form of additional motives added to the above appeal, and on the part of Poste and ETI with an autonomous appeal. On July 17, Poste and ETI proposed a withdrawal motion in order to press for the definition of their appeal, the subject of which was the act of January 21, 2003, with which the Administration refused to proceed to the awarding in favor of the Consorzio Esultalia. Moreover, on July 25, 2003, Poste and ETI invited the AAMS not to proceed to the awarding until the decision of the administrative judge had been heard.

In the opinion of the attorneys assisting Lottomatica, the withdrawal motion of Poste and ETI cannot expound any effect on the already occurred and non-impugnable award in favor of RTI Lottomatica, also following the renunciation to the main appeal by Snai and Venturini. In fact, the appeal of Poste and ETI is directed toward the Administration note of January 21, 2003, to not proceed to the award and not against the award.

Still according to the attorneys assisting Lottomatica, the invitation formulated by Poste and ETI, therefore, leads in the opposite direction to that asserted in the appeal—that is of not further deferring the award—and consequently the autonomous appeal of Poste and ETI can only be resolved with a pronouncement of dismissal for lack of merit. Therefore, as confirmed by the attorneys assisting Lottomatica, the terms have also expired to propose impugnement on the part of Poste and ETI against the award confirmation of the Autonomous Administration of the State Monopolies in favor of RTI Lottomatica, as their interest therein has faded.

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37. Significant Legal Proceedings (Continued)

Lottomatica / AAMS Arbitration

Lottomatica availing itself of the arbitration clause foreseen by article 30 of the concession, proposed an arbitration request informing the counterparty of their will to defer the definition of the case between the parties concerning the interpretation and execution of the concession of which in Ministerial Decree March 17, 1993 to an arbitration judgment. Lottomatica asked the Board to accept and declare that the initial start date of the concession of the lotto game, assigned to it by Ministerial Decree March 17, 2003, and subsequent modifications, is that of June 8, 1998 and that, consequently, the final expiry of the concession is June 8, 2016 (date in which the Permanent Italian Representation at the European Union in Brussels has informed about the occurred dismissal of infringement breach 91/0619 “Automated Lotto Game” brought before the Court of Justice against the Italian Republic by the European Commission).

This conclusion was reached due to the fact that the Ministerial Decree of November 8, 1993 foresaw that the executability of the agreement was subordinated to the condition that the Court of Justice did not hold the concession clauses in contrast with the prescription of the Treaty. Therefore, following the retroactivity principle of the administrative act, the concession would have become effective only on June 8, 1998.

The Board, formed on March 7, 2005, in acceptance, therefore, of the Lottomatica motions, with award given on August 1, 2005, declared that the start date of the of the juridical life of the Lotto-game concession, assigned by Ministerial Decree March 17, 1993 and its subsequent modifications and supplements, is that of June 1998, and that, consequently, the final expiry of the same is that of June 8, 2016.

The Board maintained that the Lotto concession was finalized by way of a progressive formation of a complex *iter* that led to the closing of the Communitary case with the positive opinion of the Commission only years after the first Ministerial Decree, and that the AAMS argument according to which, on the contrary, the concession provision would have been a resolution condition, must be disregarded.

On December 15, 2005, the AAMS brought the impugment act before the Court of Appeals of Rome, for nullity of the award due to logical vices in the decision and violation of the right. The hearing discussing the appeal is scheduled for April 15, 2006.

Interruption of Network Services

On June 18, 2005, the interruption of the LOTTO collection service occurred in alternating fashion affecting virtually all the terminals connected to the data transmission network managed by BNL-ALBACOM (approximately 14,000 terminals). After the network reconfiguration, which was completed during the night between June 18 and 19, 2005, the malfunction was eliminated and the data transmission lines regained their normal and regular functions. The AAMS immediately quantified the tax damages at approximately 7.5 million euros and subsequently presented a compensation request on July 7, 2005. Lottomatica immediately contested the AAMS's compensation request on the basis of a differing interpretation of the concession dictate. In fact, Lottomatica maintains that the AAMS can exclusively request the payment of the penalties foreseen in the concession, solely for “each day of delay” in the repair “after the first day it was reported”. Therefore, since the failure was restored during the night between

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37. Significant Legal Proceedings (Continued)

June 18 and 19, no penalty would be due. The next August 12, LOTTOMATICA nonetheless provided to pay the AAMS the claimed amount, notwithstanding the continued contestation of the foundation of the request, and reserving to assert its reasons wherever appropriate. On September 16, 2005, Lottomatica formally requested the AAMS to reimburse the amount paid as tax damages, within 15 days, also attaching a copy of the *pro-veritate* opinion presented by its attorney (Carlo Mirabile, Attorney at Law) supporting the above arguments. Lottomatica also reserved to activate the foreseen arbitration proceeding in case of non-reimbursement. On October 6, 2005, the AAMS replied to the above note declaring it believed the request to be unfounded, and that it had informed the General State Bar about the Lottomatica request for the evaluation and reporting of eventual technical modalities. Therefore, Lottomatica is waiting to learn the decisions of the Bar before starting the dreaded arbitration process.

Moreover, LOTTOMATICA contested the network malfunction of June 18, 2005, to the supplier BNL Multiservizi, reserving to apply the contractually foreseen penalties, to request compensation for further damages suffered, and to proceed to the annulment of the contract. BNL Multiservizi rejected the LOTTOMATICA imputations declaring that it was not responsible for the malfunction. Moreover, Lottomatica, on September 14, 2005, following the occurred payment of the amount of €7.5 million in favor of the AAMS, requested BNL Multiservizi to immediately repay this amount and has foreseen the initiation of an arbitration process to ascertain the occurred annulment of the contract due to negligence of the latter.

Subsequent to a further denial of BNL Multiservizi, on November 2, 2005, Lottomatica served BNL Multiservizi the act of appointment of its arbitrator in the person of Prof. Berardino Libonati, requesting that the annulment of the contract due to fact and negligence on the part of BNL Multiservizi is ascertained, and that, moreover, BNL Multiservizi be condemned to pay €7,558,648.00 in favor of Lottomatica, as well as further damages suffered by the same Lottomatica.

On November 23, 2005, BNL Multiservizi notified about the act of appointment of its arbitrator in the person of Prof. Salvatore Pescatore, Attorney at Law. Concomitantly, it requested the rejection of the requests formulated by Lottomatica and the ascertainment of the impact of the third draw of the week of the Lotto game and of the further services transmitted through its own network, quantifying the eventual amounts due to Lottomatica for this service.

As of today, the two arbitrators have not yet provided to the appointment of the third arbitrator carrying out the function of President, and therefore the Board has not yet formed.

Sports Games Selection Procedure (ex Coni)

The tender procedure called on April 15, 2003 by the Autonomous Administration of the State Monopolies for the “selection of operators (providers) for the purposes of the concession of activities and public functions regarding games of chance as well as other, eventual, games linked to sports events”, that ended on June 2003 with the stipulation of the concessions to the three operators selected—among which the Consortium made up of Lottomatica together with Totobit Informatica Software e Sistemi S.p.A., Consorzio Totocom Agenzie On Line, Telcos S.p.A.—was subject to various claims.

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In particular, this procedure was impugned by Coppini Giorgio & Partners S.a.s. (TAR Lazio), by the sole proprietorship company Righetti together with other claimants (TAR Lazio) and MP S.a.s. (TAR Sicily). At the hearing of July 23, 2003, TAR Lazio rejected the suspension request presented in the appeals brought by the companies Righetti + others and Coppini & Partners, while, with regard to the appeal brought by MP S.a.s., the TAR Sicily, awaiting the pronouncement of the TAR Lazio to be made in the other pending disputes on the same subject, decided to adjourn *sine die* of the hearing discussing the precautionary demand, and with ordinance issued on April 1, 2004, decided the handover of the appeal to the TAR Lazio of competence.

Other proceedings have been initiated by the Toto bet collectors associations CTI (Consorzio Totorecipienti Italiani = Italian Toto Bet Collectors Consortium) and CO.NA.RI (Consorzio Nazionale Riceipienti = National Bet Collectors Consortium) as well as by the bet collector Marilena Curcio. The abovementioned subjects have brought an extraordinary appeal to the President of the Republic to request the annulment of the Decree of the General Director of the State Monopolies dated 04/10/2003 (The issuance of the authorizations to the points of sale of games of chance as well as of other, eventual, games linked to sports events).

In the opinion of the attorneys that assist the Company, these appeals are groundless, and it is now impossible to bring them to litigation.

SUMMONS OF FORMULA GIOCHI PARTNERS

On October 26, 2005, the companies KARISSA HOLDING S.A., CORED INTERNATIONAL S.A., as well as Mr. Massimo MACI, partners of Formula Giochi S.p.A. in liquidation (company operating in the market of gaming and betting collections) served LOTTOMATICA and SISAL, on their own and in subrogation of Formula Giochi, a summons to appear on January 30, 2006, before the Court of Appeals of Rome to which they requested that the responsibility of the same Lottomatica and Sisal be ascertained regarding the anti-competition behavior, sanctioned by decision of the Italian Competition and Market Authority dated November 23, 2004, due to which, the claimants assume, the following would have occurred: (i) the impossibility of selling their quota of €3,007,000, (ii) the impossibility for Formula Giochi to access the gaming and betting market, determining an impoverishment of the Formula Giochi company value of €34,200,000. The claimants requested, on their own and in subrogation of Formula Giochi, the condemnation of Lottomatica and Sisal to fully reimburse the damages for a total amount of €37,207,000.00.

Irrespective of a series of preliminary questions concerning—among other—the legitimacy of the claimants, from the acts of the proceeding prepared by the Italian Competition and Market Authority, it results that Lottomatica did not behave in a prejudicial manner against Formula Giochi. On the contrary, the documentation of the preliminary file, taken word-for-word from the Authority's closing action of the proceeding, and in particular, the declarations stated during the hearing of November 10, 2003, by the natural person who held the position of Chief Executive Officer of Formula Giochi, prove that “the disgregation of the newborn third coalition” is due to causes that do not depend on Lottomatica. Lottomatica appeared as customary on January 10, 2005. At the hearing of January 30, 2005, the company Formula Giochi appeared before the court in the person of the liquidator. At the hearing of

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February 2006, the Court of Appeals granted the parties 30 days for notes, reserving to schedule the following hearing.

NETWORK TENDER APPEAL

The appearing RTI ALBACOM—FASTWEB brought an appeal before the TAR Lazio on October 27, 2005, for the annulment, following precautionary order, of all the tenders for the assignment of the data transmission service on the virtual private network for the Lotto Game called by Lottomatica S.p.A., requesting, moreover, the condemnation of the same Lottomatica to reimburse the damages.

Lottomatica appeared before the court and requested the rejection of the requests made by the claimant.

At the hearing of November 23, 2005, the Temporary Company Grouping ALBACOM—FASTWEB renounced its suspension request. As of today, the hearing discussing the question has not yet been scheduled.

38. Commitments

At December 31, 2005, the Group has existing commitments of €/000 297,289 that include *guarantees* of €/000 292,523 and *other commitments* of €/000 4,766.

The most important items concern:

- guarantees granted to the telephone (Tim Italia, Vodafone, Wind, H3G) and television companies as guarantee of the obligations undertaken by Lottomatica Italia Servizi S.p.A. and Totobit S.p.A. against the contracts for the service of automatically recharging pre-paid services (€/000 171,661);
- guarantees granted by Efibanca and Banca di Roma in favor of the Ministry of Finance as guarantee of the obligations undertaken by Lottomatica S.p.A. against the concession of the Lotto game (€/000 36,707);
- guarantees issued in the interest of the Consorzio Lotterie Nazionali pursuant to the Lottomatica S.p.A. assignments in favor of the AAMS as guarantee of the fulfillment on the part of the Consorzio of all the obligations stemming from the Agreement, as reported in article 10 of the Concession dated October 14, 2003 (€/000 25,823);
- guarantees of €/000 22,474, entirely granted by Lottomatica S.p.A. and Lottomatica Italia Servizi S.p.A. to the Revenue Agency, against the credit used in the ambit of the Group VAT procedure;
- guarantees granted in the interest of RTI Videolot S.p.A., pursuant to the Lottomatica S.p.A. assignments in favor of the AAMS, as guarantee of the fulfillment of the obligations regarding the Video Lottery concession on the part of the same RTI Videolot S.p.A. (€/000 15,385);
- guarantees released in the interest of the Consorzio Lottomatica Giochi Sportivi pursuant to the Lottomatica S.p.A. assignments in favor of the AAMS, as guarantee of the fulfillment on the part of the Consorzio Giochi Sportivi of all the obligations inherent to gaming; (€/000 15,000);

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38. Commitments (Continued)

- guarantees granted to companies of the group pursuant to Lottomatica S.p.A. assignments as guarantees regarding sweepstakes (€/000 2,964);
- guarantees granted by Lottomatica S.p.A. as guarantee of the stipulated rental agreements (€/000 1,836);
- guarantees granted to Sogei by Lottomatica S.p.A. for the horserace sports events of €/000 626.

The item “*other*” amounts as a whole to €/000 4,766 and comprises:

- three letters of patronage (amounting to €/000 3,920 maximum) released by Lottomatica in favor of the controlled company LIS, as guarantee of the contractual obligations undertaken by the latter for the contracts with Juventus Calcio (€/000 2,582), Torino Calcio of €/000 775 and Vicenza Calcio of €/000 258; and a letter of patronage toward the controlled company PCC of €/000 305;
- the Lottomatica S.p.A. values deposited at Comit (€/000 120) for the gold coins that have not been collected by the winners of the “Cinquinotto” sweepstake;
- the PCC commitment of the fees maturing on January 1, 2006 of €/000 726 for the rental contracts stipulated for equipment and machinery.

Lottomatica S.p.A., moreover, uses €/000 213,074 toward its controlled companies, of which the assignments granted by Banca Popolare di Bergamo amount to €/000 94,690, €/000 60,323 by Banca Antonveneta, €/000 13 by Monte dei Paschi di Siena, €/000 45 by Unicredito.

39. Collection and Payment Activities

Enclosed is the information of the “collection and payment activities” carried out by Lottomatica based on the authority transferred by Italian Decree of the President of the Republic No. 560.

These activities, totaling €/000 178,225 is made up as follows:

Receivables

Receivables amount to €/000 4,065 and represent the receivable for the management toward the collectors against the amounts that the same must pay, net of the winnings and quotas that belong to them.

Cash and Cash equivalent

Cash and cash equivalent amounts to €/000 174,160 and represents the accounting balances at December 31, 2005, of the management activities on its related bank and post office accounts:

- €/000 134,363 on a specific bank account opened at Banca Intesa S.p.A.;
- €/000 39,797 on a specific postal account.

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39. Collection and Payment Activities (Continued)

Payables

Payables amount to €/000 178,225 and consist of:

- €/000 148,855 for the tax earning to be repaid to the Italian Financial Administration on December 31, 2005;
- €/000 12,481 for the amount due to the social security fund of the Italian Ministry of Finance;
- €/000 270 for the amounts to be repaid to the Italian Financial Administration, equal to the active interests matured on the bank account dedicated to the collection and payment management, net of the fiscal burdens and related expenses;
- €/000 6,269 for the fee regarding the last two draws carried out in the period under examination to be paid to the concessionaire;
- €/000 10,350 for the winnings not yet paid at December 31, 2005;

40. Subsequent Events

On January 10, 2006, Lottomatica S.p.A., Gold Holding Co., Gold Acquisition Co., and GTECH Holdings Corporation, subject to the approval of their respective Boards of Directors, signed a contract, the Agreement and Plan of Merger, under which Lottomatica, through its controlled company Gold Acquisition Co. will purchase 100% of the share capital of GTECH Holding Corporation, an American company, leader in the field of gaming and service technology, currently quoted on the New York Stock Exchange.

The acquisition will take place with the merger by incorporation (cash merger) of Gold Acquisition Co., indirectly controlled by Lottomatica through Gold Holding Co., into GTECH. At the end of the Merger, all the GTECH shareholders will have the right to receive the price offered by Lottomatica and the GTECH shares will cease to be quoted.

The price offered by Lottomatica for the acquisition is equal to 35 US dollars for each GTECH share and expresses a 15% premium on the September 9, 2005 GTECH share price, the day preceding the one in which the Board of Directors of the company had announced the intention of evaluating possible acquisition offers.

The operation will lead to the creation of one of the largest groups in the world in the field of lotteries and gaming, with an important presence on international markets and an extensive and articulated portfolio of technologies, services and content. In the 2005 accounting year, GTECH had revenue of 1,005 billion euros and an EBITDA equal to 0.387 billion euros. The new Lottomatica Group will be present in more than 50 countries throughout the world, with approximately 6,300 employees, an estimated aggregated turnover (2005) of 1.6 billion euros and an EBITDA, still on an aggregate level, equal to 0.7 billion euros. The turnover and the EBITDA of the new Lottomatica Group have been calculated from the simple arithmetical addition of the I/B/E/S estimates at December 31, 2005 with regard to the turnover and the Lottomatica and GTECH stand-alone EBITDA, without any accounting adjustment or adjustments of other nature.

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40. Subsequent Events (Continued)

With regard to the estimates on GTECH referred on December 31, 2005, they have been obtained by setting the dates of the I/B/E/S estimates referred to February 2005 (²/₁₂) and February 2006 (¹⁰/₁₂). The GTECH capital is made up of approximately 132.0 million shares, on a fully diluted basis, including options and shares stemming from the eventual total conversion of convertible bonds issued by GTECH.

The value of the operation, therefore, results equal to approximately 4 billion euros, including the acceptance, on the part of the buyer, of the current net financial debt of GTECH. The finalization of the Merger to be deliberated by the GTECH shareholders, is subordinated to the usual conditions for operations of the kind, among which the obtaining of the necessary authorizations and consents, and the availability of the necessary resources for the financing of the operation. The completion of the operation, which is also subject to the approval on the part of competent regulatory bodies, is currently foreseen for the month of June 2006.

Lottomatica will finance the acquisition with:

- available financial resources of 0.4 billion euros;
- a rights issue of 1.4 billion euros, to be offered as options to the shareholders;
- a subordinated bond issue maturing in 2066, of 0.750 billion euros;
- a senior loan of 2,260 billion US dollars corresponding to approximately 1.9 billion euros in several tranches, that will be supplied to Gold Acquisition Corp and guaranteed by Lottomatica, in part destined to the payment of the GTECH shareholders, and, in part to refinance the existing GTECH debt.

For this purpose, in concomitance with the signing of the Agreement and Plan of Merger, preliminary agreements were signed with Credit Suisse First Boston, now Credit Suisse Securities, and Goldman Sachs International, that, upon the occurrence of certain conditions, will consent to making available to Lottomatica the necessary financial resources.

These commitments are subject to the standard conditions for operations of the kind.

De Agostini S.p.A. will entirely underwrite its direct and indirect share of the capital increase.

It is foreseen that once the operation is completed, Lottomatica will maintain an “investment grade” corporate rating.

On January 10, 2006, the Bank of Italy released the authorization to conduct business as an electronic money institute. In an extraordinary shareholders’ meeting on January 16, the company CartaLIS S.p.A. modified its company name into “CartaLIS IMEL S.p.A.” With a sale act concluded on February 6, 2006, LIS transferred the property of 500,000 ordinary shares of the company CartaLIS representing 5% of the Share Capital to Sella Holding Banca S.p.A.. Today LIS hold an 85% investment of the CartaLIS share capital. On February 6, 2006, it was registered as the first Italian IMEL—*Istituto di Moneta Elettronica* (Institute of Electronic Money) with ABI—*Associazione Bancaria Italiana* (Italian Banking Association) data processing code being 36000. On February 13, 2006, a communication was received from the U.I.C. (Italian Foreign Exchange Office) regarding the suitability of the points of sale agreement model presented by the company.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of December 31, 2005
(All amounts in thousand of Euro, unless otherwise indicated)

40. Subsequent Events (Continued)

In January 2006, the Consorzio Lotterie Nazionali launched a new 2-euro game called “Medaglia d’Oro” linked to the Turin 2006 Winter Olympic Games. The sales results of this game have been positive, with 19 million tickets sold.

On January 6, 2006, the Lotteria Italia draw operations were successfully completed. For the first time they were carried out using the new Edittec draw machines purchased by the Consorzio in 2005.

On February 2, 2006, the AAMS released the definitive decree on the management of the network for the telematic handling of the amusement and entertainment devices (Video Lotteries) to RTI Videolot.

**REPORT OF INDEPENDENT AUDITORS
ON THE STATEMENTS OF RECONCILIATION
TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)**

To the Board of Directors
of Lottomatica S.p.A.

1. We have audited the accompanying statements of reconciliation to International Financial Reporting Standards (“IFRS”) of Lottomatica S.p.A. and its subsidiaries (the “Lottomatica Group”) comprising the consolidated balance sheets as of January 1, 2004 and December 31, 2004 and the consolidated statement of income for the year ended December 31, 2004, the reconciliations of the consolidated shareholders’ equity as of January 1, 2004 and December 31, 2004 and of the consolidated net income for the year ended December 31, 2004 and the related explanatory notes (hereinafter, the “IFRS Reconciliation Statements. These IFRS Reconciliation Statements are based on the consolidated financial statements of the Lottomatica Group as of December 31, 2004, prepared in accordance with the Italian regulations governing the criteria for their preparation, which we have previously audited and on which we issued our auditor’s report dated March 23, 2005. The IFRS Reconciliation Statements have been prepared as part of the Group’s conversion to International Financial Reporting Standards (IFRS) as adopted by the European Commission (“EU”). These IFRS Reconciliation Statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these IFRS Reconciliation Statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in the Republic of Italy. In accordance with such standards we planned and performed the audit to obtain the information necessary in order to determine whether the IFRS reconciliations are materially misstated. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS Reconciliation Statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the IFRS Reconciliation Statements identified in paragraph 1. above, taken as a whole, have been prepared in all material respects in accordance with the criteria and principles set out in article 82-bis of CONSOB Regulation no. 11971/1999 as amended by Resolution no. 14990 of April 14, 2005.
4. We draw your attention to the fact that, as described in the explanatory notes, since the IFRS Reconciliation Statements have been prepared as part of the Group’s conversion to IFRS in connection with preparation of its first complete set of consolidated financial statements in accordance with IFRS as adopted by the EU, they do not include comparative information and necessary explanatory notes which would be required for a true and fair view of the financial position and results of operations of the Lottomatica Group in conformity with IFRS.

Moreover, as described in the explanatory notes, the data presented in the IFRS Reconciliation Statements may require adjustments before their inclusion as comparative information in the first complete set of consolidated financial statements, since new IFRS standards or IFRIC interpretations may be effective, for which earlier adoption could be allowed.

Rome, September 27, 2005

Reconta Ernst & Young S.p.A.

LOTTOMATICA S.p.A. and Subsidiaries

December 31, 2004

Statements of Reconciliation to IFRS

(All amounts in thousands of Euro, except as otherwise indicated)

TRANSITION TO INTERNATIONAL ACCOUNTING STANDARDS (“IFRS”)

Introduction

Following the entry into force of Regulation (EC) No. 1606/2002 issued by the European Parliament and of the European Council in July 2002, companies with shares traded on a regulated market in the European Union Member States are required, starting from the year 2005, to prepare their consolidated financial statements in accordance with International Accounting Standards (“IFRS”), issued by the International Accounting Standard Board (“IASB”) and modified and adopted by the European Union (“EU”).

As a result, Lottomatica S.p.A. consolidated financial statements as of December 31, 2005, will be prepared based on IFRS principles and, for comparison purposes, the financial statements as of December 31, 2004, will also be restated according to these same principles.

On the basis of Resolution No. 14990 of April 14, 2005, with which the Italian Regulatory Agency Commission (“CONSOB”) introduced amendments and additions to Regulation No. 11971 of May 14, 1999, the Group has exercised the option to publish its interim consolidated reports in compliance with the international accounting standards commencing from the half-year report as of June 30, 2005, while for the non consolidated financial statements of the Company, these principles will be adopted commencing from the 2006 financial year.

Accordingly, the information required by IFRS 1 are reported below taking into account the Recommendation issued on December 30, 2003 by the Committee of European Securities Regulators (“CESR”), containing the guidelines for listed companies within the EU on the procedures for transition to IFRS, as well as the Issuers’ Regulations issued by CONSOB, as amended by the CONSOB Resolution No. 14990 of April 14, 2005, following, *inter alia*, the adoption of the International Accounting Standards in the interim reports.

Specifically, the information required by IFRS 1 relates to the impact that the transition to IFRS had on the consolidated financial and economic position, on the consolidated results and on the consolidated cash flows that have been reported.

For the purpose of presenting the effects of transition to IFRS and of complying with the rules of disclosure prescribed under paragraphs 39 a) and b) and 40 of IFRS 1 regarding the effects of First Time Adoption of IFRS, the Lottomatica Group has followed the example given in international accounting standard IFRS 1 IG 63. For this purpose, the following has been prepared:

- notes regarding First Time Adoption of IFRS (IFRS 1) and the other selected IFRS standards, including the assumptions of management pertaining to the IFRS principles and interpretations that will be adopted in preparing the first full consolidated financial statements as of December 31, 2005, drawn up in accordance with IFRS;
- consolidated IFRS balance sheets as of January 1, 2004, and December 31, 2004, and consolidated IFRS income statement for the year ended December 31, 2004;

LOTTOMATICA S.p.A. and Subsidiaries

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Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

- statements of reconciliation between the consolidated shareholders' equity prepared in accordance with the previous accounting standards and the consolidated shareholders' equity recognised in accordance with IFRS at the following dates:
 - date of transition to IFRS;
 - closing date of the last financial year in which the financial statements were prepared in accordance with the previous accounting standards (December 31, 2004);
- statement of reconciliation between the net result of the last income statement prepared in accordance with national accounting standards (December 31, 2004) and the net result from adoption of IFRS for the same period;
- statement of reconciliation between the balance sheet in the financial statements prepared at the date of transition to IFRS (January 1, 2004) and that resulting from the adoption of IFRS for the same period;
- statement of reconciliation between the balance sheet of the last financial statements prepared in accordance with national accounting standards (December 31, 2004) and that resulting from the adoption of IFRS for the same period;
- statements of reconciliation between the net debt position prepared in accordance with the previous national accounting standards and in accordance with IFRS as of January 1, 2004, and December 31, 2004;
- the cash-flow statement in accordance with IFRS as of December 31, 2004;
- notes to balance sheet formats and reconciliation statements;
- notes to the significant changes to the cash-flow statement following the adoption of the new accounting standards.

As it presented in the accompanying details, the consolidated IFRS balance sheet and the consolidated IFRS income statement have been obtained by making the required IFRS adjustments and reclassifications to the consolidated final accounts, prepared in accordance with the Italian provisions of law, to reflect the changes to presentation, recognition and valuation criteria required by IFRS.

The accounting and reconciliation statements have been prepared only for the purposes of preparing the first full consolidated financial statements in accordance with IFRS as adopted by the EU.

Thus, the aforesaid statements do not present comparative data and explanatory notes that would be required to give a true and fair view of the consolidated financial and economic position and the financial result of the Lottomatica Group in accordance with IFRS as adopted by the EU.

Adjustments have been made in accordance with IFRS currently in force. The endorsement process by the EU and the interpretation activities by the official competent official bodies are still in progress. At the time of preparing the first full consolidated IFRS financial statements as of December 31, 2005, new IFRS standards and IFRIC interpretations could come into effect, whose adoption may be authorised in advance. For these reasons, data presented in the accounting and reconciliation statements may be subject to change for the purpose of their use as comparative data of the first full consolidated financial statements prepared in accordance with IFRS as adopted by the EU.

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Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

The effects of transition to IFRS arise from the changes to accounting standards and, as a result, as required by IFRS 1, are reflected in the initial shareholders' equity at the date of transition (January 1, 2004). Transition to IFRS has meant that the estimates previously made according to the Italian accounting standards have been maintained, except in those cases where the adoption of IFRS accounting standards has not required estimates to be made using different methods.

Summary of the reference regulatory framework

Below are the guidelines, as well as the reference regulatory framework, which are applicable to listed companies within the EU concerning the procedures for transition to IFRS:

- adoption of Regulation No. 1606 issued by the European Parliament and the European Council in July 2002, providing, commencing from 2005, for the adoption of IFRS for all consolidated accounts of companies listed on regulated markets within the EU;
- adoption, by the European Commission, of Regulation No. 1725 of September 29, 2003, that endorsed the international accounting standards and the related current interpretations at September 14, 2002;
- issue, by the Italian legislator, of Law No. 306 of October 31, 2003 (the "2003 Community Law") with which the Italian legislator exercised (in Article 25) the option granted under the aforesaid Community Regulation No. 1606/2002, and thus delegating to the Italian Government the task of adopting within a year from the law coming into effect (that is by November 30, 2004) one or more legislative decrees implementing the option provided for under the aforementioned Community Regulation;
- issue of Legislative Decree No. 38 of February 28, 2005, implementing the delegated law referred to in the previous point, providing that listed companies required under Community Regulation No. 1606/2002 to prepare the consolidated financial statements according to IFRS, may also prepare the individual financial statements adopting these principles commencing from 2005 (effective from 2006);
- the CESR recommendation published on December 30, 2003, set forth the guidelines for listed companies within the EU concerning the procedures for transition to IFRS;
- adoption by the European Commission of Regulation No. 707 of April 6, 2004, endorsing IFRS 1, "First-time Adoption of International Financial Reporting Standards"; No. 2086 of November 19, 2004 endorsing, subject to some limitations, IAS 39; No. 2236, 2237 and 2238 of December 29, 2004, endorsing IAS 32 and the other accounting standards revised by IASB in December 2003 and March 2004, the new IFRS standards issued in March 2004 (except for IFRS 2, approved by the European Commission by Regulation No. 211 of February 4, 2005), as well as the IFRIC 1 interpretation "Changes in Existing Decommissioning, Restoration and Similar Liabilities", thus arriving at what can be considered as a stable system of accounting standards.

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Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS 1”)

As required under IFRS 1, at the date of transition to the new standards (January 1, 2004), a consolidated balance sheet has been prepared in which:

- all and only those assets and liabilities that can be reported under the new standards have been recognised;
- items that were shown in the financial statements in accordance with methods other than IFRS have been restated;
- IFRS have been applied to the valuation of all assets and liabilities that have been recognised.

The effect of adjusting to the new standards the opening balances of assets and liabilities has been recognised in the shareholders' equity, in an appropriate reserve of retained earnings net of tax effects, and recognised, from time to time, in the provision for deferred taxes or in the deferred tax assets.

The Lottomatica Group has applied the valuation criteria that are illustrated herein adopting a retrospective approach, except in those cases where it has opted to apply the exemptions permitted under IFRS 1. Below are the exemption options that have been applied by the Group:

1. *business combinations*: the Lottomatica Group decided to adopt IFRS 3 on a prospective basis starting from January 1, 2004;
2. *financial instruments*: the Lottomatica Group decided to early adopt IAS 32 and 39, as permitted, as of January 1, 2004;
3. *translation differences*: the Lottomatica Group decided to implement the exemption option regarding cumulative translation differences for all operations carried out abroad, which on the date of January 1, 2004, were assumed to be zero.

The restatement of the opening consolidated balance sheet as of January 1, 2004 and of the consolidated financial statements as of and for the years ended December 31, 2004, required that the Lottomatica Group, on a preliminary basis, exercises the options provided for under IFRS.

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Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

**CONSOLIDATED IFRS BALANCE SHEETS AS OF JANUARY 1, 2004 AND DECEMBER 31, 2004,
CONSOLIDATED IFRS NET DEBT POSITION AS OF JANUARY 1, 2004 AND DECEMBER 31, 2004
AND NOTES TO THE SIGNIFICANT IFRS ADJUSTMENTS AND RECLASSIFICATIONS**

The differences arising from the adoption of IFRS as compared to previous Italian accounting standards, as well as the options that were been made by Lottomatica within the scope of the accounting options provided for under IFRS described above, required the restatement of accounting data prepared in accordance with the previous Italian regulations on financial statements and the computation of the related effects on shareholders' equity and on the net indebtedness of the Group.

Below are shown:

- summary statement reporting consolidated balance sheet at the transition date (January 1, 2004), restated using the principle of "current and non-current" assets and liabilities;
- summary statement reporting consolidated balance sheet as of December 31, 2004, restated using the principle of "current and non-current" assets and liabilities;
- statement of reconciliation of net financial indebtedness prepared using the previous accounting standards and prepared in accordance with IFRS as of January 1, 2004, and December 31, 2004.

Change in consolidated Group

As of January 1, 2004

In accordance with IAS 27, Lotto do Brasil, Lottomatica Argentina, Twin, Lis Finanziaria, Consorzio Lotterie Nazionali and Lottolatino Venezuela have been included in the scope of consolidation, while they were not included in the scope of consolidation under Italian accounting standards, in that they were not significant or, as in the case of Lis Finanziaria, because it was involved in different business activities. The effects of this accounting treatment are reported in the column "Change in consolidation area", which include the adjustments (€/ 350) and reclassifications that have been made for IFRS purposes. The IFRS adjustments mainly refer to the reversal of intangible assets that did not have the requisites required by IAS 38.

As of December 31, 2004

In accordance with IAS 27, Lotto do Brasil, Lottomatica Argentina and Lis Finanziaria have been included in the scope of consolidation as of December 31, 2004, which were not included in the scope of consolidation under Italian accounting standards. The effects of this accounting treatment are reported in the column "Change in consolidation area", which include the adjustments and reclassifications that have been made for IFRS purposes. It should be noted that Consorzio Lotterie Nazionali was consolidated for the purpose of Italian accounting standards as of December 31, 2004, while Twin and Lotto Latino Venezuela have been liquidated.

Discontinued operations

As of January 1, 2004

The equity investment held in Global Bingo Corporation ("GBC"), consolidated for the purposes of Italian accounting standards as of December 31, 2003, and sold on June 28, 2004, has been treated,

LOTTOMATICA S.p.A. and Subsidiaries

December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

according to IFRS 5, as a non-current asset held for sale. Also in this case, it was deemed appropriate to report the effects of this treatment separately in the column “IFRS 5 Reclassification”.

As of December 31, 2004

The economic effect of discontinued operations of GBC has been reclassified in the income statement line item “Profit from assets held for sale or discontinuing operations”.

Balance Sheet as of 01.01.2004	Italian Accounting Standards as of 31.12.2003 IFRS Formats	Change in Consolidated Group	IFRS 5 Reclassification	IFRS Adjustments	Notes	IFRS Reclassifications	Notes	IFRS Balances as of 01.01.2004
A) Non-current assets							(M)(N) (O)(P)(Q)	
Property, plant and equipment . . .	152,032	367	(9,604)	270	(A)	(1,970)		141,095
Goodwill	491,144	145	(47,170)	(47)	(B)	0		444,072
Intangible Assets	24,005	244	(810)	(14,879)	(C)	(3,108)	(N)(R)	5,452
Financial assets	13,659	(13,122)	(197)	0		0		340
Other non-current assets	12,516	14	(393)					12,137
Deferred tax assets	48,268	137	0	8,415	(D)	0		56,821
Total non-current assets	741,624	(12,215)	(58,174)	(6,241)		(5,078)		659,917
B) Current assets								
Inventory	4,573	0	(156)	0		4,392	(S)	8,809
Accounts receivables trade and other receivables	38,974	(38)	0	(157)	(E)	(84)	(T)	38,695
Current financial assets	13,099	0	(8,488)	0		0		4,611
Other current assets	53,889	859	(6,053)	39		(5,359)	(S)(V)	43,375
Tax Receivables	15,455	0	0	0		0		15,455
Cash and cash equivalents	199,109	1,255	(3,217)	0		0		197,147
Assets held for sale or discontinuing operations	0	0	76,088	0		0		76,088
Total current assets	325,099	2,076	58,174	(118)		(1,051)		384,180
TOTAL ASSETS	1,066,723	(10,139)	0	(6,359)		(6,129)		1,044,097
A) Shareholders' equity								
Share capital	87,494	0	0	0		0		87,494
Legal Reserve	17,711	0	0	0		0		17,711
Share premium reserve	243,616	0	0	0		0		243,616
Other reserves	38,259	(3)	0	0		2,956	(U)	41,212
Profit (loss) carried forward	0	(28)	0	0		0		(28)
Fta reserve	0	(142)	0	(4,477)	(F)	(2,956)	(U)	(7,576)
Net Profit (Loss)	12,600	0	0	0		0		12,600
Total Group Shareholders' Equity	399,680	(173)	0	(4,477)		0		395,030
Minority interests								
Capital, reserves and results carried forward	3,287	(98)	(1,892)	(186)	(F)	0		1,110
Net Profit (Loss)	531	0	(380)	0		0		151
Total Minority Interests	3,818	(98)	(2,272)	(186)		0		1,261
B) Non-current liabilities								
Long-term debt	361,369	0	(1,131)	0		(2,617)	(V)(R)	357,621
Termination Indemnities	5,666	177	0	(84)	(G)	0		5,759
Deferred taxes	0	0	0	291	(H)	688	(X)	979
Long term provision	6,724	279	(1,453)	(1,099)	(I)	(688)	(X)	3,763
Total non-current liabilities	373,759	456	(2,584)	(892)		(2,617)		368,122

LOTTOMATICA S.p.A. and Subsidiaries

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Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

Balance Sheet as of 01.01.2004	Italian Accounting Standards as of 31.12.2003 IFRS Formats	Change in Consolidated Group	IFRS 5 Reclassification	IFRS Adjustments	Notes	IFRS Reclassifications	Notes	IFRS Balances as of 01.01.2004
C) Current liabilities								
Accounts payables trade and other payables	119,338	164	(200)	(799)	(L)	(900)	(P)	117,603
Derivative instruments	0	0	0	0		0		0
Short-term borrowings	18,957	(10,745)	(3,496)	(4)		(227)	(O)	4,485
Short-term portions of long-term debt	0	0	0	0		473	(Y)	473
Other current liabilities	132,689	144	(4,557)	0		(2,858)	(M)(T)(Y)	125,418
Tax payables	18,482	114	(6,729)	0		0		11,867
Liabilities associated with assets held for sale or discontinuing operations	0	0	19,838	0		0		19,838
Total current liabilities	<u>289,466</u>	<u>(10,323)</u>	<u>4,856</u>	<u>(803)</u>		<u>(3,512)</u>		<u>279,684</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY . .	<u>1,066,723</u>	<u>(10,138)</u>	<u>0</u>	<u>(6,359)</u>		<u>(6,129)</u>		<u>1,044,097</u>

LOTTOMATICA S.p.A. and Subsidiaries

December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

Balance Sheet as of 31.12.2004	Italian Accounting Standards as of 31.12.2004 IFRS Formats	Change in Consolidated Group	IFRS Adjustments	Notes	IFRS Reclassifications	Notes	IFRS Balances as of 31.12.2004
A) Non-current assets						(M)(N) (O)(P)(Q)	
Property, plant and equipment	116,146	11	0	(A)	1,199		117,356
Goodwill	392,498	134	54,016	(B)	0		446,648
Intangible Assets	34,946	33	(18,803)	(C)	(4,459)	(N)(R)	11,717
Financial assets	1,167	(747)	0		0		420
Other non-current assets	1,658	0	0		0		1,658
Deferred tax assets	47,057	44	8,704	(D)	(5)		55,797
Total non-current assets	<u>593,472</u>	<u>(525)</u>	<u>43,917</u>		<u>(3,265)</u>		<u>633,596</u>
B) Current assets							
Inventory	5,265	0	0		5,183	(S)	10,448
Accounts receivables trade and other receivables	58,839	219	(194)	(E)	(28)	(T)	58,836
Current financial assets	71,720	400	0		0		72,120
Other current assets	119,433	40	0		(5,956)	(S)(V)	113,518
Tax Receivables	29,979	0	0		0		29,979
Cash and cash equivalents	241,595	66	0		(0)		241,661
Total current assets	<u>526,831</u>	<u>726</u>	<u>(194)</u>		<u>(801)</u>		<u>526,563</u>
TOTAL ASSETS	<u>1,120,303</u>	<u>201</u>	<u>43,723</u>		<u>(4,066)</u>		<u>1,160,158</u>
A) Shareholders' equity							
Share capital	88,939	0	0		0		88,939
Legal Reserve	17,762	0	0		0		17,762
Share premium reserve	116,079	0	0		0		116,079
Other reserves	2,664	0	(216)	(F)	9,428	(U)	11,876
Profit (loss) carried forward	0	0	0		(544)	(UU)	(544)
Fta reserve	0	0	(4,620)	(F)	(2,956)	(U)	(7,576)
Net Profit (Loss)	60,719	(28)	31,275	(F)	(5,928)	(U)	86,038
Total Group Shareholders' Equity	<u>286,163</u>	<u>(28)</u>	<u>26,438</u>		<u>0</u>		<u>312,573</u>
Minority interests							
Capital, reserves and results carried forward .	5,487	(0)	(268)	(F)	(24)	(U)	5,195
Net Profit (Loss)	479	0	(928)	(F)	23	(U)	(425)
Total Minority Interests	<u>5,966</u>	<u>(0)</u>	<u>(1,195)</u>		<u>(0)</u>		<u>4,770</u>
B) Non-current liabilities							
Long-term debt	360,119	0	0		(2,087)	(R)(V)	358,032
Termination Indemnities	6,813	17	275	(G)	0		7,105
Deferred taxes	0	0	18,714	(H)	7,277	(X)	25,991
Long term provision	28,877	0	(456)	(I)	(10,579)	(X)(Z)	17,842
Total non-current liabilities	<u>395,809</u>	<u>17</u>	<u>18,533</u>		<u>(5,389)</u>		<u>408,970</u>
C) Current liabilities							
Accounts payables trade and other payables .	179,808	100	0	(L)	(0)	(P)	179,908
Derivative instruments marked to market . .	0	0	0		3,302	(Z)	3,302
Short-term borrowings	3,443	0	(53)		(66)	(O)	3,322
Short-term portions of long-term debt	473	0	0		0		473
Other current liabilities	235,303	104	0		(1,913)	(M)(T)	233,494
Tax payables	13,338	8	0		0		13,346
Total current liabilities	<u>432,365</u>	<u>212</u>	<u>(53)</u>		<u>1,323</u>		<u>433,845</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>1,120,303</u>	<u>201</u>	<u>43,722</u>		<u>(4,066)</u>		<u>1,160,158</u>

LOTTOMATICA S.p.A. and Subsidiaries

December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

The following statement reports reconciliation of Italian accounting standards - IFRS of the net financial debt position as January 1, 2004, and December 31, 2004.

It should be noted that the line item “Changes due to re-definition of IFRS Consolidation Area” refers to the elimination of inter-company balances resulting from the different entities consolidated for IFRS purposes affecting the net financial position.

<i>(thousands of euros)</i>	As of January 1, 2004	As of December 31, 2004
Net financial debt according to Italian standards	<u>169,480</u>	<u>50,684</u>
Changes due to definition of IAS/FRS consolidation area	(12,000)	(466)
Change due to IFRS 5 reclassifications	5,680	0
Change due to reclassification of additional charges on debenture loan	(2,144)	(2,087)
Change due to others IFRS	<u>(231)</u>	<u>(123)</u>
Net financial debt according to IFRS	<u>160,785</u>	<u>48,008</u>

Balance sheet items—Adjustments to Assets

(A) Property, plant and equipment

January 1, 2004

The adjustment (€/000 270) relates to the elimination of accumulated depreciation for terminals that were the subject of a transaction whose effects have been recognised as at January 1, 2004, for IFRS purposes.

December 31, 2004

At December 31, 2004, this adjustment did not have any impact on shareholders' equity.

(B) Goodwill

January 1, 2004

The change in the item was due to reversal of goodwill of Totobit Informatica, Lottomatica Sistemi and Lottomatica Italia Servizi, totalling €/000 47, as a result of identifying an impairment in value.

December 31, 2004

The adjustment to the item (€/000 54,016) relates to the elimination amortization of goodwill amounting to €/000 54,058, in addition to adjustments made at January 1, 2004. In accordance with IAS 36, goodwill is not subject to amortisation but must be subject to an annual impairment test to assess any loss in value that may have occurred.

The impairment test was carried out at January 1, 2004 and December 31, 2004, and no impairment was identified at both dates.

LOTTOMATICA S.p.A. and Subsidiaries

December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

As a result, amortisation carried out for the purposes of Italian accounting standards was reversed.

The tax effect was calculated only on the reversal of amortization which resulted in the recognition of deferred tax liabilities for €/000 18,760.

(C) Intangible Assets

January 1, 2004

Adjustments (totalling €/000 14,879) regarded costs that did not have the requirements for being capitalised under IAS 38. Specifically, the following items have been reversed, against the reduction of retained earnings:

- start-up and expansion costs (€/000 6,960);
- research and development costs (€/000 189);
- patents and intellectual property right (€/000 5,556), mostly attributable to software entirely produced in-house and not protected by law;
- concessions, licences and trademarks (€/000 98);
- costs included in the item “other intangible asset” under Italian accounting standards (€/000 1,680);
- costs entered under “fixed assets under development and advances” (€/000 395) relating to software not used and completely written-down under Italian accounting standards during the 2004 financial year.

December 31, 2004

This adjustment was mainly due to:

- reversal of non-capitalised costs, according to IAS 38, that determined a reduction of intangible assets for an amount of €/000 28,419 (part of which were determined by adjustments made at January 1, 2004). The most significant adjustment, as of December 31, 2004, concerned advertising costs incurred by Consorzio Lotterie Nazionali whose amount (€/000 6,411) was reversed from intangible assets and recognised as an increase in costs for services;
- the reversal of amortisation carried out for all intangible assets which for IFRS purposes were not capitalised at 01.01.04 and at 31.12.04. This amortisation gave rise to an adjustment of €/000 9,626.

LOTTOMATICA S.p.A. and Subsidiaries

December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

Below is the breakdown of the adjustments to costs that were reported with respect to intangible assets recognized in accordance with Italian accounting standards.

Breakdown of Adjustments to Intangible Assets <i>(thousands of euros)</i>	December 31, 2004
Start-up and expansion costs	(8,807)
Research and development costs	(6,600)
Patents and intellectual property rights	(6,538)
Concessions, licences and trademarks	(335)
Other Intangible assets	(5,742)
Fixed assets under development and advances	(395)
Total	<u>(28,417)</u>

(D) Deferred tax assets

January 1, 2004

The increase in deferred tax assets (€/000 8,415) was due to the tax effect calculated on the IFRS adjustment entries (for €/000 5,215), and to recognition by Cirmatica of pre-paid taxes for which the requirement, under Italian accounting standards, of reasonable certainty did not apply (for €/000 3,200).

December 31, 2004

The increase in deferred tax assets (€/000 8,704) was determined by the deferred taxation effects calculated on the IFRS adjustments as of December 31, 2004 (€/000 1,568) and by the utilization by Cirmatica of temporary deductible differences (€/000 1,400).

(E) Accounts receivables trade

The decrease in this item is due to adjustments regarding the discounting of trade receivables with a maturity longer than the operating cycle of the company. The following are the effects on shareholders' equity:

January 1, 2004: €/000 157;

December 31, 2004: €/000 194.

Balance sheet items—Adjustments to Shareholders' Equity and Liabilities

(F) Shareholders' equity

January 1, 2004

The adjustment (of €/000 4,620 to the Group shareholders' equity and of €/000 285 to minority interests) is attributable to the effect of adjusting asset and liability balances at January 1, 2004, to the IFRS. This effect, as required by IFRS 1, has been recognised to shareholders' equity in an appropriate reserve of profits carried forward (First-Time Application Reserve) net of tax effect, from time to time,

LOTTOMATICA S.p.A. and Subsidiaries

December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

recognised against the provision for deferred taxes or deferred tax assets. For the breakdown, reference is made to the reconciliation statement of the shareholders' equity.

December 31, 2004

The adjustment (positive for €/000 31,247 to the Group shareholders' equity and negative for €/000 928 to minority interests) is attributable to the effect of adjusting asset and liability balances at December 31, 2004, to the new accounting standards and to the consequential change in net profit. In addition, there was a change of €/000 216 concerning the reversal of a consolidation entry under Italian accounting standards: for the breakdown, reference is made to the reconciliation statement of the shareholders' equity.

(G) Termination Indemnities

Italian accounting standards required the Termination Indemnities liability to be recognised on the basis of the nominal amount payable accrued at the balance sheet date. On the contrary, IAS 19 classifies the Termination Indemnities under the defined benefit plan post-employment benefits. Under this definition, the accrued liability must be valued using actuarial criteria and the "Projected unit credit method" projecting future expenditure based on historical statistical analyses, the demographic curve and the discounting of these flows based on a market interest rate. Thus, the current amount of the Group's Termination Indemnities provision as of January 1, 2004, showed a decrease of €/000 84, compared to the corresponding value reported in the financial statements under Italian accounting standards, while at December 31, 2004, calculation of the present value of the fund showed an increase in this item of €/000 275.

(H) Deferred taxes

January 1, 2004

The increase (by €/000 291) in this item derives from the tax effect calculated on the IFRS adjustment entries as of January 1, 2004.

December 31, 2004

The adjustment (of €/000 18,714) to the item is mainly attributable to the tax effect calculated on the reversal of amortisation of goodwill (equal to €/000 18,760).

(I) Other non current liabilities

January 1, 2004

The decrease in this item refers to the adjustment (equal to €/000 1,099) for an amount entered under Provisions for Risks and Charges according to Italian accounting standards, entirely reversed against the shareholders' equity, in that it did not meet the requisite of probable liability indicated by IAS 37.

December 31, 2004

The adjustment (€/000 456) is attributable to reversal of the amount (€/000 456) reported under Provisions for Risks and Charges under Italian accounting standards, since it did not meet the requisites

LOTTOMATICA S.p.A. and Subsidiaries

December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

under IAS 37. The adjustment at January 1, 2004, was reversed during the period with effect on the income statement for €/000 1,099.

(L) *Account payables trade and other payables*

January 1, 2004

The decrease in this item (equal to €/000 799) refers to payables to suppliers for terminals which were part of a transaction, whose effects, under IFRS, were recognized as at January 1, 2004.

December 31, 2004

At December 31, 2004, the same adjustment did not have any effect on shareholders' equity.

Balance sheet items—Reclassifications of Assets and Liabilities

(M) In accordance with IAS 20, capital grants (€/000 2,300 as of January 1, 2004, and €/000 1,882 as of December 31, 2004), recognised under "Deferred income" according to Italian accounting standards, have been recognised as a decrease in the property, plant and equipment to which they refer.

(N) Costs incurred for leasehold improvements, meeting the identifyability and separability requirements, were reversed from intangible assets and recognised as an increase in property, plant and equipment (€/000 1,457 as of January 1, 2004, and €/000 3,148 as of December 31, 2004).

(O) Upon adoption of international accounting standards, errors arising from initially applying IAS 17 in the Italian GAAP financial statements have been corrected; this correction has caused a decrease in property, plant and equipment against the reduction in "Short-term borrowings" (for €/000 227 as of January 1, 2004, and for €/000 66 as of December 31, 2004).

(P) At January 1, 2004, the effects of a transaction regarding terminals were recognised. This effect caused a decrease in fixed assets of €/000 900, against the decrease of payables to suppliers. At December 31, 2004, no effects were shown in that balances were aligned in accordance with international accounting standards and with those in accordance with IFRS.

(Q) Within the category of property, plant and equipment, according to IAS 16, land has been recognised separately from buildings. This parcels of land, with a value of €/000 456, are not subject to depreciation even under Italian accounting standards.

(R) Costs incurred for the issue of the debenture loan (€/000 1,651 as of January 1, 2004, and €/000 1,315 as of December 31, 2004) recognised under intangible assets under Italian accounting standards, have been recognised as a decrease in the amount of the bond payable, included in "Long-term loans".

(S) "Inventories" increased (by €/000 4,392 as of January 1, 2004, and €/000 5,183 as of December 31, 2004) due to reclassification of the amount regarding inventories of Lotto Game betting forms and receipt vouchers and LIS tickets from "Pre-paid expenses" under Italian accounting standards.

(T) The reclassification of trade receivables (equal to €/000 84 as of January 1, 2004, and €/000 28 as of December 31, 2004) refers to the discounting-back of receivables, recorded under "Deferred income" under Italian accounting standards.

LOTTOMATICA S.p.A. and Subsidiaries

December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

(U) Stock option

January 1, 2004

Recognition of the stock option plan, in accordance with IFRS 2, caused reclassification within shareholders' equity of €/000 2,956, equal to the fair value attributed to the plan on that date. Specifically, at January 1, 2004, profits carried forward were reduced against the increase in the "Reserve for stock option plans" (included under "Other reserves").

December 31, 2004

An increase is also showed in the "Reserve for stock option plans" following the recognition of costs for personnel for €/000 6,472. Thus, the balance of the "Reserve for stock option plans" is equal to €/000 9,428 as of December 31, 2004.

(UU) Correction of errors

December 31, 2004

The decrease in "profits (losses) carried forward" (€/000 544) was due to the effect of correcting an error identified during 2004 regarding previous financial years. The correction was recognised in accordance with IAS 8. Specifically, the amount referred to errors for provisions allocated in financial years prior to 2004 which, under Italian accounting standards were recognised in the income statement in the 2004 financial year under extraordinary items, while, under IFRS, they are recognised as a decrease in profits carried forward.

(V) Discount on issue of loans, recognised under "Accrued income and pre-paid expenses" under Italian accounting standards, was reclassified to "Long-term loans", including the debenture loan payable (€/000 966 as of January 1, 2004, and €/000 772 as of December 31, 2004).

The IFRS balance of the "Long-term loans" with the reclassification that has been described above under point **(R)** was in line with the amount calculated according to the amortised cost method.

(X) The increase in the "Deferred taxes" refers to the reclassification of deferred tax liabilities which under Italian accounting standards were recognised under Provisions for risks and charges (€/000 688 as of January 1, 2004, and €/000 7,276 as of December 31, 2004).

(Y) The debenture loan interest share which will be settled within the next financial year and which, under Italian accounting standards was recognised under "Accrued income and pre-paid expenses" has been reclassified to the IFRS item "Short-term portion of long-term debt" (equal to €/000 473 as of January 1, 2004).

(Z) At December 31, 2004, the provision made under Italian accounting standards has been reclassified from "Provision for risks" to "Financial instruments marked to market" for the purpose of adjusting the value of derivative financial instruments to market value (a reclassification amounting to €/000 3,302).

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December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

CONSOLIDATED IFRS STATEMENT OF INCOME AS OF DECEMBER 31, 2004, AND NOTES TO THE SIGNIFICANT IFRS ADJUSTMENTS AND RECLASSIFICATIONS

The consolidated income statement as of December 31, 2004, is presented in accordance with a presentation of costs by nature and with separate reporting of “Profit from assets held for sale or discontinuing operations”. This statement provides a summary of the changes arising from the adoption of IFRS compared to the Italian accounting standards in line with the choices made by Lottomatica within the accounting options that have been described above provided for by IFRS.

Income Statement as of 31.12.04 <i>(thousands of euros)</i>	Italian Accounting Standards as of 31.12.2004	IFRS Adjustments	Notes	IFRS Reclassifications	Notes	IFRS Balance as of 31.12.2004
CONTINUING OPERATIONS						
Revenues	1,218,535	0		(648,725)	7	569,810
Other revenues	14,319	351		(613)	8	14,057
Capitalization of internal construction costs, materials and consumables	1,418	(406)	1	0		1,012
Other	895	0		0		895
Total Revenues	1,235,167	(55)		(649,338)		585,774
Raw materials and consumables	365,073	0		(335,765)	9	29,308
Services costs	517,731	13,538	2	(312,560)	10	218,709
Personnel costs	56,102	6,831	3	3,282	11	66,215
Depreciation, amortization and write-downs	120,724	(63,689)	4	5,587	12	62,622
Provision for risks	8,207	643	8	6,311	13	15,161
Other operating costs	24,083	(9)		427	14	24,501
Total operating costs	1,091,920	(42,686)		(632,718)		416,516
Operating profit	143,247	42,631		(16,620)		169,258
Financial income (expense)	(13,279)	(38)		(3,640)	15	(16,957)
Adjustments to financial assets	(243)	0		1,055	16	812
Equity investees' expenses	0	0		0		0
Income before taxes	129,725	42,593		(19,205)		153,113
Income taxes	49,300	18,252	6	684	17	68,236
Net income from continuing operations	80,425	24,341		(19,889)		84,877
Profit from assets held for sale or discontinuing operations	0	0		731	18	731
Net income for the period	80,425	24,341		(19,158)		85,608
Share attributable to minority interest	479	(904)		0		(425)
Share attributable to the Group	79,946	0		6,088		86,034
Extraordinary income	12,157	(2,991)		(9,166)		0
Extraordinary charges	(31,384)	3,060		28,324		0
Adjusted income (loss)	60,719	25,315		0		86,034

Income statement items—Adjustments

1. Capitalization of internal construction costs, materials and consumables

The adjustment of €/000 406 refers to internal work that for Italian accounting standards were capitalised, while are expensed for IFRS since they did not meet the requirements under IAS 38.

LOTTOMATICA S.p.A. and Subsidiaries

December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

2. *Services costs*

The increase in costs (€/000 13,538) is attributable to the reversal of capitalised costs during the period under Italian accounting standards, which did not meet the requirements under IAS 38.

3. *Personnel costs*

The increase in costs (€/000 6,831) is attributable to the updating of the stock options' value (€/000 6,472) and of the Staff Severance Fund (€/000 359)

4. *Depreciation, amortization and write-downs*

The adjustment to the item (€/000 63,689) was due to:

—reversal of amortisation regarding costs that, at January 1, 2004, and December 31, 2004, were not capitalised according to IFRS (€/000 9,626);

—reversal of goodwill amortisation that has been subject to impairment test (€/000 54,063).

5. *Provision for Risks*

For the adjustment (equal to €/000 643) to “Provision for Risks”, reference is made to point (I).

6. *Income taxes for the period*

The adjustments (€/000 18,252) to this item relates to the tax effect computed on the IFRS adjustment entries. The major impact relates to the reversal of goodwill amortisation that determined deferred tax liabilities for €/000 18,760.

Income statement items—Reclassifications

7. *Revenues*

In preparing the income statement as of December 31, 2004, in accordance with IAS 18 (revenue recognition), the Group has shown revenues for telephone top-ups, attributable to the subsidiary LIS and to the Totobit Group, net of the relative costs. This decision was based on the fact that the subsidiary earns only the margin between the retail price and the nominal cost of the card. This adjustment determined a decrease in “Revenues” for €/000 648,725, against a corresponding decrease in the cost items of “Raw materials and consumables used” and “Services”.

8. *Other Revenues*

The decrease of €/000 613 was due to:

—reclassification of €/000 1,114 from “other revenues” to “amortisation, depreciation and write-downs” regarding the share of contribution grants pertaining to the period;

—for €/000 236 from reclassifying extraordinary income carried out based on the nature of the transactions; and

—for €/000 265 from the change in consolidation area.

9. *Raw materials and consumables*

This item shows a decrease of €/000 335,765 due to the reclassification referred to in point 7.

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December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

10. *Services costs*

The decrease in this item (€/000 312,560) was due to the combined effect of:

- the increase (€/000 400) regarding reclassification of costs for services that under Italian accounting standards were classified under extraordinary items;
- the decrease (€/000 312,960) against “Revenues”, linked to the reclassification referred to in point 7.

11. *Personnel costs*

The increase of €/000 3,282 is attributable to reclassification of extraordinary income items under Italian accounting standards linked to personnel retirement incentives.

12. *Depreciation, amortization and write-downs*

The reclassifications that have caused an increase in the item amounting to €/000 5,587, refer to:

- for €/000 1,114, reference is made to point 8;
- capitalised costs linked to the issue of the debenture loan classified under “Other intangible assets” under Italian accounting standards have been reclassified, under IFRS, as a decrease in non-current financial liabilities. As a result, in the income statement, the relative cost accrued to the period (€/000 336) has been reclassified from “Amortisation, depreciation and write-downs” to “Financial income (charges)”;
- the increase of €/000 7,036, regarding costs reported under Italian accounting standards under extraordinary items have been reclassified, under IFRS, based on their nature. The amount mainly refers to: an extraordinary provision allocated to the provision for bad debts linked to the acquisition of the EIS S.p.A. game division (€/000 4,760); the provision made by Videolot Gestioni S.p.A. following reassessment of the useful life of gaming equipment (€/000 1,417) and the increase in the amount of a write-down which under Italian accounting standards had been entered under extraordinary items (€/000 810).

13. *Provisions for risks*

The reclassifications totalling €/000 6,311 refer to:

- €/000 3,302 regarding the provision for adjusting the value of derivative financial instruments to market value and this amount has been reclassified, under IFRS, from “Provision for risks” to “Financial income (charges)” in line with reclassification of assets and liabilities carried out for preparing the IFRS financial statements;
- €/000 9,000 set aside for the proceeding initiated by the Competition Authority against Lottomatica and which Lottomatica has appealed against. This value has been reclassified under IFRS from extraordinary items to “Provision for Risks”;
- €/000 613 regarding charges allocated for terminating operations in Venezuela.

LOTTOMATICA S.p.A. and Subsidiaries

December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

14. *Other operating costs*

The reclassifications, totalling €/000 427, referred to operational costs recognised under Italian accounting standards under extraordinary items in the income statement.

15. *Financial income and expenses*

The reclassifications, totalling €/000 3,640, refer to:

—€/000 3,302, for which reference is made to point 13;

—€/000 336, for which reference is made to point 12.

16. *Adjustments to financial assets*

The amount of €/000 1,055 refers to:

—€/000 812 to capital gain on disposal of the equity investment held in Twin, which, under Italian accounting standards, was entered under extraordinary items;

—€/000 243 regarding the loss reported by LIS Finanziaria. Specifically, LIS Finanziaria was valued at equity for the purposes of the financial statements prepared according to Italian accounting standards and consolidated for the preparation of the IFRS financial statements according to IAS 27. As a result, the loss which, under Italian accounting standards was entered under Value adjustments to financial assets, under IFRS has been entered in the income statement as a result of consolidating the equity investment.

17. *Income taxes for the period*

Reclassification of €/000 684 mainly refers to expenses sustained by Lottomatica for joining the tax amnesty for the 2001 financial year; this amount, given the nature of the expense, has been reclassified under IFRS from extraordinary items to the tax items in the income statement.

18. *Profit from assets held for sale or discontinuing operations*

The financial result attributable to the transfer of the GBC equity investment, treated at January 1, 2004, according to IFRS 5, has been reclassified from extraordinary items to the appropriate item in the income statement prescribed under international accounting standards.

LOTTOMATICA S.p.A. and Subsidiaries

December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

EFFECTS OF THE ADOPTION OF IFRS ON THE OPENING CONSOLIDATED SHAREHOLDERS' EQUITY AS OF JANUARY 1, 2004, ON THE CONSOLIDATED NET INCOME FOR THE YEAR 2004 AND ON THE CONSOLIDATED SHAREHOLDERS' EQUITY AS OF DECEMBER 31, 2004

The main adjustments at January 1, 2004, for the year ended December 31, 2004 and at December 31, 2004, are shown in the following statement of reconciliation between the consolidated shareholders' equity under Italian accounting standards and consolidated shareholders' equity under IFRS. Specifically, adjustments have been reported gross of any associated tax effects and minority interests, which have been reported cumulatively as separate items under "Tax effect" and "Share attributable to Minority Interests", respectively.

The items of the statement below:

- "Share attributable to the Parent Company and Share attributable to Minority Interests under Reclassified Italian Accounting Standards" of Shareholders' Equity as of January 1, 2004, is net of receivables from shareholders for subscribed capital unpaid (€/000 1,315) that refer to amounts still to be paid in at December 31, 2004, for subscribing to stock options;
- "Share attributable to Minority Interests under Reclassified Italian Accounting Standards" of Shareholders' Equity at December 31, 2004, is net of amounts still to be paid in at December 31, 2004, for the shares of Consorzio Giochi Sportivi (€/000 5) and Consorzio Lotterie Nazionali (€/000 1,660).

LOTTOMATICA S.p.A. and Subsidiaries

December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

<i>(thousands of euros)</i>	Shareholders' Equity as of January 1, 2004	Change in Shareholders' Equity as of December 31, 2004	Net Profit 2004	Shareholders' Equity as of December 31, 2004	Notes
Share attributable to the Parent					
Company and Share attributable to Minority Interests according to Reclassified ITA Gaap	403,498	230,931	61,198	292,129	
Share attributable to Minority Interests according to Reclassified Italian Accounting Standards	(3,818)	(5,487)	(479)	(5,966)	
Share attributable to the Group	399,680	225,444	60,719	286,163	
IFRS Adjustments to the ITA Gaap items					
—Reversal of Goodwill Amortisation	0		54,058	54,058	(B)
—Reversal of start-up and expansion costs	(6,960)		(1,847)	(8,807)	(C)
—Reversal of research and development costs	(189)		(6,411)	(6,600)	(C)
—Reversal of patents and intellectual property rights	(5,556)		(982)	(6,538)	(C)
—Reversal of concessions, licenses and trademarks	(98)		(237)	(335)	(C)
—Reversal of fixed assets under development and advances	(395)		0	(395)	(C)
—Reversal of other Intangible assets	(1,680)		(4,062)	(5,742)	(C)
—Reversal of Intangible Assets Amortisation	0		9,626	9,626	(C)
—Discounting-back of receivables	(156)		(38)	(194)	(E)
—Discounting back of the Staff Severance Fund	84		(359)	(275)	(G)
—Changes in provisions	1,099		(643)	456	(I)
—IFRS Adjustments for change in consolidation area	(384)		0	(384)	(K)
—Change in profits (losses) carried forward	(31)	(760)	0	(760)	(UU)(K)
—Other adjustments	1,069		34	1,103	(L)(A)
—Tax effects	8,262		(18,252)	(9,990)	(D)(H)(K)
—Share attributable to minority interests . .	285		905	1,190	(F)
IFRS Share attributable to the Group . .	395,030			312,576	
IFRS Share attributable to Minority Interests	1,261			4,770	(W)
IFRS Shareholders' Equity	396,291			317,346	

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December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

The following section provides comments on the nature of the significant IFRS adjustments made to financial statements items prepared under national accounting standards. For a more detailed analysis, reference is made to the notes to the balance sheet and income statement.

(B) *Goodwill*

The nature of the adjustment derives from the elimination of amortisation of goodwill. Under IFRS accounting standards, goodwill is not subject to amortisation, but must be subject to an annual impairment test to check any loss in value that may have occurred.

The impairment test was carried out on December 31, 2003, and December 31, 2004, and no impairment was required at the date of transition to IFRS (January 1, 2004) or at December 31, 2004. As a result, amortisation carried out for the purposes of Italian accounting standards was reversed to income. The tax effect was calculated only on the reversal of such amortisation which resulted in recognising deferred tax liabilities.

(C) *Intangible Assets*

Adjustments regarded the reversal of costs that did not have the requirements for being capitalised under IAS 38, and the related amortisation, reported in the financial statements prepared under Italian accounting standards, was reversed to income under IFRS.

(D)(H) *Tax effect*

This refers to the effect of deferred taxation calculated on the IFRS adjustments as of January 1, 2004, and December 31, 2004, and by the recognition by Cirmatica of deferred tax assets in accordance with IAS 12.

(E) *Trade receivables*

The adjustments relate to the effect of discounting trade receivables with a maturity longer than the operating cycle of the company.

(F) *Share attributable to minority interests*

This shows the effect attributable to minority interests of adjusting asset and liability balances as of January 1, 2004, and December 31, 2004, to international accounting standards.

(G) *Staff Severance Fund*

Italian accounting standards required the Staff Severance Fund liability to be recognised on the basis of the amount payable accrued at the closing date of the financial statements. On the contrary, IAS 19 classifies the Staff Severance Fund under the defined benefit plan post-employment benefits. Under this definition, the accrued liability must be valued using actuarial criteria and the "Projected unit credit method" projecting future expenditure based on historical statistical analyses, the demographic curve and the discounting of these flows based on a market interest rate. Thus, such value refers to adjustment of the Fund to its present value.

(K) *Changes refer to movements shown in the Balance Sheet under "Change in consolidation area".*

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December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

- (I) *Long-term provision*
Adjustments related to the amount reported under “Provisions for Risks and Charges” in accordance with Italian accounting standards that do not meet with the definition of probable liability indicated under IAS 37.
- (L)(A) *Other adjustments*
The adjustment relates to a transaction for terminals whose effects have recognised as at January 1, 2004, based on applying IFRS.
- (UU) *Correction of errors and other effects on profits carried forward*
The change to previous financial years profits is attributable to correcting an error identified during the 2004 financial year, according to IAS 8.

In addition, a change is shown regarding the reversal of a consolidation entry carried out under Italian accounting standards that is not allowable under IFRS.
- (W) The item in the statement above “IFRS Share attributable to Minority Interests” in the shareholders’ equity as of January 1, 2004, is entered net of the IFRS 5 Reclassification regarding Global Bingo Corporation.

LOTTOMATICA S.p.A. and Subsidiaries

December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

**CONSOLIDATED IFRS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
DECEMBER 31, 2004**

The cash-flow statement prepared by the Lottomatica Group up to the financial statements for the year ended December 31, 2004, had the scope to report the changes in the net financial position of the Group, while the cash-flow statement prescribed under IAS 7 requires the reporting of the ability of the Lottomatica Group to generate “cash and cash equivalents”.

According to this principle, cash equivalents are short-term and highly liquid financial investments that can be readily converted to cash and that are not exposed to significant risks changing their value. Thus, an investment is only classified as cash equivalents when it is short-term or with maturity of 3 months or less from the purchase date. Financial investments in shares do not fall within the category of cash equivalents.

Current account overdrafts normally come under financing, except in the case where they can be settled on demand and form part of the overall management of cash and cash equivalents of a business concern, in which case they are classified as a reduction in cash equivalents.

According to IAS 7, the cash-flow statement should report financial flows generated during the period separately classifying them as operating, investing and financing activities:

- **cash-flow from operating activities:** cash-flows from operating activities are primarily income-generating related activities and are reported by the Lottomatica Group using the indirect method; according to this method, profit for the period is adjusted for the effect of entries which during the period have not generated outflows or have not generated liquidity (non-monetary transactions) such as amortisation and depreciation, changes to receivables and payables, etc.;
- **cash-flow from investing activities:** the investment activity has been reported separately as it represents, among other things, an indication of the investments/disinvestments made with the aim of generating future income and favourable cash flow;
- **cash-flow from financing activities:** financing activity consists of flows that generate a change to the entity and the composition of its shareholders' equity and loans obtained.

LOTTOMATICA S.p.A. and Subsidiaries

December 31, 2004

Statements of Reconciliation to IFRS (Continued)

(All amounts in thousands of Euro, except as otherwise indicated)

CASH-FLOW STATEMENT	2004 ITA	Effects of IFRS restatement	2004 IFRS
Net income before taxes for the period	110,498	43,346	153,844
Adjustments for:			
— Depreciation of Property, Plant and Equipment	46,712	464	47,176
— Amortisation of Intangible Assets	17,599	(10,064)	7,535
— Amortisation of Goodwill	54,084	(54,084)	
— (Revaluations) or write-downs of fixed assets	2,253	(2,253)	
— Other non-monetary items	23,814	17,646	41,460
— Income taxes	(49,300)	(18,936)	(68,236)
Cash-flow from operating activities before changes in net working capital	205,660	(23,880)	181,780
Change in Net Working Capital	68,565	150	68,715
Cash-flow provided by operating activities [a]	274,225	(23,730)	250,495
Investments in fixed assets:			
— intangible assets	(30,906)	15,134	(15,772)
— property, plant and equipment	(22,737)	(1,595)	(24,332)
— financial assets	(2,067)	2,067	
Proceeds from sales, or reimbursement value, of fixed assets . .	64,540	0	64,540
Cash-flow provided by investing activities [b]	8,830	15,606	24,436
Changes, loans and other items	(64,852)	7,486	(57,366)
Proceeds from capital increase (Distribution of dividends) . . .	(175,717)	2,666	(173,051)
Cash-flow used in financing activities [c]	(240,569)	10,152	(230,417)
Increase/(decrease) in cash and cash equivalents [a+b+c] . . .	42,486	2,028	44,514
Cash and cash equivalents at the beginning of the period . . .	199,109	(1,962)	197,147
Cash and cash equivalents at the end of the period	241,595	66	241,661

REPORT OF INDEPENDENT AUDITORS
pursuant to article 156 of Legislative Decree of February 24, 1998, n. 58
(Translation from the original Italian text)

To the Shareholders
of Lottomatica S.p.A.

1. We have audited the consolidated financial statements of Lottomatica S.p.A. as of and for the year ended December 31, 2004. These financial statements are the responsibility of Lottomatica S.p.A. management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

For our opinion on the financial statements of the prior year, which are presented for comparative purposes as required by the law, reference should be made to our report dated March 29, 2004.

3. In our opinion, the consolidated financial statements of Lottomatica S.p.A. comply with the Italian regulations governing consolidated financial statements; accordingly, they present clearly and give a true and fair view of the consolidated financial position of Lottomatica S.p.A. as of December 31, 2004, and the consolidated results of its operations for the year then ended.

Rome, March 23, 2005

Reconta Ernst & Young S.p.A.
signed by: Massimo Antonelli, partner

• Reconta Ernst & Young S.p.A.
Sede Legale: 00196 Roma—Via G.D. Romagnosi, 18/A
Capitale Sociale € 1.259.500,00 i.v.
Iscritta alla S.O. del Registro delle imprese presso la CC.1.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
(vecchio numero R.I. 6697/89—numero R.E.A. 250904)

LOTTOMATICA S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET—ASSETS

	Report as of 31.12.2004	Report as of 31.12.2003
A) DUE FROM SHAREHOLDERS FOR UNPAID CAPITAL	1,665	1,315
TOTAL A)	1,665	1,315
B) FIXED ASSETS		
I INTANGIBLE ASSETS		
1) Start-up and expansion costs	5,455	7,639
2) Research, development and advertising costs	5,257	189
3) Industrial patent and intellectual property rights	10,553	7,840
4) Concessions, licences, trademarks and similar rights	3,758	2,796
5) Goodwill	363,651	434,733
-) Consolidation difference	28,847	56,411
6) Fixed assets under development and advances	2,007	696
7) Others	7,916	4,845
Total	427,444	515,149
II TANGIBLE ASSETS		
1) Land and Buildings	6,963	9,422
2) Plant and equipment	45,769	29,981
3) Industrial equipment	86	184
4) Other assets	1,406	2,120
5) Fixed assets under construction and advances	774	3,296
	54,998	45,003
<i>FREELY TRANSFERABLE ASSETS</i>		
2) Plant and equipment	52,193	81,462
3) Industrial equipment	1,234	—
4) Other assets	89	211
5) Fixed assets under construction and advances	7,632	25,356
	61,148	107,029
Total	116,146	152,032
III. INVESTMENTS		
1) Equity investments in:		
a) Unconsolidated subsidiary companies	—	12,146
a bis) Subsidiary companies	747	976
b) Associated companies	—	—
d) Other companies	384	501
2) Receivables		
-) From others	426	717
3) Other Securities	36	36
Total	1,593.00	14,376
TOTAL B)	545,183	681,557
C) CURRENT ASSETS		
I INVENTORIES		
1) Raw materials, secondary materials and consumables	1,445	1,624
2) Work in progress and semi-finished goods	93	110
4) Finished goods and goods	3,727	2,839
Total	5,265	4,573

LOTTOMATICA S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET—ASSETS (Continued)

	Report as of 31.12.2004	Report as of 31.12.2003
II RECEIVABLES		
1) Due from customers	57,366	33,604
-) trade receivables	56,739	33,604
-) financial receivables	627	—
Due from customers beyond 12 months	2,647	2,561
-) trade receivables	2,020	2,561
-) financial receivables	627	—
2) Due from unconsolidated subsidiary companies	80	2,809
-) trade receivables	80	2,809
-) financial receivables	—	—
4) Due from parent companies		
4-bis) Tax assets	29,978	15,455
4-ter) Advance taxes	47,057	48,268
5) Due from others	117,522	47,865
-) other receivables	110,558	43,869
-) financial receivables	6,964	3,996
Due from others beyond 12 months	605	20,193
-) other receivables		11,799
-) financial receivables		8,394
Total	255,255	170,755
III CURRENT FINANCIAL ASSETS		
4) other equity investments		94
6) other securities	64,129	615
Total	64,129	709
IV CASH AND EQUIVALENT		
1) Bank and postal deposits	241,446	198,407
2) Cheques	—	—
3) Cash on-hand and valuables	149	702
Total	241,595	199,109
TOTAL C)	566,244	375,146
D) ACCRUED INCOME AND PREPAID EXPENSES		
-) Accrued income and prepaid expenses	8,104	9,054
-) Discount on bond issue within 12 months	194	194
-) Discount on bond issue beyond 12 months	578	772
TOTAL D)	8,876	10,020
TOTAL ASSETS	1,121,968	1,068,038
<i>Receipts and Payments (Presidential Decree No. 560 of 16.09.1996)</i>		
Ministry for Receipts and Payments due within the next six months	19,100	78,864
Bank and postal deposits	460,759	108,647
Total	479,859	187,511
<i>Receipts and Payments for Totocalcio Game</i>		
-) Deposits with banks	1,805	5,502
Total	1,805	5,502
Grand Total	1,603,632	1,261,051

LOTTOMATICA S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET—LIABILITIES

	Report as of 31.12.2004	Report as of 31.12.2003
A) SHAREHOLDERS' EQUITY		
PARENT COMPANY		
I Share capital	88,939	88,809
II Share premium reserve	116,079	243,616
III Revaluation Reserve pursuant to Law No. 350/2003	20,844	20,844
IV Legal Reserve	17,762	17,711
VII Other Reserves		
-) Share exchange reserve		15,382
-) Consolidation reserve for subsidiary companies	-18,180	2,033
VIII Profit (loss) carried over	—	3,450
IX Profit (loss) for the period	60,719	9,150
CONSOLIDATED SHAREHOLDERS' EQUITY FOR THE GROUP	286,163	400,995
MINORITY INTERESTS		
-) Capital, reserves and results carried over	7,152	3,287
-) Profit (loss) for the period	479	531
CONSOLIDATED SHAREHOLDERS' EQUITY OF MINORITY INTERESTS	7,631	3,818
TOTAL A)	293,794	404,813
B) PROVISIONS FOR RISKS AND CHARGES		
1) Pension and similar costs	1,510	1,625
2) Provision for Taxes (including deferred taxes)	7,971	2,353
3) Other provisions	19,396	2,746
TOTAL B)	28,877	6,724
C) STAFF SEVERANCE FUND		
TOTAL C)	6,813	5,666
D) PAYABLES		
1) Bonds due within 12 months	473	473
Bonds due beyond 12 months	360,000	360,000
4) Due to banks	99	4,554
Due to banks beyond 12 months	—	1,131
5) Due to other lenders	2,617	3,472
Due to other lenders beyond 12 months	119	238
7) Due to suppliers	175,279	117,330
Due to suppliers beyond 12 months	—	—
8) Debt instruments	—	1,331
Debt instruments beyond 12 months	—	67
9) Due to unconsolidated subsidiary companies	112	10,955
-) <i>trade payables</i>	101	234
-) <i>financial payables</i>	11	10,721
10) Due to associated companies	—	—
11) Due to parent companies	19,245	475
12) Taxes payable	13,338	15,844
Taxes payable beyond 12 months	—	2,638
13) Due to social security institutions	2,428	2,576
Due to social security institutions beyond 12 months	—	141
14) Other payables	210,369	123,783
-) <i>Other payables</i>	209,653	123,573
-) <i>Financial payables</i>	716	210
Other payables beyond 12 months	280	201
-) <i>Other payables</i>	273	—
-) <i>Financial payables</i>	7	—
15) Due to affiliated companies	4,428	1,299
TOTAL D)	788,787	646,508
E) ACCRUED EXPENSES AND DEFERRED INCOME		
TOTAL E)	3,697	4,327
TOTAL LIABILITIES	1,121,968	1,068,038

LOTTOMATICA S.P.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET—LIABILITIES (Continued)

	Report as of 31.12.2004	Report as of 31.12.2003
<i>Receipts and Payments (Presidential Decree No. 560 of 16.09.1996)</i>		
Payables to Ministry for profits due to the Tax Office	459,406	141,353
Payables to Ministry for pension funds	12,264	16,130
Payables to Ministry for the financing of a great number of winnings		
Payables to Ministry for accrued interest	855	-442
Payables to Lottomatica	730	3,177
Payables for winnings to be paid	6,592	26,457
Payables for a great number of winnings	10	835
Payables to telephone operators	2	1
Total	479,859	187,511
<i>Receipts and Payments for Totocalcio Game</i>		
Payables to AAMS		
Total	1,805	5,502
Grand Total	1,602,632	1,261,051
MEMORANDUM ACCOUNTS		
Guarantees on behalf of third parties	261,753	155,456
Commitments	—	86,255
Others	36,186	—
Total	297,939	241,711

LOTTOMATICA S.P.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

		Report as of 31.12.2004	Report as of 31.12.2003
A)	VALUE OF PRODUCTION		
1)	Revenues from sales and services	1,218,536	956,860
2)	Change in inventories	(26)	(80)
4)	Capitalisation of internal construction costs	1,418	295
5)	Other earnings and proceeds	14,318	4,067
	TOTAL A)	1,234,246	961,142
B)	COSTS OF PRODUCTION		
6)	Raw materials, secondary materials, consumables and goods	365,073	33,456
7)	Services	517,731	647,516
8)	Leases and rentals	11,007	13,131
	Total costs for goods and services	893,811	694,103
9)	Personnel		
	a) wages and salaries	40,381	45,773
	b) social security contributions	13,099	14,774
	c) staff severance fund	2,335	2,189
	d) pension and similar costs	—	33
	e) other costs	287	444
	Total personnel costs	56,102	63,213
10)	Amortization, depreciation and write-downs		
	a) Amortization of intangible assets	71,683	80,772
	b) Depreciation of tangible assets	46,712	45,838
	c) Other write-downs of fixed assets	609	
	d) Write-down of current receivables and cash and equivalent	1,720	26
	Total amortization, depreciation and write-downs	120,724	126,636
11)	Change in inventories of raw materials, secondary materials, consumables and goods	(921)	166
12)	Provisions for risks	2,677	11
13)	Other provisions	5,530	1,094
14)	Other operating expenses	13,076	4,044
	Total	20,362	5,315
	TOTAL B)	1,090,999	889,267
	DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS	143,247	71,875
C)	FINANCIAL INCOME AND CHARGES		
15)	Income from equity investments		
	b) in other companies	1	40,556
16)	Other financial income		
	a) unconsolidated group companies	—	370
	d) others	4,961	3,163
	Total Financial Income	4,962	44,089
17)	Interest payable and other financial charges		
	a) group companies	(2)	(142)
	d) others	(18,405)	(20,434)
	Total Financial Charges	(18,407)	(20,576)
17 - bis)	Foreign exchange gains and losses	166	883
	TOTAL C)	(13,279)	24,396
D)	REVALUATIONS		
18)	Revaluations:		
19)	Write-downs:		
	a) of equity investments	(243)	(3,402)
	TOTAL D)	(243)	(3,402)

LOTTOMATICA S.P.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME (Continued)

		Report as of 31.12.2004	Report as of 31.12.2003
E)	EXTRAORDINARY INCOME AND CHARGES		
20)	Extraordinary income		
	-) from sale of tangible assets	40	114
	-) from sale of equity investments	812	—
	-) others	11,305	3,560
	Total Extraordinary Income	12,157	3,674
21)	Extraordinary charges		
	-) from sale of tangible assets	(4)	(89)
	-) from sale of equity investments	(333)	(31,086)
	-) others	(31,047)	(63,075)
	Total Extraordinary Charges	(31,384)	(94,250)
	TOTAL E)	(19,227)	(90,576)
	NET PROFIT BEFORE TAXES	110,498	2,293
22)	INCOME TAXES FOR THE PERIOD	(29,863)	(15,042)
22 a)	DEFERRED TAXES	(6,340)	22,430
22 b)	ADVANCE TAXES	(13,097)	
	- PROFIT (LOSS) FOR THE PERIOD	61,198	9,681
	- MINORITY INTEREST	479	531
	- PROFIT (LOSS) FOR THE GROUP	60,719	9,150

LOTTOMATICA S.P.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW

<u>€/000</u>	<u>2004</u>	<u>2003</u>
A—Net cash and cash equivalents (indebtedness)	(168,674)	(45,181)
Financial changes in Consolidated Group	12,900	8,081
B—Cash flow from operating activities:		
Profit (loss) for the period	61,198	9,681
Amortization and depreciation	118,395	126,610
Capital loss (gain) from disposal of fixed assets	(515)	31,061
(Revaluations) or write-downs of fixed assets	2,768	41,901
Changes in working capital	93,737	66,624
Net change in staff severance fund	1,147	1,083
Changes in consolidation area, consolidation differences	(2,504)	27,239
	<u>274,226</u>	<u>304,199</u>
C—Cash flow from investments in fixed assets:		
Investments in fixed assets:		
—Intangible assets	(30,906)	(15,402)
—Tangible assets	(22,737)	(41,771)
—Financial investments	(2,067)	(90,418)
Proceeds or redemption value of fixed assets	64,540	726
	<u>8,830</u>	<u>(146,865)</u>
D—Change in Shareholders' equity:		
Distribution of profits	(177,619)	(292,228)
Contribution by shareholders	1,902	3,320
	<u>(175,717)</u>	<u>(288,908)</u>
F—Cash flow for the period (B + C + D + E)	<u>109,919</u>	<u>(123,493)</u>
G—Net cash and cash equivalents (indebtedness)	<u>(48,435)</u>	<u>(168,674)</u>

LOTTOMATICA S.P.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

<u>€/000</u>	<u>Share capital</u>	<u>Reserves and results carried over</u>	<u>Net profit</u>	<u>Net</u>
Consolidated Lottomatica Group as of December 31,				
2003	88,809	<u>303,036</u>	<u>9,150</u>	<u>400,995</u>
Results carried over		9,150	(9150)	0
Distribution of dividends		(177,619)		(177,619)
Contributions				0
Parent Company's results			47,119	47,119
Subsidiary companies' results			12,871	12,871
Changes in consolidation perimeter		2,067	7,832	9,899
Goodwill amortization			(3,349)	(3,349)
Inter-group adjustments			(5,748)	(5,748)
Lease adjustment			112	112
Inter-group sales			2,100	2,100
Consolidation in the shareholders' equity			<u>(218)</u>	<u>(218)</u>
Consolidated Lottomatica Group as of December 31,				
2004	88,809	<u>136,635</u>	<u>60,719</u>	<u>286,163</u>

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT DECEMBER 31, 2004 AND 2003

PREAMBLE

Pursuant to Article 2497-*bis* of the Italian Civil Code, dealing with accounting information on the activities of company direction and co-ordination, a statement has been drawn up setting out a summary of the essential data from the last financial statements of the Company carrying out the activities of direction and control.

DEAGOSTINI SPA—FINANCIAL STATEMENTS AS OF 31.12.2003

(Values in €/000)

BALANCE SHEET

ASSETS:

A) Due from shareholders for unpaid capital	0
B) Fixed assets	280,951
C) Current Assets	290,725
D) Accrued income and prepaid expenses	47
Total Assets	571,723

LIABILITIES:

A) Shareholders' Equity:	
- Share Capital	42,000
- Reserves	70,308
- Operating profit (loss)	33,802
B) Provisions for risks and charges	2,066
C) Staff Severance Fund	1,081
D) Payables	421,925
E) Accrued expenses and deferred income	541
Total Liabilities	571,723

GUARANTEES, COMMITMENTS AND OTHER RISKS	2,672,297
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INCOME STATEMENT

A) Value of production	4,208
B) Production costs	(19,817)
C) Financial income and charges	50,219
D) Revaluations	(977)
E) Extraordinary income and charges	83
Income taxes for the period	86
Operating profit (loss)	33,802

This company also draws up the consolidated financial statements.

The direction and co-ordination activities carried out by De Agostini S.p.A. can be summarised as follows:

—ensuring consistency in the decision-making process implementing the business strategy followed by the Group as a whole;

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2004 AND 2003

—the application of powers and duties of control in the context of the principles/rules on which the relationship between parent and subsidiary companies is based (Article 2359 of the Italian Civil Code).

The bodies of the Parent Company are also responsible for the following:

- the designation of members of the Board of Directors of Lottomatica;
- the validation of stock option plans;
- resolutions dealing with investments exceeding € 50 million;
- the definition of the Group's macro-organisation and the remuneration policy guidelines.

Pursuant to Article 2423, paragraph 4, of the Italian Civil Code, liability item “15. *Due to affiliated companies*” has been included in the balance sheet in order to better reflect commercial relations with the De Agostini Group companies as of 31.12.2004, given their significance.

A specific category of tangible assets was entered in the assets, named “freely transferable assets”, in order to show the company's standing according to the nature of the business performed.

Notwithstanding Article 2426 of the Italian Civil Code, assets were revalued pursuant to Law No. 350/2003.

Consequential to the information to be provided in the Balance Sheet and the Income Statement, the figures recorded in the accounts as deferred and advance taxes have been shown by the addition of two specific items to the components indicated separately under Receivables C): *4-bis) taxes payable* and *4-ter) advance taxes*. A item was added to the Income Statement for the same reason as the above, namely *17-bis) Foreign exchange gains and losses*. The data as of December 31, 2003 were also reclassified in order to provide a correct basis of comparison.

Balance Sheet and Income Statement have been prepared in accordance with the requirements of the Italian Civil Code regarding Consolidated Financial Statements.

The accounting policies applied comply with legal requirements and are consistent with those adopted for the preparation of the statutory financial statements.

The various areas of business and the volume of revenues earned during the period are discussed at length in the “*Management Report*”, to which reference is made.

Consolidated net income as of December 31, 2004 amounts to €/000 61,198 including the minority interest of €/000 479.

Subsequent Events and Relations with related parties are described in the *Management Report*, to which reference is made.

All amounts are stated in thousands of Euros.

The financial statements as of December 31, 2004 are subject to auditing by Reconta Ernst & Young S.p.A., the results of which are attached hereto.

GENERAL ASPECTS

SCOPE OF CONSOLIDATION

The scope of consolidation as of December 31, 2004 includes the companies in which Lottomatica, the Parent Company, holds the majority of voting rights or otherwise exercises a dominant influence.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2004 AND 2003

The scope of consolidation of the Lottomatica Group as of December 31, 2004 comprises the following companies:

- *Lottomatica Italia Servizi S.p.A.*, 92.5% owned by Lottomatica S.p.A. (92.5% as of 31.12.2003), which provides services for citizens and businesses via the Lotto Game network;
- *Lottomatica Sistemi S.p.A.*, 100% owned by Lottomatica S.p.A. (100% as of 31.12.2003), which manages the Area Data Processing Centres (*CEZ*) that comprise the remote element of the Parent Company's IT network;
- *Cirmatica Gaming S.A.*, 100% owned by Lottomatica S.p.A., whose objects are to acquire, manage and administer financial and equity investments;
- *PCC Giochi e Servizi S.p.A.*, 100% owned by Lottomatica Sistemi S.p.A. (100% as of 31.12.2003), which provides specialist hardcopy media;
- *Consorzio Lottomatica Giochi sportivi*, established on June 3, 2003 and 85% owned by Lottomatica, which operates the Totocalcio game;
- *Consorzio Lotterie Nazionali*, established on December 10, 2003 between Lottomatica S.p.A., Scientific Games International Inc., Arianna 2001 S.p.A., Olivetti Tecnost S.p.A. and Servizi Base 2001 S.p.A..

Shares in the endowment fund are divided as follows:

Lottomatica 63%, Scientific Games 20%, Arianna 2001 15%, Olivetti Tecnost 1% and Servizi Base 2001 1%.

The company started operating in March with the distribution of tickets for the Agnano Lottery.

- *Videolot Gestione S.p.A.*, 100% owned by Lottomatica S.p.A., which operates video lotteries;
- *Triplet S.p.A.*, 100% owned by Lottomatica S.p.A., which manages amusement machines;
- *Totobit Informatica Software e Sistemi S.p.A.* acquired during December of last year, and 100% owned by Lottomatica Italia Servizi S.p.A.. The company operates an extensive network of multi-function mini-terminals installed at shops with significant footfall (such as bars/bet collection points, service stations, newsstands, and others) aimed at providing remote services "for citizens."

At the moment, the system provides fixed and mobile telephone recharging services for all leading national operators.

As of 31.12.2004, Medialan S.p.A. was finally merged by incorporation into *Totobit Informatica Software e Sistemi S.p.A.*; the company was in charge of marketing the network services provided by the parent company by means of multi-function mini-terminals;

- *Sed Multitel S.p.A.*, 60% owned by Totobit Informatica Software e Sistemi S.p.A. and 20% by Lottomatica S.p.A.. The company was established on November 28, 2002 for the purpose of providing a specialised organisation capable of ensuring the necessary technological support, by coordinating and managing its own processing centres and through outsourcing, for the typical transaction activities of the remote services offered;
- *TTS S.r.l.*, 100% owned by Totobit Informatica, with its registered office in Marano di Napoli. Its business is to develop and distribute the software product to process and develop gaming systems at bet collection points. It provides clients with thorough technical/systems service, both by phone

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(through an in-house call centre) and on site. It also gathers subscription contracts throughout the territory for the services provided by the controlling company;

- *LIS Finanziaria S.p.A.*, 100% owned by Totobit Informatica Software e Sistemi S.p.A., specifically established and registered with the *Albo degli Intermediari Finanziari* pursuant to Article 106 of the *T.U.L.B.*, is the company responsible for managing the financial services that the parent company plans to bring into its network. It became fully operational from the end of September.

Change in consolidation perimeter

Compared to 31.12.2003, the changes in the consolidation perimeter have concerned the sale of GBC: on July 28, 2004 a deed for the transfer of 50% of GBC S.A. was formalised with Cirsa. The transfer price was set at € 64 million. The transfer was completed in September and resulted in a capital loss of €/000 333 and the inclusion of the Totobit Group, which had been consolidated only at the equity level as of 31.12.2003.

Two new companies, Triplet S.p.A. and Videolot Gestioni S.p.A., both 100% owned by Lottomatica, established in the course of the financial year to manage amusement with prize machines, also joined the Group.

Unconsolidated investments

The unconsolidated equity investments solely concern Lottomatica Argentina S.A., and Lottolatino do Brasil S.A., which have been put into voluntary liquidation.

The consolidation principles, the main accounting policies and the explanatory notes to the financial statements items are set out below.

CONSOLIDATION PRINCIPLES

The consolidation was prepared using the financial statements as of December 31, 2004 of the Parent Company Lottomatica S.p.A. and of the individual consolidated companies. Subsidiary companies in which the Parent Company holds, directly or indirectly, more than the majority of voting rights or exercises a dominant influence are consolidated on a line-by-line basis.

The main criteria adopted are set out below:

- the book value of consolidated equity investments is eliminated against the related interest in their shareholders' equity and their total assets, liabilities, costs and revenues are combined on a line-by-line basis, regardless of the size of the equity investment held; the minority interests in shareholders' equity and in the results for the financial year are classified separately;
- the difference between the book value of an equity investment at the time of acquisition and the group's interest in its shareholders' equity at that time,
 - is classified as a consolidation difference in intangible assets, if positive, and amortised on a straight-line basis over the period it is expected to benefit, which does not exceed ten financial years having regard for the contribution that the equity investment is expected to make in the future;
 - is classified as a consolidation reserve within shareholders' equity, if negative.

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- inter-company balances and transactions between consolidated companies are eliminated, as are internal or inter-group profits and losses, and the related deferred tax effect is recorded;
- inter-group dividends, recorded on an accrual basis, are eliminated;
- in the absence of a specific Italian accounting standard, assets held under finance leases are recorded in accordance with International Accounting Standard (IAS) 17, which requires:
 - the cost of assets to be recorded as tangible assets and depreciated accordingly;
 - the recognition of the financial payable to the lessor and of the related financial charges;
- alignment of the accounting policies of consolidated companies.

Given the specific nature of the activities of LIS Finanziaria S.p.A., this subsidiary company has been valued at equity.

ACCOUNTING PRINCIPLES

The criteria applied for the valuation of the items contained in this Report comply with legal requirements and are consistent with those adopted for the preparation of the Parent Company's statutory financial statements.

INTANGIBLE ASSETS

Intangible assets are recorded at purchase or production cost and amortised directly on a straight-line basis taking into account their useful lives. The purchase costs also includes any additional costs. The applied amortization criteria are as follows:

- start-up and expansion costs include the expenses incurred by the Parent Company to increase the share capital, to train and instruct personnel, incurred to expand the network and are amortised over five years. This item also includes costs incurred in relation to the acquisition of Branches of Business and to increase share capital, which are amortised over five years;
- research and development costs are amortised over five years, or in relation to the expected useful lives of the contracts to which they relate;
- advertising costs are amortised over five years, in relation to the expected useful life;
- industrial patents and intellectual property rights include the costs incurred for the acquisition and development, under licence for use for an indefinite time, of application software products, net of the amortization in line with the expected useful life (three or four years depending on the product) and amortised on a straight-line basis starting from the financial year economic use commenced;
- concessions, licenses, trademarks and similar rights include the costs incurred for the acquisition of licenses of use for an indefinite time; these are amortised over three or four years depending on the expected useful life and amortised on a straight-line basis starting from the financial year economic use commenced;
- goodwill paid on the purchase of Branches of Business is amortised over five years; goodwill resulting from the merger by incorporation of Lottomatica in Tyche is amortised over the residual life of the Lotto Game concession (9 years and three months) believed to be representative of the time period during which it will provide an economic benefit to the company;

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- “Other assets” mainly relate to the Parent Company and include the costs incurred to adjust the leased assets to the Company’s technical and operational requirements; amortization rates are proportional to the residual life of the leases or, if shorter, to that of the expected use. Furthermore, they include costs incurred to issue the Bond capitalised in 2003, to be amortised over five years equal to the loan term. Finally, they include costs to improve the processing capacities of Lottomatica network;
- the difference arising on consolidation of the additional shares in Lottomatica Sistemi S.p.A. subscribed to in 2001 is being amortised over ten years, in view of the residual duration of the Lotto Game concession; the differences arising on consolidation of the additional shares in Lottomatica Italia Servizi S.p.A. subscribed to in 2001 are being amortised over ten years, in view of the contributions expected from these equity investments in the future; the consolidation differences arising from the acquisition of Totobit Informatica S.p.a. and of the additional shares subscribed to in TTS S.r.l. in 2004 are being amortised over ten years;
- fixed assets under development relate to purchases that had not entered into service or been tested as of December 31, 2004.

The table shows the amortization rates used for each category.

<u>Intangible assets—Ordinary and Freely Transferable Assets</u>	<u>Amorlization Criteria</u>
1) Start-up and expansion costs	5 years
2) Research costs	3 years
3) Patents	3 years
4) Concessions, licences	3 years
5) Goodwill	
-) Branches of Business	5 years
-) Merger difference	10-25 years
7) Others	
-) Leasehold improvements	contract term
-) Other Intangible Assets	2 years-5 years

TANGIBLE ASSETS

Tangible assets are recorded at purchase cost, including additional charges (in accordance with the criteria laid down in Article 2426, paragraph 1, of the Italian Civil Code), and adjusted by the depreciation accumulated over the years.

The depreciation entered in the income statement is calculated systematically and constantly on the basis of the rates believed to be representative of the estimated useful life for each single asset category.

Following a review of the original estimate, the depreciation figures for assets acquired in the course of the financial year have been calculated on a *pro rata temporis* basis with reference to the date on which these assets entered into service.

The values of the tangible assets do not include the costs of ordinary maintenance required to keep them working efficiently, to ensure their expected useful life, their capacity and original productivity, nor that required to repair break-downs or breakages. These costs have indeed been entered in the income statement in the period in which they were carried out.

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Within the scope of Law No. 350/2003, last year Lottomatica S.p.A. carried out a revaluation of the assets limited to the plant and equipment category posted in 1999 and 2000, by using the method of the reduction in the depreciation fund accumulated as of 31.12.2003. Lottomatica attributed a useful life of at least two years to the assets subject to revaluation included in the above mentioned categories.

Fixed assets under construction and advances include purchase costs and advances to suppliers for the acquisition of tangible assets still unused; they also include assets still unused held by third parties on consignment. The depreciation of these costs will be carried out at the time of their effective use.

The table show the depreciation rates used for each category.

<u>Tangible assets—Ordinary and Freely Transferable Assets</u>	<u>Depreciation Criteria</u>
1) Land and buildings	3%
2) Plant and equipment	15% - 20%
3) Industrial and business equipment	25%
4) Other assets	12%

INVESTMENTS

Equity investments in unconsolidated companies are recorded at purchase or subscription cost, including additional charges, and adjusted to take account of any permanent losses of value. For the purpose of the year-end valuation and for appropriate comparison with their book value, shareholders' equity values have been converted to the currency of accounts at the year-end exchange rate. Where there is a permanent loss of value greater than the equity investment's book value, the deficit for the period has been entered in the Provisions for risks and charges.

Equity investments in subsidiary companies with different business purposes have been consolidated on an equity basis. The original acquisition cost is periodically adjusted to reflect, in the consolidated financial statements, the relevant share of the profits or losses attained by the related investee company in the period following the acquisition date.

INVENTORIES

Inventories are recorded at the lower of purchase or production cost, including additional charges, and their estimated realisable value determined with reference to market trends. Cost is determined on a "weighted-average cost" basis.

RECEIVABLES

These are stated at the estimated realisable value and classified as "Investments" or "Current assets", depending on their nature. These amounts comprise both the invoices already issued and the consideration for services, not yet invoiced, that had been provided and completed by December 31.

Foreign currency receivables, originally recorded using the transaction-date exchange rates, are adjusted to reflect application of the period-end exchange rates and the resulting differences are recognised in the income statement as financial items.

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CURRENT FINANCIAL ASSETS

These are represented by government bonds whose cost is the related purchase cost including additional charges increased by the accrued interest for the period.

These assets are assessed at the lesser between the cost and realisable value, calculated with reference to market trends.

CASH AND EQUIVALENT

These consist of bank and postal deposits, cash on hand and valuables and is valued at the estimated realisable value, which normally coincides with the face value.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges cover known or likely losses or liabilities, the timing and extent of which cannot be determined at the end of the period. They reflect the best estimate of the costs to be incurred, having regard for outstanding commitments and the other information available. These are made up of:

- *“Pension and similar costs”*: representing the indemnities payable to a number of Directors on termination of their appointment pursuant to Article 2120 of the Italian Civil Code;
- *“Provision for taxes (including deferred taxes)”*: representing probable tax liabilities, the exact timing and extent of which cannot be determined; this item also include deferred tax liabilities resulting from the temporary differences between the statutory result and the taxable income, whenever these cannot be offset, due to their nature and terms, with advance taxes.
- *“Other provisions”*: representing other provisions:
 - *“provisions for losses on equity investments”*;
 - *“provisions for losses on restructuring charges”* to cover the cost of internal reorganisations and similar procedures;
 - *“provision for other charges”* to cover legal disputes, for example, based on an estimate of the charges to be incurred.

STAFF SEVERANCE FUND

The staff severance fund is determined in accordance with current legislation (specifically Law No. 297 of May 29, 1982, which requires an annual revaluation comprising a fixed element and a variable element based on the rate of inflation) and the applicable collective labour agreement.

Every year the fund is adjusted based on accruals at year-end in favour of the personnel employed at that date and is calculated net of advances paid also with regard to additional pension funds.

The advances also include the substitute tax (11%) on the income resulting from revaluations of the staff severance indemnity paid by the withholding agent pursuant to Article 11, paragraphs 3 and 4, of Legislative Decree No. 47/2000.

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PAYABLES

Payables are recorded at face value. Foreign currency payables, originally recorded using the transaction-date exchange rates, are adjusted to reflect application of the period-end exchange rates and the resulting differences are recognised in the income statement as financial items.

ACCRUALS AND DEFERRALS

These are recorded on an accrual basis to match costs and revenues to which they relate, in accordance with Article 2424-*bis*, paragraph 5, of the Italian Civil Code.

COSTS AND REVENUES

Under Italian GAAP, revenues are recorded according to the principle of prudence and on an accrual basis, with the recognition of the related accruals and deferrals. Financial income and charges are accounted for on an accrual basis. Revenues from Lotto wagers are represented by the remuneration determined by the resulting concessionary rates applied to the brackets of gross proceeds of the gaming performed. In relation to the contractual arrangements made with bet collection points and telephone operators, revenues from top-ups business are entered gross of the components of “re-invoicing” attributed to the item costs for services. Revenues from sales of finished goods are accounted for at the time of transferring the asset.

EXCHANGE DIFFERENCES

In compliance with Article 2426-8-*bis*) of the Italian Civil Code, foreign currency receivables and payables that fall due within 12 months are adjusted directly to reflect application of the period-end exchange rate, unless the related exchange risk is covered by a specific hedge.

Profits or losses deriving from this adjustment are entered separately in the income statement under item “17-*bis*) foreign exchange gains and losses”, included among financial income components. Any net income must be allocated to a proper reserve not distributable before realization.

Profits or losses deriving from this adjustment are entered separately in the income statement under financial income and charges without any off-set.

The derivative financial instruments to hedge specific exchange rate risks are valued at the exchange rates in effect at the close of the financial year, and the corresponding costs and revenues are entered in the income statement as exchange rate differences depending on sign and type of transaction or to adjust the cost (revenues) of the asset purchased (sold), against the corresponding liability (asset) item.

Derivative instruments originally not intended for hedging but for which the assets or liabilities for the original coverage cannot be specifically identified are valued at the close of the financial year at the lesser between the cost and the market value.

INCOME TAXES

Income taxes for the period have been calculated and allocated on the basis of the best estimate of the taxable income carried out in compliance with the relevant provisions in force.

In accordance with the principle of prudence, assets from deferred taxes are only recognised if there is reasonable certainty that the taxable income for the years in which the related timing differences are expected to reverse will be sufficient to recover the value of such timing differences.

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Assets for advance taxes and liabilities for deferred taxes are set off against each other, if allowed by law, and reported on a net basis in the financial statements. They are classified respectively under “4-ter) advance taxes” among current assets and under “2) Provision for taxes (including deferred taxes)” among provisions for risks and charges. The matching entries are reported as advance or deferred taxes within the income taxes for the period.

The fiscal benefit of tax losses carried forward is recognised if it is reasonably certain that such losses, even if incurred in prior financial years, will be offset against future taxable income.

Over the year under consideration the greater part of the Provision for deferred taxes was influenced by the tax effect of the application of the financing rules introduced by Legislative Decree No. 344 of December 12, 2003 concerning advance tax amortization.

Deferred taxes are determined using the tax rates expected to be in force when the related timing differences reverse. Appropriate adjustments are made for tax rate changes, on condition that the related legislation has come into force by the time the financial statements are prepared.

Starting from 2004, the Group, as a consolidated entity, will participate in the national fiscal consolidation for De Agostini S.p.A. Group companies.

No dispute is pending with Tax Authorities with reference to those financial years which are still open from a tax point of view.

MEMORANDUM ACCOUNTS

These have been entered in the financial statements in compliance with Accounting Standard 22 of the Italian board of registered certified accountants (*Dottori Commercialisti e Ragionieri*). “Guarantees given” (entered at their full amount) include the value of guarantees or other securities issued by the Companies or by insurance companies for direct or indirect contractual obligations of the Companies. They also include commitments connected to entering into derivative contracts from which rights and obligations arise connected to the transfer of financial risks inherent to the instrument between the contracting parties.

OTHER INFORMATION

In order to make the figures in the Balance Sheet of the Report as of December 31, 2004 comparable with those in the Financial Statements prepared on 31.12.2003, we note that some items have been reclassified where it has been deemed appropriate.

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NOTES TO THE CONSOLIDATED BALANCE SHEET

ASSETS

A) DUE FROM SHAREHOLDERS FOR UNPAID CAPITAL

These amount to €/000 1,665 (€/000 1,315 as of December 31, 2003) and relates to amounts still to be paid into the endowment fund of Consorzio Giochi Sportivi (€/000 5) and of Consorzio Lotterie Nazionali (€/000 1,660) as of December 31, 2004.

B) FIXED ASSETS

These total €/000 545,183 (€/000 681,557 as of December 31, 2003). The item is made up of historical costs, excluding the relevant amortization and depreciation rates. Specifically:

		Changes over the period								
		Report as of December 31, 2003	Change in consolidation perimeter		Purchases	Sales	Write- downs	Other changes/ Reclassifications	Amortization and depreciation	Report as of December 31, 2004
Fixed assets (€/000)			increasing	decreasing						
I)	Intangible Assets	515.149	420	(47.979)	32.222	—	(685)	—	(71.683)	427.444
II)	Tangible Assets	45.003		(9.569)	16.489	(720)	(1.660)	15.704	(10.249)	54.998
II)	bis Freely Transferable Tangible Assets	107.029			6.248	(62)	(35)	(15.569)	(36.463)	61.148
III)	Investments	14.376	(10.080)	(590)	237	(2.781)	(388)	819		1.593
TOTAL		681.557	(9.660)	(58.138)	55.196	(3.563)	(2.768)	954	(118.395)	545.183

B I) INTANGIBLE ASSETS

Net Intangible Assets amount to €/000 427,444 (€/000 515,149 as of December 31, 2003):

Intangible Assets (€/000)—Gross values	Report as of December 31, 2003	Changes over the period					Report as of December 31, 2004	depreciation	
		Change in consolidation perimeter	Purchases	Write- downs	Sales	Other changes		Amortization fund	Report as of December 31, 2004
1) Start-up and expansion costs	37,526	(1,245)	1,848		—	—	38,129	(32,674)	5,455
2) Research, development and advertising costs	618	334	6,074		—	—	7,026	(1,769)	5,257
3) Industrial Patent rights . . .	36,072	12	10,449		—	40	46,573	(36,020)	10,553
4) Concessions, licences, trademarks and similar rights	8,554	(446)	2,704		—	—	10,812	(7,054)	3,758
5) Goodwill	107,481	(37,312)	2,416		—	—	72,585	(63,977)	8,608
-) merger difference . . .	501,959		—		—	—	501,959	(146,916)	355,043
-) consolidation difference	65,105	(29,252)	190		—		36,043	(7,196)	28,847
6) Fixed assetst under development and advances	696		1,958	(355)	—	(292)	2,007	0	2,007
7) Others	44,297		6,583	(330)	—	252	50,802	(42,886)	7,916
Total	802,308	(67,909)	32,222	(685)	—	—	765,936	(338,492)	427,444

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Intangible Assets (€/000)— Accumulated amortization	Report as of December 31, 2003	Changes over the period				Report as of December 31, 2004	Amortization criteria
		Change in consolidation perimeter	Amortization	Write- downs	Sales	Other changes	
1) Start-up and expansion costs .	29,887	(572)	3,359		0	—	3—5 years
2) Research, development and advertising costs	429	0	1,340		—	—	5 years/project duration
3) Industrial Patent rights	28,232	(35)	7,823		—	—	3 years
4) Concessions, licences, trademarks and similar rights .	5,758	(347)	1,643		—	—	3 years/project duration
5) Goodwill	76,763	(14,294)	1,508		—	—	5 years
-) merger difference	97,944		48,972				123 months
-) consolidation difference .	8,694	(5,102)	3,604		—	—	10 years
7) Others	39,452		3,434		—	—	contract term
Total	287,159	(20,350)	71,683		0	—	

“*Start-up and expansion costs*” are equal to €/000 5,455 (€/000 7,639 as of December 31, 2003) are amortised over five years and mostly comprise (€/000 4,386) the expenses incurred by the Parent company for capital increases and the costs associated with network expansion. These latter are made up of the one-off payments made for the start-up of the new bet collection points and the costs incurred for training those operators which have been authorised by AAMS to manage the Lotto Game.

The increases for the year (€/000 1,848) refer for €/000 1,032 to the Parent Company, of which €/000 350 concerns the capitalisation of contributions to AAMS relating to the video lotteries, whereas the remainder refers to improvements in the existing operating capacity, for €/000 776 to the Consorzio Lotterie Nazionali in relation to legal and notarial expenses to establish the Consortium and capitalise the contracting of 25,479 sales outlets.

“*Research, development and advertising costs*” (€/000 5,257) are almost completely (€/000 3,910) related to Consorzio Lotterie Nazionali for costs concerning the start-up of distribution and sale activities concerning traditional and instant lotteries.

“*Industrial patent rights*” (€/000 10,553) comprise €/000 5,550 incurred by the Parent Company to develop the software required to operate the Lotto Game and Totocalcio businesses.

The residual amounts mainly relate to Consorzio Lotterie Nazionali (€/000 2,334) to develop the software required to operate the Scratch & Win Lottery and to the Totobit Group companies (€/000 1,817).

The increase over the period mainly reflects expenditure by the Parent Company and subsidiary companies for the development of applications software.

“*Concessions, licences, trademarks and similar rights*” (€/000 3,758) refer to licences for use: €/000 1,766 is attributable to TTS S.r.l., €/000 431 to Consorzio Lotterie Nazionali and €/000 1,206 to Lottomatica S.p.A.

“*Goodwill*” totals €/000 363,651 (€/000 434,733 as of December 31, 2003) and mainly comprises:

- €/000 355,043 (historical cost €/000 501,959) representing the net difference on the merger by incorporation of Lottomatica in Tyche. The relevant amortization is being made over the residual life of the Lotto Game concession (expires in March 2012);
- €/000 5,996 representing goodwill on the contribution of PCC Giochi e Servizi;

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- €/000 1,584 for the residual goodwill connected to the acquisition of the “Games” division of EIS and the Twin branch of business (pari-mutuel system);
- €/000 1,028 as the increased cost paid for the purchase of the minority shareholdings in Medialan S.p.A. which on December 31, 2004 was merged by incorporation in Totobit S.p.A..

Consolidated difference

Values €/000	Historical Cost			
	Report as of December 31, 2003	Changes over the period		Report as of December 31, 2004
		Increases	Decreases	
LIS	29			29
LS	10			10
GBC	29,252		(29,252)	0
TTS		190		190
Totobit	33,970			33,970
Sed Multitel	1,844			1,844
Total	65,105	190	(29,252)	36,043

Values €/000	Amortization			
	Report as of December 31, 2003	Changes over the period		Report as of December 31, 2004
		Increases	Decreases	
LIS	8	3		11
LS	3	1		4
GBC	5,102		(5,102)	0
TTS		19		19
Totobit	3,397	3,397		6,794
Sed Multitel	184	184		368
Total	8,694	3,604	(5,102)	7,196

“Consolidation difference” totalled €/000 28,847 (€/000 56,411 as of December 31, 2003). The substantial variation with respect to the previous year can be explained by the deconsolidation of GBC S.A. following the sale of the related shareholding in September 2004.

The higher acquisition value of Totobit Informatica S.p.A. as compared to the shareholders’ equity was supported by economic valuations that confirm the higher current market value in consideration of the context in which the Totobit Group operates, its value generating potential and its projected income capacity.

“Intangible assets under development” almost entirely account for the costs incurred by LIS to implement development projects for new products and services, which on the date of closing the financial statements, are underway or in any case incomplete. The increases of €/000 1,950 for the year are represented by the software developed by Tecnost Mael for the new business of stamp duties that will start in the course of 2005.

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“Other intangible assets” total €/000 7,916 (€/000 4,845 as of December 31, 2003). The most important increases over the financial year amounting to €/000 6,583 include €/000 4,000 for the development of the “intelligent network” connected to the Lotto Game and €/000 1,645 for investments for the restructuring of Lottomatica’s new offices.

The change in consolidation perimeter refers to the deconsolidation of the Global Bingo Group’s assets and the consolidation difference of the same, and the entry of Consorzio Lotterie Nazionali in the scope of consolidation.

B II) TANGIBLE ASSETS

Net tangible assets amount to €/000 116,146 (€/000 152,032 as of December 31, 2003).

On 31.12.2003 Lottomatica took advantage of the regulations (Law No. 350 of December 24, 2003) regarding the voluntary revaluation of business assets.

Accordingly, plant and equipment purchased in 1999 and 2000 have been revalued in the financial statements as of December 31, 2003 via a reduction in the related accumulated depreciation by €/000 25,733. The additional value allocated to these assets reflects their “productive capacity” and their “actual economic utility” to Lottomatica.

As already mentioned above, here again the changes in the consolidation perimeter essentially refer to the deconsolidation of the GBC Group.

This item is made up as follows:

- *Tangible assets €/000 54,998 (€/000 45,003 as of December 31, 2003).*

These comprise the assets used at the Group’s offices and the equipment needed for normal business activity; the individual categories of asset are analysed below, together with an indication of the changes over the period.

Tangible assets—historical cost (€/000)	Report as of December 31, 2003	Changes over the period					Report as of December 31, 2004	Accumulated depreciation	Report as of December 31, 2004
		Change in consolidation	Purchases	Write-downs	Sales	Other changes			
1) Land and buildings .	10,316	(2,775)	35		—	—	7,576	(613)	6,963
2) Plant and equipment	50,707	(14,536)	15,385	(1,417)	(1,009)	21,686	70,816	(25,047)	45,769
3) Industrial and business equipment .	431	(107)	3		—	(2)	325	(239)	86
4) Other assets	5,473	(3,628)	900	(243)	(25)	44	2,521	(1,115)	1,406
5) Fixed assets under construction and advances	3,296	(311)	166		0	(2,377)	774		774
TOTAL	70,223	(21,357)	16,489	(1,660)	(1,034)	19,351	82,012	(27,014)	54,998

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Tangible assets—accumulated depreciation (€/000)	Report as of December 31, 2004	Changes over the period				Report as of December 31, 2004
		Change in consolidation perimeter	Depreciation	Sales	Other changes	
1) Land and buildings	894	(503)	222	—	—	613
2) Plant and equipment	20,726	(8,681)	9,648	(304)	3,658	25,047
3) Industrial and business equipment	247	(89)	81	—	—	239
4) Other assets	3,353	(2,515)	298	(10)	(11)	1,115
TOTAL	25,220	(11,788)	10,249	(314)	3,647	27,014

Acquisitions for the period amounted to a total of €/000 16,489 and relate to:

- €/000 5,559 relating to Lottomatica S.p.a., of which €/000 3,270 were concerned with the videolottery project for central hardware and the access points;
- €/000 4,025 for the installation of the mini-terminals (POS) in the LIS S.p.A. bet collection points network intended for the top-ups service;
- €/000 3,649 relating to the Totobit Group for the implementation of technological equipment on its network;
- €/000 2,847 for the purchase of entertainment and gaming equipment by Videolot Gestione S.p.A..

As a result of adopting IAS 17, tangible assets include €/000 3,367 (net of accumulated depreciation) regarding the leased assets held by PCC Giochi e Servizi S.p.A. and by Totobit Informatica Software e Sistemi S.p.A..

- *Transferable tangible assets* €/000 61,148 (€/000 107,029 as of December 31, 2003)

These comprise fixed assets used by the Group to provide the service that, if requested, must be handed over to the Finance Ministry at the end of the concession period. They are analysed in the following tables, which show their historical cost separately from the related accumulated depreciation as of December 31, 2004.

The amounts reported in the *reclassifications* column relate to terminals used at Totocalcio bet collection points. The absence of Lotto software to be run on this equipment has lead to the removal of these assets from the category of the freely transferable assets.

Fixed assets under construction (€/000 7,632) exclusively relate to terminals and printers that have not yet been installed at bet collection points. Since these assets have not yet entered into service, they have been classified as “*Fixed assets under construction*” held by third parties on consignment.

Freely Transferable Tangible Assets— historical cost (€/000)	Report as of December 31, 2003	Changes over the period				Report as of December 31, 2004
		Reclassifications	Purchases	Write-downs	Sales	
2) Plant and equipment	406,298	2	3,171		(1,468)	408,003
3) Industrial equipment			1,352			1,352
4) Other assets	2,832	0		(35)	(71)	2,726
5) Fixed assets under construction and advances	25,356	(19,439)	1,725		(10)	7,632
TOTAL	434,486	(19,437)	6,248	(35)	(1,549)	419,713

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Freely Transferable Tangible Assets— accumulated depreciation (€/000)	Report as of December 31, 2003	Changes over the period			Report as of December 31, 2004
		Reclassifications	Depreciation	Sales	
2) Plant and equipment	324,836	(3,868)	36,259	(1,417)	355,810
3) Industrial equipment			118		118
4) Other assets	2,621		86	(70)	2,637
TOTAL	327,457	(3,868)	36,463	(1,487)	358,565

The reclassifications (for a net amount of €/000 19,438) include:

- reclassifications in the tangible assets (€/000 19,439), concerning assets purchased in previous financial years and entered into service in 2004;
- reclassifications of assets from “freely transferable assets” to tangible assets (€/000 19,437) due to the different use intended for the assets. These reclassifications relate to terminals used at Totocalcio bet collection points for which the absence of Lotto software to be run on this equipment has lead to the removal of these assets from the freely transferable assets category. The abovementioned assets are reclassified together with the relevant depreciation accumulated in the previous financial years (€/000 3,868).

Fixed assets under construction (€/000 7,632) relate solely to terminals and printers that have not yet been installed at bet collection points. Since these assets have not yet entered into service, they have been classified as “*Fixed assets under construction*” held by third parties on deposit.

“*Freely transferable assets*” mainly relate to Company-owned assets on gratuitous loan for use to third parties.

There are no liens or charges over tangible assets and no assets held for sale as of December 31, 2004.

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B III) INVESTMENTS

Investments amount to €/000 1,593 (€/000 14,376 as of December 31, 2003). The table below analyses them:

Investments								
Investments (€000)	Report as of December 31, 2003	Change in consolidation perimeter	Changes over the period					Report as of December 31, 2004
			Increase	Decrease	Capital gain/loss	Other changes	Write-downs	
1) Equity Investments in								
a) Unconsolidated subsidiary companies .	12,146	(10,080)	0	(2,726)	812	0	(152)	0
—) Twin	1,914			(2,726)	812			0
—) Lottolatino	145						(145)	0
—) Lotto do Brasil	3						(3)	0
—) Lottomatica Argentine	4						(4)	0
—) Consorzio Lottene Nezionale . . .	10080	(10,080)						0
—) Videolot								0
—) Triplet								0
a) bis Unconsolidated subsidiary companies	976					7	(236)	747
—) Lis Finanziaria	976						(236)	747
b) Associated companies						7		
d) Other companies	501	(197)	80	—			0	384
—) Imprendition Associati	104							104
—) GBC Group Companies	197	(197)						—
—) Easy Nolo	200		80					280
2) Receivables						—		
—) Due from others	717	(393)	157	(55)		—		426
3) Other Securities	36					—		36
TOTAL	14,376	(10,670)	237	(2,781)	812	7	(388)	1,593

The decrease occurring over the period concerns the entry of Consorzio Lotterie Nazionali in the scope of consolidation, following the commencement of the operations.

The liquidation processes for Lottolatino C.A. and Twin S.p.A. were completed in the course of the year.

The majority shareholding in LIS Finanziaria has been valued at equity since the related investee company is registered with the *Albo degli Intermediari Finanziari* pursuant to Article 106 of the *T.U.L.B.*.

Due from others for guarantee deposits amount to €/000 426 (€/000 717 as of December 31, 2003) and mainly relate to guarantees for tenders, leases and utilities executed by Lottomatica, as well as tax credit for taxes advanced over staff severance indemnity (pursuant to Law No. 140/1997).

Other Securities total €/000 36 (€/000 36 as of December 31, 2003).

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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C) CURRENT ASSETS

Thee total is €/000 566,244 (€/000 375,146 as of December 31, 2003), made up as follows.

C I) INVENTORIES

These amount to €/000 5,265 (€/000 4,573 as of December 31, 2003) and mainly relate to the inventories of Totobit (€/000 3,536), comprising the activation codes for Vodafone and Telecom Italia top-ups purchased in the course of the year, which will be resold in the ordinary business activity. The residual values mainly relate to PCC Giochi e Servizi (€/000 1,196).

The increase in the item in question, equal to €/000 692, is mainly attributable to the combined effect of the increase in inventories of Totobit for €/000 1,093, and the deconsolidation of the Bingo Plus Group for €/000 156.

C II) RECEIVABLES

These amount to €/000 255,255 (€/000 170,755 as of December 31, 2003).

The table below analyses them:

RECEIVABLES (€000)		Report as of December 31, 2004		
		due within 12 months	due beyond 12 months	due beyond 5 years
1)	Due from customers	57,366	2,647	60,013
	—) trade receivables	56,739	2,020	58,759
	—) financial receivables	627	627	1,254
2)	Unconsolidated subsidiary companies	80		80
	—) trade payables	80		80
3)	Associated companies	—		—
4)	Parent companies	—		—
4 bis)	Tax assets	29,978		29,978
4 ter)	Advance taxes	47,057		47,057
5)	Due from others	117,522	605	118,127
	TOTAL Receivables	252,003	3,252	255,255

The most significant items are as follows:

• **Due from customers**

These total €/000 60,013 (€/000 33,604 as of December 31, 2003). For the most significant values, these refer to:

—*Lottomatica S.p.A.* (€/000 5,552): €/000 2,152 refer to Sarabet S.r.l. for fees due for the management of the Tris pari-mutuel system, €/000 1,513 for receivables deriving from service activities for sporting and horse racing bets, €/000 582 for receivables due from operators in the context of activities connected to the video lotteries and €/000 943 (€/000 3,178 as of December 31, 2003) for amounts due from the Tax Authorities in relation to the commission due from the last competitions of the year. This latter amount was collected in full in January 2005.

—*LIS S.p.A.* (€/000 25,632) for amounts due from bet collection points in connection with the services provided and from telephone operators for recharging services.

LOTTOMATICA S.p.A. and Subsidiaries
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—*Totobit S.p.A.* (€/000 19,647) principally for amounts due from bet collection points in relation to business during the last ten days of the year's last month.

—*Consorzio Lotterie Nazionali* (€/000 4,713) in connection with the commission due to the Consorzio for the distribution and sale activities concerning traditional and instant lotteries as per licence granted by *AAMS* on October 14, 2003.

- ***Due from unconsolidated subsidiary companies***

These total €/000 80 (€/000 2,809 as of December 31, 2003) and mainly relate to trade receivables due from *Lis Finanziaria*. The decrease with respect to the previous financial year is due to the entry of *Consorzio Lotterie Nazionali* in the scope of consolidation.

- ***Tax receivables***

These total €/000 29,978 (€/000 15,455 as of 31.12.2003): €/000 12,175 refer to V.A.T. credit and €/000 16,759 refer to receivables from *IRES*⁽¹⁾ and *IRAP*⁽²⁾, €/000 13,629 of which refer to the Parent Company.

- ***Advance taxes***

These total €/000 47,057 (€/000 48,268 as of December 31, 2003). The item mainly includes assets for advance taxes referable to the Parent Company *Lottomatica S.p.A.* (€/000 32,621) and *LS S.p.A.* (€/000 10,296).

The balance refers to the net difference on the merger by incorporation of *Lottomatica* in *Tyche* (€/000 15,216), to the write down of *CEZ* goodwill referable to *Lottomatica Sistemi S.p.A.* (€/000 9,879) and to provisions for risks for pending judiciary proceedings and for derivative instruments (€/000 1,773) referable to *Consorzio Lotterie Nazionali*.

The change with respect to December 31, 2003 is referable to the combined effect of entering advance taxes for 2004 and the use of advance taxes entered in previous years.

- ***Due from others***

These total €/000 118,126 (€/000 68,058 as of 31.12.2003) are stated net of provisions for bad debts of €/000 6,570. These mainly include receivables due from bet collection points in the context of the various games and services (€/000 105,205). The figure includes €/000 9,834 relating to the amounts to be paid by the operators to the extent paid in advance by *Lottomatica* by way of Unified State Tax in the context of the concession obligations related to the volume collected for the video lotteries. The most significant figures relating to financial receivables refer to the financial receivable (€/000 3,144) due from the company *Bingo Plus*. The receivable earns interest at a rate equal to the 6 months Euribor rate plus 100 basic points.

The significant increase compared to December 31, 2003 is mostly attributable to the combined effect of the increase in receivables from bet collection points for collection services of *Consorzio Lotterie Nazionali* (€/000 93,844) and the decrease in receivables from *LIS* bet collection points (€/000 25,015).

No receivables have been entered which are collectable beyond 5 years.

(1) [*Imposta sul Reddito delle Società* = Corporate Income Tax].

(2) [*Imposta Regionale sulle Attività Produttive* = Local Tax on Production Activities].

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C III) CURRENT FINANCIAL ASSETS

The figure in the financial statements equal to €/000 64,129 (€/000 709 as of 31.12.2003), including the purchase cost and the interest accruing over the period, refers to investments in Government securities made by Lottomatica expiring in 2005. Specifically:

<u>Issuer</u>	<u>Purchase Date</u>	<u>Expiry Date</u>	<u>Cost</u>	<u>Accruals for 2004</u>	<u>Total</u>
Treasury	08/10/2004	15/03/2005	4,955.5	24.4	4,979.0
Treasury	08/10/2004	15/04/2005	9,892.4	49.2	9,939.7
Treasury	08/10/2004	16/05/2005	9,873.2	49.7	9,921.0
Treasury	15/11/2004	15/09/2005	9,821.5	27.9	9,847.5
Treasury	15/11/2004	14/10/2005	9,803.8	28.0	9,829.9
Treasury	22/11/2004	15/11/2005	19,566.1	48.8	19,612.0
			63,912.4	228.1	64,129.2

The figure as of 31.12.2003 (€/000 709) refers to the deconsolidation of GBC during the financial year.

C IV) CASH AND EQUIVALENT:

This item, equal to €/000 241,595 (€/000 199,109 as of 31.12.2003) comprises bank accounts (€/000 241,446 compared to €/000 198,407 as of 31.12.2003) and cash (€/000 149 compared to €/000 702 as of 31.12.2003).

The increase in cash and equivalent (€/000 42,486) must be substantially correlated to the entry of Consorzio Lotterie Nazionali in the scope of consolidation contributing €/000 44,285.

D) ACCRUED INCOME AND PRE-PAID EXPENSES

These total €/000 8,876 (€/000 10,020 as of 31.12.2003). This item comprises *Pre-paid expenses* (€/000 7,955) which primarily relate to the Parent Company (€/000 6,551), including unused betting slips and receipt vouchers (€/000 3,892), which are expected to be used in the subsequent financial year. The amount also includes €/000 772 relating to the discount on bond issue of the debenture loan.

As of 31.12.2004 there were no accruals, deferrals and discounts with a residual duration beyond 5 years entered in the financial statements.

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NOTES TO THE BALANCE SHEET ASSETS REGARDING RECEIPTS AND PAYMENTS
(PRESIDENTIAL DECREE No. 560 OF 16.09.1996)

The administration of receipts and payments by the Parent Company, under the powers granted by the above mentioned Presidential Decree No. 560/96, is discussed below.

The total asset balances, €/000 479,859, comprise the following:

RECEIVABLES

These amount to €/000 19,100 due from the operators of bet collection points in relation to sums collected by them, net of winnings and their commissions.

CASH AND EQUIVALENT

These amount to €/000 460,759 as of December 31, 2004 and reflect the administered receipts held on bank and postal accounts:

- €/000 385,679 on a specific current account held with Banca Intesa S.p.A.;
- €/000 75,080 on a specific postal account.

NOTES TO THE BALANCE SHEET ASSETS REGARDING RECEIPTS AND PAYMENTS FOR THE
TOTOCALCIO GAME

This relates to the administration of the specific current account required by Article 2 of the instructions issued by the Director General of *AAMS* dated July 9, 2003. The balance as of December 31, 2004, €/000 1,805, reflects the amounts collected in the last part of the period that have not yet been withdrawn by *AAMS*.

LIABILITIES

A) SHAREHOLDERS' EQUITY

Consolidated shareholders' amounts to €/000 293,794 (€/000 404,813 as of 31.12.2003).

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Consolidated shareholders' equity attributable to the Parent Company, equal to €/000 286,163 (€/000 400,995 as of 31.12.2003) is made up as follows:

€/000	Reserves						Profit(loss) carried over	Net profit	Total
	Share Capital	Legal Reserve	Pursuant to Law No. 350/2003	Share premium	Share exchange	Consolidation reserve on investee companies			
At the beginning of the previous financial year	88,554			550,490	15,382	(1,377)		6,810	659,859
Allocation of net profit						3,360	3,450	(6,810)	
— Distribution of dividends (€ 3.3 per share)				(292,228)					(292,228)
— Other allocations		17,711		(17,711)	—				
Other changes	255		20,844	3,065		50			24,214
Results from the previous financial year								9,150	9,150
At the end of the previous financial year	88,809	17,711	20,844	243,616	15,382	2,033	3,450	9,150	400,995
Allocation of net profit						(20,379)		20,379	
—Distribution of dividends (€ 2.0 per share)		51		(129,309)	(15,382)		(3,450)	(29,529)	(177,619)
—Other allocations									0
Other changes	130			1,772		166			2,068
Results from the current financial year								60,719	60,719
At the end of the current financial year	88,939	17,762	20,844	116,079	0	(18,180)	0	60,719	286,163

It is made up of:

• **I) Share Capital**

Share capital amounts to €/000 88,939 (€/000 88,809 as of 31.12.2003).

This amount was constituted following the exercise of 130,000 options in 2004, concerning the stock option plan, for stock options assigned on the basis of the regulations resolved by the Board of Directors in its meeting held on June 11, 2003.

As of December 31, 2004, Lottomatica share capital, fully subscribed and paid up, is represented by 88,939,280 ordinary shares, with a par value of € 1 Euro each.

• **II) Share premium reserve**

This amounts to €/000 116,079 (€/000 243,616 as of 31.12.2003). The decrease in the period (€/000 127,537) relates to the dividend payment (€/000 129,309) and the exercise of stock options (€/000 1,772).

• **III) Revaluation reserve pursuant to Law No. 350/2003**

This amounts to €/000 20,844 (equal amount as of 31.12.2003) and reflects the effect of the revaluation recorded in accordance with Law No. 350/2003. The reported balance comprises the reduction in amortization and depreciation funds by €/000 25,733, net of the related flat-rate taxation, €/000 4,889.

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• **IV) Legal reserve**

This amounts to €/000 17,762, growing by €/000 51 compared to 31.12.2003 following the increase decided on approval of the financial statements as of 31.12.2003.

• **VII) Other reserves**

- *Share exchange reserve.* This reserve was zeroed on December 31, 2004 due to the full allocation of dividends for distribution paid out in April 2004 (€/000 15,382 as of 31.12.2003).
- *Consolidation reserve on investee companies.* This amounts to €/000 a negative value of 18,180 (positive for €/000 2,033 as of 31.12.2003) and represents the Group's interest in the results carried over of consolidated companies, and the effect of consolidation adjustments made as of 31.12.2003.

• **A IX) Consolidated net income**

Consolidated net income as of December 31, 2004 amounted to €/000 61,198 (€/000 9,681 as of 31.12.2003). The minority interests amount to €/000 479 (€/000 531 as of 31.12.2003). The basic profit per share is equal to € 0.68.

The table below shows the Shareholders' Equity items with indication of their origin, possibility of use and distribution, and their use in previous financial years, pursuant to art. 2427 of the Italian Civil Code:

<u>Type Description (values in €/000)</u>	<u>Amount</u>	<u>Available share</u>	<u>Uses in the previous three financial years</u>		
			<u>Losses coverage</u>	<u>Dividends</u>	<u>Other reasons</u>
Share capital	88,939				
Capital reserve					
Share exchange reserve	0			15,382	
Share premium reserve	116,080	116,080		421,536	17,711
Reserves					
Legal reserve	17,762				
Reserve pursuant to Law No. 350/2003	20,844	20,010			
Consolidation reserve on investee companies	(18,108)				
Profits carried over	0				
Results for the period	61,198	47,093		32,928	51
Total		183,183	0	469,846	17,762
Non-distributable share		16,436			
Residual distributable share		166,748			

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B) PROVISIONS FOR RISKS AND CHARGES

These amount to €/000 28,877 (€/000 6,724 as of 31.12.2003) and are made up as follows:

Values €/000	Report as of 31.12.2003	Change over the period			Report as of 31.12.2004
		Change in consolidation perimeter	Use	Increase	
1) Pension	1,625	(125)	—	10	1,510
2) Provisions for taxes, including deferred taxes .	2,353	(1,316)	(688)	7,622	7,971
3) Other provisions	2,746	(12)	(2,327)	18,989	19,396
—) Business risks	1,289		(1,251)	17,535	17,573
—) Others	1,457	(12)	(1,076)	1,454	1,823
Total provisions	6,724	(1,453)	(3,015)	26,621	28,877

- **Pension and similar costs** €/000 1,510 (€/000 1,625 as of 31.12.2003); this almost entirely comprises the provisions made by the Parent Company, in accordance with a resolution of the “*Remuneration Committee*”, to cover the indemnities payable to certain Board members should their appointments be terminated.
- **Provision for taxes, including deferred taxes** €/000 7,971 (€/000 2,353 as of 31.12.2003). This item mainly refers to the Parent Company (€/000 7,546) and consists of €/000 7,153 for deferred taxes at a rate of 37.25% of the share for the financial year of the advanced tax depreciation calculated on part of the tangible assets entered into service in 2002, 2003 and 2004. The remainder (€/000 393) refers to the €/000 269 for the fund allocated in 2002 to account for previous social security positions.
- **Other provisions** €/000 19,396 (€/000 2,746 as of 31.12.2003). Specifically:
 - **Provision for business risks:** €/000 17,573 (€/000 1,289 as of 31.12.2003).

This refers almost exclusively to Lottomatica S.p.A. (€/000 12,029) and Consorzio Lotterie Nazionali (€/000 5,088). The most significant values refer to:

- €/000 10,740 allocated by Lottomatica during the financial year to cover costs related to pending judiciary proceedings and contractual disputes;
- €/000 3,302 being the discounted-back value of the derivative instruments. The amount relates to the sum set aside by Consorzio Lotterie Nazionali in relation to financial instruments for foreign exchange losses which have not yet been realised.
- €/000 1,700 allocated for costs connected to the early termination of a number of traditional lottery ticket supply contracts which may be charged to Consorzio Lotterie Nazionali.
- **Others:** €/000 1,823 (€/000 1,457 as of 31.12.2003). €/000 1,457 refer to Lottomatica and €/000 1,180 to the costs which may be charged to AAMS in the context of the video lotteries concession.

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Lottomatica has not established a *Provision for reinstating freely transferable assets* since the efficiency of the entire automated system is assured by maintenance works that guarantee the perfect functioning of concession-related activities, as provided by the regulations concerning *Public service concessions*. The change in the consolidation perimeter is due to the deconsolidation of the GBC Group.

C) STAFF SEVERANCE FUND

This provision, net of advances, is equal to €/000 6,813 as of 31.12.2004 (€/000 5,666 as of 31.12.2003).

The item refers to the full amount of rights accrued by Group employees employed on December 31, 2004 and has been calculated in accordance with current laws, collective labour agreements and supplementing corporate agreements. These liabilities are subject to revaluation with the application of indices set by current law.

The reserve has been adjusted to cover requirements accruing at the end of the financial year for the benefit of employees employed at that date.

The table below shows the movements during the period.

Staff Severance Fund

Consolidated Report as of 31.12.2003	5,666
Increases in 2004	2,335
— Changes	<u>(1,188)</u>
Consolidated Report as of 31.12.2004	<u>6,813</u>

D) PAYABLES

These amount to €/000 788,787 (€/000 646,508 as of 31.12.2003) and mainly include:

- *Bonds issued* €/000 360,473 (€/000 360,000 as of 31.12.2003): this item relates to the debenture loan, including accrued interest to be paid in 2005, which was underwritten in London on December 18, 2003 and executed on December 22, 2003, through the issue of securities (all placed) and the simultaneous receipt of the proceeds. 56% of the placement was in the Republic of Italy, 19% in England with the remaining amount in other European countries.

The issue was reserved exclusively for institutional investors excluding fund raising on a public basis.

The bond yields 4.8% with reimbursement in a single payment on expiry in December 2008. The implicit rate for the entire transaction is 4.97%.

The discount on bond issue was €/000 972 and is recorded as a pre-paid expense, net of the element accruing at 31.12.2004.

- *Due to banks* €/000 99 (€/000 5,685 as of 31.12.2003). The figure refers to PCC Giochi e Servizi S.p.A. in connection with the residual payable due to MPS Leasing & Factoring for factoring transactions. The decrease with respect to 31.12.2003 derives most exclusively from the deconsolidation of GBC.

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- *Due to other lenders* €000 2,736 (€000 3,710 as of 31.12.2003). This item exclusively relates to PCC Giochi e Servizi (€000 211 for Efibanca loan) and TTS for financing transaction and to the application of IAS 17 (€000 2,516).
- *Due to suppliers* €000 175,279 (€000 117,330 as of 31.12.2003). This item comprises unpaid supplier invoices recorded as of December 31, 2004, as well as invoices to be received and other period costs to be settled. The payables are connected to the purchase of goods and services for the activities of the financial year and investment programs under way.

The principal amount (€000 125,669) reflects the liability of both Parent Company (€000 91,481) and LIS (€000 34,188) to third-party suppliers.

The balance as of December 31, 2004 includes €000 34,012 (€000 18,805 as of 31.12.2003) relating to Totobit group companies.
- *Debt instruments* show a balance equal to 0 (€000 1,398 as of 31.12.2003) due to the change in the scope of consolidation (deconsolidation of GBC).
- *Due to unconsolidated subsidiary companies* €000 112 (€000 10,955 as of 31.12.2003), mostly relating to the subsidiary company Lis Finanziaria S.p.A., a company consolidated on an equity basis. The significant decrease with respect to the previous financial year (€000 10,843) refers to the inclusion of Consorzio Lotterie Nazionali in the scope of consolidation.
- *Due to parent companies* €000 19,245 (€000 475 as of 31.12.2003).

These refer to €000 18,653 for payables due to De Agostini S.p.A. for current taxes for the period; indeed, following the resolution passed by the Board of Directors on September 9, 2004 and approved by the Board of Directors of De Agostini S.p.A. on October 20, 2004, the companies Lottomatica and Lottomatica Italia Servizi joined the “National Fiscal Consolidation”.
- *Taxes payables*, €000 13,338 (€000 18,482 as of 31.12.2003). This figure mainly includes the *IRPEF*⁽³⁾ withholding taxes withheld by the Group from the remuneration of employees and consultants for December 2004, as well as to V.A.T. payables, as well as the charges from benefits set forth by Law No. 291/02 (tax amnesty), as well as *IRAP* payables for the financial year (€000 9,183).
- *Due to social security institutions*, €000 2,428 (€000 2,717 as of December 31, 2003). This item relates to the payables to social security institutions for withholdings charged to the Companies with regard to wages and salaries paid in December 2004.
- *Other payables* €000 210,649 (€000 123,984 as of December 31, 2003). These principally include amounts due to customers, as a consequence of the collection services provided by LIS, Lottomatica and Consorzio Lotterie Nazionali and to employees for deferred remuneration (€000 9,887). The most significant amount of €000 106,143 refers to Consorzio Lotterie Nazionali and relates to the sums to be paid to *AAMS* for sales of traditional and instant lotteries. As of 31.12.2004, the figure includes €000 56,012 relating to collections for the Italia Lottery alone.

(3) [*Imposta sul Reddito delle Persone Fisiche* = Personal Income Tax].

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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- *Due to affiliated companies* €/000 4,428 (€/000 1,299 as of December 31, 2003). The item mainly refers to receivables assigned by Lottomatica's suppliers to DeA Factor (€/000 4,220).

There are no payables expiring beyond five years.

E) ACCRUED EXPENSES AND DEFERRED INCOME, €/000 3,697 (€/000 4,327 as of December 31, 2003). The principal component of this total (€/000 2,983) essentially comprises grants to be collected by Lottomatica from *AAMS* for the activation of Totocalcio bet collection points at locations without a suitable Lotto Game terminal, as well as the deferred portion of fees and one-off payments for the subsequent period invoiced to the operators of Totocalcio bet collection points.

MEMORANDUM ACCOUNTS

These total €/000 297,939 (€/000 241,711 as of December 31, 2003) and comprise *guarantees* of €/000 261,753 (€/000 155,456 as of December 31, 2003) and *other memorandum accounts* of €/000 36,186 (€/000 86,255 as of December 31, 2003).

The principal amounts relate to the Parent Company (€/000 91,984), LIS (€/000 77,026), Consorzio Giochi Sportivi (€/000 36,000) and Consorzio Lotterie Nazionali (€/000 69,979), as analysed below.

Lottomatica S.p.A.

Guarantees given (€/000 78,710) comprise:

- the guarantee given by Efibanca in favour of the Ministry of Finance regarding the Company's obligations to operate the Lotto Game concession (€/000 9,456);
- the guarantees given by Banca Popolare di Bergamo in favour of the Ministry of Finance regarding the Company's obligations to operate the Video lotteries concession (€/000 12,385); and by Banca Antonveneta in favour, as before, of the Ministry of Finance for the license to manage the activities and operate the network to manage legal games via remote connection, using amusement and entertainment equipment (€/000 14,000);
- the guarantees given regarding Formula 101 (€/000 15,494) and other promotional initiatives (Cinquinotto, telephone game and other games and prizes totalling €/000 2,221);
 - the guarantees given for leases (€/000 798);
 - the guarantee of €/000 22,474 given to the Tax Office regarding the credits utilised under Group V.A.T. arrangements;
 - the guarantees of €/000 282 given to Sogei regarding horse-racing events.

LIS S.p.a

The balance of €/000 77,026 (€/000 65,025 as of December 31, 2003) comprises the guarantees given in favour of:

- Telecom Italia Mobile S.p.A., regarding the Company's obligations under the contract for automatic top-up services for Tim cards (€/000 4,132);

LOTTOMATICA S.p.A. and Subsidiaries
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- Omnitel S.p.A., regarding the Company's obligations under the contract for automatic top-up services for Omnitel cards (€/000 46,500);
- Wind Telecomunicazioni S.p.A., regarding the Company's obligations under the contract for automatic top-up services for Wind cards (€/000 23,500);
- SS Lazio S.p.A., regarding the Company's obligations under the contract for the online sale of tickets and season tickets (€/000 2,500);
- the V.A.T. Office for Group V.A.T. (€/000 284);
- the Lazio Region in relation to training (€/000 10);
- Telecom for the Pin concession (€/000 100).

Consorzio Lotterie Nazionali

- A contract between Consorzio Lotterie Nazionali and Morgan Stanley was executed on March 23, 2004 covering the exchange rate risk deriving from the supply of Instant Lottery tickets in dollars equal to €/000 34,138 calculated at the option exchange rate (\$/000 46,500). The contract provides cover for the notional value should the dollar rise above the Strike level (Euro/USD 1.2138). Should the dollar weaken, the contract allows the company to benefit from this trend up to the Knock In level (1.3). If this point is touched at any time during the reference period, the purchase of dollars over the same period has to be made at the pre-set Strike.
- €/000 35,841 relate to the guarantee given on behalf of Consorzio by Lottomatica S.p.A. in favour of AAMS regarding all obligations deriving from the agreement as set out under Article 10 of the License dated October 14, 2003 (€/000 25,841) and €/000 10,000 for the payment of the tax revenue.

Consorzio Lottomatica Giochi Sportivi

The amount of €/000 36,000 has been given as guarantee in favour of AAMS for all obligations inherent to the game.

Others

The item "Others" amounts to a total of €/000 36,186 and the most significant components are represented by the commitments undertaken by Totobit and Lottomatica.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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NOTES TO THE BALANCE SHEET LIABILITIES REGARDING RECEIPTS AND PAYMENTS
(PRESIDENTIAL DECREE No. 560 dated September 16, 1996).

The administration of receipts and payments by the Parent Company, under the powers granted by the above mentioned Decree 560/96, is discussed below.

PAYABLES

These amount to €/000 479,859 and comprise:

- €/000 459,406 in profits due to the Tax Authorities as of December 31, 2004;
- €/000 12,264 due to the Ministry of Finance's pension fund;
- €/000 855 in amounts to be paid over to the Tax Authorities, equal to the interest receivable accrued on the specific bank account used for the administration of receipts and payments, net of tax charges and related expenses;
- €/000 730 for the payable to the licensee, €/000 1,146 for the premium on the last drawing and €/000 416 for the Sarabet payment erroneously charged by Banca Intesa S.p.A.;
- €/000 2 not yet paid to telephone operators;
- €/000 6,592 in winnings not paid as of December 31, 2004;
- €/000 10 in uncollected amounts to be paid over to *AAMS* in relation to the financing of a great number of winnings.

LOTTOMATICA S.p.A. and Subsidiaries
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**NOTES TO THE BALANCE SHEET LIABILITIES REGARDING RECEIPTS AND
PAYMENTS FOR THE TOTOCALCIO GAME**

The balance as of December 31, 2004, €/000 1,805, reflects the administration of amounts collected that have not yet been paid over to *AAMS*.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2004 AND 2003

NOTES TO THE CONSOLIDATED INCOME STATEMENT

A) VALUE OF PRODUCTION

This amounts to €/000 1,234,246 (€/000 961,142 as of December 31, 2003). Specifically:

• *Revenues from sales and services*

	Report as of December 31, 2004	Report as of December 31, 2003
	€/000	
Lotto	494,210	412,835
F 101	—	218
Tris:—LTM	3,128	1,055
Top-ups—LIS network	336,980	259,559
Top-ups—Totobit network	340,129	—
Totobit system	2,721	—
Sport ticket office services	4,612	4,306
Car Road tax—LTM	7,788	8,049
Rai television license	584	663
Municipal Services	286	217
Unified State Taxes	492	475
Sports Pools	4,015	5,300
National Lotteries	15,808	—
Others	3,324	3
Betting Services	2,150	2,952
Video otteries	582	—
PCC GS S.p.A.	1,726	5,069
GBC	—	256,159
Total	<u>1,218,535</u>	<u>956,860</u>

These amount to €/000 1,218,535 (€/000 956,860 as of December 31, 2003).

For easier reading, the revenues are divided separately, consolidation perimeter being equal, indicating the effects due to changes in the consolidation perimeter compared to the previous period.

LIS revenues include the cost of Wind and Tiscali top-ups and the commission due to the bet collection point operators on Tim and Vodafone Omnitel top-ups; these amounts total €/000 312,960, including “re-invoicing” to bet collection points and telephone operators.

Totobit Informatica Software e Sistemi S.p.A. income include the purchase of services and consumables for on-line top-ups and services. These amounts total €/000 334,673.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Excluding these components, the Group revenues are as follows:

<u>Revenues from sales and services</u>	<u>Report as of December 31, 2004</u>	<u>Report as of December 31, 2003</u>	<u>Changes</u>
		€/000	
Lottomatica S.p.A.	504,044	430,115	73,929
Lottomatica Italia Servizi S.p.A.	350,795	265,517	85,278
PCC GS S.p.A.	1,726	5,069	(3,343)
Total (at parity)	856,565	700,701	155,864
Global Bingo Group	—	256,159	(256,159)
Consorzio Lotterie Nazionali	15,808	—	15,808
Totobit Group	346,162	—	346,162
Total for the Group	1,218,535	956,860	261,675

<u>Net revenues from sales and services</u>	<u>Report as of December 31, 2004</u>	<u>Report as of December 31, 2003</u>	<u>Changes</u>
		€/000	
Lottomatica S.p.A.	504,044	430,115	73,929
Lottomatica Italia Servizi S.p.A.	37,835	22,865	14,970
PCC GS S.p.A.	1,726	5,069	(3,343)
Total (at parity)	543,605	458,049	85,556
Global Bingo Group	—	37,235	(37,235)
Consorzio Lotterie Nazionali	15,808	—	15,808
Totobit Group	11,489	—	11,480
Total for the Group	570,902	495,284	75,618

As described in the *Management Report*, the change with respect to the analogous period of the previous year (€/000 75,618) reflects the growth in Lotto wagers and top-ups business (€/000 81,375), as well as the deconsolidation of GBC, the inclusion of the proceeds from traditional and instant lotteries launched in May and the entry of the Totobit Group in the scope of consolidation.

- **Change in inventories of work in progress, semi-finished and finished goods.** The amount of €/000 -26 (€/000 -80 as of December 31, 2004) relates almost entirely to PCC Giochi e Servizi.
- **Capitalisation of internal construction costs** €/000 1,418. They essentially relate to the internal software development and start-up costs for Consorzio Lotterie Nazionali.
- **Other earnings and proceeds.** These amount to €/000 14,318 (€/000 4,067 as of December 31, 2003), €/000 7,712 for Consorzio Lotterie Nazionali operating grants and €/000 4,021 for contributions by AAMS for the games relating to sporting events.

B) PRODUCTION COSTS

These amount to €/000 1,090,999 (€/000 889,267 as of December 31, 2003) and are made up as follows:

Raw materials, secondary materials, consumables and goods: €/000 365,073 (€/000 33,456 as of December 31, 2003). These mainly relate to the purchase of on-line services for top-ups performed by

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Totobit. Compared to 2003, the change is almost entirely due to the entry of the Totobit Group in the scope of consolidation.

<u>Cost for services</u>	<u>Report as of December 31, 2004</u>	<u>Report as of December 31, 2003</u> (€/000)	<u>Changes</u>
Network management	52,410	70,993	(18,583)
Maintenance	29,596	25,697	3,899
Office costs	7,774	8,236	(462)
Assistance for bet collection points . . .	22,345	15,846	6,499
Advertising costs	38,613	33,329	5,284
Consultancy costs	35,792	16,859	18,933
Corporate bodies	1,698	1,228	470
Services provided	318,121	246,761	71,360
—) Football Ticketing Service	637	594	43
—) Top-ups	314,635	243,119	71,516
—) RAI television licences services .	202	230	(28)
—) Car Road tax	2,647	2,818	(171)
Subsidiary companies services	—	—	0
Payment of Bingo prizes/taxes	—	218,924	(218,924)
Banking costs and services	1,388	1,647	(259)
Other costs	9,994	7,996	1,998
TOTAL	<u>517,731</u>	<u>647,516</u>	<u>(129,785)</u>

- **Services.** These amount to €/000 517,731 (€/000 647,516 as of December 31, 2003); the table sets out a break-down by expenditure item with the variations compared with the previous financial year.

The most significant variations concerned:

- the network costs for the technological innovation process begun in early 2003 by migrating the data transmission systems to the IP (Internet Protocol) system, with significant savings;
 - assistance provided to bet collection points for business development and business volume increase;
 - third-party services mostly concerning the implementation of new businesses started during the financial year (national traditional and instant lotteries, entertainment games, new games connected to Totocalcio, etc.);
 - telephone top-ups costs with collection volumes continuously increasing.
- **Leases and rentals:** €/000 11,007 (€/000 13,131 as of December 31, 2003). These are costs relate to leases, rentals (cars and equipment) and royalties.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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- **Personnel costs:** €/000 56,102 (€/000 63,213 as of December 31, 2003):

Compared to the corresponding period in 2003, the variation is as follows:

<u>Personnel Costs</u>	<u>Report as of December 31, 2004</u>	<u>Report as of December 31, 2003</u> €/000	<u>Changes</u>
Lottomatica S.p.A.	39,247	36,301	2,946
Lottomatica Italia Servizi S.p.A.	1,567	1,218	349
Lottomatica Sistemi S.p.A.	9,321	9,261	60
Cirmatica S.A.	44	41	3
PCC GS S.p.A.	2,620	2,637	(17)
Total (at parity)	52,799	49,458	3,341
Global Bingo Group	—	13,755	(13,755)
Totobit Group	3,303	—	3,303
Total for the Group	56,102	63,213	(7,111)

The decrease in personnel costs compared to the corresponding period in 2003 (€/000 7,111) mainly results from the combined effect of the following factors:

- Decrease of €/000 13,755 due to the deconsolidation of GBC;
- Increase of €/000 2,946 and €/000 3,303 for the Parent Company Lottomatica S.p.A. and Totobit Informatica Software e Sistemi S.p.A. respectively, due to the normal increase in personnel costs.

The Group companies consolidated on a line-by-line basis employs 1,020 persons.

- **Amortization, depreciation and write-downs:** €/000 120,724 (€/000 126,636 as of December 31, 2003).

This item is made up as follows:

- *Amortization of intangible assets* €/000 71,683 (€/000 80,772 as of December 31, 2003).

<u>Amortization</u>	<u>Report as of December 31, 2004</u>	<u>Report as of December 31, 2003</u> (€/000)	<u>Changes</u>	<u>Criteria</u>
Start-up and expansion costs . . .	3,359	9,295	(5,936)	3—5 years
Research, development and advertising costs	1,340	18	1,322	5 years/project duration
Industrial patent rights	7,823	4,476	3,347	3 years
Concessions, licences, trademarks and similar rights .	1,643	818	825	3 years/project duration
Goodwill	1,508	6,039	(4,531)	5 years
—) merger difference	48,972	48,972	0	123 months
—) consolidation difference . .	3,604	6,604	(3,000)	10 years
Other	3,434	4,550	(1,116)	contract term
Total	71,683	80,772	(9,089)	

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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This principally comprises the amortization of the costs (i) relating to the initial public offering of old Lottomatica and (ii) incurred by the Parent Company for the expansion of the network, which has been capitalised in “Start-up and expansion costs” and is amortised over, respectively, three and five years.

The goodwill arising from the allocation of the merger difference is amortised over the residual life of the Lotto concession, which expires in March 2012.

This change compared to December 31 deriving from change in consolidation perimeter entailed:

- higher amortization for the Totobit Group and Consorzio Lotterie Nazionali: €/000 4,632;
- lower amortization from the sale of GBC: €/000 6,616, €/000 3,019 of which deriving from the amortization of the consolidation difference.

► *Depreciation of tangible assets* €/000 46,712 (€/000 45,838 al December 31, 2003).

Depreciation	Report as of December 31, 2004		Report as of December 31, 2003		Changes		Depreciation rates	
	Ordinary	Transferable	Ordinary	Transferable	Ordinary	Transferable	Ordinary	Transferable
					(€/000)			
Land and buildings . . .	222		221		1		3%	
Plants and equipment .	9,648	36,259	4,721	40,225	4,927	(3,966)		20%
—) Specific electronic machinery							20%	15%
—) Plant and equipment							15%	25%
—) Internal communication plants							25%	
Industrial and business equipment	81	118	87		(6)		15%	
Other assets	298	86	445	139	(147)	(53)	12%	12%
Total	<u>10,249</u>	<u>36,463</u>	<u>5,474</u>	<u>40,364</u>	<u>4,775</u>	<u>(4,019)</u>		
		<u>46,712</u>		<u>45,838</u>		<u>756</u>		

The depreciation of tangible assets was calculated according to the abovementioned criteria, by applying the rates stated in the table.

The depreciation of freely transferable assets was effected with rates taking into account their estimated useful life according to the abovementioned methods.

For assets entering into service in the financial year, the amount of depreciation was calculated on a *pro-rata temporis* basis with reference to the date on which they entered into service.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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- *Write-down of current receivables* €000 1,720 (€000 26 as of December 31, 2003). This amount refers to:
- Lottomatica S.p.A.: €000 348 to cover bad debts existing at December 31, 2004 in relation to the amounts to be paid by the bet collection points in consideration of the volume collected from sports-based bets;
 - Totobit S.p.A.: €000 1,212 to cover risks in relation to total receivables existing at December 31, 2004;
 - Consorzio Lotterie Nazionali: €000 156.
- ***Change in inventories:*** These amount to €000 -921 (€000 166 as of December 31, 2003) and are mostly attributable to Totobit S.p.A. with reference to the purchases of activation codes for Vodafone and Telecom top-ups.
- ***Provisions for risks:*** These amount to €000 2,677 (€000 11 as of December 31, 2003), and comprise:
- €000 456 relating to Totobit S.p.A. for risks from support contracts;
 - €000 1,759 relating to Consorzio Lotterie Nazionali following the early termination of the traditional lottery ticket supply contracts;
 - €000 455 relating to Lottomatica S.p.A.: the figure is the best possible current estimate of presumable charges deriving from non-payment by bet collection points of the pre-set fee on the volume collected for the Totocalcio game. The concession indeed, envisages a pre-set annual income of €200 to be paid to AAMS for each sales outlet not being an ex-“Toto” bet collection point located in municipalities with a population of more than 1,500 inhabitants, as an advance on the minimum guaranteed collection of €8,850 per football season.
- ***Other provisions:*** €000 5,530 (€000 1,094 as of December 31, 2003), of which €000 1,739 relate to Lottomatica S.p.A. essentially for the amount due to AAMS under the license to operate entertainment games with regard to the delays encountered in the activation of the gaming terminals; and €000 3,329 representing the amount set aside by Consorzio Lotterie Nazionali in relation to financial instruments for foreign exchange losses not yet realised. The figure represents exclusively the mark-to-market of the transaction and does not necessarily imply a future payment. Indeed, the intrinsic value of the structure is currently zero.
- ***Other operating expenses:*** €000 13,076 (€000 4,044 as of December 31, 2003). The most significant amounts include the Tax Authorities' share of cost savings (€000 700) deriving from the use of the network for purposes other than the Lotto business (Article 9 of the Decree issued by the AAMS' Director General on November 15, 2000), gifts (€000 7,260), the *pro-rata* portion of unrecoverable V.A.T. (€000 853) and the payment of association dues (€000 742).

C) NET FINANCIAL INCOME AND CHARGES.

These amount to €000 -13,279 (net income of €000 24,396 as of December 31, 2003). The tables below set out the break-down of each item:

Financial income: €000 4,962 (€000 44,089 as of December 31, 2003).

Financial charges: €000 18,407 (€000 20,576 as of December 31, 2003), of which the most significant amount (€000 17,474) refers to financial charges matured on the debenture loan.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Foreign exchange gains and losses: €/000 166 (€/000 883 as of December 31, 2003)

<u>Other financial Income</u>	<u>Report as of December 31, 2004</u>	<u>Report as of December 31, 2003</u>	<u>Changes</u>
		€/000	
Income from equity investments	1	40,556	(40,555)
Group companies' interests	—	370	(370)
Bank Interest	4,596	2,497	2,099
Other financial income	365	666	(301)
TOTAL	4,962	44,089	(39,127)

<u>Interest and other financial costs</u>	<u>Report as of December 31, 2004</u>	<u>Report as of December 31, 2003</u>	<u>Changes</u>
		€/000	
Bank interest	70	335	(265)
Group companies' interests	2	142	(140)
Interest paid—Bond	17,280		17,280
Discount on issue	194	479	(285)
Loan interest	—	16,963	(16,963)
Other financial charges	758	2,595	(1,837)
IAS 17	103	62	41
TOTAL	18,407	20,576	(2,169)

<u>Foreign exchange gains (losses)</u>	<u>Report as of December 31, 2004</u>	<u>Report as of December 31, 2003</u>	<u>Changes</u>
		€/000	
Foreign exchange gains	309	909	(600)
Foreign exchange charges	(143)	(26)	(117)
TOTAL	166	883	(717)

D) REVALUATIONS

€/000 243 (€/000 3,402 as of December 31, 2003). These relate to the losses accrued in the period by the subsidiary company LIS Finanziaria, consolidated on an equity basis.

E) EXTRAORDINARY INCOME AND CHARGES

These amount to €/000 -19,227 (charges of €/000 90,576 as of December 31, 2003).

The most significant amounts are as follows:

- *Extraordinary income* of €/000 12,157 (€/000 3,674 as of December 31, 2003) refer to Totobit S.p.A. (€/000 1,080) for capital gains attained in defining outstanding commercial contracts for the supply of electronic equipment, as well as to the deconsolidation of the investee company GBC (€/000 8,065), as well as the capital gains from liquidation of Twin (€/000 811). The residual amounts relate to adjustments from assessments effected in previous years.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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- *Extraordinary charges* of €/000 31,384 (€/000 94,250 as of December 31, 2003). The most significant amounts refer to:
- €/000 9,000 as against the proceeding initiated by the Competition Authority against Lottomatica. The Authority's decision is currently under appeal;
 - €/000 7,358 for the charges paid to Cirsa following the sale of the equity investment in GBC for the cessation of the commitments undertaken by Lottomatica on the acquisition; the amount include a capital loss of €/000 333 from the sale transaction;
 - €/000 4,760 for the extraordinary allocation of funds to the provision for bad debts in relation to the positions deriving from the acquisition of the Games division of EIS S.p.A.;
 - €/000 2,898 for amounts to cover corporate restructuring charges and retirement incentives;
 - €/000 2,730 for the assessment of costs not accrued to the financial year;
 - €/000 1,417 for the sum set aside by Videolot Gestioni S.p.A. as against estimated costs for the replacement of gaming equipment which, as a result of functional characteristics, may not prove popular with players;
 - €/000 613 for charges connected to the closure of operational activities in Venezuela;
 - €/000 786 for charges sustained by Lottomatica, who took advantage of the tax amnesty procedure provided by Law No. 289/02 for the financial year 2001.

INCOME TAXES FOR THE PERIOD

The estimated tax charge as of December 31, 2004 for the Lottomatica Group amounts to €/000 29,863 (€/000 15,042 as of December 31, 2003) for current taxes, €/000 6,340 for deferred tax liabilities (deferred tax assets of €/000 22,430 as of December 31, 2003) and €/000 13,097 for advance taxes. Accordingly, the Consolidated Financial Statements as of 31.12.2004 show a tax charge of €/000 49,300 (€/000 7,388 as of December 31, 2003).

CONSOLIDATED NET INCOME AS OF DECEMBER 31, 2004

Consolidated net income amounts to €/000 61,198 (€/000 9,681 as of December 31, 2003) of which €/000 479 (€/000 531 as of December 31, 2003) is attributable to minority interests.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2004 AND 2003

OTHER INFORMATION

As required by Article 38, paragraph 1, of Legislative Decree No. 127/91, we inform you that:

• **Personnel**

The table below shows the average number of employees, analysed by category, of the companies consolidated on a line-by-line basis:

Average employees for the period

<u>Categories</u>	<u>2004 Period</u>	<u>2003 Period</u>
Executives	50.0	51.9
Supervisors	91.1	82.7
Office staff	813.8	771.7
Manual workers	61.3	64.4
Total	<u>1,016.2</u>	<u>970.7</u>

As to Lis Finanziaria, consolidated on an equity basis, the average number of employees, analysed by category, is as follows:

Executives	1.00
Supervisors	
Office staff	6.00
Manual workers	
Total	<u>7.00</u>

- **Remunerations paid to Directors and Statutory Auditors** These amount to €/000 1,698 and are broken down as follows:

—Directors' remuneration	€/000 1,225
—Statutory Auditors' remuneration	€/000 473

The table annexed shows the remuneration due to Directors and Statutory Auditors as of December 31, 2004 pursuant to Consob Resolution No. 11.520 of July 1, 1998:

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2004 AND 2003

ANNEXES

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2004 AND 2003

REMUNERATION PAID TO DIRECTORS AND STATUTORY AUDITORS
(pursuant to Consob Resolution No. 11,971 of May 14, 1999)

First and last Name	Position	Term of office	Expiration of office	Fees for the office held in the company drawing up the financial statements	Non-cash benefits (Accommodation, mobile phone, car and meal vouchers)	Bonuses and other incentives	Other remunerations
Antonio Belloni	Board Member	September 24, 2002	December 31, 2004	13,335.00			Annual gross 7,500 (remuneration committee)
Antonio Belloni	Chairman	March 4, 2003	December 31, 2004	400,000.00			
Rosario Bifulco	Managing Director	December 2, 2002	December 31, 2004	362,000.00			
Rosario Bifulco	General Manager			259,000.00	21,161.00		
Rosario Bifulco	Managing Director	December 20, 2002	December 31, 2004	13,335.00			
Paolo Ainio	Board Member	September 24, 2002	December 31, 2004	13,335.00			Annual gross 10,000 (internal control committee), annual gross 7,500 (remuneration committee)
Sergio Baronci	Board Member	September 24, 2002	December 31, 2004	13,335.00			
Marco Boroli	Board Member	September 24, 2002	December 31, 2004	13,335.00			
Sabino Cascese	Board Member	June 24, 2004	December 31, 2004	6,978.00			
Pier Luigi Celli	Board Member	April 14, 2003	December 31, 2004	13,335.00			Annual gross 15,000 (remuneration committee)
Paolo Ceretti	Board Member	May 13, 2004	December 31, 2004	8,513.00			6,384 (internal control committee)
Marco Drago	Board Member	September 24, 2002	December 31, 2004	13,335.00			
Roberto Drago	Board Member	September 24, 2002	December 31, 2004	13,335.00			
Demetrio Mauro	Board Member	September 24, 2002	December 31, 2004	4,823.00			3,616 (internal control committee)
Michele Reinerio	Board Member	September 24, 2002	December 31, 2004	13,335.00			
Marco Sala	Board Member and Joint General Manager	April 14, 2003	December 31, 2004		4,843.00		
Severino Salvemini	Board Member	April 14, 2003	December 31, 2004	13,335.00			Annual gross 20,000 (internal control committee)
Antonio Tazartes	Board Member	September 24, 2002	December 31, 2004	13,335.00			
Alberto Tripi	Board Member	September 24, 2002	December 31, 2004	4,896.00			
Giorgio Vincenzini	Board Member	April 14, 2003	December 31, 2004	13,335.00			
Francesco Martinelli	Chairman of the Board of Statutory Auditors		December 31, 2004	78,208.00			
Angelo Gaviani	Regular Auditor	November 22, 2001	December 31, 2004	57,200.00			
Cesare Andrea Grifoni	Regular Auditor	November 22, 2001	December 31, 2004	60,632.00			
Giulio Gasloli	Substitute Auditor		December 31, 2004	—			
Marco Sguazzini	Substitute Auditor		December 31, 2004	—			
Viscontini							

SHAREHOLDINGS OF DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS

FIRST AND LAST NAME	INVESTEE COMPANY	SHARES HELD AT THE END OF THE PREVIOUS FINANCIAL YEAR	SHARES PURCHASED	SHARES SOLD	SHARES HELD AT THE END OF THE CURRENT FINANCIAL YEAR
Sergio Baronci	Lottomatica	9,500	2,320		11,820
Severino Salvemini	Lottomatica		2,000		2,000
Michele Reinerio	Lottomatica	3,500		3,500	
Angelo Gaviani	Lottomatica		85		85

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2004 AND 2003

STOCK OPTIONS ASSIGNED TO DIRECTORS AND GENERAL MANAGERS

First and last name	Position	Options held at the beginning of the financial year			Options assigned during the financial year	Options exercised during the financial year			Options expired during the financial year	Options held at the end of the financial year		
		No. of Options	Average exercise price	Average maturity		No. of options	Average exercise price	Average market price		No. of options	Average exercise price	Average maturity
Antonio Belloni . . .	Chairman	661,000	14.63	Within 5 days as of the approval of the consolidated financial statements (2003-2005) Sept 2006		130,000	14.63	24.33	—	531,000	14.63	Within 5 days as of the approval of the consolidated financial statements (2003/2005) Sep 2006
Rosario Bifulco . . .	Managing Director and General Manager	2,026,000	14.63	Sept 2006		—	—	—	—	2,026,000	14.63	Sep 2006
Marco Sala	Board Member and Joint General Manager	1,012,000	14.63	Sept 2006		—	—	—	—	1,012,000	14.63	Sep 2006

LIST OF RELEVANT INVESTMENTS AS OF DECEMBER 31, 2004 AS PER ART. 120 ld February 24, 1998 N° 58 (pursuant to Consob Resolution No. 11,971 of May 14, 1999)

Company Name	Activities	HQ	Shareholders' equity				% Ownership	Shareholder	Consolidation method
			Equity						
			Capital	Reserves	Result				
Lottomatica S.p.A.	State licensee to manage Lotto and other games	Rome	88,939	154,685	47,119				
Lottomatica Italia Servizi S.p.A.	Citizen services	Rome	2,582	5,741	7,151	92.5%	Lottomatica S.p.A	line-by-line	
Lottomatica Sistemi S.p.A.	CEZ	Rome	5,165	6,024	3,299	100%	Lottomatica S.p.A	line-by-line	
PCC Giochi e servizi S.p.A.	Special paper products	TTTO (PZ)	21,000	292	135	100%	Lottomatica Sistemi S.p.A.	line-by-line	
Cirmatica Gaming S.A.	Financial investments	Barcelona	54,156	72,943	4,072	100%	Lottomatica S.p.A	line-by-line	
Consorzio Giochi Sportivi (**)	Betting pools management and operations	Rome	100		—	85%	Lottomatica S.p.A/ Totobit S.p.A.	line-by-line	
Consorzio Lotterie Nazionali	National lotteries	Rome	16,000	(45)	—	63%	Lottomatica S.p.A	line-by-line	
Totobit Informtica S.p.A.	On-line services for citizens	Milan	3,043	2,981	320	100%	Lottomatica Italia Servizi S.p.A.	line-by-line	
TTS Srl	Software development and production	Milan	100	70	(42)	100%	Totobit S.p.A.	line-by-line	
Videolot Gestione	Video lotteries management	Rome	120		(1,669)	100%	Lottomatica S.p.A.	line-by-line	
Triplet	Entertainment equipment management	Rome	120		(46)	100%	Lottomatica S.p.A.	non-operating	
Sed Multitel S.p.A. (*)	Technological support for remote services	Milan	800	60	279	60.0%	Totobit S.p.A./ Lottomatica S.p.A.	line-by-line	
LIS Finanziaria S.p.A.	Financial services management	Milan	1,000	(168)	(330)	100%	Totobit S.p.A.	equity	

(*): indirectly owned 55.5%

(**): indirectly owned 5%

List of companies valued at cost excluded from the consolidation perimeter as of December 31, 2004

			Shareholders' equity					
			Equity					
€/000	Activities	HQ	Capital	Reserves	Result	% ownership	Shareholder	Notes
Lottomatica Argentina S.A.	non-operating	Buenos Aires				100%	Lottomatica S.p.A.	in liquidation
Lottolatino do Brasil S.A.	non-operating	San Paolo				100%	Lottomatica S.p.A.	in liquidation

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2004 AND 2003

LOTTOMATICA GROUP—ANALYSIS OF THE BALANCE SHEET AS OF DECEMBER 31, 2004
OF THE COMPANIES INCLUDED IN THE CONSOLIDATION PERIMETER

Values in €/000	Lottomatica	LIS	LS	PCC	CGS	CLN	Totobit	TTS	Sed Multitel	Triplet	CIRM	Videolot
Intangible assets	374,830	14,962	—	6,245	3	8,893	3,808	1,924	200	5	—	4
Tangible assets	88,687	4,549	33	11,981	—	1,436	3,441	109	1,196	—	—	1,311
Investments	150,438	39,545	20,823	43	—	—	2,109	4	—	—	—	62
Net current assets	613,955	59,056	20,856	18,269	3	10,329	9,358	2,037	1,396	5	—	1,377
Inventories	379	—	—	1,196	—	—	3,536	167	—	—	—	—
Receivables from customers	33,810	25,913	12,287	2,750	164	4,713	25,418	207	901	—	—	26
Receivables from others	66,423	11,021	10,798	25	9	95,613	2,993	226	51	—	5	63
Other assets	6,700	617	—	71	—	1,379	306	7	33	—	—	—
Payables	124,775	43,910	511	1,455	637	34,603	34,099	2,340	962	51	—	2,947
Provisions for risks and charges	24,256	405	36	—	—	5,088	456	0	46	—	—	62
Other current liabilities	27,529	88,873	1,991	702	148	108,225	1,767	140	180	—	7	—
Working capital	(69,248)	(95,637)	20,547	1,885	(612)	(46,211)	(4,069)	(1,873)	(203)	(51)	(2)	(2,920)
Staff severance fund	4,072	165	1,258	925	—	—	302	74	17	—	—	—
Net invested capital	540,635	(36,746)	40,145	19,229	(609)	(35,882)	4,987	90	1,176	(46)	(2)	(1,543)
Share capital	88,939	2,582	5,165	21,000	100	16,000	3,043	100	800	120	54,156	120
Reserves and results carried over	154,685	5,741	3,554	292	—	-45	2,981	70	60	—	72,943	—
Profit (loss) for the period	47,119	7,151	3,299	135	0	—	320	(42)	279	(46)	4,072	(1,669)
Group shareholders' equity	290,743	15,474	12,018	21,427	100	15,955	6,344	128	1,139	74	131,171	(1,549)
Minority interests												
(-) Cash on hand (+) M/ term financial debt	348,401		10,984	110	—	—		9				—
(-) Cash on hand (+) S/ term financial debt	86,700	(45,040)	17,330	200	(343)	(7,552)	(39)	—	50	—	(131,064)	231
(-) Cash on hand (+) Due to Cash/banks	(185,209)	(7,180)	(187)	(2,508)	(366)	(44,285)	(1,318)	(47)	(13)	(120)	(109)	(225)
Financial coverage	249,892	(52,220)	28,127	(2,198)	(709)	(51,837)	(1,357)	(38)	37	(120)	(131,173)	6
Total coverage	540,635	(36,746)	40,145	19,229	(609)	(35,882)	4,987	90	1,176	(46)	(2)	(1,543)

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2004 AND 2003

LOTTOMATICA GROUP—ANALYSIS OF THE INCOME STATEMENT AS OF DECEMBER 31, 2004
OF THE COMPANIES INCLUDED IN THE CONSOLIDATION PERIMETER

Values in €/000	LTM	LIS	LS	PCC	CGS	CLN	Totobit	TTS	Sed Multitel	Triplet	CIRM	Videlot
Value of production												
<i>Revenues from sales and services . . .</i>	504,043	350,796	19,266	11,560	—	15,808	345,556	537	—	—	—	26
<i>Capitalisation of internal construction costs</i>	—	—	—	—	—	—	406	—	—	—	—	—
<i>Change in inventories</i>				(26)	—	—	—	—	—	—	—	—
<i>Other revenues</i>	38,341	764	671	1	372	24,145	3,197	909	2,254	—	—	—
Total revenues	542,384	351,560	19,937	11,535	372	39,953	349,159	1,446	2,254	—	—	26
<i>Operating expenses</i>	245,073	331,530	2,032	5,227	68	31,026	344,833	484	1,202	43	107	97
<i>Change in inventories</i>	44	—	—	134	—	—	(1,092)	(7)	—	—	—	—
Value added	297,268	20,030	17,905	6,174	304	8,927	5,418	969	1,052	(43)	(107)	(71)
<i>Personnel costs</i>	39,247	1,567	9,321	2,620	—	—	2,490	471	341	—	44	—
<i>Operating charges</i>	28,600	163	98	44	331	524	65	113	2	2	19	—
Gross operating margin (EBITDA) .	229,420	18,300	8,486	3,510	(27)	8,403	2,863	384	708	(45)	(170)	(71)
<i>Amortization of intangible assets . . .</i>	12,169	5,045	348	983	1	2,902	1386	335	85	1	—	1
—) merger difference	48,972											
—) consolidated goodwill												
<i>Depreciation of tangible assets</i>	42,170	474	12	2,041	—	136	834	25	154	—	—	119
<i>Write-downs</i>												
—) Write-downs of fixed assets . . .	609	—	—	—	—	—	—	—	—	—	—	—
—) Write-downs of receivables . . .	348	—	—	—	—	156	1,212	3	—	—	—	—
<i>Other provisions</i>	2,194	476	—	6	—	5,088	456	—	—	—	—	—
Operating profit (EBIT)	122,957	12,305	8,126	481	(28)	120	(1,025)	22	468	(46)	(170)	(191)
<i>Financial income (charges)</i>	(9,546)	288	(884)	(60)	31	199	96	(79)	—	—	4,241	—
<i>Revaluations</i>	(1,722)	—	—	—	—	—	—	—	—	—	—	—
<i>Extraordinary income (charges)</i>	(25,408)	(435)	(685)	6	(1)	—	881	1	—	—	—	(1,417)
Profit before taxes	86,281	12,159	6,557	428	2	319	(48)	(56)	468	(46)	4,072	(1,608)
<i>Income taxes for the period</i>	(39,162)	(5,008)	(3,258)	(294)	(2)	(319)	369	14	(189)	—	—	(62)
Net income	47,119	7,151	3,299	134	—	—	320	(42)	279	(46)	4,072	(1,670)
<i>of minority interests</i>		536			—	—	24	-3	68	—	—	—
for the Group	47,119	6,615	3,299	134	—	—	296	(39)	211	(46)	4,072	(1,670)

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
AT DECEMBER 31, 2004 AND 2003

ANALYSIS OF DEFERRED TAXES ASSETS

Values in €/000	Lottomatica S.p.A.	Lottomatica Italia Servizi S.p.A.	Lottomatica Sistemi S.p.A.	Pcc Giochie Servizi S.p.A.	Consorzio Lotterie Nazionali	Totobit S.p.A.	TTS S.p.A.	SED Multitel S.p.A.	Total
Opening balance	45,175	831	12,145						58,151
Tax losses	(8,213)								(8,213)
Returns	(9,760)	(29)	(1,976)						(11,765)
Advertising and promotion .	58	1	1						60
Goodwill amortization . . .	51	731			7				789
Performance bonus	1,680	54	69						1,803
Provisions	3,238	17			1,773				5,028
Directors' remunerations .	160								160
Write-down	227								227
Other	5	1	57	1		526	175	52	817
Total	32,621	1,606	10,296	1	1,780	526	175	52	47,057

**APPENDIX B—UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF
LOTTOMATICA AS OF AND FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2006**

**LOTTOMATICA S.p.A. and Subsidiaries
CONSOLIDATED BALANCE SHEET**

**As of March 31, 2006 (unaudited) and December 31, 2005
(All amounts in thousands of euro)**

	<i>Notes</i>	March 31, 2006	December 31, 2005
ASSETS			
Non-current assets			
Property, plant and equipment	3)	153,809	158,248
Goodwill	4)	663,613	663,613
Intangible assets	5)	9,757	10,774
Financial assets		421	452
Other non-current assets		432	570
Deferred taxes	30)	60,043	55,009
Total non-current assets		888,075	888,666
Current assets			
Inventory	6)	14,720	14,436
Accounts receivable trade and other receivables	7)	100,068	116,263
Current financial assets	8)	36,360	31,791
Other current assets	9)	260,927	189,808
Tax receivables	10)	5,433	3,370
Cash and cash equivalents	11)	319,834	246,163
Total current assets		737,342	601,831
TOTAL ASSETS		1,625,417	1,490,497
LIABILITIES AND SHAREHOLDERS' EQUITY			
Non-current liabilities			
Long-term debt	13)	359,660	359,653
Termination indemnities	14)	7,751	7,618
Deferred taxes	30)	47,116	44,233
Long term provision	15)	8,925	8,587
Total non-current liabilities		423,452	420,091
Current liabilities			
Accounts payable trade and other payables	16)	281,097	305,006
Derivative instruments	17)	872	263
Short-term borrowings	18)	2,404	7,260
Current portion of long-term debt	13)	4,734	473
Other current liabilities	19)	237,281	233,620
Current financial liabilities	8)	36,956	—
Tax payables	20)	9,836	11,020
Provision for income taxes and other	20)	37,016	509
Total current liabilities		610,196	558,151
Shareholders' equity	12)		
Share capital: 91,571,000 and 89,009,280 ordinary shares authorised, issued and outstanding, par value Euro 1.00 at March 31, 2006 and December 31, 2005 respectively		91,571	89,009
Additional paid-in capital		296,760	261,844
Other reserves		41,447	41,450
Retained earnings		150,119	112,391
Total shareholders' equity		579,897	504,694
Minority interest		11,871	7,561
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,625,417	1,490,497

The accompanying notes are an integral part of these consolidated financial statements.

LOTTOMATICA S.p.A. and Subsidiaries
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME
For the Three Month Periods ended March 31, 2006 and 2005
(All amounts in thousands of Euro)

	Notes	Three months ended March 31, 2006	Three months ended March 31, 2005
Revenues	21)	189,245	185,450
Other revenue and income	22)	1,061	3,685
Total revenues		190,306	189,135
Raw materials and consumables	23)	11,951	8,209
Services costs	24)	45,246	44,880
Personnel costs	25)	17,096	18,833
Depreciation, amortization and write-downs	26)	18,079	10,407
Other operating costs	27)	4,125	511
Total operating costs		96,497	82,840
Operating income		93,809	106,295
Financial expenses, net	28)	(17,800)	(2,887)
Income before income taxes		76,009	103,408
Income taxes	29)	34,582	41,749
Net income for the quarter		41,426	61,659
Minority interest		2,977	443
Group's net income for the quarter		38,449	61,216
Earning per ordinary share—basic	30)	0.46	0.69
Earning per ordinary share—diluted		0.45	0.66

The accompanying notes are an integral part of these consolidated financial statements.

LOTTOMATICA S.p.A and Subsidiaries
UNAUDITED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
For the Three Month Period Ended March 31, 2006 and 2005 and the Year Ended December 31, 2005
(audited)
(All amounts in thousands of Euro)

	Three months ended March 31, 2006	Year ended Dec 31, 2005	Three months ended March 31, 2005
Cash flow from operating activities:			
Income before income taxes	76,009	196,245	103,408
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	10,140	38,410	8,703
Amortization	1,818	8,531	1,548
Loss on disposal of property, plant and equipment	1,856	493	
Write-downs of property, plant and equipment	6,039	4,786	
Other non-monetary charges	(36,357)	35,498	46,570
Income taxes	<u>(34,582)</u>	<u>(82,013)</u>	<u>(41,749)</u>
Cash flow from operating activities before changes in net working capital	<u>24,922</u>	<u>201,950</u>	<u>118,480</u>
Changes in net working capital	<u>(7,376)</u>	<u>(11,209)</u>	<u>(55,826)</u>
Net cash provided by operating activities [a]	<u>17,546</u>	<u>190,741</u>	<u>62,654</u>
Cash flow used in investing activities:			
Additions to property, plant and equipment	(13,724)	(86,067)	(1,866)
Additions to intangible assets	(801)	(7,787)	(505)
Proceeds from disposals of property, plant and equipment . .	<u>654</u>	<u>2,556</u>	<u>988</u>
Net cash used in investing activities [b],	<u>(13,871)</u>	<u>(91,298)</u>	<u>(1,383)</u>
Cash flow provided by (used in) financing activities:			
Repayment of long—term debt		(150,000)	
Net change in short-term borrowings	32,408	42,834	(16,211)
Dividend paid		(67,983)	
Proceeds from share capital increase	2,562	70,500	
Other	<u>35,025</u>	<u>9,185</u>	<u>2,987</u>
Net cash provided by (used in) financing activities [c]	<u>69,995</u>	<u>(95,464)</u>	<u>(13,224)</u>
Net increase in cash and cash equivalents [a + b + c]	<u>73,671</u>	<u>3,979</u>	<u>48,047</u>
Cash and cash equivalents at the beginning of the period . . .		120	120
Cash and cash equivalents at the beginning of the period— merged companies	<u>246,163</u>	<u>242,064</u>	<u>242,064</u>
Cash and cash equivalents at the end of the period	<u>319,834</u>	<u>246,163</u>	<u>290,231</u>

The amount paid during the current fiscal year, for taxes and interest were, respectively zero and €/000 14.

The accompanying notes are an integral part of these consolidated financial statements.

LOTTOMATICA S.p.A. and Subsidiaries
UNAUDITED INTERIM CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the Three Month Period Ended March 31, 2006
(All amounts in thousands of Euro)

Statements of shareholders' equity for the three months ended March 31, 2005 and 2006

The accompanying statement of shareholders' equity for the three months ended March 31, 2005, which reflect the effects of the merger transaction of December 20, 2005, is provided to complete the interim financial information.

	Shareholder's equity						Total minority interest	Total Equity
	Share Capital	Additional paid in capital	Merger reserve	Other reserves	Retained earnings	Total shareholder's equity		
Balance at January 1, 2005	120				(46)	74		74
Merger effects	88,889	271,609	22,737			383,235	5,720	388,955
Other movements		(9,765)		11,968	46	2,249		2,249
Net income for the three month period					61,216	61,216	443	61,659
Balance at March 31, 2005	89,009	261,844	22,737	11,968	61,216	446,774	6,163	452,937

	Shareholders' equity						Total minority interest	Total Equity
	Share capital	Additional paid in capital	Merger reserve	Other reserves	Retained earnings	Total shareholders' equity		
Balance at January 1, 2006	89,009	261,844	22,737	18,713	112,391	504,694	7,561	512,255
Other movements				(833)		(833)	1,333	500
Share capital increase	2,562	34,916				37,478		37,478
Stock option reserve				109		109		109
Net income for the three month period					38,449	38,449	2,977	41,426
Balance at March 31, 2006	91,571	296,760	22,737	17,989	150,840	579,897	11,871	591,768

The accompanying notes are an integral part of these consolidated financial statements.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
As of and for the three month period ended March 31, 2006
(All amounts in thousand of Euro, unless otherwise indicated)

1. Form, Structure and Basis of Presentation of the Consolidated Group

General Information

Lottomatica S.p.A. (“Lottomatica” or the “Company” and, together with its subsidiaries, the “Lottomatica Group”) is the Italian government’s concessionaire to manage the Lotto and of other public games as well as at the parent company of a group operating in the market of gaming, automated services for individuals and entities and box office services. Moreover, the Company provides:

- systems and products for games;
- hardware and software terminals and systems to process games and sports/horse racing betting;
- assistance service for operations management and Help Desk for the Italian National Horse Racing Pari-Mutuel

Lottomatica’s registered office is located in Rome, in Viale del Campo Boario and it is incorporated in Italy.

The parent company of Lottomatica S.p.A. is De Agostini S.p.A.

Seasonal and cyclical revenue

Lotto revenues present a timely cyclicity deriving from the method of computation of the fee on total proceeds, which requires the application of different rates for each layer of proceed. This mechanism (decalage) determines the application of lower rates for increasing volumes, thus creating, during the calendar year, a concentration of revenue in the first part of the year. This effect is emphasized in presence of extremely high volumes. Revenue from betting services are linked to the calendar of the soccer events. Accordingly, revenues are zero in summer, while they are equally distributed over the rest of the year.

Basis of presentation

The interim consolidated financial statements as of and for the quarter ended March 31, 2006 include the following comparative data:

- Consolidated Balance Sheet as of December 31, 2005 of the Lottomatica Group, that includes the effects resulting from the merger of the Former Lottomatica and FinEuroGames S.p.A. into NewGames S.p.A. (renamed Lottomatica S.p.A.), that became effective on December 20, 2006.
- Consolidated Income Statement of the Former Lottomatica Group for the quarter ended March 31, 2005 (unaudited), prior to the completion of the above mentioned merger,
- Consolidated statement of Cash Flows of Lottomatica Group for the quarter ended March 31, 2005 (unaudited), that includes the effects resulting from the merger of the Former Lottomatica and FinEuroGames S.p.A. into NewGames S.p.A. (renamed Lottomatica S.p.A.), and for the year ended December 31, 2005 that includes the effects of the above mentioned merger.
- Have been included the Consolidated Statement of Shareholders Equity for the period from January 1, 2005 to March 31, 2005 (unaudited), that includes the effects resulting from the merger of the Former Lottomatica and FinEuroGames S.p.A. into NewGames S.p.A. (renamed

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of and for the three month period ended March 31, 2006
(All amounts in thousand of Euro, unless otherwise indicated)

1. Form, Structure and Basis of Presentation of the Consolidated Group (Continued)

Lottomatica S.p.A.), and the Statement of Shareholders Equity for the period from January 1, 2006 to March 31, 2006.

Entities Consolidated

The Lottomatica Group at March 31, 2006 and December 31, 2005, includes the following companies:

- *LIS Lottomatica Italia Servizi S.p.A.* controlled by Lottomatica S.p.A. with a investment quota equal to 92.5% (92.5% at December 31, 2005), that manages the services for citizens and companies through the network of the lotto game;
- *Lottomatica Sistemi S.p.A.* 100% controlled by Lottomatica S.p.A. (100% at December 31, 2005), that manages the Multiarea Elaboration Center in Naples, and carries out technical assistance activities through the help-desk service and commercial assistance;
- *Cirmatica Gaming S.A.* 100% controlled by Lottomatica S.p.A., whose purpose is the acquisition, the management and the administration of financial and shareholding investments;
- *PCC Giochi e Servizi S.p.A.* 100% controlled by Lottomatica Sistemi S.p.A. (100% at December 31, 2005). The company operates in the field of specialized paper support products;
- *Consorzio Lottomatica Giochi Sportivi*, incorporated on June 3, 2003, of which Lottomatica directly holds a quota of 85%, and indirectly, through the controlled Totobit Informatica Software e Sistemi S.p.A., a quota of 5%. The Consorzio is operative in the collection of the games of chance and sports games, as well as of the totalizer bets;
- *Consorzio Lotterie Nazionali*—incorporated on December 10, 2003 between Lottomatica S.p.A., Scientific Games International, Inc, Arianna 2001 S.p.A., Olivetti Tecnost S.p.A. and Servizi Base 2001 S.p.A.—operative in the management of the instant and deferred-draw National Lotteries.

The investment quotas to the consortium fund are as follows:

Lottomatica 63%, Scientific games 20%, Arianna 2001 15%, Olivetti Tecnost 1%, and Servizi Base 1%;

- *RTI Videolot S.p.A.*, 100% controlled by Lottomatica S.p.A., is the concessionaire company for the assignment of the activation and of the operative management of the network for the telematic management of legal gaming through amusement and entertainment devices as well as their linked activities and functions;
- *Videolot Gestione S.p.A.*, 100% controlled by Lottomatica S.p.A. and operating in the video lottery sector as service provider of amusement and entertainment devices;
- *Totobit Informatica Software e Sistemi S.p.A.*, purchased in December 2003 and 100% controlled by Lottomatica Italia Servizi S.p.A., which manages a vast network of multifunction miniterminals—installed at commercial businesses with significant pedestrian traffic, such as bars-collectorships, service stations, newsagents, and others. Its purpose is that of supplying telematic services “for the citizen.”

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of and for the three month period ended March 31, 2006
(All amounts in thousand of Euro, unless otherwise indicated)

1. Form, Structure and Basis of Presentation of the Consolidated Group (Continued)

- *Sed Multitel S.p.A.* 60% controlled by Totobit Informatica Software e Sistemi S.p.A., and 20% by Lottomatica S.p.A., incorporated on November 28, 2002, which has a specialized organization capable of guaranteeing, through the coordination and the management of its own and outsourced processing centers, the necessary technological support linked to the typically transactional activity of the telematic services supplied;
- *TTS S.r.l.* 100% controlled by Totobit Informatica Software e Sistemi S.p.A., which develops and distributes the software product for the elaboration and the development of gaming systems in collectorships; it supplies its customers with accurate technical/system assistance, both by telephone (through an internal call center) as well as on site; it also handles the collection on the territory of the subscription contracts concerning the services supplied by the parent company;
- *LIS Finanziaria S.p.A.*, 100% controlled by Totobit Informatica Software e Sistemi S.p.A., specifically incorporated and registered in the Financial Brokers Register pursuant to article 106 TULB, is the company appointed to manage the financial services that the parent company intends to bring to its network. The company started operating in September 2003;
- *Carta LIS S.p.A.*, incorporated on September 12, 2005, 85% controlled by Lottomatica Italia Servizi S.p.A., which operates in the field of issuing electronic money, through the immediate transformation of the funds received.
- the companies *Lottolatino do Brasil* and *Lottomatica Argentina*, non-operative companies for which the liquidation process has been initiated.
- *Nova Prima srl* 100% controlled since December 22, 2005 and whose entry in the consolidation area is connected to the announced acquisition of the GTECH group.
- *Invest Games SA* 100% controlled by Lottomatica S.p.A. through Nova Prima Srl.

2. Significant Accounting Policies

Statement of compliance with the IFRS

The interim consolidated financial statements of the Lottomatica Group are prepared in accordance with the IFRS as adopted by the EU for interim reporting, as outlined in IAS 34.

The interim consolidated financial statements as of and for the three months ended March 31, 2006 are prepared applying the same accounting principles and criteria of the financial statements as of and for the year ended December 31, 2005.

Consolidation Criteria

The consolidated financial statements include the financial statements of Lottomatica S.p.A. and of its subsidiaries, taking into consideration the jointly-controlled companies (joint ventures), businesses of insignificant size, companies in liquidation and those carrying out unrelated business activities.

All intercompany balances and transactions, including unrealized gain and losses from transactions among companies of the Group, are eliminated.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of and for the three month period ended March 31, 2006
(All amounts in thousand of Euro, unless otherwise indicated)

2. Significant Accounting Policies (Continued)

The controlled companies have been entirely consolidated as of the date of acquisition, that is, the date in which the Group acquires the control, and they cease to be consolidated on the date in which the control is transferred outside the Group.

The line by line consolidation method is applied, as follows:

- all balance sheet and income statement line items of the consolidated companies are included in consolidation, the value of the investments in the subsidiaries is eliminated against the net equity of the subsidiaries; minority interests, if any, are recognised;
- the difference between the book value of the investment at the date of the acquisition and the fair value of the corresponding quota of net assets: i) if positive, it is classified as “Goodwill”, and subject to annual evaluation in order to identify the eventual loss of value (impairment test); ii) if negative, it is booked directly to the Income Statement;
- the balances and the operation between the consolidated companies are eliminated, as well as the intercompany gain and losses, with the respective deferred fiscal effects;
- the dividends from the consolidated companies are eliminated.

The financial statements of the consolidated companies were prepared in accordance with the IFRS as adopted by the EU, on the same closing date as that of Lottomatica S.p.A.

Foreign currency transactions

The functional and reporting currency of the Lottomatica Group is the Euro.

On the balance sheet date, the financial statements of the foreign companies with functional currency other than the Euro have been converted into the presentation currency according to the following modalities:

- the assets and liabilities are translated using the period-end exchange rate;
- the Income Statement items are translated using the average exchange rate of the accounting year;
- Shareholders’ Equity items are translated at historical exchange rates, maintaining any stratification of reserves.

The exchange rate differences deriving from the above translation are recognized directly in the shareholders’ equity under the “Translation reserve (difference)” caption.

Property, Plant and Equipment

Property, plant and equipment are recorded at purchase cost, including directly accessory costs, adjusted by the accumulated depreciation accounted for in various accounting years (adjusted cost method). If the asset is represented by more significant components with different useful lives, depreciation is made for each component. The depreciation charged to the Income Statement is computed in a constant and systematic manner on the basis of rates considered to be representative of the estimated useful life for each single category of asset. Ordinary maintenance expenses are charged to the Income Statement of the period in which they were sustained.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. Significant Accounting Policies (Continued)

The costs sustained for the leasehold improvements that can be identified are accounted for as an increase of the fixed asset. The amortization period corresponds to the lesser between the remaining useful life of the tangible fixed asset and the remaining duration of the rental agreement.

The carrying value of fixed assets is subject to analysis to identify possible losses in value when events or changes of situations indicate that the book value cannot be recovered. If there is an indication of this kind and in the case where the book value exceeds the estimated net realizable value, the activities are devalued to the estimated net realizable value.

Fixed assets under construction and advance payments include the purchase costs and the down payments to suppliers for the purchase of still unused tangible fixed assets; moreover, they include the goods at third parties on consignment basis that have not yet been used. The depreciation of these costs will start when the actual use starts.

The depreciation rates follow:

<u>Property, plant and equipment</u>	<u>Depreciation Criteria</u>
1) Buildings	Rental duration
2) Machinery and Equipment	15%—20%
3) Industrial and Commercial Equipment	25%
4) Other Assets	12%

In accordance with the requirements of IAS 20, the accounting value of the tangible fixed assets is reduced by the investment grants received by the Italian state. In particular, the contribution grants, recognized when it becomes receivable, is deducted from the book value of the asset and it is amortized to income over the useful life of the asset.

Capital Leases

The assets acquired under financial lease contracts are recognized as assets at their current value or, if lower, at the current value of the minimum payments due for the lease, including the amount to be paid for exercising the option to purchase. These assets are classified in their respective categories, and amortized in a period of time equal to the lesser between the duration of the contract and the useful life of the asset. The debt corresponding to the financial rental contract is booked among the financial liabilities. In the Income Statement the depreciation of the fixed assets and of the interest paid in relation to the financial component of the rent are accounted for.

Intangible Assets

As required by IAS 38, reported intangible assets present the identifiable characteristics, the capability of producing future economic benefits and are under control for the company. Intangible assets are recorded at purchase cost, increased by the accessory costs and by the direct costs necessary to prepare these assets ready for their intended use.

The activities acquired through business combinations are booked at fair value on the date of acquisition. The internally generated assets have not been indicated as intangible assets; the company did not incur research and development costs. After the initial recognition, the intangible assets are reported in

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. Significant Accounting Policies (Continued)

the Balance Sheet at cost, net of the accumulated amortization, calculated at constant rates on the basis of the useful estimated life of the asset, and of the losses for accumulated durable reduction of value (adjusted cost criterion). However, if a intangible asset is characterized by an undefined useful life, it does not get amortized, but rather is submitted periodically to an impairment analysis in order to determine eventual losses in value.

The amortization begins when the assets is available for use, that is, when it is in the necessary position and condition so that it may operate in the way the company management expects. The book value of the non-tangible assets is subject to inspection to find eventual losses in value when events or situation changes indicate that the book value cannot be recovered. If there is an indication of this kind and should the value exceed the presumable break-up value, the assets are devalued until their break-up value is reflected.

In detail:

- under the item “industrial patent rights” there mainly are the costs sustained for application software purchased as property, the costs for application software purchased with a license to use it for an unlimited period of time, and the costs for protected application software produced for internal use;
- under the item “concessions, licenses, marks and similar rights” there mainly are the costs sustained for software purchased with the permission for use for a determined period of time for which the payment of a single initial compensation paid for the entire license period;
- the intangible assets in progress refer to purchases that have not yet started to be used at the Balance Sheet date.

Amortization rates follow:

<u>Intangible assets</u>	<u>Amortization Criteria</u>
1) Industrial Patent Rights	3 years
2) Concessions, Licenses and Marks	2 years—5 years
3) Other Non-Tangible Assets	3 years

Goodwill

Goodwill acquired following a business purchase/combination transaction is initially reported at cost, in that it represents the excess of the purchase price in relation to the buyer’s ownership quota of the net fair value referred to identifiable values of the actual and potential assets and liabilities. After the initial booking, goodwill is valued at cost less the eventual accumulated losses in value. Goodwill, as intangible assets of indefinite useful life, is not amortized, but each year the possible reduction in value is verified (impairment test), with the consequent inclusion in the Income Statement of the eventual excess identified. The impairment test is carried out by comparing the book value and the greater between the net sale price and the value in use of the asset. The fair value is determined based on the best information available to reflect the amount that the entity may obtain, on the date of reference of the Balance Sheet, from the

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NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. Significant Accounting Policies (Continued)

divestiture of an asset into a free transaction among aware and available parties, after the divestiture costs have been deducted.

Financial Assets

The financial assets are initially recorded at cost—increased of the accessory purchase costs—which represents the fair value of the consideration paid. Subsequent to the initial recognition the financial assets are evaluated in relation to their functional destination on the basis of the following criteria.

Financial Assets Held for Trading

These are financial assets purchased with the purpose of obtaining a profit from the short-term price fluctuations. After the initial recognition, these assets are evaluated at fair value and the respective earning or loss is recorded in the Income Statement.

Investments Held to Maturity

These are non-derivative financial assets with fixed or determinable payments, with fixed maturities, that the company has the firm intention and capability of maintaining until maturity. After the initial posting, these assets are evaluated at amortized cost using the effective interest rate criterion. The amortized cost is calculated taking into consideration the eventual discounts or premiums that are divided throughout the entire period of time until maturity.

Financial Assets at Cost

If there is an objective indication of the loss in value of a non-quoted instrument representing capital that is not recorded at fair value in that it cannot be measured in a reliable manner, or of a derivative instrument that is connected to this investment instrument and must be regulated through the delivery of this instrument, the amount of the loss due to reduction of value is equal to the difference between the book value of the asset and the actual value of the expected future financial flows brought up-to-date at the current market interest rate for an analogous financial asset.

Asset Financing

In accounting it is handled as foreseen for the “investments held to maturity”.

Financial Assets Available for Sale

This includes the financial assets that do not belong in the previous categories. After the initial recording, these assets are evaluated at fair value with the posting of the earnings or losses in a specific item of the Net Assets Statement until they are sold or until it is ascertained that they have suffered a loss in value: in this case the earnings or the losses accumulated until then are recorded in the Income Statement.

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NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. Significant Accounting Policies (Continued)

Derivative Financial Instruments

All the derivative financial instruments are measured at fair value, as established by IAS 39. The value for the adjustment to mark to market of the derivative instrument, if negative, is recorded in the Income Statement.

Inventory

Inventory is recorded at the lower of the purchase or production cost, including the additional costs, and the net realizable market value. The cost configuration adopted is that of the “weighted average cost” (for paper), of FIFO (for the recharges) and of the specific cost (for tickets).

Accounts Receivable and Payable

Accounts receivable are initially recorded at their nominal value, subsequently evaluated at amortized cost, and devalued in case of credit losses. Payables are at nominal value.

Cash and Cash Equivalent

Cash and cash equivalents are recorded at their nominal value with an original maturity of 90 days or less.

Long-Term Debt

Long term debt is initially recorded at cost, corresponding to the fair value of the consideration received, net of the acquisition accessory costs of the financing. After the initial recording, the financing is reported in accordance with the amortized cost criterion, using the effective interest rate method.

Long-term Provision

The provisions for risks and charges relate to liabilities of a determined nature, of certain or probable existence, of which, however, at the date of preparation of the financial statements the amounts or the date of occurrence are undetermined. The provisions are recorded when the existence of a current obligation, legal or implicit is probable, as consequence of past events, and when it is probable that the obligation is onerous and its amount can be reliably estimated. The evaluation of the provision is made at the fair value of each liability. The provisions are reexamined at every reporting date and adjusted so that they represent the best estimate of the liability to be incurred.

Employee Benefits

The employee benefits due following the termination of the work relationship (post-employment benefits of the “defined benefits” type) and other long-term benefits are subject to actuarial evaluations. The liability recorded in the financial statements represents the current value of the group obligation net of the eventual assets servicing the plans.

It is pointed out that the Lottomatica Group decided not to use the so-called corridor approach and to record the earnings and losses deriving from modifications of the actuarial hypotheses directly in the

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. Significant Accounting Policies (Continued)

Income Statement. On the other hand, IFRS assume that in the long run the earnings (or the losses) of actuarial nature may compensate each other and, from this perspective, consents to differ in time the recognition in the Income Statement of the actuarial earnings or losses. In each accounting period, the quota of non-recorded, actuarial earnings or losses exceeding the greater between the 10% of the actual value of the obligation of the program and the 10% of the fair value of any asset in favor of the program (corridor approach) must be recognized.

The supplementary severance indemnities are recorded as liabilities and costs when the Company is in the course of interrupting the work relationship of an employee or of a group of employees before normal retirement or it is in the course of supplying severance compensations following a proposal that gives incentives for retiring willingly due to overstaffing.

Assets to Be Sold and Losses Associated to Assets to Be Sold

The non current assets (or groups of assets and liabilities) are classified as held for sale should they be available for the immediate termination of their current condition, with the exception of the recurring negotiation conditions for the sale of that type of assets, and should the sale be highly probable.

These assets are reported:

- at the lesser of the book value and the fair value, net of selling costs, recording the eventual value reductions (impairment) in the Income Statement, if they do not fall within a company aggregation operation,

Or

- the fair value net of the sale costs (without the possibility of recording devaluations upon the initial recording), if they fall within a business combination.

In any case, the amortization process is interrupted when the asset is classified as held for sale.

The assets and liabilities directly connected to a group of assets subject to sale must be distinctly classified in the balance sheet, as well as the pertinent reserves of earnings or losses directly accumulated in the net equity. The net result of the ceased operations is indicated in a separate line item in the Income Statement.

Stock Option Plan

The Lottomatica stock option plan foresees its regulation through the issuance of instruments representing capital (equity-settled). The fair value is determined on the grant date and determines the recording of the cost (under the “Cost of Personnel” item) with the corresponding increase of the net assets (item “Stock Option Reserve” included in “Other Reserves”) on the basis of the period of maturity of the options.

Following the date of assignment, a variation of the number of options entails an adjustment of the total cost of the plan to be recorded in accordance with the method indicated above. At the end of every accounting year the fair value of each previously determined option is neither revised nor updated, but remains definitely acquired in the net assets; on this date, instead, the estimate of the number of options

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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2. Significant Accounting Policies (Continued)

that will mature (and therefore the number of employees that will have the right to exercise the options) is updated. The estimate change reduces the line item “Stock Option Reserve” in shareholders’ equity and it is indicated in the Income Statement among the personnel costs.

At the maturity of the option the amount recorded under the item “Stock Option Reserve” is reclassified as follows: the quota part of the net assets relating to the exercised options is reclassified under “paid-in capital”, while the part relating to the non-exercised options is reclassified among the Undivided Earnings.

Revenue

Revenue is reported at the current value of the consideration received or due.

Sale of Goods

The revenue is recognized when the Group transfers the significant risks and benefits connected to the property of the good, and it ceases to exercise the usual level of activity associated with the property as well as the effective control on the sold good. The revenue associated to the sale of telephone recharges is recorded net of the costs sustained for the purchase of the same.

Services Performed

The revenue is recorded with reference to the completion stage of the transaction at the balance sheet date. When the result of the services performed cannot be reliably estimated, the proceeds are recorded only in the measure in which the recorded costs will be recoverable. The completion stage of the service derives from the evaluation of the work performed or through the ratio between the sustained costs and the total estimated costs.

In cases where delays in payment are granted to the customers without the maturing of interests, the amount recorded represents the present value of the amount receivable. The difference between the present value and the amount receivable is a financial proceed recorded by period of maturity.

Revenue and costs are recorded net of value-added taxes with the exception of the case in which:

- the tax applied to the purchase of goods or services is not tax-deductible, in which case it is recorded as part of the purchase cost of the asset or part of the cost item recorded in the Income Statement;
- it refers to trade receivables and payables with embedded the value of the tax.

Interests

They are recorded on an accrual basis with a temporal criterion, using the effective interest method.

Dividends

They are recorded when the right of the shareholders to receive payment arises.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of and for the three month period ended March 31, 2006
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2. Significant Accounting Policies (Continued)

Purchase Costs of Goods and Services Performed

They are recorded in the Income Statement in accordance with the accrual principle and they substantiate into decreases of economic benefits that appear as outgoing financial flows or as reductions in value of assets or as assumptions of liabilities.

Borrowing Costs

The borrowing costs are recorded as costs in the accounting year in which they are sustained.

Current and Deferred Income Taxes

The current income taxes are determined on the basis of a realistic estimate of the taxes to be paid, applying the fiscal regulations in force in the individual countries.

On the temporary differences between the values of the assets and liabilities reported in the financial statement and their respective tax values, as well as on the differences in value of the assets and liabilities generated by the consolidation adjustments, the Group records deferred taxes (both assets and liabilities). The deferred tax assets are recorded in the measure in which it is probable that a taxable income will be available against which the deductible temporary difference can be used. Also in presence net operating losses tax carryforwards, deferred tax assets are recognized when their recoverability is probable. Deferred tax assets and liabilities are classified, in the balance sheet among the non-current assets and liabilities. Deferred taxes are computed on the basis of the tax rates that are expected to be applied in the year in which these assets are realized or these liabilities are paid, considering the rates effective at the balance sheet date.

Use of Estimates

The key hypotheses concerning the future and other important sources of uncertainty of the estimates at the balance sheet date, which may produce significant adjustments in the reported values of the assets and liabilities within the next financial accounting year, are presented hereafter.

Impairment of Goodwill

Goodwill is subject to impairment test for eventual losses in value at least once a year; this test requires an estimate of the value in use of the segment to which the goodwill is allocated, based on the estimate of the expected cash flows of the segment and their present value based on an adequate discount rate. At March 31, 2006, the reported value of goodwill is €/000 663,613.

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3. Property, Plant and Equipment

They total €/000 153,809 (€/000 158.248 at December 31, 2005). The following is an indication of the composition of these assets, with a separate indication of the historical cost and the accumulated depreciation:

	Balance at December 31, 2005	Movements in the period						Balance at March 31, 2006
		Increases	Depreciation	Write-downs	Decreases	Other changes	Reclasses	
Land	456							456
Buildings	24,226	369					34	24,629
Machinery and equipment	442,975	2,409		171,109	216	1,844	35,304	307,519
Ind. and Comm. equipment	327							327
Other assets	5,889	256			27			6,118
Fixed assets in progress	35,240	10,690			7	12	35,149	10,763
Historical cost	509,113	13,724	—	171,109	249	1,856	189	349,812
Land								
Buildings	6,936		549				34	7,519
Machinery and equipment	340,389		9,453	165,070	100		154	184,826
Ind. and Comm. equipment	321		1					322
Other assets	3,219		137		20			3,336
Accumulated depreciation	350,865		10,140	165,070	120	—	188	196,003
Land	456							456
Buildings	17,290	369	549				0	17,110
Machinery and equipment	102,586	2,409	9,453	6,039	116	1,844	35,149	122,692
Ind. and Comm. equipment	6		1					5
Other assets	2,670	256	137		6			2,783
Fixed assets in progress	35,240	10,690			6	12	35,149	10,764
Net book value	158,248	13,724	10,140	6,039	128	1,856	0	153,809

The increases during the quarter primarily relate to:

- *Buildings*: these primarily refer to costs incurred by the parent company for the preparation of the new headquarters;
- *Machinery and equipment*: these refer almost entirely to the implementation of technological equipment for the network; the most significant amounts refer to the company Lottomatica s.p.a.

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3. Property, Plant and Equipment (Continued)

(€/000 1,041). Other significant investments were made by the company LIS (€/000 269), by the companies operating in the Video lottery sector (RTI Videlot and Videlot Gestione) (€/000 106) and by the company Totobit (€/000 833);

- *Fixed assets in progress*: these exclusively involve terminals and printers which have not yet been installed in the receivers. In particular, they involve the company Lottomatica s.p.a. in the realm the terminal replacement project begun during fiscal year 2005 which has led to the complete renewal of the terminal bank. The investments in assets under construction, which have not entered into operation, have been included in the entry “current fixed assets” and are found in accounts deposited with third parties.

The write-downs for the quarter refer to “Machinery and equipment” and were made in accordance with the terms established by IAS 36, for the alignment of the accounting value of the assets (terminals for the Lotto game) in respect to their value in use. The write-downs are principally connected to the aforementioned project involving the replacement of the terminals put into effect by the Company (for a net value of €/000 6,039 composed of assets that had a historical cost of €/000 171,109 and an accumulated depreciation of €/000 165,070) and they refer to the residual accounting value of the old generation terminals already replaced on 3/31/06, whose value in use is equal to zero.

The write-downs affected the item “Depreciation, amortization and write-downs” of the Income Statement and the Games business segment, because the assets devalued relate entirely to this sector of activity.

The “*other changes*” in the “*Machinery and equipment*” line principally refer to the use of the reserve funds previously recorded for the write-downs discussed above (€/000 1,844).

The value of the assets held in financial leases and with rental contracts on March 31, 2006 is €/000 2,667 (€/000 2,938 at December 31, 2005). The balance of the entry refers to construction and systems and machinery held by the company Totobit and by PCC. The decrease recorded in the quarter is principally due to depreciation for the period.

There are no current contractual obligations for the acquisition of fixed assets and there are no assets given as a guarantee.

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4. Goodwill

Goodwill amounts to €/000 663,613 at March 31, 2006, unchanged from December 31, 2005, and is detailed as follows:

<u>Company</u>	<u>Balance at March 31, 2006</u>
-Lis Finanziaria	133
-Sed Multitel	1,660
-Totobit Informatica	31,899
-TTS	172
-Tyche	404,016
-NG FEG Lottomatica	216,765
-PCCGS	6,853
-EIS games branch	825
-TWIN games branch	1,290
Total	<u>663,613</u>

The major items that make up the balance are the following:

- Goodwill of €/000 404,016 consequent to the merger of Lottomatica in Tyche that took place in 2002.
- Goodwill of €/000 216,765 deriving from the Merger transaction consummated on December 20, 2005, among NewGames, FinEuroGames and Former Lottomatica.
- Goodwill deriving from the consolidation of Totobit Informatica recorded with €/000 31,899.
- Goodwill from the contribution of PCC Giochi e Servizi €/000 6,853.
- Goodwill linked to the acquisition of the gaming branch of EIS S.p.A. and of the Twin company branch (totalizer) €/000 2,115.

Upon first adopting IFRS as adopted by the EU, the Lottomatica Group chose to not to apply IFRS 3 retroactively to the company acquisitions that had taken place before January 1, 2004; accordingly goodwill was maintained at the previous determined value in accordance with the Italian accounting principles, after assessment of its recoverability. With regard to the goodwill generated during accounting year 2005, the same was determined applying a principle derived from US GAAP. For further details please refer to that previously explained in the “Merger” paragraph. Goodwill has been allocated on the basis of IAS 36 to the Gaming (consisting of CGU Lotto, Scratch and Win, and Video Lotteries) and Services Segment as follows:

- *Gaming* €/000 443,515; and
- *Services* €/000 220,098

Goodwill was subject to an impairment test on December 31, 2005.

Consistently with the provisions of IAS 36, the impairment test was carried out comparing the recoverable value with the respective book value at December 31, 2005.

As recoverable value, the value in use was selected. The value in use is determined using the Discounted Cash Flow method, computing the present value of the operating cash flows resulting from the

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4. Goodwill (Continued)

economic-financial projections concerning the period of the concessions granted by the Italian State or up to a maximum of 7 years, based on the assumptions contained in the plan prepared by the management on the basis of the projections of the operating results, the final amount of which was calculated, at the appraisal date, projecting the periods exceeding three years, in accordance with conservative growth rates lower than the historical trend. The estimate of the value in use was carried out through the use of the Discount Cash Flow model that computes the present value of the future cash flows estimated by applying an appropriate discount rate (WACC). As of March 31, 2006 no condition or indicator exist that may indicate the carrying value may not be recoverable as the actual results are substantially consistent with the expected ones. This impairment test showed that the discounted cash flows are greater than the goodwill book value, so it was not necessary to proceed with any value reduction. Consequently no loss in value was recorded. The discount rate (WACC) used by the Company was approximately 8% (average).

5. Intangible Assets

Intangible assets amount to €/000 9,757 at March 31, 2006 (€/000 10,774 at December 2005) and they essentially related to the following:

- “*Industrial patent rights*” amounting to €/000 7,862 (€/000 8,859 at December 2005) and refer primarily to the values of the Parent company for €/000 4,621, principally regarding the development of software related to the management of Totocalcio and the game of Lotto, the development of software for the Scratch and Win for the Consorzio Lotterie Nazionali (€/000 896) and the development of software for the company Lottomatica Italia Servizi regarding official seals (€/000 1,138).

The acquisitions in the period (€/000 543) primarily refer to the expenses incurred by the Parent Company and the subsidiaries for the development of application software;

- “*Concessions, licenses, trademarks and similar rights*” amounting to €/000 1,352 (€/000 1,452 at December 31, 2005), refer to licenses for use which can be traced to the Consorzio Lotterie Nazionali, Lottomatica S.p.A. and other Totobit companies.

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5. Intangible Assets (Continued)

The following are the movements that took place in the period:

	Balance at December 31, 2005	Movements in the period				Balance at March 31, 2006
		Increases	Amortization	Decreases	Reclasses	
Industrial Patent rights	46,735	543				47,278
Concessions, licenses	8,595	157				8,752
Assets in progress and advances	377	101				478
Other	190					190
Historical cost	55,897	801	0	0	0	56,698
Industrial Patent rights	37,876		1,540			39,416
Concessions, licenses	7,143		257			7,400
Assets in progress and advances	0					0
Other	104		21			125
Accumulated amortization	45,123	0	1,818	0	0	46,941
Industrial Patent rights	8,859	543	(1,540)			7,862
Concessions, licenses	1,452	157	(257)			1,352
Assets in progress and advances	377	101				478
Other	86		(21)			65
Net book value	10,774	801	(1,818)	0	0	9,757

6. Inventory

Inventory amounts to €/000 14,720 (€/000 14,436 at December 31, 2005) and consist of:

	March 31, 2006	December 31, 2005
Raw, subsidiary and consumable materials	1,101	1,272
Work in progress and semifinished goods	118	86
Finished goods and merchandise	13,501	13,078
	<u>14,720</u>	<u>14,436</u>

Inventory almost entirely relates to the stocked inventory of Lottomatica connected to the game receipts and cards, as well as the goods in stock of Totobit relating to the activation codes of the prepaid Vodafone and Telecom cards purchased in the period, and that will be resold in the ambit of the Company's normal business activity.

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7. Accounts receivable trade and other receivables

Accounts receivable trade and other receivables consist of:

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
Trade accounts receivable, gross	108,066	122,793
Less: Allowance for doubtful accounts	<u>(10,439)</u>	<u>(10,418)</u>
Trade accounts receivable, net	97,627	112,375
Receivables from Parent company	1,772	1,442
Other receivables	<u>669</u>	<u>2,446</u>
	<u>100,068</u>	<u>116,263</u>

Trade accounts receivable amount to €/000 97,627 (€/000 112,375 at December 31, 2005), net of an allowance for doubtful accounts of €/000 10,439 (€/000 10,418 at December 31, 2005) and consist of:

The *Receivables from Parent company* amount to €/000 1,772 (€/000 1,442 at December 31, 2005) and consist of the tax receivables toward the Parent company De Agostini S.p.A. in connection with the participation to the tax consolidation arrangement, and to the De Agostini Group's VAT procedure.

The business credits are non-interest bearing and generally have a term of 30-90 days.

Accounts receivable amounting to €/000 6,634 are due over the next 12 months.

With regard to the allowance for doubtful accounts, we report that no significant movements occurred in the current period. The determination of the allowance tends to consider the possible risks of losses on receivables on the basis of the available information at the date of preparation of the financial statements.

8. Current Financial Assets

Current financial assets amount to €/000 36,360 at March 31, 2006 (€/000 31,791 at December 31, 2005), and it principally includes €/000 33,754 related to the market value of certain US dollar call options underwritten for the purchase of US dollars in connection with the planned acquisition of the shares of GTECH.

Since from a financial point of view the GTECH transaction involves the risk of a strengthening of the U.S. dollar, we have implemented a hybrid strategy to manage the exchange risk. This strategy involves the acquisition of US dollar call options (or Euro put options) and the stipulation of a contingent forward.

The purchaser of a U.S. dollar Call option, for the payment of a sum called a "premium" in cash, is given the right (not the obligation) to purchase a certain amount of U.S.\$ at a certain exchange rate (strike) on a certain date. The purchase of an option of this type allows the buyer to guarantee an exchange of coverage for the purchase of a currency today when the purchase is actually planned for tomorrow, allowing the possibility of taking advantage of a decline in the U.S. dollar beyond the strike level; in this last case the option, whose value is null, is "abandoned" and it is still possible to go on the market and purchase the necessary currency.

A contingent forward, instead, is a derivative transaction composed of a normal forward (the acquisition of a currency at term) which, however, stops having legal effect on the two parties if a certain contractual condition does not come into existence; this is a conditional contract, which however exists

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8. Current Financial Assets (Continued)

when a certain agreed upon event takes place. In the case in point, the event that triggers the existence of the coverage is the conclusion of the acquisition of GTECH on the part of Lottomatica.

The combination of the two strategies guaranteed a flexible coverage in relation to the payment of premiums and fees. The fact that a part of the coverage was done through an alternative instrument rather than Call USD options allowed certain savings.

Lottomatica fixed a portion of the acquisition cost of \$2,484 billion up to June 2006, at an average exchange rate of 1.2116 U.S. dollar for 1 Euro, for a total cost of €/000 48,356. Since a part of the coverage is contingent to the contractual event, in the event of the failure to close the GTECH transaction, the total cost of the coverage would be reduced to approximately €/000 37,679. The portion of the premiums not yet paid at March 31, 2006, amounting to €/000 36,956 has been included in the liabilities under the caption "Current financial liabilities".

The mark to market valuation at March 31, 2006 of the entire amount of the options at March 31, 2006, amounts to €/000 23,077, resulting in higher financial costs the income statement of the period of €/000 14,602, principally due to the time value component of these options.

The residual component of the current financial assets relates to the loan receivable from the company Bingo Plus (€/000 1,644). The balance at December 31, 2005 included the investment held by Lottomatica in Italian Government Bonds (Ordinary Treasury Bonds) that were disposed of on January 16, 2006.

9. Other Current Assets

Other current assets amount to €/000 260,927 at March 31, 2006 (€/000 189,808 at December 31, 2005) and are mainly related to the credits toward the bet collectors in the ambit of the various games and services (€/000 200,581 at March 31, 2006 and €/000 183,012 at December 31, 2005) net of the related allowance for doubtful accounts (€/000 3,382 at March 31, 2006 and €/000 3,395 at December 31, 2005)

In particular, the receivables from the receivers principally concern:

- *The Consorzio Lotterie Nazionali* (€/000 184,228 at March 31, 2006 compared to €/000 166,712 at December 31, 2005), related to receivables from the receivers for instant and deferred lottery tickets delivered as of March 31, 2006. On the basis of contractual agreements, the repayment on the part of the receivers (net winnings paid and fees due) is usually done 15 days from delivery;
- *Lottomatica Italia Servizi* (€/000 13,861 net of the Allowance for doubtful accounts of €/000 449 at March 31, 2006, compared to €/000 15,383 net of the Allowance for doubtful accounts of €/000 386 at December 31, 2005) relates to credits to receivers for the sums still to be received in respect to the sales from the last few days of the month of March for re-charges of the operator Telecom Italia Mobile;
- *Lottomatica* (€/000 2,478 at March 31, 2006 compared to €/000 915 at December 31, 2005) for amounts to be reversed by the bet collectors for the collection of the Tris and sports gaming bets.

The balance also includes the charges for the announced acquisition of the GTECH group (€/000 2,186), relating to the amounts that will constitute an incremental value of the asset/liability as a result of

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9. Other Current Assets (Continued)

the completion of the acquisition. In particular these include the fees paid to consultants and merchant banks for operations involving the share capital increase and the issue of the subordinated interest-deferable capital securities (the “Capital Securities”).

10. Tax Receivables

Tax receivables amount to €/000 5,433 at March 31, 2006 (€/000 3,370 at December 31, 2005) with an increase of €/000 2,063. This increase was caused essentially by an increase in V.A.T. on credit. Tax receivables consist of:

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
VAT receivables	3,917	1,939
Tax receivables (IRES and IRAP)	913	913
Withholding taxes	366	102
Tax receivables on termination indemnities	82	83
Other tax receivables	155	333
	<u>5,433</u>	<u>3,370</u>

11. Cash and Cash Equivalents

Cash and cash equivalents amount to €/000 319,834 at March 31, 2006 (€/000 246,163 at December 31, 2005). The available liquidity consists of funds expressed in Euro and in U.S. dollars deposited on bank and postal accounts. In detail:

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
Bank and post office accounts	319,777	246,102
Cash on hands	57	61
	<u>319,834</u>	<u>246,163</u>

At March 31, 2006 Lottomatica had deposits in Euro totaling Euro 20 million and deposits in U.S. dollars totaling approximately U.S.\$147 million.

12. Shareholders' Equity

The Shareholders' equity of the Group amounts to €/000 579,897 at March 31, 2006 (€/000 504,694 at December 31, 2005) and it consists of the following.

Share Capital

It is equal to €/000 91,571 at March 31, 2006 (€/000 89,009 at December 31, 2005). The increase from December 31, 2005 is the result of the exercising of 2,561,696 stock options in the first quarter of 2006.

At March 31, 2006, the fully subscribed and paid up Lottomatica share capital consists of 91,571,000 ordinary shares, all of which have a nominal value of 1.00 euros each. At December 31, 2005, the fully

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12. Shareholders' Equity (Continued)

subscribed and paid up Lottomatica share capital consists of 89,009,000 ordinary shares, all of which have a nominal value of 1.00 euros each.

Additional paid in capital

The item amounts to €/000 296,760 at March 31, 2006 (€/000 261,844 at December 31, 2005). The increase from December 31, 2005 is the result of the additional paid in capital resulting from the underwriting of 2,561,696 stock options in the first quarter of 2006.

Other reserves

Other reserves amount to €/000 41,447 at March 31, 2006 (€/000 41,450 at December 31, 2005) and mainly include:

- *Stock option reserve.* The reserve is equal to €/000 17,989 and include the booking of the effects on the assets and liabilities of the stock option plan;
- *Merger reserve:* it is equal to €/000 22,737 and it is unchanged from December 31, 2005.

Retained Earnings

The consolidated retained earnings at March 31, 2006 amount to €/000 150,840; the increase of €/000 38,449 correspond to the net result of the period.

13. Long-Term Debt

The non-current portion of long-term debt, amounting to €/000 359,643 at March 31, 2006 (€/000 359,653 at December 31, 2005), mainly refers to the value, at amortized cost, of the Long-Term Notes (nominal value of the debt €/000 360,000, nominal value of each bond €1,000, number of bonds 360,000), that was underwritten in London on December 18, 2003 and it was executed on December 22, 2003, through the issuance of the Notes (all of which were placed). 56% of the placement took place in Italy, 19% in England and the remaining percentage in other European countries. The nominal yield rate is of 4.8% with sole payment at maturity on December 22, 2008. The effective rate (internal yield rate) on the entire transaction is 4.97%.

The current portion of long-term debt, amounting to €/000 4,734 at March 31, 2006 (€/000 473 at December 31, 2005), represents the interest quota of the quarter on the Long-Term Notes.

14. Termination Indemnities

The reserve, recorded net of the paid advances, amounts to €/000 7,751 at March 31, 2006 (€/000 7,618 at December 31, 2005).

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14. Termination Indemnities (Continued)

The amount acknowledges the effects of the discounting in accordance with that required by IAS 19.

Balance at December 31, 2005	7,618
Service cost for the period	488
Actuarial gain / (losses)	(184)
Indemnities paid	<u>(171)</u>
Balance at March 31, 2006	<u>7,751</u>

The termination indemnities falls within the defined benefit plans. The provision has been calculated using the actuarial method of the unitary projection of the credit.

This methodology is articulated in the following phases:

- The possible future services that could be rendered to each employee enrolled in the program in the case of retirement, death, disability, firing, etc., were projected on the basis of a series of financial hypotheses (the increase of the cost of living, increase in pay, etc.). The estimate of future services includes the possible increases corresponding to more years of services, and the presumable growth of the salary level received on the date of valuation;
- The average value of future services was calculated at the date of the valuation, on the basis of the annual rate of interest adopted and the probability that each service will actually be supplied;
- The Group liabilities were defined by identifying the share of the current average value of future services that refer to the service already due from the employee on the date of the valuation;
- On the basis of the liability determined in the previous point and the reserves outlaid on the balance sheet for the purposes of Italian law, the reserve recognized for IAS purposes was identified.

15. Long term provision

Long term provision amount to €/000 8,925 at March 31, 2006 (€/000 8,587 at December 31, 2005), and consist of:

	<u>December 31, 2005</u>	<u>Increases</u>	<u>Utilization and changes</u>	<u>March 31, 2006</u>
Legal dispute reserve	1,664	2,500		4,164
Penalties	2,758		(378)	2,380
Sweepstakes	414	36	(154)	296
Reserve for investments				104
Other reserves		3,647	(1,666)	1,981
Total	<u>8,587</u>	<u>2,536</u>	<u>(2,198)</u>	<u>8,925</u>

The other reserves include the *reserve for pension and other similar obligations* equal to €/000 1,500, which refers to the amount provided for as indemnities to be recognized to some members of the Board of Directors in case of termination of the work relationship, approved by the Compensation Committee.

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15. Long term provision (Continued)

The *penalties reserve* comprises estimated costs that the AAMS may request for delays in activating entertainment devices with regard to the foreseen deadlines of the concession. It is currently not possible to estimate the timing concerning the possible disbursement.

The increase in the period, of €/000 2,536, mainly refers to provision recorded in the period to cover probable negative outcomes of legal lawsuits currently in progress.

16. Accounts Payable and Other Payable

They amount to €/000 281,097 at March 31, 2006 (€/000 305,006 at December 31, 2005) and relate to the accounts payable to suppliers (€/000 214,843 at March 31, 2006 compared to €/000 259,525 at December 31, 2005) both for the invoices received at the end of the period, as well as for the invoices to be received or other accrued liabilities as costs belonging to the period. The debts are linked to the purchases of goods and services for the business activities of the period and for the investment programs already underway. The balance also includes the debts to the companies of the DeAgostini Group.

Trade payables are normally have 60/90-day terms.

17. Derivative Instruments

The market valuation of the derivative instruments of the Consorzio Lotterie Nazionali total €/000 872 at March 31, 2006 (€/000 263 at December 31, 2005). During the course of 2004, in order to manage the exchange risk related to the provision of tickets for Instant Lotteries (in U.S. dollars) an amount equal to 50% of the estimated provisions were covered up to the expiration of the concession through derivative instruments. Thus, the Consorzio Lotterie Nazionali stipulated coverage contracts for a total of USD 48.0 million, equal to half the expected value of the provision of tickets up to 2010: from a technical point of view, this involves a series of optional knock-in forward strategies, put into place on the dates in March and September (the presumed dates of payment in U.S. dollars). The knock-in forward, while establishing a maximum level of exchange in the event of the strengthening of the dollar, allows us to take advantage of the possible weakening of the American currency for the interval that goes from the strike up to the knock-in: if the barrier is touched at any time during the observation semester of the knock-in period, the acquisition of dollars for the relative expiration date should take place at the strike, independent from the market conditions. An element characterizing the strategy adopted is that from the very beginning it is possible to know at what level the U.S. dollars can be acquired in the so-called worst case scenario, that is when the knock-in has been touched in the course of the observation period; in this case the structure functions exactly as a forward, that is as an acquisition of currency at term. The original safety path of the coverage concluded in 2004 was 1.2138 (strike) 1.30 (knock-in). The restructuring of the position done in the period of the weak dollar, boarding the indifference corridor to zero cost and moving the expiration of a transaction from March to September 2005, has allowed us to neutralized the coverage with a currency date of March and September 2005, which were abandoned (not exercised because they were out of the money) without any economic effect. Because it was sold on the market at the expiration of 3/23/06, it was for a sum higher than necessary, there was a small profit earned, which was transferred to the spot acquisition price. On March 31, 2006 there was coverage in the amount of USD 36.0 million on the USD 48.0 originally stipulated; the corridor of indifference is 1.1842-1.35 for the sole expiration date of September 2006, while for all the others it is the interval 1.2138-1.30. Because on March 31, 2006 the

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17. Derivative Instruments (Continued)

exchange rate €/ \$ rose in respect to December 2005, the mark-to-market of the structure was worse by approximately €/000 600; if the recent phase of weakness of the dollar should continue, the position will be managed dynamically, restructuring it where possible to zero cost, in order to avoid the activation of the knock-in barrier.

Since the requirements of the IAS 39 sections 71 and following were not satisfied, no hedge accounting was applied to these derivatives; thus, at March 31, 2006 their value was adjusted to the mark-to-market, recording the difference in the financial area of the Income Statement.

18. Short-term Borrowings

The amount of €/000 2,404 at March 31, 2006 (€/000 7,260 at December 31, 2005) refers to PCC Giochi e Servizi for the financing with Efibanca, and to financial leases transactions relating to the companies Totobit S.p.A. and PCC Giochi e Servizi, and also to the debt of the Consorzio Lotterie Nazionali (€/000 1.400 at March 31, 2006 compared to €/000 6,513 at December 31, 2005) toward the AAMS concerning the winnings to be paid.

In particular, the loan received from Efibanca S.p.A. for PCC Giochi e Servizi has the following characteristics:

- Original debt: €/000 705.
- Remaining debt at March 31, 2006: €/000 110.
- Privileged rate of interest at 3%, (in fact, this is a privileged loan in accordance with law 64/86).

19. Other Current Liabilities

Other current liabilities amount to €/000 237,281 at March 31, 2006 (€/000 233,620 at December 31, 2005) and consist of:

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
Payable to AAMS	111,636	109,549
Payable to bet collectors/telephone service providers	99,678	102,349
Payable to personnel	15,067	10,720
Payable to Social Security Authorities	1,242	3,791
Other	9,658	7,211
	<u>237,281</u>	<u>233,620</u>

The most significant items are described below:

- *Payable to AAMS:* €/000 111,636 (€/000 109,549 at December 31, 2005) This amount mainly concerns the matured debt toward the AAMS for the tickets of the instant lotteries, whose payment is done on a monthly basis on the tenth day of the following month, and the deferred lotteries whose payment is done 10 days after the final drawing. It should be pointed out that the amount of the debt to AAMS is net of sums from the receivers and of three gross winnings paid which will be recognized during the following month.

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19. Other Current Liabilities (Continued)

- *Debts to bet collectors / telephone service providers:* €/000 99,678 (€/000 102,349 at December 31, 2005). This amount is due to the receivers / managers for the collection service rendered by the companies LIS and Lottomatica. The debt of LIS (€/000 97,284) represents, almost entirely, the debt for sums to be repaid to telephone operators in relation to the contractual dynamics of collections made by the receivers in the month of March.
- *Debts to Personnel:* €/000 15,067 (€/000 10,720 at December 31, 2005). They include the sums to be paid to employees of the company.
- *Debts to Social Securities Authorities:* €/000 1,242 (€/000 3,791 at December 31, 2005) and they refer to debts to Social Security for withholding to be paid on the salaries for March 2006.

20. Provision for Income Taxes and Other

Tax payables of €/000 9,836 at March 31, 2006 (€/000 11,020 at December 31, 2005), consist of:

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
Income taxes payable (IRES and IRAP)	4,944	4,682
IRPEF withholding taxes	1,063	1,927
VAT payable	60	86
Other tax payables	3,769	4,325
	<u>9,836</u>	<u>11,020</u>

Tax payables include payable for the IRPEF withholding taxes on salary and compensation to professionals paid in March 2006, the VAT payable, the payables for income taxes IRAP and IRES (for the companies not included in the tax consolidation with the parent company De Agostini) at December 31, 2005, and the PREU debt to RTI Video lot.

The provision for income taxes of €/000 37,016 at March 31, 2006 (€/000 509 at December 31, 2005), includes the estimated income taxes for the quarter.

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21. Revenues

Revenues amount to €/000 189,245 for the quarter ended March 31, 2006 (€/000 185,450 for the quarter ended March 31, 2005) and consist of:

	Three months ended March 31, 2006		Three months ended March 31, 2005	
	Amount	%	Amount	%
Games	170,038	89.9%	170,374	91.9%
-) Lotto Games	132,421	69.97%	155,202	83.69%
-) Tris	1,107	0.58%	802	0.43%
-) Games of Chance	1,609	0.85%	2,049	1.10%
-) Video Lotteries	2,377	1.26%	1,371	0.74%
-) Betting Services	788	0.42%	534	0.29%
-) National Lotteries	30,976	16.37%	9,966	5.37%
-) PCC GS S.p.A.	760	0.40%	450	0.24%
Services	19,207	10.1%	15,076	8.1%
-) Telephone recharges LIS network	7,427	3.92%	6,475	3.49%
-) Telephone recharges Totobit network	1,787	0.94%	1,760	0.95%
-) POWER POS activation revenue	2,007	1.06%	479	0.26%
-) Sports box office	922	0.49%	1,024	0.55%
-) Utilities bill payments fee	1,004	0.53%		
-) Vehicle license fee	3,169	1.67%	3,326	1.79%
-) Television license fee	471	0.25%	606	0.33%
-) Township services	0	0.00%	145	0.08%
-) Unified contribution	152	0.08%	152	0.08%
-) Other services	2,268	1.20%	1,109	0.60%
	189,245	100%	185,450	100%

For the preparation of the income statement, on the basis of IAS 18 (revenue recognition), the group reported the revenues from telephone recharges net of the costs both for the controlled company LIS and for the Totobit group. This decision has been motivated by the fact that in the transaction the company matures as revenue only the margin between the sale price and the nominal cost of the card.

The same treatment has been followed for the revenues of RTI Videolottery that, under the concession and the subsequent ministerial regulations, earns the collection revenues net of the tax revenue (Consolidated Tax Withdrawal) and of the winnings paid, but, before the compensations to be paid to service providers and storekeepers (these are included in the operating costs).

22. Other Revenues and Income

Other Revenues and Income amount to €/000 1,061 for the quarter ended March 31, 2006, compared to €/000 3,685 for the quarter ended March 31, 2005.

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23. Raw Materials and Consumables

Raw Materials and Consumables amount to €/000 11,951 for the quarter ended March 31, 2006 (€/000 8,209 for the quarter ended March 31, 2005) and are detailed as follows:

	Three months ended March 31, 2006	Three months ended March 31, 2005
Paper support products	5,231	5,080
EDP materials and use	634	471
Lottery tickets	5,988	2,198
Other	98	460
	<u>11,951</u>	<u>8,209</u>

24. Services Costs

Services costs amount to €/000 45,246 for the quarter ended March 31, 2006 (€/000 44,880 for the quarter ended March 31, 2005) and relates to the acquisition of services for €/000 42,290 and the acquisition of services for the use of third party services for €/000 2,956. With regards to the changes compared to the corresponding period of the prior year, it should be pointed out that the process involving the network costs optimization continued also thanks to the replacement of the lotto terminals, which involved notable financial savings in terms of maintenance. The costs for the use of third party goods principally concern the rent of the company headquarters in respect to the previous year of approximately €/000 734.

25. Personnel Costs

Personnel costs amount to €/000 17,096 for the quarter ended March 31, 2006 (€/000 18,833 for the three month period ended March 31, 2005), and are detailed as follows:

	Three months ended March 31, 2006	Three months ended March 31, 2005
Salaries and wages	12,752	12,655
Social securities costs	3,719	3,486
Termination indemnities	488	377
Stock option cost	109	2,249
Other costs	28	66
	<u>17,096</u>	<u>18,833</u>

Salaries and wages also include the costs for the termination of certain employees.

Termination indemnities includes the effect of its actuarial valuation.

Stock option cost (€/000 109) are based on a valuation in accordance with IFRS 2.

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25. Personnel Costs (Continued)

The following is a detail of the average number of employees by contractual category:

<u>Level</u>	<u>Number</u>
Executives	60
Cadres	116
Employees	867
Blue-collar employees	54
Total	1,097

26. Depreciation, Amortization and Write-Downs

Depreciation, Amortization and Write-Downs amount to €/000 18,079 for the quarter ended March 31, 2006 (€/000 10,407 for the quarter ended March 31, 2005) and is composed of the following:

	<u>Three months ended March 31, 2006</u>	<u>Three months ended March 31, 2005</u>
Amortization of:		
Industrial patent rights	1,540	1,287
Concessions, licenses and trademarks	257	250
Other intangible assets	21	11
Total amortization expense	1,818	1,548
Depreciation of:		
Buildings	549	170
Equipment and machinery	9,453	8,408
Industrial and commercial equipment	1	20
Other assets	137	105
Total depreciation expense	10,140	8,703
Write-down and provision:		
Write-down of property, plant and equipment	6,040	0
Allowance for doubtful accounts	81	156
Total write-down and provision	6,121	156
	18,079	10,407

Write-down of property, plant and equipment, amounting to €/000 6,040, refers to assets no longer used by the Company, essentially regarding the assets for which it was not possible to complete the depreciation process in relation to the project for the replacement of the terminals.

Allowance for doubtful accounts amounts to €/000 81 and refer to:

- To the TTS for €/000 16 to cover the credits from the existent credit mass;
- To Lottomatica Italia Servizi for €/000 65 in relation to the risks that prefigure the possibility of receipt.

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27. Other Operating Costs

Other operating costs amount to €/000 4,125 for the quarter ended March 31, 2006 (€/000 511 for the quarter ended March 31, 2005) and is composed of the following:

- Miscellaneous Operating Expenses*: €/000 1,565. The most significant shares relate to:
- The costs related to the accrual of prior period's costs (€/000 612)
- Fees paid for the merger for €/000 221
- Non-deductible VAT for €/000 265
- Indirect taxes of the period for €/000 43
- Provision for Risks*: €/000 2,505. These almost entirely refer to provisions made by Lottomatica as the concessionary of RTI for the collection of legal games.
- Other Provisions*: €/000 55. These essentially relate to outlays made by Lottomatica for prize competitions.

28. Financial Expenses, net

Net financial expenses amount to €/000 17,800 for the quarter ended March 31, 2006 (€/000 2,887 for the quarter ended March 31, 2005) and is composed of the following:

	Three months ended March 31, 2006	Three months ended March 31, 2005
Bank interest income	1,608	1,631
Other interest income	106	77
Total interest income	1,714	1,708
Interest expense	(5,124)	(4,556)
Foreign exchange losses	297	(1)
Other financial expenses	(14,687)	(38)
Total interest expense	(19,514)	(4,595)
	(17,800)	(2,887)

Interest income principally refer for the most part to asset interest on bank deposits.

Interest expense is mainly related for €/000 4,393 to the liability interest due on the bond loan, and for €/000 609 to the valuation of the mark-to-market of the coverage contracts of the Consorzio Lotterie Nazionali.

Other financial expenses mainly include €/000 14,602 related to the mark-to-market valuation of the option contracts underwritten in connection with the possible GTECH acquisition.

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29. Income Taxes

Income taxes for the quarter ended March 31, 2006 amount to €/000 34,582 (€/000 41,749 for the quarter ended March 31, 2005) of which €/000 34,574 for current taxes, (for IRES €/000 27,860 and €/000 6,714 for IRAP), €/000 8 for deferred income taxes. The detail is the following:

	<u>Three months ended March 31, 2006</u>	<u>Three months ended March 31, 2005</u>
Corporate income tax (IRES)	27,860	29,286
Local income tax (IRAP)	6,714	4,580
Deferred taxes	<u>8</u>	<u>7,883</u>
	<u>34,582</u>	<u>41,749</u>

Net deferred taxes included in the balance sheet at March 31, 2006 and at December 31, 2005 is as follows:

	<u>March 31, 2006</u>	<u>December 31, 2005</u>
Deferred tax assets	60,043	55,009
Deferred tax liabilities	<u>(47,116)</u>	<u>(44,233)</u>
	<u>12,927</u>	<u>10,776</u>

Deferred tax assets amount to €/000 60,043 at March 31, 2006 (€/000 55,009 at December 31, 2005).

The most significant amounts relate to the recognition in the prior fiscal year of the deferred tax assets of Lottomatica S.p.A., related to:

- The tax amortization of the goodwill deriving from the merger of Lottomatica S.p.A. with Tyche in 2001 with a different tax and reporting basis;
- The write-down of shares held in Lottomatica Sistemi S.p.A, and Twin, now liquidated;
- The tax amortization of the goodwill of Sogei, Tyche, EIS and Twin.

The amount relating to Lottomatica Sistemi derives from the recognition of deferred taxes on the write-down of the goodwill recorded at December 31, 2003.

Deferred tax liabilities amount to €/000 47,116 at March 31, 2006 (€/000 44,233 at December 31, 2005) and they principally include the deferred taxes on goodwill (€/000 36,881).

30. Earnings per share

The basic earning per share is calculated by dividing the net earning of the period attributable to the Group by the weighted average number of the ordinary shares in outstanding during the period.

The diluted earning per share is calculated by dividing the net earning of the period attributable to the ordinary shareholders of the ordinary shares in circulation during the period, adjusted for the dilution effects of the options.

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30. Earnings per share (Continued)

In the table the revenue and the information of the share are reported for the purpose of calculating the earning per-share, basic and diluted, for the quarters ended March 31, 2006 and 2005.

	Three months ended March 31, 2006	Three months ended March 31, 2005
Earning per basic share		
Net income for the period	41,426	61,659
Weighted average number of circulating ordinary shares (000)	89,960	88,974
Earning per basic share — basic (€/1000 shares)	<u>0.46</u>	<u>0.69</u>
Earning per diluted share		
Net income for the period	41,426	61,659
Weighted average number of circulating ordinary shares (000)	89,960	88,974
Number of options (000)	1,555	4,103
Earning per diluted share (€/1000 shares)	<u>0.45</u>	<u>0.66</u>

31. Financial Lease and Rental Contracts

The Group has stipulated contracts for financial leases and rental for various systems and machinery, and also for other assets. The leases contracts include renewal clauses, but not options to buy or term revaluation clauses. The renewal may be done according to the wishes of the lessor.

32. Financial Risk Management: Objectives and Criteria

The principal financial instruments of the group (apart from derivatives) are bond issues in the amount of €/000 360,000, bank deposits (time and sight) and government bonds (Treasury Orders). In order to cover exposure deriving from the Consorzio Lotterie Nazionali for the purchase of semi-finished goods for the production of Scratch and Win tickets derivative contracts have been stipulated in exchange for an amount equal to 50% of the estimate provisions until the term of the concession through derivative instruments. For further details on the characteristics of these products see the section Derivatives of Change in the present document. The coverage currently in effect was proposed by Financial Management and approved by the Chief Executive Officer working together with the parent company. The company is currently preparing a policy for the negotiation of derivative instruments to cover exchange and interest rate risks that specifies in a detailed manner the roles, responsibilities, areas of autonomy and information flow.

Liquidity Policy

After the approval on the part of the Executive Committee of the Parent Company, in the course of 2004, the Board of Directors of Lottomatica approved a Liquidity Policy: the objective of this policy is to maintain invested capital; the characteristics of the portfolio of investments with the necessary cash-flow and the financial maneuvers of the individual companies; and obtaining an adequate remuneration.

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32. Financial Risk Management: Objectives and Criteria (Continued)

The regulation is summarized in the following “risk dimension” grid—”rules”:

Expiration: the term of use cannot exceed 12 months (corporate risk) or 18 months (private risk);

Credit Risk: it is possible to exclusively use the instruments subjected to a rating (minimum level P-2/A-2/F-2, A3/A-/A-);

Diversification of the Risk: the maximum exposure towards a single name cannot exceed 20% of the portfolio; it is not possible to hold more than 5% of the issue or the issue program if it involves instruments that are quoted or negotiable; in terms of non-negotiable instruments (i.e. bank deposits), the following limits have been established:

- A1/P1/F1 max €/mln 100 equivalent, for a maximum period of 3 months
- Split Rating max €/mln 50 equivalent, for a maximum period of 3 months
- A2/P2/F2 max €/mln 50 equivalent, for a maximum period of 1 month

Country Risk: investments are permitted exclusively in the countries in the euro area, Switzerland, the United Kingdom, and the United States

Authorized products: the following is a list of products in which investment is permitted: Liquidity Funds, Current account and time deposits with banks, Certificate of deposit (CDs), Repose, Commercial Paper (CP's), Banker's Acceptance, Asset Backed Commercial Paper—ABCPs, Treasury / Supranational / Corporate Bond & Notes

33. Related Parties Transactions

The following is a detail of the income statement effects and of the balance sheet relationship with major related parties of the Lottomatica Group as of and for the quarter ended March 31, 2006.

Related Parties — Principal Income Statement Items for the quarter ended March 31, 2006		
	Controlling, Controlled and indirectly Linked	Nature of the Transaction
Costs for services	50	Relationships held with De Agostini S.p.A.
Rental services	690	Relationships held with ISIM S.p.A.

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33. Related Parties Transactions (Continued)

Correlated Parties — Principal Balance Sheet Items at March 31, 2006		
	Controlling, Controlled and indirectly Linked	Nature of the Transaction
Receivable	611	Relationships held with De Agostini S.p.A. (IRES credit — Grantor Lottomatica S.p.A.)
Receivable	70	Relationships held with De Agostini S.p.A. (IRES credit — Grantor RTI Videolotterie S.p.A.)
Receivable	91	Relationships held with De Agostini S.p.A. (IRES credit — Grantor Lis Finanziaria S.p.A.)
Receivable	470	Relationships held with De Agostini S.p.A. (VAT credit — Grantor Lottomatica Italia Servizi S.p.A.)
Receivable	8	Relationships held with De Agostini S.p.A. (IRES credit — Grantor Totobit S.p.A.)
Receivable	519	Relationships held with De Agostini S.p.A. (IRES credit — Grantor Videolot Gestione S.p.A.)
Receivable	3	Relationships held with De Agostini S.p.A. (Trade receivable — Grantor Lottomatica S.p.A.)
Payable	4,361	Relationship held with De Agostini S.p.A. (IRES debt — Grantor Lottomatica Italia Servizi S.p.A.)
Payable	4,729	Relationship held with De Agostini S.p.A. (VAT debt — Grantor Lottomatica S.p.A.)
Payable	55	Relationship held with De Agostini S.p.A. (Trade payable — Grantor Lottomatica S.p.A.)
Payable	34,772	Relationship held with De Agostini S.p.A. (IRES debt — Grantor Lottomatica S.p.A.)
Payable	303	Relationship held with De Agostini S.p.A. (VAT debt — Grantor Lottomatica Sistemi S.p.A.)
Payable	69	Relationship held with De Agostini S.p.A. (VAT debt — Grantor SED Multitel S.p.A.)
Payable	673	Relationship held with De Agostini S.p.A. (VAT debt — Grantor Totobit S.p.A.)
Payable	955	Relationship held with De Agostini S.p.A. (IRES debt — Grantor Totobit S.p.A.)

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33. Related Parties Transactions (Continued)

Correlated Parties — Principal Balance Sheet Items at March 31, 2006		
	Controlling, Controlled and indirectly Linked	Nature of the Transaction
Payable	13	Relationship held with DeA Editori S.p.A. (Accounts payable — Grantor Lottomatica S.p.A)
Payable	271	Relationship held with DeA Factor S.p.A. (Accounts payable — Grantor Lottomatica S.p.A)
Payable	1,065	Relationship held with DeA Factor S.p.A. (Accounts payable — Grantor Totobit S.p.A)
Payable	19	Relationships held with De Agostini S.p.A. (Accounts payable — Grantor Lottomatica Italia Servizi S.p.A.)
Payable	4	Relationships held with De Agostini S.p.A. (Supplier debt — Grantor Lis Finanziaria S.p.A.)
Payable	32	Relationships held with De Agostini S.p.A. (IRES debt — Grantor Lis Finanziaria S.p.A.)

All the operations conducted with related parties, including infra-group activities, fall under normal operations, and are regulated under market conditions or on the basis of specific legislation; no atypical and/or unusual activities were found.

Finally, the Lottomatica Group, beginning in 2004, as a consolidated company, participates in the national tax consolidation for the companies of the Gruppo De Agostini S.p.A.

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34. Compensation to Key Management

Board of Directors of Lottomatica S.p.A.

First and last name	Position	Term of office	Expiration of office	Short-term compensation (Euro)	Benefit due after the termination of the employment relationship (Euro)
Antonio Belloni	Board Member	24/09/02-31/03/06	31/12/07	€6,250	
Rosario Bifulco	Chairman/General Manager	12/04/05-31/03/06	31/12/07	€101,862	€3,429
	Executive	01/01/05-31/03/06		€60,087	
Marco Sala	General Manager/Board Member	12/04/05-31/03/06	31/12/07	€7,228	€5,939
	Executive	01/01/05-31/03/06		€106,543	
Paolo Ainio	Board Member	24/09/02-31/03/06	31/12/07	€8,125	
Marco Boroli	Board Member	24/09/02-31/03/06	31/12/07	€3,750	
Pietro Boroli	Board Member	12/04/05-31/03/06	31/12/07	€3,750	
Pier Luigi Celli	Board Member	14/04/03-31/03/06	31/12/07	€7,500	
Paolo Ceretti	Board Member	13/05/04-31/03/06	31/12/07	€8,750	
Marco Drago	Board Member	24/09/02-31/03/06	31/12/07	€6,250	
Roberto Drago	Board Member	24/09/02-31/03/06	31/12/07	€3,750	
Lorenzo Pelliccioli	Board Member	12/04/05-31/03/06	31/12/07	€8,125	
Severino Salvemini	Board Member	14/03/03-31/03/06	31/12/07	€8,750	
Antonio Tazartes	Board Member	24/09/02-31/03/06	31/12/07	€6,250	
Francesco Martinelli	President of Statutory Auditors Committee	24/09/02-31/03/06	31/12/07	Minimum professional tariff	
Angelo Gaviani	Statutory Auditor	24/09/02-31/03/06	31/12/07	Minimum professional tariff	
Paolo Andrea Colombo	Statutory Auditor	12/04/05-31/03/06	31/12/07	Minimum professional tariff	

35. Stock Option Plans

As a result of the aforementioned merger transaction, NewGames SpA entered into the relations of Lottomatica SpA, including those related to the stock options plan for company managers and employees of the Lottomatica group.

The 2003–2005 Plans

The extraordinary shareholders' meeting of the incorporating NewGames S.p.A. of September 21, 2005, deliberated, with effect on the effective date of the above-mentioned merger, and in conformity with that deliberated by the incorporated Lottomatica S.p.A., in the extraordinary shareholders' meeting of

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35. Stock Option Plans (Continued)

April 14, 2003, and in the meeting of the Board of Directors of June 11, 2003, setting the date of December 31, 2008, as underwriting deadline:

1. a share capital increase, in divisible form, up to €2,439,110.00 maximum, with issuance, also in multiple tranches, of maximum 2,439,110 new ordinary shares with nominal value of 1.00 euro each, regular rights of enjoyment, with the exclusion of the right of option in conformity with article 2441, paragraph 5, of the Civil Code, servicing the exercise of the 2,439,110 already assigned and still exercisable options in the ambit of the stock option plan reserved for the employees of the Former Lottomatica S.p.A. and of other companies directly or indirectly controlled;
2. a share capital increase, in divisible form, up to maximum €1,422,667.00 with issuance, also in multiple tranches, of maximum 1,422,667 new ordinary shares with nominal value of 1.00 euro each, regular rights of enjoyment, with the exclusion of the right of option in conformity with article 2441, paragraph 5, of the Civil Code, servicing the exercise of the 1,422,667 already assigned and still exercisable options in the ambit of the stock option plan reserved for the directors of the Former Lottomatica S.p.A. and of other companies directly or indirectly controlled.

The extraordinary shareholders' meeting of Lottomatica S.p.A. of September 21, 2005, also deliberated, always with effect on the effective date of the above-mentioned Merger, and in conformity with that deliberated by the incorporating Lottomatica S.p.A. in the extraordinary shareholders' meeting of April 14, 2003, and in the meeting of the Board of Directors of May 13, 2004, and setting as deadline, the date of December 31, 2008, for underwriting a paid increase of the share capital in divisible form, of maximum €223,175.00 with issuance, also in multiple tranches, of maximum 223,175 new ordinary shares with nominal value of 1.00 euro each, regular rights of enjoyment, with the exclusion of the right of option in conformity with article 2441, paragraph 5, of the Civil Code, servicing the exercise of the 223,175 already assigned and still exercisable options in the ambit of the stock option plan reserved for the employees of the Former Lottomatica S.p.A. and of other companies directly or indirectly controlled.

The stock options discussed in the 2003–2005 plans have all come due as of today, and it has been possible or it will be possible to exercise them, according to the case, in accordance with the terms established in the individual regulations.

The 2005–2010 Plans

The same extraordinary shareholders' meeting of the Lottomatica S.p.A. of September 21, 2005, has also deliberated, still with effect on the effective date of the above-mentioned Merger, and in conformity with that deliberated on April 12, 2005, by the Former Lottomatica S.p.A. in the extraordinary shareholders' meeting and in the meetings of the Board of Directors of May 12 and/or of July 15, 2005, setting as underwriting deadline the date of December 31, 2010:

- A share capital increase in divisible form, up to maximum €297,580.00 with issuance, also in multiple tranches, of maximum 297,580 new ordinary shares with nominal value of 1.00 euro each, regular rights of enjoyment, with the exclusion of the right of option in conformity with article 2441, paragraph 5, of the Civil Code, servicing the exercise of the 297,580 options already assigned by the incorporated Lottomatica S.p.A. and still exercisable in the ambit of the stock option plan reserved for the executives of the Former Lottomatica S.p.A. and/or of its controlled companies;

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35. Stock Option Plans (Continued)

- A share capital increase, in divisible manner, for a maximum of 57.016.00 euro, with the issue, even in several installments, of a maximum of 57.016 new shares with a nominal value of 1.00 euro each, regular use, with the exclusion of the option rights in accordance with article 2441, section 5 of the civil code, to the service of the exercising of 57.016 options already assigned and still able to be exercised in the realm of the stock options plan reserved for administrators of the Former Lottomatica S.p.A. and other companies directly or indirectly controlled;
- A share capital increase, in divisible manner, for a maximum of 219,812.00 euro, with the issue, even in several installments, of a maximum of 219,812 new shares with a nominal value of 1.00 euro each, regular use, with the exclusion of the option rights in accordance with article 2441, section 5 of the civil code, to the service of the exercising of 219,812 options already assigned and still able to be exercised in the realm of the stock options plan reserved for administrators of the Former Lottomatica S.p.A.

The right to exercise the options for the 2005-2010 plans is contingent on the following conditions: the continuation of employment in the Group on the date that the options can be exercised and the achievement on the part of the group of a certain level of total consolidated EBITDA in the period 2005-2007.

The maximum term of the options is 3 years and the cash arrangement is not stipulated.

For the purpose of the valuation of the stock options plans, *black and scholes* has been adopted.

The hypotheses related to the determination of the fair value of the stock options plans are summarized in the following prospectus:

Stock Option Plans outstanding at March 31, 2006									
	Options outstanding at beginning of period		Options assigned during period		Options cancelled during period		Options exercised during period		Options outstanding at end of period
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
2003-2005 President Plan .	240,667	14.63					240,667	14.63	0
2003-2005 Managing Director Plan	2,026,000	14.63					1,750,000	14.63	276,000
2003-2005 Join Managing Director Plan	1,012,000	14.63					337,333	14.63	674,667
2003-2005 Executives Plan	613,750	14.63					198,071	14.63	415,679
2004-2005 Executives Plan	223,175	18.34					35,625	18.34	187,550
2005-2010 President Plan .	124,476								124,476
2005-2010 Managing Director Plan	95,336								95,336
2005-2010 Executives Plan	277,420								277,420

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36. Segment Reporting

	GAMES		SERVICES		NOT ALLOCATED		CONSOLIDATED	
	03/31/06	03/31/05	03/31/06	03/31/05	03/31/06	03/31/05	03/31/06	03/31/05
Third parties Revenues	170,274	170,625	19,404	15,143	628	3,367	190,306	189,135
Intercompany revenues	0		0		0		0	
Total revenues	170,274	170,625	19,404	15,143	628	3,367	190,306	189,135
Other costs relating to segment	47,832	45,663	7,373	7,039	20,653	19,716	75,858	72,418
Other provisions	60	15	0		2,500		2,560	15
Gross margin	122,382	124,947	12,031	8,104	(22,525)	(16,349)	111,888	116,702
Depreciation and Amortization	8,632	8,063	1,296	660	2,030	1,528	11,958	10,251
Write-off of Fixed Assets	6,040		0		0		6,040	
Allowance for doubtful accounts	0	0	81	156	0		81	156
Operating income	107,710	124,947	10,654	7,948	(24,555)	(16,349)	93,808	106,295
Financial expenses, net							(17,800)	(2,887)
Income Taxes							(34,582)	(41,749)
Net income for the period							41,426	61,659
Income/Loss on equity investments	0	0	0	0	0	0	0	0
Capital expenditure	10,891		1,557		2,073		14,521	
Total segment assets	800,726		324,726		499,965		1,625,417	
Total segment liabilities	102,824		213,639		717,186		1,033,649	
Total intangible and fixed assets	556,569		240,300		30,310		827,179	

The identification of the segments in the Lottomatica group was performed taking into consideration of the nature of the business carried out. In particular the segments identified are: gaming and services. All the businesses are carried out in Italy.

It is reminded that the gaming sector includes the activities linked to the Lotto, the instant and deferred lotteries and entertainment games. The service sector, instead, includes the services for citizens, the telephone recharges and the utilities payment service.

With regard to the assets/liabilities and costs that are not specifically attributable to single sectors, specific partition parameters have been outlined. The assets/liabilities and costs that are not attributable through specific parameters have been indicated separately in the table under the “not allocated” heading.

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37. Significant Legal Proceedings

1. Lottomatica/AAMS Arbitration Procedure

Taking advantage of the arbitration clause established by Article 30 of the Lotto Concession, Lottomatica submitted a demand for arbitration by communicating to the other party the wish to defer to an arbitration judgment for the settlement of the controversy that had arisen *inter partes* in respect to the interpretation and execution of the concession established through D.M. of March 17, 1993. Lottomatica asked the Board of Arbitration to ascertain and declare that the initial date of the concession of the game of Lotto was June 8, 1998 (the date on which the Permanent Representation of Italy at the European Union of Brussels communicated the filing of infraction procedure 91/0619 “The Game of Automated Lotto” brought by the European Commission before the Court of Justice against the Republic of Italy) and that, as a result, the final expiration date for the Lotto Concession was June 8, 2016. Lottomatica arrived at this conclusion in virtue of the fact that the D.M. of November 8, 1993 established that the execution of the convention was contingent on the condition that the Court of Justice did not uphold the concession clauses in contrast with the prescriptions of the Treaty. For this reason, as a result of the principles of non-retroactivity of the administrative act, the concession became effective only on June 8, 1998. The Board of Arbitration, formed on March 7, 2005, in accepting the petitions of Lottomatica, in a decision rendered on August 1, 2005, declared that the initial date for the legal term of the concession of the game of Lotto is June 8, 1998 and that, as a result, the final expiration of the concession is June 8, 2016. The Board of Arbitration felt that the Lotto Concession had been awarded through a complex system with a progressive formation that led to the closure of the community matter with the positive decision of the Commission only years after the first Departmental Decree and that the claims of AAMS, according to which, on the contrary, the concession was a resolution condition, should not be accepted.

The decision of the Arbitration Board was contested by the Department of the Economy and Finance before the Court of Appeals of Rome, in accordance with Article 828 of the civil and criminal code, with notice service at the legal offices of Lottomatica on December 15, 2005 and at Lottomatica on December 30, 2005. The first hearing will be held on April 20, 2006. At present it is impossible to predict the duration of the appeals procedure.

2. The DATASIEL—Sistemi Tecnologie di Informatica S.p.A. Arbitration Procedure

On April 22, 2003, the company DATASIEL—Sistemi Tecnologie di Informatica S.p.A. initiated an arbitration procedure against Lottomatica in order to find that the expiration date of the contract stipulated between DATASIEL—Sistemi Tecnologie di Informatica S.p.A. and Lottomatica, whose object was managing the Centro di Elaborazione di Zona (CEZ) [Regional Processing Center] of Genoa, was established to be April 14, 2012. Lottomatica contested this date and asked that the expiration of the contract be declared.

On October 10, 2003 Lottomatica brought a demand against DATASIEL—Sistemi Tecnologie di Informatica S.p.A. for a violation of the contractual guarantee of the competitive nature of the payments of Datasiel, asking for a verdict to repay the higher sums received by Datasiel for the services rendered.

In a decision of July 26, 2005, the Board of Arbitration:

1. ascertained the validity and effectiveness of the contract stipulated *inter partes*, as well as the non-fulfillment on the part of Lottomatica in respect to the contractual obligations assumed,

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37. Significant Legal Proceedings (Continued)

declaring that Lottomatica was obligated to fulfill the contract and to pay Datasiel the total sum of 2,500,000 euro as compensation for damages for non-fulfillment of the contractual obligations; and

2. ascertained the violation on the part of Datasiel of the obligation of a guarantee related to the competitiveness clause of the aforementioned contract and ordered Datasiel to pay Lottomatica the total sum of 2,100,000 euro.

The expenses for the arbitration procedures were paid in full.

The decision rendered exposes Lottomatica to the risk of having to pay Datasiel additional damages, because the fulfillment of the contract is not current or possible. With the assistance of its attorneys, on December 28, 2005 Lottomatica filed a claim to contest this decision at the Court of Appeals of Rome, asking that the decision be declared null and void in accordance with Article 825 of the civil and criminal code, for *errors in procedendo*. The first hearing was held on March 21, 2006 and the decision was put off to the hearing set for July 7, 2009 for the stipulation of the conclusions.

3. The Ticket One S.p.A. Dispute

On August 12, 2003 the company Ticket One S.p.A., which operates in the service sector and in particular in ticketing, brought a suit before the TAR of Lazio, for the acceptance of the obligation on the part of Lottomatica to make its network available to third parties, under the same conditions afforded to its own subsidiary Lottomatica Italia Servizi.

Before the notification of the aforementioned suit, in a memorandum of March 12, 2003 the company Ticket One had formulated its demand in an extra-legal manner to make Lottomatica's remote network available. Lottomatica contested the aforementioned memorandum of Ticket One, rejecting the demands made by Ticket One.

On December 3, 2003 Ticket One served a notice to the civil offices before the Civil Court of Rome, substantially repeating the same claims formulated in the administrative session. Ticket One also demanded, on the basis of illegal competition, a compensation of 10 million euro for the illegitimate use of the network on the part of Lottomatica and LIS, and a prohibition against performing any other action of illegal competition, and, subordinately, that Lottomatica should make the network available.

Lottomatica and Lottomatica Italia Servizi moved to the customary appearance in both cases, and, in consideration of the proposal on the part of Ticket One of the same demands before the two different courts, they brought suit for the preventive regulation of jurisdiction before the Unified Sections of the Court of Cassation, requesting the suspension of the cases themselves.

On the other hand, at hearing of June 24, 2004, the TAR of Lazio, in accepting the demand presented by Lottomatica and LIS, suspended the decision and sends the official file to the Court of Cassation.

In terms of the procedure before the Court of Rome, the Civil Judge, after having reserved a decision on the claim brought by Lottomatica for the suspension of the decision, awaiting the outcome of the Preventive Regulation of Jurisdiction or, at any rate, subordinately, for the settlement of the administrative decision, with an order issued on July 24, 2004, rejected the claim brought by Lottomatica and LIS and put off to a subsequent hearing on December 9, 2004 for the prosecution of the decision. At the hearing of

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37. Significant Legal Proceedings (Continued)

December 9, 2004, the Judge granted the parties the term of thirty days to file the memoranda containing specific details or modifications to the demands, the exceptions already proposed and a term of an additional 30 days for the replies in accordance with Article 183, section 5 of the civil and criminal code, postponing the matter to a hearing to be held on December 7, 2005. At the hearing of December 7, 2005, the Judge reserved the right to decide on the admission of proofs. In dissolving his own reservation, the Judge admitted the witness proofs and postponed the matter to a hearing to be held on June 21, 2006 for the excursion of the texts indicated by the parties.

In the meantime, on September 29, 2005 a hearing was held before the Court of Cassation relating to the preventive settlement of jurisdiction. With an order issued on February 9, 2006, the Court of Cassation declared the claims proposed by Lottomatica and LIS inadmissible.

The TAR of Lazio then set the new hearing for the continuation of the administrative process for June 21, 2006.

In the opinion of the attorneys who assist Lottomatica and LIS, the claims brought by Ticket One appear to be unfounded.

4. Antitrust (Lottomatica—SISAL)

On July 16, 2003, the Legal Guarantor for Competition and the Market (“AGCM”) initiated a procedure directed towards ascertaining a presumed agreement between Lottomatica and its competitor SISAL S.p.A. in the gaming sector, and on July 18, 2003, the Authority itself conducted an inspection of the offices of Lottomatica.

Lottomatica presented a claim for confidentiality of the documents confiscated, which was partially accepted. On June 10, 2004, the Authority conducted a new inspection of the offices of Lottomatica, during which they confiscated additional documentation, on which Lottomatica presented another demand for confidentiality. On June 14, 2004, the Authority made a request to Lottomatica for information on the market value of the games, and on receipts and investments made by Lottomatica in the period between 2000 and 2003. In the course of the procedure, in addition to SISAL and Lottomatica, FIT, the foreign GTECH operator, was also questioned, the Chief Executive Officer of the company Formula Giochi and the Association of Totatricevitori UTIS, and finally AAMS.

In a communication dated August 3, 2004, the Authorities, as a result of the documentation confiscated and the hearings conducted, transmitted its own findings. Lottomatica presented its own final memorandum and on October 13, 2004 the final hearing was held.

At the meeting of November 25, 2004, the Guarantee Authority of Competition and the Market decided to close the investigation, subjecting Lottomatica and SISAL to a fine, proportional, according to current legislation, to the individual turnover, of 8 million and 2.8 million euro respectively. The Authority also placed an injunction on Lottomatica and Sisal to stop their behavior in respect to the competition, communicating the measure adopted within 90 days.

Lottomatica contested the bases of the accusations brought by the Authorities, and, for that reason, and with the assistance of its own legal counselors, presented a claim to the TAR contesting the aforementioned decision, asking, among other things, the suspension of the measure itself.

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37. Significant Legal Proceedings (Continued)

At the hearing of March 2, 2005 the TAR rejected the request for the suspension of payment of the pecuniary sanction and accepted the incidental demand for suspension, given the generic contents of the response presented by the Authority.

The hearing for the discussion of the points in the case was set for May 4, 2005.

On March 24, 2005 Stanley International Betting Limited served its own notice of intervention in opposition in the case brought by SISAL and Lottomatica, asking confirmation of the rejected AGCM measure.

AGCM, in accordance with the order issued by the TAR of Lazio of March 2, 2005 notified Lottomatica and SISAL of the decision reached in its hearing held on March 31, 2005.

Lottomatica and SISAL, with addition motives, challenged the aforementioned decision of the Authority, again contesting the generic nature of the decision itself.

In a decision published on June 15, 2005 the TAR of Lazio rejected the claims and the additional motives presented by Lottomatica and SISAL.

On November 30, 2005 the reasons for the legitimacy of the sanctions inflicted by the Authority were made public. With the assistance of its own attorneys, Lottomatica presented an appeal against the decision rendered by the first degree judge, serving notice on March 29, 2006.

In any case, and still with reservations, Lottomatica proceeded to pay the sanction of 8 million euro, and to observe the injunction, sending the communication required by the Authorities to all the recipients which granted the recipients the possibility of joining other operators for games other than Lotto, lotteries, and scratch and win.

With a memorandum of October 25, 2005, the Authority informed Lottomatica that it had taken notice of the aforementioned observance of the measure on the part of Lottomatica.

5. Video lotteries

SAPAR—Associazione Nazionale Apparecchi per Pubbliche Attrazioni Ricreative—and FM Srl, in reference to the bid competition procedure initiated by AAMS in April 2004 for the identification of the concessionaires for the activation and management of Video lotteries—which concluded in June 2004 with the stipulation of the concession contracts with the ten operators identified (among whom RTI Lottomatica), made public a claim brought before the TAR of Lazio seeking to obtain the suspension and cancellation of the bid competition. Lottomatica, as the proxy of RTI Lottomatica, and the other concessionaires became part of the case *ad opponendum*.

In an order issued on June 9, 2004 the TAR of Lazio rejected the request for suspension by the plaintiffs and on May 31, 2005, the TAR of Lazio rejected the claim with decision no. 4296 / 2005.

On November 3, 2005 SAPAR and FM presented an appeal before the State Council, repurposing the motives that had not been accepted before the TAR.

An appeal was also presented by Aliffi and others. The first hearing took place on March 14. In a decision of February 14, 2006, the State Council, in taking into account the Merger of Seconda Lottomatica and New Games S.p.A. (cf. Chapter V, Section 5.1.b) declared the interruption of the process. In any case, Lottomatica feels that both appeals are unfounded.

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37. Significant Legal Proceedings (Continued)

6. National Lotteries with deferred extraction and Instant Lotteries

Lottomatica participated as the proxy of the incorporating company RTI in the bid competition brought by AAMS for the provision of the management service for the national lotteries with deferred extraction and Instant Lotteries.

In a memorandum of July 30, 2001 addressed to Lottomatica, AAMS reported the adjudication of the bid competition to the company in formation RTI Lottomatica (composed, in addition to Lottomatica, of the companies Scientific Games International, Arianna 2001 S.p.A., Poligrafico Calcografica & Cartevalori S.p.A., Eis, Tecnosi Sistemi S.p.a. and Servizi Base 2001 S.p.A.).

The documents of the bid competition were the object of many claims, which may be summarized in the following manner:

- a. the SISAL claim: as a result of the rejection of the claim of SISAL at the hearing of April 10, 2002, the claim may be considered definitively concluded;
- b. the claim brought by the consortium in formation CONSIRIUM (composed of Autogrill, GTECH, Oberthur Gaming Technologies, and others): the request for a suspension was rejected at the hearing of June 17, 2003. The claims were then rejected by the TAR of Lazio. On November 18, 2003 there was a hearing to discuss the merits of the case before the Council of State. During the course of the hearing, the Council of State, taking into consideration the declaration presented by the attorneys of Lottomatica on the merger and incorporation of Lottomatica into Tyche S.p.A. and the subsequent change of the name of the company into Lottomatica, declared the interruption of the case in accordance with article 300 of the civil and criminal code. Only the companies GTECH and OBERTHUR GAMING TECHNOLOGIES s.a.s. served the act of re-assumption. At the hearing of October 28, 2004 the plaintiff companies requested the cancellation of the case from the books;
- c. the claim brought by the Consortium ESULTALIA (composed of SNAI, VENTURINI, and C. S.p.A., POSTE ITALIANE and ETI): Poste Italiane and ETI participated *ad adiuvandum* in the case brought by Snai and Venturini to contest the adjudication of July 30, 2001. At the hearing of May 14, 2003, Poste Italiane and ETI requested the cancellation of the case from the books. SNAI and VENTURINI, on July 21, 2003, notified all the parties involved that they had withdrawn the suit, making it impossible to contest the adjudication, as a result of which there was the stipulation of the Convention of Concession on the part of RTI Lottomatica. It should be pointed out that in December 2002, SNAI, Venturini, Poste Italiane and ETI asked the Administration to proceed with the adjudication in their favor. The Administration, in a memorandum of January 21, 2003, responded that, awaiting the settlement of the controversy, could not proceed with the adjudication. This memorandum was contested by Snai and Venturini in the form of additional claims to the aforementioned case and by Poste Italiane and ETI in an autonomous case. On July 17, 2003 Poste Italiane and ETI brought suit to request the settlement of their motion which was the object of the decision of January 21, 2003 in which the Administration refused to proceed with the adjudication in favor of the Consortium Esultalia. On July 25, 2003, Poste Italiane and ETI also asked the Monopolies not to proceed with the adjudication until the decision of the administrative judge was issued.

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37. Significant Legal Proceedings (Continued)

In the opinion of the attorneys that assist Lottomatica, the suit brought by Poste Italiane and ETI cannot explain any effect in respect to the uncontestable adjudication to RTI Lottomatica, also as a result of the withdrawal of the suit by Snai and Venturini. And, in fact, the case of the Poste Italiane and ETI is directed against the memorandum of the Administration of January 21, 2003 not to proceed with the adjudication and not against the adjudication. And again according to the attorneys that assist Lottomatica, the invitation formulated by Poste Italiane and ETI is going in a direction that is diametrically opposed to the suit itself—that is, not to delay the adjudication any longer—and as a result, the autonomous suit of Poste Italiane and ETI cannot only be resolved with a negative decision in this regard.

Furthermore, as confirmed by the attorneys that assist Lottomatica, the terms to contest the adjudication on the part of AAMS in favor of RTI Lottomatica brought by Poste Italiane and ETI have expired, with the consequence that there interests in continuing this case has diminished.

7. Interruption of Service on the Network (AAMS / BNL Multiservizi)

On June 18, 2005 there was an interruption in alternate phases of the Lotto collection service, for almost all the terminals on the data transmission network managed by BNL—ALBACOM (approximately 14,000 terminals). After a reconfiguration of the network, completed during the night between June 18 and 19, 2005, service outage was eliminated and the data transmission lines resumed their normal and usual functionality. AAMS quantified the monetary damage suffered at approximately 7.5 million euro and subsequently presented a request for compensation on July 7, 2005.

On August 12 of the next month Lottomatica paid AAMS the sum demanded, although it contested the bases for the request, reserving the right to support its contentions in the fora considered appropriate.

In addition, Lottomatica contested the network service outage of June 18 claiming that this outage was the responsibility of the supplier BNL Multiservizi, reserving the right to apply the contractual penalties established, and to demand compensation for damages suffered and to proceed with the dissolution of the contract. BNL Multiservizi rejected the demands of Lottomatica, declaring that it was not responsible for the service outage. On September 14, 2005, Lottomatica, as a result of the payment of the sum of 7.5 million euro to AAMS, demanded that BNL Multiservizi immediately repay the sum and communicated its intention to initiate an arbitration procedure for the dissolution of the contract through the fault of BNL Multiservizi.

As a result of this denial by BNL Multiservizi, on November 2, 2005 Lottomatica informed BNL Multiservizi that it had named its own arbitrator in the person of Prof. Berardino Libonati, requesting the dissolution of the contract through the fault of BNL Multiservizi, an order to BNL Multiservizi to pay Lottomatica the sum of 7,558,648.00 euro and the additional damages suffered by Lottomatica.

On November 23, 2005 BNL Multiservizi informed Lottomatica that it had named its own arbitrator in the person of Prof. Salvatore Pescatore, Esq. At the same time, it requested that the demands formulated by Lottomatica be rejected and that the impact of the third weekly drawing of the game of Lotto and the other services which operate on its network be ascertained, calculating the sums due from Lottomatica in this regard.

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37. Significant Legal Proceedings (Continued)

On the date of the Information Prospectus, the two arbitrators have not nominated the third arbitrator who will serve as Chairman, and thus the Arbitration Board has not yet been formed.

8. Suit Brought by the Partners of Formula Giochi

The companies KARISSA HOLDING S.A., CORED INTERNATIONAL S.A., and Mr. Massimo MACI, the partners of Formula Giochi S.p.A. in liquidation (a company operating on the market of game collections and betting), on October 26, 2005 informed Lottomatica and SISAL by themselves and in surrogating of Formula Giochi, of a claim brought on January 30, 2006 before the Court of Appeals of Rome, in which they demanded that Lottomatica and SISAL be declared responsible for anti-competition conducted sanctioned by the decision of AGCM on November 23, 2004, and in which the plaintiffs claim that (i) the impossibility of selling their share for 3,007,000 euro, and (ii) the impossibility for Formula Giochi to access the gaming and betting market, causing a decrease in the company value of Formula Giochi in the amount of 34,200,000. The plaintiffs demanded, on their own behalf and in surrogating of Formula Giochi that Lottomatica and SISAL be ordered to pay the total sum of 37,207,000 euro.

On the basis of a series of questions regarding—among other matters—the legitimacy of the plaintiffs, from the documents in the procedure brought by AGCM, it does not appear that Lottomatica exercised conduct harmful to Formula Giochi. On the contrary, the documentation in the case, taken contextually in the AGCM measure to close the procedure, and in particular, the declarations made in the course of the hearing of November 10, 2003 by the physical persons who played the role of Chief Executive Officer of Formula Giochi, show that the “disintegration of the newborn third pole” is related to causes not depending on Lottomatica. Lottomatica appeared on January 10, 2006. At the hearing of January 30, 2006 the company Formula Giochi S.p.A. appeared in the person of its liquidator. At the hearing of February 6, 2006 the Court of Appeals granted the parties 30 days for the filing of memoranda, and for the explanation and modification of the demands, the exceptions and the conclusions already formulated, and an additional 30 days for responses. The negotiation of the case was put off to a new hearing established for July 3, 2006.

9. The Network Competition Suit

On October 27, 2005 RTI ALBACOM—FASTWEB served a suit on Lottomatica before the TAR of Lazio for the cancellation, after a suspension, of all the documents of the bid competition for the awarding of the data transmission service on the virtual private network for the game of Lotto won by Lottomatica, also demanding compensation of damages. Lottomatica, in its memorandum submitted during its appearance before the court, demanded that the petitions submitted by the plaintiff be rejected.

At the hearing of November 23, 2005 IRTI ALBACOM—FASTWEB withdrew its own demands for suspension. On the date of the information prospectus, the date for the hearing in regards to the case has not yet been set.

38. Management of the Collection and Payment Activities (DPR 560 of 9/16/96)

Enclosed is the information of the management of the “collection and payment activities” carried out by Lottomatica based on the authority transferred by Italian Decree of the President of the Republic No. 560.

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38. Management of the Collection and Payment Activities (DPR 560 of 9/16/96) (Continued)

These activities, totaling €/000 220,455 is composed of the following:

Receivables

Receivables amount to €/000 6,800 and represent the receivable for the management toward the collectors against the amounts that the same must pay, net of the winnings and quotas that belong to them.

Cash and Cash equivalent

Cash and cash equivalent amounts to €/000 213,655 and represents the accounting balances at March 31, 2006, of the management activities on its related bank and post office accounts:

- €/000 183,762 on a specific bank account opened at Banca Intesa S.p.A.;
- €/000 29,893 on a specific postal account.

Payables

Payables amount to €/000 220,455 and consist of:

- €/000 185,642 for the tax earnings quota to be repaid to the Italian Financial Administration as of March 31, 2006;
- €/000 16,374 for the amount due to the social security fund of the Italian Ministry of Finance;
- €/000 408 for the amounts to be repaid to the Italian Financial Administration, equal to the active interests matured on the bank account dedicated to the collection and payment management, net of the fiscal burdens and related expenses;
- €/000 8,710 for the fee regarding the last two draws carried out in the period under examination to be paid to the concessionaire;
- €/000 9,321 for the winnings not yet paid at March 31, 2006.

39. Subsequent Events

Approval of the financial statements for the year ended December 31, 2005 and distribution of dividends

The shareholders meeting on April 12, 2006 approved the financial statements of the company for the year ended December 31, 2005 and also voted on the distribution of a dividend equal to €1.3 per share, before withholdings taxes as per law, for a total of €/000 119,416, of which €0.49 per share, equal to a total of €/000 45,234, from the profits for the year and from the merger reserve and €0.81, equal to a total of €/000 74,182, from the additional paid in capital.

Changes in the Board of Directors of Lottomatica—Appointment of a new Chairman of the Board

On April 12, 2006 the President and Chief Executive Officer of Lottomatica, Rosario Bifulco, resigned his position as President, in line with the intention of progressively reducing his executive role in light of the conclusion of the acquisition of GTECH.

LOTTOMATICA S.p.A. and Subsidiaries
NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)
As of and for the three month period ended March 31, 2006
(All amounts in thousand of Euro, unless otherwise indicated)

39. Subsequent Events (Continued)

A decision in this sense is also in line with the new code of corporate governance for listed companies of March 2006 that tries to avoid the concentration of the position of President and Chief Executive Officer in one person. On the same date, the board of directors named Lorenzo Pellicoli as President of Lottomatica.

The new president was given the same powers as the chief executive officer to be exercised separately in respect to this position, in respect to the management of the institutional relations of the company at the top levels, and also in relation to all the other powers.

Increase in share capital and modification of the corporate by-laws

On April 12, 2006 the extraordinary shareholders meeting of Lottomatica approved the assignment to the board of directors to increase the share capital and also modified several articles of the corporate by-laws, in relation to the planned acquisition of GTECH. The corporate by-laws related to the duration of the company was modified, as it was extended to 2070 in light of the expected issue of a subordinated bond loan with an expiration date of 2066.

Also in respect to the projected acquisition of GTECH, the shareholders meeting approved the proposal of the board of directors to grant the board members the powers, in accordance with article 2443 of the civil code, for a maximum period of five years from April 12, 2006, to increase the share capital for a total nominal maximum of €1,720 million, with the nominal maximum amount of €1,670 million to be offered to shareholders and the nominal maximum amount of €50 million to be offered for underwriting to several directors of Lottomatica S.p.A. and / or its subsidiaries, as part of a stock plan whose basic elements were approved by the same assembly which met on April 12 in an ordinary session.

The Arbitration

In relation to the dispute between AAMS and Lottomatica at the hearing held on April 20, 2006 the case was postponed for the clarification of the conclusions to January 28, 2010.

Remote Lotteries

The Autonomous Administration of the State Monopoly granted the Consorzio Lotterie Nazionali (in which Lottomatica participates with a 63% share) the management of the lotteries with remote participation (the so-called remote lottery), in a trial program, established by the finance law of 2005.

This trial will last 18 months beginning from the date of issue on the market of the first remote lottery, with the Administration having the right to extend or interrupt the trial.

The Consorzio Lotterie Nazionali, as manager, must conduct the remote lotteries on the basis of the guidelines presented by the Autonomous Administration of the State Monopoly, the development of the multi-channel technological platform, and all the other typical activities of a concessionaire.

The activity of the remote lottery may be exercised by holders of the gaming or betting concession, in that they may connect, at their own expense, to the multi-channel technological platform to be set up by the Consorzio Lotterie Nazionali.

**APPENDIX C—CONSOLIDATED FINANCIAL STATEMENTS OF GTECH AS OF AND FOR THE
FISCAL YEARS ENDED FEBRUARY 25, 2006, FEBRUARY 26, 2005 AND FEBRUARY 28, 2004**

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

GTECH Holdings Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of GTECH Holdings Corporation and subsidiaries as of February 25, 2006 and February 26, 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended February 25, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of GTECH Holdings Corporation and subsidiaries at February 25, 2006 and February 26, 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 25, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of GTECH Holdings Corporation and subsidiaries' internal control over financial reporting as of February 25, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 10, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
April 10, 2006

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	February 25, 2006	February 26, 2005
	(Dollars in thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 235,191	\$ 94,446
Investment securities available-for-sale	260,725	196,825
Trade and other receivables, net	183,561	172,167
Refundable performance deposit	8,000	8,000
Inventories	88,024	61,135
Deferred income taxes	26,398	31,435
Other current assets	47,819	26,646
TOTAL CURRENT ASSETS	849,718	590,654
SYSTEMS, EQUIPMENT AND OTHER ASSETS RELATING TO CONTRACTS, net	692,545	720,438
GOODWILL	346,096	331,022
PROPERTY, PLANT AND EQUIPMENT, net	101,416	74,558
INTANGIBLE ASSETS, net	64,212	70,839
OTHER ASSETS	45,915	67,630
TOTAL ASSETS	<u>\$2,099,902</u>	<u>\$1,855,141</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 93,205	\$ 99,234
Accrued expenses	46,220	54,227
Employee compensation	31,804	21,862
Advance payments from customers	63,768	42,865
Deferred revenue and advance billings	17,889	29,705
Income taxes payable	67,098	16,499
Taxes other than income taxes	17,106	16,572
Short-term borrowings	—	334
Current portion of long-term debt	9,148	2,476
TOTAL CURRENT LIABILITIES	346,238	283,774
LONG-TERM DEBT, less current portion	542,259	726,329
OTHER LIABILITIES	106,671	83,260
DEFERRED INCOME TAXES	99,362	106,010
COMMITMENTS AND CONTINGENCIES	—	—
SHAREHOLDERS' EQUITY:		
Preferred Stock, par value \$.01 per share—20,000,000 shares authorized, none issued	—	—
Common Stock, par value \$.01 per share—200,000,000 shares authorized, 127,179,225 and 116,551,144 shares issued; 127,179,225 and 115,006,751 shares outstanding at February 25, 2006 and February 26, 2005, respectively	1,272	1,166
Additional paid-in capital	444,810	278,204
Accumulated other comprehensive loss	(35,662)	(43,227)
Retained earnings	594,952	455,537
	1,005,372	691,680
Less cost of 1,544,393 shares in treasury at February 26, 2005	—	(35,912)
	1,005,372	655,768
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$2,099,902</u>	<u>\$1,855,141</u>

See Notes to Consolidated Financial Statements

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004
	(Dollars in thousands, except per share amounts)		
Revenues:			
Services	\$1,122,668	\$1,017,683	\$ 957,471
Sales of products	182,138	239,552	93,859
	<u>1,304,806</u>	<u>1,257,235</u>	<u>1,051,330</u>
Costs and expenses:			
Costs of services	674,528	616,633	537,839
Costs of sales	104,037	157,974	59,226
	<u>778,565</u>	<u>774,607</u>	<u>597,065</u>
Gross profit	526,241	482,628	454,265
Selling, general and administrative	135,715	117,253	109,092
Research and development	49,869	52,559	57,318
Operating expenses	<u>185,584</u>	<u>169,812</u>	<u>166,410</u>
Operating income	340,657	312,816	287,855
Other income (expense):			
Interest income	10,912	4,615	5,733
Equity in earnings of unconsolidated affiliates	1,941	2,812	6,236
Other income (expense)	(4,341)	5,356	1,889
Interest expense	(30,793)	(19,213)	(10,919)
	<u>(22,281)</u>	<u>(6,430)</u>	<u>2,939</u>
Income before income taxes	318,376	306,386	290,794
Income taxes	107,331	109,992	107,594
Net income	<u>\$ 211,045</u>	<u>\$ 196,394</u>	<u>\$ 183,200</u>
Basic earnings per share	<u>\$ 1.73</u>	<u>\$ 1.68</u>	<u>\$ 1.57</u>
Diluted earnings per share	<u>\$ 1.63</u>	<u>\$ 1.50</u>	<u>\$ 1.40</u>
Weighted average shares outstanding—basic	<u>121,884</u>	<u>116,739</u>	<u>116,464</u>
Weighted average shares outstanding—diluted	<u>130,385</u>	<u>132,559</u>	<u>132,625</u>
Cash dividends declared per common share	<u>\$ 0.34</u>	<u>\$ 0.34</u>	<u>\$ 0.255</u>

See Notes to Consolidated Financial Statements

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004
	(Dollars in thousands)		
OPERATING ACTIVITIES			
Net income	\$ 211,045	\$ 196,394	\$ 183,200
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	166,768	145,999	115,324
Intangibles amortization	10,582	12,616	3,735
Other amortization	154	—	—
Deferred income taxes	11,309	34,740	59,457
Tax benefit related to stock award plans	6,670	11,254	10,432
Minority interest	1,673	3,799	4,502
Equity in earnings of unconsolidated affiliates, net of dividends received	582	3,461	1,672
Gain on sale of investments	(751)	(10,924)	—
Non-cash gain from consolidation of West Greenwich Technology Associates, L.P.	—	—	(5,292)
Other	26,991	16,438	10,726
Changes in operating assets and liabilities:			
Trade and other receivables, net	(17,420)	(42,745)	9,634
Inventories	(27,003)	28,522	3,030
Other current assets	(14,029)	1,654	(4,913)
Accounts payable	(4,854)	14,248	2,186
Employee compensation	8,295	(15,118)	(4,231)
Advance payments from customers	20,903	(33,994)	51,601
Deferred revenue and advance billings	(11,816)	15,037	(2,979)
Income taxes payable	54,675	11,484	(27,649)
Other assets and liabilities	(14,150)	(17,656)	4,632
NET CASH PROVIDED BY OPERATING ACTIVITIES	429,624	375,209	415,067
INVESTING ACTIVITIES			
Acquisitions (net of cash acquired)	(23,084)	(200,730)	(74,442)
Purchases of systems, equipment and other assets relating to contracts	(137,316)	(245,592)	(268,010)
Purchases of available-for-sale investment securities	(147,275)	(246,975)	(242,050)
Maturities and sales of available-for-sale investment securities	83,375	272,000	20,200
Purchases of property, plant and equipment	(9,656)	(12,875)	(12,772)
License fees	(1,750)	—	(12,500)
Investments in and advances to unconsolidated subsidiaries	(1,488)	(2,071)	(2,885)
Refundable performance deposit	8,000	—	(20,000)
(Increase) decrease in restricted cash	5,080	(5,112)	—
Proceeds from sale of investments	3,000	11,773	—
NET CASH USED FOR INVESTING ACTIVITIES	(221,114)	(429,582)	(612,459)
FINANCING ACTIVITIES			
Net proceeds from issuance of long-term debt	—	343,254	252,588
Principal payments on long-term debt	(2,302)	(167,692)	(33,293)
Purchases of treasury stock	(32,051)	(120,658)	—
Dividends paid	(41,672)	(39,830)	(29,977)
Premiums and fees paid in connection with the early retirement of debt	—	(10,610)	(731)
Proceeds from stock options	9,473	13,546	23,943
Other	(4,439)	(505)	(6,324)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(70,991)	17,505	206,206
Effect of exchange rate changes on cash	3,226	1,975	4,351
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	140,745	(34,893)	13,165
Cash and cash equivalents at beginning of year	94,446	129,339	116,174
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 235,191	\$ 94,446	\$ 129,339

See Notes to Consolidated Financial Statements

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Outstanding Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total
	(Dollars in thousands)						
Balance at February 22, 2003	113,276,662	\$ 923	\$235,266	\$(95,488)	\$684,653	\$(509,788)	\$ 315,566
Comprehensive income:							
Net income	—	—	—	—	183,200	—	183,200
Other comprehensive income (loss), net of tax:							
Foreign currency translation, net of tax benefits of \$13 million	—	—	—	26,418	—	—	26,418
Unrecognized net loss on derivative instruments	—	—	—	(1,423)	—	—	(1,423)
Unrealized loss on investments	—	—	—	(15)	—	—	(15)
Comprehensive income							208,180
Cash dividends declared on common stock (\$0.255 per share)	—	—	—	—	(30,178)	—	(30,178)
Shares issued to acquire Interlott Technologies, Inc.	1,435,130	—	20,622	—	—	10,212	30,834
Shares issued under employee stock purchase and stock award plans	424,024	—	—	—	843	2,669	3,512
Shares issued upon exercise of stock options	3,259,352	—	—	—	752	23,191	23,943
Tax benefits related to stock award plans	—	—	10,432	—	—	—	10,432
Balance at February 28, 2004	118,395,168	\$ 923	\$266,320	\$(70,508)	\$839,270	\$(473,716)	\$ 562,289
Comprehensive income:							
Net income	—	—	—	—	196,394	—	196,394
Other comprehensive income (loss), net of tax:							
Foreign currency translation, net of tax benefits of \$4 million	—	—	—	24,618	—	—	24,618
Unrecognized gain on interest rate locks	—	—	—	1,988	—	—	1,988
Unrecognized net gain on derivative instruments	—	—	—	677	—	—	677
Unrealized loss on investments	—	—	—	(2)	—	—	(2)
Comprehensive income							223,675
Treasury shares purchased	(5,262,900)	—	—	—	—	(120,658)	(120,658)
Cash dividends declared on common stock (\$0.34 per share)	—	—	—	—	(40,101)	—	(40,101)
Shares issued under employee stock purchase and stock award plans	356,699	—	—	—	724	4,409	5,133
Shares issued upon exercise of stock options	1,517,784	—	—	—	(11,320)	24,866	13,546
Stock option compensation	—	—	630	—	—	—	630
Tax benefits related to stock award plans	—	—	11,254	—	—	—	11,254
Treasury stock retirement	—	(349)	—	—	(528,838)	529,187	—
July 2004 two-for-one stock split	—	592	—	—	(592)	—	—
Balance at February 26, 2005	115,006,751	\$1,166	\$278,204	\$(43,227)	\$455,537	\$(35,912)	\$ 655,768
Comprehensive income:							
Net income	—	—	—	—	211,045	—	211,045
Other comprehensive income (loss), net of tax:							
Foreign currency translation, net of tax benefits of \$4 million	—	—	—	7,313	—	—	7,313
Amortization of unrecognized gain on interest rate locks to interest expense	—	—	—	(330)	—	—	(330)
Unrecognized net gain on derivative instruments	—	—	—	507	—	—	507
Reclassification for loss included in net income	—	—	—	75	—	—	75
Comprehensive income							218,610
Treasury shares purchased	(1,326,100)	—	—	—	—	(32,051)	(32,051)
Cash dividends declared on common stock (\$0.34 per share)	—	—	—	—	(41,947)	—	(41,947)
Shares issued under employee stock purchase and stock award plans	317,183	1	1,942	—	(1,219)	4,509	5,233
Shares issued upon exercise of stock options	935,225	5	5,696	—	(5,407)	9,178	9,472
Shares issued upon conversion of debentures	12,246,166	100	146,962	—	(23,057)	54,276	178,281
Unearned compensation—restricted stock	—	—	5,336	—	—	—	5,336
Tax benefits related to stock award plans	—	—	6,670	—	—	—	6,670
Balance at February 25, 2006	127,179,225	\$1,272	\$444,810	\$(35,662)	\$594,952	\$ —	\$1,005,372

See Notes to Consolidated Financial Statements

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

GTECH Holdings Corporation (“Holdings”) is a global gaming and technology company providing software, networks and professional services that power high-performance, transaction processing systems. We are the world’s leading operator of highly-secure online lottery transaction processing systems, doing business in 51 countries worldwide and we have a growing presence in commercial gaming technology and financial services transaction processing. We have a single operating and reportable business segment, the Transaction Processing segment. In these notes, the terms “Holdings,” “Company,” “we,” “our,” and “us” refer to GTECH Holdings Corporation and all subsidiaries included in the consolidated financial statements. Holdings conducts business through its consolidated subsidiaries and unconsolidated affiliates and has, as its only material asset, an investment in GTECH Corporation (“GTECH”), its wholly-owned subsidiary.

Basis of presentation and consolidation

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and include the accounts of Holdings, GTECH, and all majority-owned or controlled subsidiaries. We consolidate all entities that we control as well as variable interest entities for which we are the primary beneficiary.

We use the equity method to account for our investments in 20% to 50% owned affiliates and investments in certain corporate joint ventures, providing we are able to exercise significant influence over, but not control, the investee’s operating and financial policies. Consolidated net income includes our share of the net earnings of these companies. We account for our investments in less than 20% owned affiliates under the cost method. All significant intercompany accounts and transactions have been eliminated.

We operate on a 52-week or 53-week fiscal year ending on the last Saturday in February. Fiscal 2006 and 2005 were 52-week years. Fiscal 2004 was a 53-week year and we included the extra week in our fourth quarter ended February 28, 2004.

Certain amounts in the prior years’ financial statements have been reclassified to conform to the current year presentation.

Revenue recognition

Lottery and gaming transaction processing services

We generally conduct our lottery and gaming business under two types of contractual arrangements: Facilities Management Contracts and Product Sales Contracts.

Facilities management contracts

A majority of our revenues are derived from facilities management contracts, under which we construct, install, operate and retain ownership of the online lottery system (“lottery system”). These contracts generally provide for a variable amount of monthly or weekly service fees paid to us directly from the lottery authority based on a percentage of a lottery’s gross online and instant ticket sales or a percentage of net machine income. These fees are recognized as revenue in the period earned and are

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

classified as Service Revenue in our Consolidated Income Statements when all of the following criteria are met:

- Persuasive evidence of an arrangement exists, which is typically when a customer contract has been signed
- Services have been rendered
- Our fee is deemed to be fixed or determinable and free of contingencies or significant uncertainties
- Collectibility is reasonably assured

In instances where customer acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met.

Product sales contracts

Under product sales contracts, we construct, sell, deliver and install a turnkey lottery system or deliver lottery equipment, and license the computer software for a fixed price, and the lottery authority subsequently operates the lottery system. Product sale contracts generally include customer acceptance provisions and general customer rights to terminate the contract if we are in breach of the contract.

Because product sales contracts include significant customization, modification and other services prior to customer acceptance that are considered essential to the lottery software inherent in our lottery systems, revenue is recognized using contract accounting. Under contract accounting, amounts due to us, and costs incurred by us in constructing the lottery system, prior to customer acceptance, are deferred. Revenue attributable to the lottery system is classified as Sales of Products in our Consolidated Income Statements and is recognized upon customer acceptance as long as there are no substantial doubts regarding collectibility.

Whenever we enter into a product sale contract that involves the delivery or performance of multiple products and services that include the development and customization of software, implementation services, and licensed software and support services, we apply the consensus of EITF 00-21 “Revenue Arrangements with Multiple Deliverables”, to determine whether the non-customization related deliverables specified in the contract that are not directly related to our technology, should be treated as separate units of accounting for revenue recognition purposes. If the elements qualify as separate units of accounting, and fair value exists for the elements of the contract that are unrelated to the customization services, these elements are accounted for separately, and the related revenue is recognized as the products are delivered or the services are rendered.

The application of revenue recognition principles requires judgment, including whether our product sales contracts include multiple elements, and if so, whether fair value exists for those elements. As a result, contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, and if so, the relative fair value that should be allocated to each of the elements and when to recognize revenue for each element. Our interpretation would not affect the amount of revenue recognized but could impact the timing of revenue recognition.

Revenues attributable to any ongoing services provided subsequent to customer acceptance are classified as Service Revenue in our Consolidated Income Statements in the period earned.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

In certain product sale contracts (primarily the stand alone sale of lottery or video lottery terminals and software deliverables that do not involve significant customization of software), we are not responsible for installation. In these cases, we recognize revenue when all of the following criteria are met:

- Persuasive evidence of an arrangement exists, which is typically when a customer contract has been signed
- The product has been delivered
- Our fee is deemed to be fixed or determinable and free of contingencies or significant uncertainties
- Collectibility is reasonably assured

In instances where installation is required and/or customer acceptance of the product is required, revenue is deferred until installation is complete, and any acceptance criteria have been met.

Our typical payment terms under product sale contracts include customer progress payments based on specific contract milestones with final payment due on or shortly after customer acceptance. We do not generally offer our customers payment terms that extend substantially beyond customer acceptance. In the rare case that we provide a customer with extended payment terms, we defer revenue equal to the amount of the extended payment until it is received. Amounts received from customers in advance of revenue recognition are recorded in Advance Payments from Customers in our Consolidated Balance Sheets.

Non-lottery transaction processing services

We offer high-volume transaction processing services outside of our core market of providing online lottery services that consist of the acquiring, processing and transmission of commercial non-lottery transactions. Such transactions include retail debit, credit and charge card transactions, bill payments, electronic tax payments, utility payments, pre-paid cellular telephone recharges and retail-based programs.

We earn a fee for processing commercial non-lottery transactions that is transaction-based (a fixed fee per transaction or a fee based on a percentage of dollar volume processed). We recognize these fees as service revenue at the time a transaction is processed based on the net amount retained in accordance with Emerging Issues Task Force Issue No. 99-19, "Reporting Revenue Gross as a Principal Versus Net as an Agent."

Liquidated damage assessments

We record liquidated damage assessments, which are contractual penalties incurred due to a failure to meet specified deadlines or performance standards, as a reduction of revenue in the period they become probable and estimable. Liquidated damage assessments equaled 0.61%, 0.18% and 0.50% of our total revenues in fiscal 2006, 2005 and 2004, respectively.

Stock-based compensation

We have stock-based compensation plans which are described in detail in "Note 19—Stock-Based Compensation Plans." We follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for our stock-based compensation plans and we have elected to continue to use the intrinsic value-based method to account for stock option grants. We have adopted the disclosure-only provisions of Statement of Financial Accounting

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Standards No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure,” an amendment of Statement of Financial Accounting Standards No. 123. Accordingly, no compensation expense has been recognized for our stock-based compensation plans other than for restricted stock.

Had we elected to recognize compensation expense based upon the fair value at the grant dates for awards under these plans, net income and earnings per share would have been reduced to the pro forma amounts listed in the table below. During fiscal 2005 and 2004, the fair value of each grant was estimated on the date of grant using a Black-Scholes option pricing model. During fiscal 2006, the fair value of each grant was estimated on the date of grant using a binomial option pricing model. We changed our option pricing model to a binomial model as we believe the binomial model provides a better estimate of fair value. Also disclosed in the table below are the principal weighted average assumptions used to estimate the fair value of the grants.

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004
	(Dollars in thousands, except per share amounts)		
Net income, as reported	\$211,045	\$196,394	\$183,200
Add: Stock-based compensation expense included in reported net income, net of related tax effects . . .	3,857	3,134	2,067
Deduct: Total stock-based compensation expense determined under the fair value method for all awards, net of related tax effects	<u>(8,497)</u>	<u>(8,006)</u>	<u>(6,540)</u>
Pro forma net income	<u>\$206,405</u>	<u>\$191,522</u>	<u>\$178,727</u>
Basic earnings per share:			
As reported	\$ 1.73	\$ 1.68	\$ 1.57
Pro forma	1.69	1.64	1.53
Diluted earnings per share:			
As reported	\$ 1.63	\$ 1.50	\$ 1.40
Pro forma	1.59	1.46	1.36
Estimated weighted average fair value of options granted per share	\$ 7.00	\$ 9.00	\$ 5.00
Principal assumptions:			
Risk-free interest rate	4.0%	3.1%	2.4%
Expected life (in years)	4.5	4.1	3.8
Expected volatility	34.8%	37.6%	39.0%
Expected dividend yield	1.4%	1.1%	2.0%

FASB Statement No. 123R

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”), which is a revision of FASB Statement No. 123, “Accounting for Stock-Based Compensation”. SFAS 123R supersedes Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees”

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

("APB 25"), and amends FASB Statement No. 95, "Statement of Cash Flows". SFAS 123R requires all share-based payments to employees, including grants of employee stock options, be recognized in the financial statements based on their fair values. Pro forma disclosure is no longer an alternative. SFAS 123R must be adopted no later than the beginning of the first fiscal year beginning after June 15, 2005 (our fiscal 2007 first quarter). Early adoption is permitted. We plan to adopt SFAS 123R on the first day of fiscal 2007 (February 26, 2006).

SFAS 123R permits public companies to adopt its requirements using either the modified prospective transition ("MPT") method or the modified retrospective transition ("MRT") method. Under the MPT method, compensation cost for new awards and modified awards are recognized beginning with the effective date and the cost for awards that were granted prior to, but not vested as of the effective date, will be based on the grant date fair value estimate used for SFAS 123 pro forma disclosure purposes. The MRT method includes the requirements of the MPT method but also permits restatement of all prior periods presented or only the prior interim periods of the year of adoption. We plan to adopt SFAS 123R using the MPT method and we intend to use a lattice model to value stock options granted on or after February 26, 2006.

We currently account for share-based payments to employees using the intrinsic value method under APB 25 and related Interpretations, and therefore, we generally recognize no compensation cost for employee stock options. We currently estimate the impact of adopting SFAS 123R will be in a range of \$0.04 to \$0.06 per diluted share in fiscal 2007 assuming a certain level of awards. Variation to the assumed level of awards and other factors could result in a different amount. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While we cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized in prior periods for these excess tax deductions were \$6.7 million, \$11.3 million, and \$10.4 million in fiscal 2006, 2005 and 2004, respectively.

SEC Staff Accounting Bulletin No. 107

In March 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107"), "Share-Based Payment", to provide interpretive guidance on SFAS 123R valuation methods, assumptions used in valuation models, and the interaction of SFAS No. 123R with existing SEC guidance. SAB No. 107 also requires the classification of stock compensation expense in the same financial statement line as cash compensation, and will therefore impact our service and product gross margins as well as our selling, general and administrative and research and development expenses.

Use of estimates

In conformity with generally accepted accounting principles, the preparation of our financial statements requires that we make estimates, judgments and assumptions that affect the reported amounts in our financial statements and accompanying notes. Some of our more significant estimates include estimates of future cash flows associated with long-lived assets; allocation of revenues and fair values in multiple-element arrangements; inventory obsolescence; allowance for doubtful accounts; depreciable lives of assets; and income taxes. Our estimates are based on the facts and circumstances available at the time

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

estimates are made, historical experience, contract terms, risk of loss, general economic conditions and trends, and our assessment of the probable future outcome of these matters. Actual results may ultimately differ from initial estimates and assumptions.

Foreign currency translation

The functional currency for the majority of our foreign subsidiaries is the applicable local currency and items included in the financial statements of each entity are measured using that functional currency. For those subsidiaries, we translate assets and liabilities at exchange rates in effect at the balance sheet date, and income and expense accounts at weighted average exchange rates. The resulting foreign currency translation adjustments are recorded in Accumulated Other Comprehensive Loss in our Consolidated Balance Sheets. Gains or losses resulting from foreign currency transactions are recorded in our Consolidated Income Statements. We recognized net foreign exchange gains (losses) as a component of Service Revenue and Other Income (Expense) in our Consolidated Income Statements as follows:

	Fiscal Year Ended		
	<u>February 25, 2006</u>	<u>February 26, 2005</u>	<u>February 28, 2004</u>
	(Dollars in thousands)		
Service revenue	\$ 1,461	\$(2,357)	\$(3,601)
Other income (expense)	<u>(2,750)</u>	<u>(1,365)</u>	<u>(185)</u>
Total net foreign exchange losses	<u><u>\$(1,289)</u></u>	<u><u>\$(3,722)</u></u>	<u><u>\$(3,786)</u></u>

For those foreign subsidiaries operating in a highly inflationary economy or whose functional currency is the United States dollar, nonmonetary assets and liabilities are translated at historical rates and monetary assets and liabilities are translated at current rates. The resulting foreign currency translation adjustments are recorded in Costs of Services in our Consolidated Income Statements.

Derivatives and hedging transactions

We use derivative financial instruments such as forward currency contracts and interest rate swaps to hedge our risk associated with foreign currency and interest rate fluctuations and we account for our derivative financial instruments in accordance with Statement of Financial Accounting Standards No. 133 (“SFAS 133”), “Accounting for Derivative Instruments and Hedging Activities,” as amended. SFAS 133 requires that all derivative instruments be reported on the balance sheet at fair value and establishes criteria for the designation and the assessment of the effectiveness of hedging relationships.

From time to time, we enter into foreign currency exchange and option contracts to reduce the exposure associated with certain firm commitments, variable service revenues and certain assets and liabilities denominated in foreign currencies. These contracts, which are classified as cash flow hedges, generally have maturities of 12 months or less and are regularly renewed to provide continuing coverage throughout the year. We do not engage in foreign currency speculation.

We record certain contracts used to provide us with a degree of protection against foreign currency exchange risk on our variable service revenues at fair value in our Consolidated Balance Sheets. The related gains or losses on these contracts are either deferred and included in Shareholders’ Equity

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

(Accumulated Other Comprehensive Loss) or immediately recognized in earnings depending on whether the contract qualifies for hedge accounting. The deferred gains and losses are subsequently recognized in earnings in the period that the related items being hedged are received and recognized in earnings. Contracts used to hedge assets and liabilities denominated in foreign currencies are recorded in our Consolidated Balance Sheets at fair value and the related gains or losses on these contracts are immediately recognized in earnings as a component of Other Income (Expense) in our Consolidated Income Statements.

Interest rate swaps

From time to time, we enter into interest rate swap agreements to mitigate our exposure to interest rate changes. The amount and term of each interest rate swap agreement, which are classified as fair value hedges, are matched with all or a portion of the then outstanding principal balance and remaining term of a specific debt obligation. These agreements involve the exchange of fixed interest rates for variable interest rates over the term of the agreement without an exchange of the notional amount upon which the payments are based. The differential to be received or paid as interest rates change is accrued and recognized as an adjustment of interest expense related to the debt. The related amount receivable from or payable to counterparties is included as an asset or liability in our Consolidated Balance Sheets.

Gains resulting from the early termination of interest rate swap agreements are deferred as an adjustment to the carrying amount of the outstanding debt and amortized as adjustments to interest expense over the remaining period originally covered by the terminated swap agreements. In the event of the early extinguishment of debt, any gain or loss from the swap would be recognized in earnings as a component of Other Income (Expense) in our Consolidated Income Statements in the same period as the extinguishment gain or loss.

Research and development

We expense research and development costs as incurred.

Advertising costs

Advertising costs are expensed as incurred and amounted to \$10.1 million, \$9.3 million and \$6.9 million in fiscal 2006, 2005 and 2004, respectively.

Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. Additionally, deferred tax assets and liabilities are separated into current and noncurrent amounts based on the classification of the related assets and liabilities for financial reporting purposes. We establish valuation allowances for our deferred tax assets when we believe expected future taxable income is not likely to support the use of a tax deduction or credit in that tax jurisdiction.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Cash and cash equivalents

We classify short-term, highly liquid investments with an original maturity of three months or less at the date of purchase as cash equivalents.

Investment securities available-for-sale

Investment securities, which primarily consist of state and municipal auction rate securities and variable rate demand obligations, are designated as available for sale under the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and are recorded at fair value. We invest in short-term investments that are generally highly liquid and are assigned a minimal credit rating of A- or A3 from Standard and Poor's or Moody's Investor Service, respectively. Any unrealized gains and losses, net of income tax effects, would be computed on the basis of specific identification and reported as a component of Accumulated Other Comprehensive Loss in our Consolidated Balance Sheets. Realized gains and losses would be included in Other Income (Expense) in our Consolidated Income Statements. We did not incur any unrealized or realized gains or losses in fiscal years 2006 and 2005.

Trade and other receivables, net

Trade and other receivables are reported net of allowances for doubtful accounts and liquidated damages (contractual penalties incurred due to a failure to meet specified deadlines or performance standards) of \$14.0 million and \$9.3 million at February 25, 2006 and February 26, 2005, respectively. Allowances for doubtful accounts are generally recorded for all items greater than 60 days past due and when there is objective evidence that we will not be able to collect the related receivables. Bad debts are written off when identified. Allowances for liquidated damages are recorded when penalties resulting from a failure to meet specified deadlines or performance standards are payable and estimable. We evaluate the collectibility of trade and other receivables on a customer-by-customer basis and we believe our reserves are adequate; however, if economic circumstances change significantly resulting in a major customer's inability or unwillingness to meet its financial obligations to us, original estimates of the recoverability of amounts due to us could be reduced by significant amounts requiring additional reserves.

Inventories and obsolescence

Inventories are stated at the lower of cost (first-in, first-out method) or market. Inventories include amounts we manufacture or assemble for our long-term service contracts, which are transferred to systems, equipment and other assets relating to contracts, net upon shipment. Inventories also include amounts related to product sales contracts, including product sales under long-term contracts. We regularly review inventory quantities on hand and record reserves for potentially obsolete or slow-moving inventory based primarily on our estimated forecast of product demand and production requirements. We believe our reserves are adequate; however, should future sales forecasts change, our original estimates of obsolescence could increase by a significant amount requiring additional reserves.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Systems, equipment and other assets relating to contracts, net

Systems, equipment and other assets relating to contracts are stated on the basis of cost. The cost is depreciated over the estimated useful life of the assets using the straight-line method depending on the type of cost. Cost is comprised of two categories:

- hard costs (for example: terminals, mainframe computers and communications equipment) and;
- soft costs (for example: software development).

Hard costs are depreciated using the straight line method over the base term of the contract plus extension years provided for in the contract that are deemed probable, but not to exceed 10 years. Soft costs are depreciated using the straight line method over the base term of the contract, but not to exceed 10 years.

The carrying value of systems, equipment and other assets relating to contracts are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Property, plant and equipment, net

Property, plant and equipment is stated on the basis of cost. The cost is depreciated over the estimated useful life of the assets using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. The estimated useful lives are generally 10 to 30 years for buildings and five to 10 years for furniture and equipment.

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Capitalized computer software costs

Capitalized computer software costs are comprised of amounts specific to customer contracts and amounts related to software products that are, or are anticipated to be, included in our product offerings.

Specific to customer contracts

Costs specific to customer contracts are capitalized and included in Systems, Equipment and Other Assets Relating to Contracts, net in our Consolidated Balance Sheets. The costs are depreciated using the straight line method over the base term of the contract, but not to exceed 10 years.

Product offerings

Costs related to product offerings are charged to research and development expense as incurred until such time as technological feasibility has been established for the product. Thereafter, they are capitalized and included in Intangible Assets, net in our Consolidated Balance Sheets and are generally amortized over their useful life on a straight-line basis. We periodically evaluate costs related to product offerings for impairment based on customer requirements.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1—ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Unamortized computer software costs consist of the following:

	February 25, 2006	February 26, 2005
	(Dollars in thousands)	
Specific to customer contracts	\$55,644	\$53,407
Product offerings	4,980	7,627
	<u>\$60,624</u>	<u>\$61,034</u>

Depreciation and amortization expense related to computer software costs is included in Costs of Services or Costs of Sales in our Consolidated Income Statements and consist of the following:

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004
	(Dollars in thousands)		
Specific to customer contracts . . .	\$15,251	\$12,420	\$10,447
Product offerings	2,799	2,447	1,544
	<u>\$18,050</u>	<u>\$14,867</u>	<u>\$11,991</u>

Goodwill and other intangible assets

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. Goodwill and other intangible assets determined to have indefinite useful lives are not amortized but are reviewed for impairment annually or more frequently if events or circumstances indicate these assets may be impaired. Other intangible assets determined to have definite lives are amortized over their useful lives. We review other intangible assets with definite lives for impairment to ensure they are appropriately valued if conditions exist that may indicate the carrying value may not be recoverable. Such conditions may include, among others, significant adverse changes in the extent or manner in which an asset is being used or in legal factors or in the business climate that could affect the value of an asset.

Because we have a single operating and reportable business segment (the Transaction Processing Segment), we perform our goodwill impairment test by comparing the fair value of the Transaction Processing Segment with its book value, including goodwill. If the fair value of the Transaction Processing Segment exceeds the book value, goodwill is not impaired. If the book value exceeds the fair value, we would calculate the potential impairment loss by comparing the implied fair value of goodwill with the book value. If the implied goodwill is less than the book value, a write-down would be recorded.

Impairment of long-lived assets

We periodically evaluate the recoverability of long-lived assets whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows or material adverse changes in the economic or political stability of a particular country, which may indicate that the carrying amount of an asset is not recoverable. If facts and circumstances indicate our long-lived assets may be impaired, the estimated future undiscounted cash flows associated with these long-lived assets would be compared to their carrying amounts to determine if a write-down to fair value is necessary.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2—COMMON STOCK SPLIT AND TREASURY STOCK RETIREMENT

In June 2004 (our fiscal 2005 second quarter), our Board of Directors approved a 2-for-1 common stock split, payable in the form of a stock dividend, which entitled each shareholder of record on July 1, 2004 to receive one share of common stock for each outstanding share of common stock held on that date. The stock dividend was distributed on July 30, 2004. All references to common shares and per share amounts herein have been restated to reflect the stock split for all periods presented.

In connection with the declaration of the stock dividend, our Board of Directors approved the retirement of 69.8 million shares of our common stock held in treasury on July 29, 2004 (stated on a basis reflecting the stock split which occurred subsequent to the retirement). The \$528.8 million of treasury stock at the time of the retirement was eliminated from treasury stock through a charge to retained earnings and common stock.

NOTE 3—ACQUISITION OF THE COMPANY

On January 10, 2006, the Company entered into an agreement and plan of merger (“Merger”) with Lottomatica S.p.A., an Italian corporation and exclusive license holder and operator of Italy’s Lotto (“Lottomatica”), whereby Lottomatica will acquire Holdings for \$35.00 in cash per outstanding Holdings share. The total value of the transaction is approximately \$4.8 billion, including the assumption of Holding’s existing net debt. In connection with the transaction (as currently contemplated), Holdings expects to incur approximately \$19 million to \$21 million of transaction costs from the close of fiscal 2006 through the closing of the transaction, of which approximately \$12 million to \$14 million are contingent upon completion of the transaction. These costs are subject to change based on changes in terms of the transaction.

Completion of the transaction, which is expected to occur in mid-2006, is subject to receipt of financing, approval by Holdings shareholders, regulatory approvals, receipt of contract assignment assurance from certain significant lottery customers, Lottomatica maintaining a pro forma investment grade credit rating, and other customary conditions. Subsequent to the acquisition, Holdings shares will be delisted on the New York Stock Exchange.

NOTE 4—BUSINESS ACQUISITIONS

PolCard S.A.

In May 2003, we completed the acquisition of a controlling equity position in PolCard S.A. (“PolCard”), for a purchase price, net of cash acquired, of \$35.9 million. PolCard is the leading debit and credit card merchant transaction acquirer and processor in Poland. On September 28, 2005, we purchased an additional 11.681% of PolCard from Innova Capital Sp. z o.o. (“Innova”) for cash consideration of approximately \$21.5 million, resulting in PolCard’s outstanding equity being owned 74.5% by us, 25.2% by two funds managed by Innova, and 0.3% by the Polish Bank Association, one of PolCard’s previous owners.

The terms of the Share Purchase Agreement which govern the purchase of the additional 11.681% of PolCard included a commitment by GTECH and Innova, as the majority shareholders of PolCard, to vote in favor of a general shareholder dividend of approximately \$25.0 million to be paid after the close of PolCard’s fiscal year ending on February 25, 2006, and for PolCard to loan to Innova approximately \$6.3 million in anticipation of the dividend. This loan was advanced on December 22, 2005, bears interest at WIBOR plus 1.75% (5.92% as of February 25, 2006), and is fully secured by the dividend and by

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4—BUSINESS ACQUISITIONS (Continued)

PolCard shares currently owned by Innova. We currently estimate that the dividend will be declared and paid by July 2006.

We have three fair value options to purchase Innova's interest in PolCard, and Innova has the reciprocal right to sell its interest in PolCard to us at fair value. Each fair value option has a duration of 90 days and, in the absence of an agreed price between the parties prior to the commencement of an option period, will be based on an appraised value from at least two investment banks at the date of each option period.

We estimate that the buyout prices of each fair value option, based on discounted cash flows, could be as follows:

<u>Exercise Date Commencing In</u>	<u>Buyout Percentage of the PolCard Outstanding Equity</u>	<u>Range of Buyout Price</u>
May 2007	12.6%	\$20 to \$30 million
May 2008	6.3%	\$11 to \$17 million
May 2009	6.3%	\$13 to \$19 million

BillBird S.A.

On September 9, 2004, we completed the acquisition of privately-held BillBird S.A. ("BillBird"), the leading provider of electronic bill payment services in Poland, for an all-cash purchase price of approximately \$6.0 million. The results of BillBird's operations have been included in the consolidated financial statements since that date. Approval of this transaction by our shareholders was not required.

Leeward Islands Lottery Holding Company Inc.

On May 5, 2004, we completed the acquisition of privately-held Leeward Islands Lottery Holding Company Inc. ("LILHCo"), a lottery operating company headquartered on the Caribbean islands of Antigua and St. Croix, for an all-cash purchase price of approximately \$40 million. The results of LILHCo's operations have been included in the consolidated financial statements since that date. Approval of this transaction by our shareholders was not required.

Spielo Manufacturing Incorporated

On April 30, 2004, we completed the acquisition of privately-held Spielo Manufacturing Incorporated ("Spielo"), a leading provider of video lottery terminals ("VLTs") and related products and services to the global gaming industry, for an all-cash purchase price of approximately \$150 million. In addition, we paid Spielo shareholders approximately \$10.7 million out of a potential maximum earn-out amount of up to \$35 million, which Spielo shareholders were entitled to receive in the 18 months following the closing, based upon Spielo achieving certain VLT installation objectives in New York and separately, a working capital adjustment of approximately \$1.5 million. The results of Spielo's operations have been included in the consolidated financial statements since April 30, 2004. Approval of this transaction by our shareholders was not required.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4—BUSINESS ACQUISITIONS (Continued)

The following table summarizes the estimated fair values of Spielo's assets acquired and liabilities assumed at the date of the acquisition (in thousands):

Current assets	\$ 18,616
Systems, equipment and other assets relating to contracts, net	13,710
Goodwill	112,917
Property, plant and equipment, net	5,646
Intangible assets, net	31,470
Sales-type lease receivables	185
Deferred income taxes	1,683
Total Assets Acquired	184,227
Current liabilities	8,056
Long-term debt, less current portion	280
Deferred income taxes	12,644
Total Liabilities Assumed	20,980
Net Assets Acquired	<u>\$163,247</u>

Goodwill of \$112.9 million, which is not deductible for income tax purposes, was assigned to our single operating and reportable business segment, the Transaction Processing segment. Acquired intangible assets of \$31.5 million had a weighted average useful life of approximately 6 years at the date of acquisition as follows:

	<u>Weighted Average Period</u>	<u>Gross Carrying Amount</u> (in thousands)
<i><u>Subject to amortization</u></i>		
Customer contracts	7	\$19,840
Computer software	4	8,200
Non-compete agreement	5	370
Trademarks	4	160
		28,570
<i><u>Not subject to amortization</u></i>		
Trademarks		2,900
		<u>\$31,470</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5—INVENTORIES

	<u>February 25, 2006</u>	<u>February 26, 2005</u>
	(Dollars in thousands)	
Raw materials	\$19,465	\$29,622
Work in progress	37,157	15,492
Inventoried costs related to long-term contracts . . .	25,606	6,800
Finished goods	5,796	9,221
	<u>\$88,024</u>	<u>\$61,135</u>

Inventories include amounts we manufacture or assemble for our long-term service contracts and amounts related to product sales contracts, including product sales which are accounted for using contract accounting.

Amounts received from customers in advance of revenue recognition totaled \$63.8 million and \$42.9 million at February 25, 2006 and February 26, 2005, respectively, of which \$33.3 million and \$25.3 million were associated with inventoried costs related to long-term contracts. These amounts are included in Advance Payments from Customers in our Consolidated Balance Sheets.

NOTE 6—SYSTEMS, EQUIPMENT AND OTHER ASSETS RELATING TO CONTRACTS, NET

	<u>February 25, 2006</u>	<u>February 26, 2005</u>
	(Dollars in thousands)	
Land and buildings	\$ 1,182	\$ 1,182
Computer terminals and systems	1,436,750	1,407,134
Furniture and equipment	176,440	186,891
Contracts in progress	50,889	30,407
	1,665,261	1,625,614
Less accumulated depreciation	972,716	905,176
	<u>\$ 692,545</u>	<u>\$ 720,438</u>

NOTE 7—PROPERTY, PLANT AND EQUIPMENT, NET

	<u>February 25, 2006</u>	<u>February 26, 2005</u>
	(Dollars in thousands)	
Land and buildings	\$ 44,303	\$ 43,667
Furniture and equipment	127,871	124,562
Construction in progress	38,751	14,300
	210,925	182,529
Less accumulated depreciation	109,509	107,971
	<u>\$101,416</u>	<u>\$ 74,558</u>

As described further in Note 9 “License Fee” and Note 16 “Guarantees and Indemnifications”, under our Master Contract with the State of Rhode Island, we are responsible for the development of a new

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7—PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

world headquarters facility (“Facility”) in Providence, Rhode Island by December 31, 2006. We have engaged US Real Estate Limited Partnership (the “Developer”) to build, own and operate this Facility.

Under EITF Issue No. 97-10, “The Effect of Lessee Involvement in Asset Construction”, we are considered the owner of the Facility (for accounting purposes only). Accordingly, during fiscal 2006 and 2005, we capitalized approximately \$26.4 million and \$6.6 million of costs incurred by the Developer. These costs are included in construction in progress within Property, Plant and Equipment, net and a corresponding liability for the same amount is included in Other Liabilities in our Consolidated Balance Sheets at February 25, 2006 and February 26, 2005.

NOTE 8—GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets with indefinite lives are not amortized. Instead, they are tested annually for impairment, or more frequently if events or circumstances indicate that these assets may be impaired. Intangible assets deemed to have definite lives are amortized over their useful lives.

A reconciliation of the net carrying amount of goodwill is as follows:

	Fiscal Year Ended	
	February 25, 2006	February 26, 2005
	(Dollars in thousands)	
Balance at the beginning of the year	\$331,022	\$188,612
Goodwill acquired during the year	15,577	144,532
Adjustments to purchase price allocations during the year	<u>(503)</u>	<u>(2,122)</u>
Balance at the end of the year	<u>\$346,096</u>	<u>\$331,022</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8—GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

A reconciliation of the net carrying amount of intangible assets is as follows:

	Fiscal Year Ended	
	February 25, 2006	February 26, 2005
	(Dollars in thousands)	
Balance at the beginning of the year	\$ 70,839	\$ 28,231
Intangible assets acquired during the year:		
Purchase business combination related:		
Customer contracts	3,852	43,200
Capitalized computer software	134	8,447
Trademarks	—	3,060
Non-compete agreement	—	447
	3,986	55,154
License fee	1,750	—
Total intangible assets acquired	5,736	55,154
Other	(1,781)	70
Amortization expense	(10,582)	(12,616)
Balance at the end of the year	<u>\$ 64,212</u>	<u>\$ 70,839</u>

Purchase business combination intangible assets acquired during fiscal 2006 relate to the acquisition of an additional 11.681% of PolCard (refer to Note 4 for detailed disclosures).

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8—GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

The following tables present the information for intangible assets, which are being amortized over their estimated useful lives, with no estimated residual values.

As of February 25, 2006				
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(Dollars in thousands)				
<i><u>Subject to amortization</u></i>				
Customer contracts	10	\$ 56,162	\$15,735	\$40,427
Capitalized computer software . . .	5	24,599	19,619	4,980
License fees	20	14,250	1,728	12,522
Patents	6	5,100	2,053	3,047
Non-compete agreement	4	669	415	254
Trademarks	4	160	78	82
		<u>100,940</u>	<u>39,628</u>	<u>61,312</u>
<i><u>Not subject to amortization</u></i>				
Trademarks		<u>2,900</u>	<u>—</u>	<u>2,900</u>
		<u>\$103,840</u>	<u>\$39,628</u>	<u>\$64,212</u>

As of February 26, 2005				
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(Dollars in thousands)				
<i><u>Subject to amortization</u></i>				
Customer contracts	10	\$ 54,244	\$ 9,810	\$44,434
Capitalized computer software . . .	5	24,465	16,838	7,627
License fee	20	12,500	1,038	11,462
Patents	6	5,100	1,203	3,897
Non-compete agreement	4	669	275	394
Trademarks	4	160	35	125
		<u>97,138</u>	<u>29,199</u>	<u>67,939</u>
<i><u>Not subject to amortization</u></i>				
Trademarks		<u>2,900</u>	<u>—</u>	<u>2,900</u>
		<u>\$100,038</u>	<u>\$29,199</u>	<u>\$70,839</u>

The weighted average amortization period in total for intangible assets as of February 25, 2006 was 9 years.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8—GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

Amortization expense for fiscal 2006, 2005 and 2004 is as follows:

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004
	(Dollars in thousands)		
Customer contracts	\$ 6,061	\$ 8,468	\$1,342
Capitalized computer software . . .	2,799	2,447	1,544
Patents	850	850	353
License fee	690	625	413
Non-compete agreement	139	191	83
Trademarks	43	35	—
Total intangibles amortization . .	<u>\$10,582</u>	<u>\$12,616</u>	<u>\$3,735</u>

Amortization expense for the next five fiscal years and thereafter is estimated to be as follows (in thousands):

<u>Fiscal Year</u>	<u>Amortization Expense</u>
2007	\$ 9,675
2008	9,117
2009	6,345
2010	5,603
2011	4,642
Thereafter	<u>25,930</u>
Total	<u>\$61,312</u>

NOTE 9—LICENSE FEE

In May 2003, we entered into a Master Contract with the Rhode Island Lottery (the “Lottery”) that amended our existing contracts with the Lottery and grants us the right to be the exclusive provider of online, instant ticket and video lottery central systems and services for the Lottery during the 20-year term of the Master Contract for a \$12.5 million up-front license fee which we paid in July 2003. This license fee is included in Intangible Assets, net in our Consolidated Balance Sheet at February 25, 2006 and is being amortized as a reduction in service revenue on a straight-line basis over the 20-year term of the Master Contract. (See Note 8).

The Master Contract is part of a comprehensive economic development package that provides incentives for us to keep our world headquarters and manufacturing operations in Rhode Island. Under the terms of the Master Contract, we are to invest (or cause to be invested) at least \$100 million in the State of Rhode Island, in the aggregate, by December 31, 2008. This investment commitment includes the \$12.5 million up-front license fee; new online and video lottery related hardware, software and services; the development of a new world headquarters facility of at least 210,000 square feet in Providence, Rhode Island by December 31, 2006; and improvements to our existing manufacturing facility in West Greenwich, Rhode Island. We have agreed to employ at least 1,000 people full-time in Rhode Island by the end of calendar year 2005 (such requirement was met) and maintain that level of employment thereafter. In the

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9—LICENSE FEE (Continued)

event the State of Rhode Island takes certain actions which affect our financial performance, we will be automatically released from the in-state employment obligation. We currently plan to satisfy our obligation to invest (or cause to be invested) at least \$100 million in the State of Rhode Island by December 31, 2006. In addition, in July 2003 we entered into a tax stabilization agreement with the City of Providence (the “City”), whereby the City agreed to stabilize the real estate and personal property taxes payable in connection with our new world headquarters facility in the City for 20 years. We also agreed to complete and occupy the facility by December 31, 2006, employ 500 employees at the facility by 2009, and we made certain commitments regarding our employment, purchasing and education activities in the City. The Lottery may terminate the Master Contract in the event that we fail to meet our obligations as stated above.

NOTE 10—REFUNDABLE PERFORMANCE DEPOSIT

In September 2003, we entered into a 12-year contract extension to provide online lottery products and services to SAZKA, a.s. (“SAZKA”), the operator of lottery and betting games in the Czech Republic. The contract extension commenced on January 1, 2006 and expires on December 31, 2017. As part of the contract extension, we paid SAZKA a \$20 million performance deposit that SAZKA will repay upon the achievement of certain milestones (the first installment of \$8 million was repaid by SAZKA in January 2006). The remaining performance deposit is scheduled to be repaid as follows (in thousands):

On or before January 2, 2007	\$ 8,000
On or before January 2, 2008	2,000
On or before January 2, 2009	1,000
On or before January 2, 2010	<u>1,000</u>
	<u>\$12,000</u>

The amounts due subsequent to January 2, 2007 (\$4 million) are included in Other Assets in our Consolidated Balance Sheet.

NOTE 11—RESTRICTED ASSETS

Pursuant to a June 2004 ruling (the “Ruling”) in a civil action initiated by federal attorneys with Brazil’s Public Ministry, certain of our Brazilian assets totaling approximately \$10.7 million (including \$5.1 million of cash that was included in Other Assets in our Consolidated Balance Sheet at February 26, 2005), was restricted from transfer or sale. In July 2004, we filed an appeal of the Ruling and in March 2005, an appellate court decision ordered that the restrictions on the transfer or sale of our Brazilian assets be removed. Accordingly, there were no restricted assets as of February 25, 2006.

NOTE 12—PRODUCT WARRANTIES

We offer a product warranty on all of our manufactured products (primarily terminals and related peripherals) sold to our customers. Although we do not have a standard product warranty, our typical warranty provides that we will repair or replace defective products for a period of time (usually a minimum of 90 days) from the date revenue is recognized or from the date a product is delivered and tested. We estimate product warranty costs that we expect to incur during the warranty period and we record a charge to costs of sales for the estimated warranty cost at the time the product sale is recorded. In determining the

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12—PRODUCT WARRANTIES (Continued)

appropriate warranty provision, consideration is given to historical warranty cost information, the status of the terminal model in its life cycle and current terminal performance. We periodically assess the adequacy of our product warranty reserves and adjust them as necessary in the period when the information necessary to make the adjustment becomes available.

We typically do not provide a product warranty on purchased products sold to our customers but attempt to pass the manufacturer's warranty, if any, on to them.

A summary of product warranty activity for the twelve months ended February 25, 2006 and February 26, 2005 is as follows:

	Fiscal Year Ended	
	February 25, 2006	February 26, 2005
	(Dollars in thousands)	
Balance at the beginning of the year	\$1,634	\$ 749
Opening reserve balance associated with		
acquisitions	—	1,126
Additional reserves	733	1,508
Charges incurred	(630)	(1,201)
Change in estimate	(524)	(603)
Other	42	55
Balance at the end of the year	<u>\$1,255</u>	<u>\$ 1,634</u>

Our reserves for product warranty are included in Accrued Expenses in our Consolidated Balance Sheets.

NOTE 13—LONG-TERM DEBT

	February 25, 2006	February 26, 2005
	(Dollars in thousands)	
4.75% Senior Notes due October 2010	\$249,745	\$249,690
4.50% Senior Notes due December 2009	149,687	149,604
5.25% Senior Notes due December 2014	148,837	148,704
1.75% Convertible Debentures due December 2021	6,615	175,000
Fair value of interest rate swaps	(6,063)	541
Other, due through October 2007	2,586	5,266
	<u>551,407</u>	<u>728,805</u>
Less current portion	<u>9,148</u>	<u>2,476</u>
	<u>\$542,259</u>	<u>\$726,329</u>

At February 25, 2006, long-term debt matures as follows (in thousands):

	Fiscal						
	2007	2008	2009	2010	2011	Thereafter	Total
Long-term debt . .	<u>\$9,148</u>	<u>\$52</u>	<u>\$—</u>	<u>\$148,093</u>	<u>\$245,810</u>	<u>\$148,304</u>	<u>\$551,407</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13—LONG-TERM DEBT (Continued)

4.75% Senior Notes

In October 2003, Holdings issued, in a private placement, \$250 million principal amount of 4.75% Senior Notes due October 15, 2010, all of which were subsequently exchanged for 4.75% Senior Notes due October 15, 2010 registered under the Securities Act of 1933 (the “2010 Senior Notes”). The 2010 Senior Notes are unsecured and unsubordinated obligations of Holdings that are fully and unconditionally guaranteed by GTECH and certain of its subsidiaries. Interest is payable semi-annually in arrears on April 15 and October 15 of each year.

In conjunction with the 2010 Senior Notes offering, in October 2003, GTECH entered into three interest rate swap contracts that effectively convert \$150 million of the 2010 Senior Notes from a fixed rate debt to a floating rate debt for the period October 15, 2003 to October 15, 2010.

4.50% Senior Notes and 5.25% Senior Notes

In November 2004, Holdings issued, in a private placement, \$150 million principal amount of 4.50% Senior Notes due December 1, 2009, and \$150 million principal amount of 5.25% Senior Notes due December 1, 2014 (collectively, the “Senior Notes”). The Senior Notes were subsequently exchanged for notes with otherwise identical terms registered under the Securities Act of 1933 (the “registered Senior Notes”). The registration statement was initially filed on January 12, 2005 and was declared effective by the Securities and Exchange Commission on April 18, 2005. The registered Senior Notes are unsecured and unsubordinated obligations of Holdings that are fully and unconditionally guaranteed by GTECH and certain of its subsidiaries. Interest is payable semi-annually in arrears on June 1 and December 1 of each year.

In conjunction with the Senior Notes offering, in November 2004, GTECH entered into three interest rate swap contracts that effectively convert \$50 million of the registered Senior Notes from a fixed rate to a floating rate for the period November 2004 to December 2009 and \$25 million of the registered Senior Notes from a fixed rate to a floating rate for the period November 2004 to December 2014.

1.75% Convertible Debentures

In December 2001, Holdings issued, in a private placement, \$175 million principal amount of 1.75% Convertible Debentures due December 15, 2021 (the “Debentures”). The Debentures are unsecured and unsubordinated obligations of Holdings that are fully and unconditionally guaranteed by GTECH and certain of its subsidiaries. Interest on the Debentures is payable semi-annually in arrears on June 15 and December 15 of each year and accrues at an initial rate of 1.75% per year, subject to reset beginning December 15, 2006 under certain circumstances. In no event will the interest rate be reset below 1.75% or above 2.5% per year.

On or after December 15, 2006, we may redeem for cash, all or part of the Debentures at a redemption price equal to 100% of the principal amount of the Debentures, plus accrued interest up to, but not including, the date of redemption. Holders of the Debentures may require us to repurchase all or part of their Debentures on December 15, 2004, December 15, 2006, December 15, 2011 and December 15, 2016 at a price equal to 100% of the principal amount of the Debentures, plus accrued interest. We may choose to pay the purchase price in cash, shares of our common stock, or a combination of both. If we elect to pay any of the purchase price in shares, the number of shares we are required to deliver is equal to the portion of the purchase price paid in shares divided by 95% of the fair value of the

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13—LONG-TERM DEBT (Continued)

shares at the time of settlement. In addition, upon a change in control of our Company occurring on or before December 15, 2021, each Debenture holder may require us to repurchase all or a portion of such holder's Debentures for cash. No Debentures were tendered for repurchase on December 15, 2004.

We classified the Debentures as current assuming that should holders of the Debentures require us to repurchase all or a part of them on December 15, 2006 or should we redeem them for cash on or after December 15, 2006, we would use available cash for payment.

The Debentures are convertible at the option of the holder into shares of our common stock at an initial conversion rate of 72.7272 shares of common stock per \$1,000 principal amount of Debentures, which is equivalent to an initial conversion price of approximately \$13.75 per share, subject to certain adjustments, in the following circumstances:

- (i) if the sale price of our common stock is more than 120% of the conversion price (approximately \$16.50 per share) for at least 20 trading days in a 30 trading-day period prior to the date of surrender for conversion;
- (ii) during any period in which the credit ratings assigned to the Debentures by Moody's or Standard & Poor's are reduced to below Ba1 or BB, respectively, or in which the credit rating assigned to the Debentures is suspended or withdrawn by either rating agency;
- (iii) if the Debentures have been called for redemption; or
- (iv) upon the occurrence of specified corporate transactions.

Should the Debentures meet the conversion requirements, a total of 12.7 million shares of our common stock would be issuable. The Debentures became convertible on May 1, 2003 and remained convertible through the end of fiscal 2006 (February 25, 2006) because the sale price of our common stock was more than 120% of the conversion price (approximately \$16.50 per share) for at least 20 trading days in a 30 trading-day period.

During fiscal 2006, \$168.4 million principal amount of the Debentures were converted by holders of the Debentures, resulting in the issuance of 12.2 million shares of Holdings' common stock.

Credit Facility

We have a \$500 million unsecured revolving credit facility expiring on October 25, 2009 (the "Credit Facility"). The Credit Facility is unsecured and unsubordinated and is fully and unconditionally guaranteed by Holdings and certain of GTECH's subsidiaries. Interest is generally payable monthly in arrears at rates determined by reference to the LIBOR rate plus a margin based on Holdings senior unsecured long-term debt rating. At February 25, 2006 and February 26, 2005, there were no outstanding borrowings under the Credit Facility. At February 25, 2006, GTECH was required to pay a facility fee of .125% per annum on the total revolving credit commitment. The Credit Facility includes a letter of credit facility of up to \$100 million. At February 25, 2006, we had \$6.0 million of letters of credit issued and outstanding under the Credit Facility and \$75.4 million of letters of credit issued and outstanding outside of the Credit Facility. The total weighted average annual cost for all letters of credit was 0.76%.

The credit agreement for the Credit Facility has covenants including, among other things, requirements relating to the maintenance of certain financial ratios. There are no covenants in the Credit Facility that restrict our ability to pay dividends.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13—LONG-TERM DEBT (Continued)

During fiscal 2006, we paid annual cash dividends on our common stock of \$0.34 per share. At February 25, 2006, we had \$595 million of retained earnings available for the payment of dividends.

At February 25, 2006 we were in compliance with all applicable covenants contained in our debt agreements.

NOTE 14—FINANCIAL INSTRUMENTS

Credit risk

We manage our exposure to counterparty credit risk by entering into financial instruments with major, financially sound counterparties with high-grade credit ratings and by limiting exposure to any one counterparty.

Cash and cash equivalents

Cash equivalents are stated at cost, which approximates fair value.

Investment securities available-for-sale

The carrying amounts of our investment securities (which approximate fair value) are as follows:

	February 25, 2006	February 26, 2005
	(Dollars in thousands)	
State and Municipal Auction Rate Securities	\$176,025	\$196,825
State and Municipal Variable Rate Demand Obligations	84,700	—
	<u>\$260,725</u>	<u>\$196,825</u>

Long-term debt

The carrying amounts and estimated fair values of our debt, as determined by an independent investment banker, are as follows:

	February 25, 2006		February 26, 2005	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(Dollars in thousands)			
4.75% Senior Notes due October 2010	\$249,745	\$245,015	\$249,690	\$248,565
4.50% Senior Notes due December 2009	149,687	145,946	149,604	148,620
5.25% Senior Notes due December 2014	148,837	150,771	148,704	149,238
1.75% Convertible Debentures due December 2021	6,615	16,124	175,000	304,500
Fair value of interest rate swaps	(6,063)	(6,063)	541	541
Other, due through October 2007	2,586	2,586	5,266	5,266
	<u>\$551,407</u>	<u>\$554,379</u>	<u>\$728,805</u>	<u>\$856,730</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14—FINANCIAL INSTRUMENTS (Continued)

Foreign currency exchange contracts

The following table summarizes, by major currency, the contractual amounts of our forward exchange and option contracts translated to United States dollars using the contractual forward foreign exchange rates. The buy and sell amounts represent the United States dollar equivalent of commitments to purchase and sell foreign currencies.

	February 25, 2006		February 26, 2005	
	Buy Contracts	Sell Contracts	Buy Contracts	Sell Contracts
	(Dollars in thousands)			
Brazilian real	\$10,000	\$15,000	\$10,100	\$ —
Mexican peso	5,579	946	3,929	—
Taiwan dollar	3,312	627	7,010	—
Canadian dollar	2,776	3,211	6,491	—
Swedish krona	2,351	—	3,705	1,250
Euro	2,207	23,862	6,195	24,876
Pounds sterling	1,924	—	7,643	11,618
Columbian peso	—	4,079	—	—
Czech koruna	—	—	—	3,108
Other	3,986	4,339	1,327	8,106
	<u>\$32,135</u>	<u>\$52,064</u>	<u>\$46,400</u>	<u>\$48,958</u>

The fair value of our foreign currency exchange contracts (which was not material at February 25, 2006) are estimated based on quoted market prices of comparable contracts, adjusted through interpolation when necessary for maturity differences.

Interest rate swaps

Interest rate swaps outstanding and the related debt instruments are as follows:

	February 25, 2006		February 26, 2005	
	Debt Carrying Amount	Interest Rate Swaps Outstanding	Debt Carrying Amount	Interest Rate Swaps Outstanding
	(Dollars in thousands)			
4.75% Senior Notes due October 2010	\$249,745	\$150,000	\$249,690	\$150,000
4.50% Senior Notes due December 2009	149,687	50,000	149,604	50,000
5.25% Senior Notes due December 2014	148,837	25,000	148,704	25,000

These interest rate swaps exchange fixed interest rates for variable interest rates through the due date of the related debt instrument.

During the first quarter of fiscal 2005, in connection with the repurchase of \$90 million of 7.87% Series B Guaranteed Senior Notes due May 2007, we recorded a net charge of \$0.8 million, principally comprised of a redemption premium net of deferred interest rate swap gains, which we recorded in Other Income (Expense) in our Consolidated Income Statement.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14—FINANCIAL INSTRUMENTS (Continued)

Treasury rate lock agreements

During the third quarter of fiscal 2005, we entered into agreements (which have since matured) to lock in interest rates to hedge against potential increases to interest rates prior to the issuance of our Senior Notes due December 2009 and December 2014. We determined that the treasury rate lock agreements were highly effective and qualified for hedge accounting. The related gains were deferred and recorded in Accumulated Other Comprehensive Loss in our Consolidated Balance Sheet and are being amortized to interest expense over the life of the respective debt instruments. As of February 25, 2006 and February 26, 2005, the unamortized gains were \$1.7 and \$2.0 million, respectively.

NOTE 15—COMMITMENTS AND CONTINGENCIES

Contracts

Our facilities management contracts generally contain time schedules for, among other things, commencement of system operations and the installation of terminals, as well as detailed performance standards. We are typically required to furnish substantial bonds to secure our performance under contracts. In addition to other possible consequences, including contract termination, failure to meet specified deadlines or performance standards could trigger substantial penalties in the form of liquidated damage assessments. Many of our contracts permit the customer to terminate the contract at will and do not specify the compensation, if any, that we would be entitled to, were such a termination to occur. In fiscal 2006, 2005 and 2004, we paid or incurred liquidated damages (with respect to our contracts) of \$8.0 million, \$2.3 million and \$5.2 million, respectively.

Acquisition

We entered into an agreement in December 2004, as amended in January 2006, to acquire a 50% controlling equity position in the Atronic group of companies (“Atronic”) owned by Paul and Michael Gauselmann (the “Gauselmanns”). The remaining 50% of Atronic will be retained by the Gauselmanns. Atronic is a video gaming machine manufacturer and also develops video machine games and customized solutions for dynamic gaming operations. This transaction is contingent upon regulatory and gaming license approvals and other closing conditions, and is expected to be completed by December 2007.

The final purchase price for Atronic will be calculated pursuant to a performance-based formula equal to eight times Atronic’s EBITDA (earnings before interest, taxes, depreciation and amortization) for its fiscal year ending December 31, 2006, provided however, that the payment shall not be less than Euro 20 million. In addition, the Gauselmanns have the potential to receive an earn-out payment one year after the closing, if Atronic’s 2007 performance exceeds certain specified thresholds. However, if Euro 20 million was paid at the closing and if such payment exceeds the payment that would have been made pursuant to the performance-based formula, then any excess will be applied to the earn-out payment. Should we purchase the remaining 50% interest in Atronic, any remaining unapplied excess would be credited toward that purchase. We currently expect the all-cash transaction will have a total value of approximately \$100 million to \$150 million, for our 50% share, including the assumption of debt.

Through the end of 2011, we have the option to purchase the Gauselmanns’ remaining 50% interest in Atronic at a price calculated pursuant to a performance based formula equal to eight times Atronic’s EBITDA for its previous twelve months, plus an earn-out payment pursuant to a performance based formula if certain specified thresholds are exceeded. However, the payment for the second 50% shall not

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15—COMMITMENTS AND CONTINGENCIES (Continued)

be less than Euro 50 million. During this period, the Gauselmanns have put rights that become effective only under certain circumstances. The exercise price of these puts under the specified circumstances would be calculated through a performance based formula.

Beginning in 2012, we have the option to purchase the Gauselmanns' remaining interests in Atronic and Gauselmann has a reciprocal right to sell its interest to us at a value determined by independent appraisers.

Litigation

Brazilian Legal Proceedings

The CEF Contract Proceedings

Background. In January 1997, Caixa Economica Federal ("CEF"), the Brazilian bank and operator of Brazil's National Lottery, and Racimec Informática Brasileira S.A. ("Racimec"), the predecessor of the Company's subsidiary GTECH Brasil Ltda. ("GTECH Brazil"), entered into a four-year contract pursuant to which GTECH Brazil agreed to provide online lottery services and technology to CEF (the "1997 Contract"). In May 2000, CEF and GTECH Brazil terminated the 1997 Contract and entered into a new agreement (the "2000 Contract") obliging GTECH Brazil to provide lottery goods and services and additional financial transaction services to CEF for a contract term that, as subsequently extended, was scheduled to expire in April 2003. In April 2003, GTECH Brazil entered into an agreement with CEF (the "2003 Contract Extension") pursuant to which: (a) the term of the 2000 Contract was extended into May 2005, and (b) fees payable to GTECH Brazil under the 2000 Contract were reduced by 15%.

In May 2005, CEF completed a procurement process for products and services to replace those that we provided under the 2000 Contract. Based upon the commodity auction nature of the procurement process and the revenue restrictions that were then imposed on us by the courts at the time, we elected not to participate in the bid process. CEF also announced at such time that it was developing its central system in-house.

In May 2005, CEF and GTECH Brazil entered into a new agreement (the "2005 Contract") to provide the same lottery and financial transaction goods and services as were provided under the 2000 Contract. The 2005 Contract includes a discount of approximately 12% from the then-current pricing under the 2000 Contract and provides for a contract term through May 14, 2006, unless CEF elects to extend the term beyond such date. In addition, the 2005 Contract provides for GTECH Brazil to be paid in part based upon the number of terminals installed and connected to the GTECH Brazil central system. As and when new terminals are installed and connected to the CEF central system, terminals will be de-installed from the GTECH Brazil central system, and as this occurs, revenues otherwise payable to GTECH Brazil under the 2005 Contract will be correspondingly reduced. The de-installation of GTECH Brazil terminals from our central system will materially reduce our revenues to be received under the 2005 Contract and any short-term extensions thereof. We may be required to record a charge of \$48.4 million to our consolidated income statement respecting accumulated foreign currency translation losses related to our operations in Brazil upon the expiration of the 2005 Contract.

Fiscal 2006 revenues from the 2000 Contract through May 14, 2005, and from the 2005 Contract thereafter, accounted for approximately 11.1% of our total revenues for fiscal 2006, making CEF our largest customer in fiscal 2006 based on revenues.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15—COMMITMENTS AND CONTINGENCIES (Continued)

Criminal Allegations Against Certain Employees And Related SEC Investigation. As previously reported, in late March 2004 federal attorneys with Brazil's Public Ministry (the "Public Ministry Attorneys") recommended that criminal charges be brought against nine individuals, including four senior officers of CEF, Antonio Carlos Rocha, the former Senior Vice President of Holdings and President of GTECH Brazil; and Marcelo Rovai, GTECH Brazil's marketing director.

The Public Ministry Attorneys had recommended that Messrs. Rocha and Rovai be charged with offering an improper inducement in connection with the negotiation of the 2003 Contract Extension, and co-authoring, or aiding and abetting, certain allegedly fraudulent or inappropriate management practices of the CEF management who agreed to enter into the 2003 Contract Extension. No other current or former employee of the Company or GTECH Brazil has been implicated by the Public Ministry Attorneys. Neither the Company nor GTECH Brazil is the subject of this criminal investigation, and under Brazilian law (which provides that criminal charges may not be brought against corporations or other entities), we cannot be subject to criminal charges in connection with this matter.

As previously reported, in June 2004, the judge reviewing these charges prior to their being filed refused to initiate the criminal charges against the nine individuals, including against Messrs. Rocha and Rovai, but instead granted a request by the Brazilian Federal Police to continue the investigation which had been suspended upon the recommendation of the Public Ministry Attorneys that criminal charges be brought.

The Brazilian Federal Police subsequently ended their investigation and presented a report of their findings to the court. This report did not recommend that indictments be issued against Messrs. Rocha or Rovai, or against any current or former employee of the Company.

The Public Ministry Attorneys have since requested that the Brazilian Federal Police reopen their investigation. We understand that investigations by the Brazilian Federal Police are ongoing, including an investigation respecting the award of, and performance under, the 1997 Contract and the 2000 Contract.

As previously reported, we are cooperating fully with the investigations by Brazilian authorities and have encouraged Messrs. Rocha and Rovai to do the same.

In addition, as previously reported, we conducted an internal investigation of the 2003 Contract Extension under the supervision of the independent directors of GTECH Holdings Corporation. The investigation did not reveal any reason to believe that any of our current or former employees had committed any criminal offenses.

Notwithstanding the favorable resolution of the Brazilian Federal Police's initial investigation, on January 31, 2006, a special investigating panel of the Brazilian congress issued a preliminary report and voted, among other things, to ask the Public Ministry Attorneys to indict CEF President Jorge Mattoso and more than 30 other people, including one current and three former employees of GTECH Brazil, alleging that the individuals helped us to illegally obtain the 2003 Contract Extension. The report also recommends that the 2005 Contract terminate, and not be extended by CEF, upon the expiration of the term of the 2005 Contract in May 2006. We find nothing in the congressional report to cause us to believe that any present or former employee of the Company committed any criminal offense in connection with obtaining the 2003 Contract Extension. Nevertheless, there can be no assurance that the Public Ministry Attorneys will not seek to indict or initiate criminal charges against one or more current or former GTECH Brazil employees in the wake of the issuance of the congressional report, or that the final congressional report will not request additional action against us.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15—COMMITMENTS AND CONTINGENCIES (Continued)

As previously reported, the SEC began an informal inquiry in February 2004, which formal inquiry became a formal investigation in July 2004, into the Brazilian criminal allegations against Messrs. Rocha and Rovai, and our involvement in the facts surrounding the 2003 Contract Extension, to ascertain whether there has been any violation of United States law in connection with these matters. In addition, in May 2005, representatives of the United States Department of Justice asked to participate in a meeting with the Company and the SEC. The Company has cooperated fully with the SEC and the United States Department of Justice with regard to these matters, including by responding to their requests for information and documentation.

To date we have found no evidence that the Company, or any of its current or former employees, has violated any United States law, or is otherwise guilty of any wrongdoing in connection with these matters.

In light of the fact that our reputation for integrity is an important factor in our business dealings with lottery and other governmental agencies, an allegation or finding of improper conduct by us or any of our current or former employees that is attributable to us could have a material adverse effect on our results of operations, business or prospects, including our ability to retain existing contracts or to obtain new or renewal contracts within Brazil and elsewhere.

Civil Action By The Public Ministry Attorneys. As previously reported, in April 2004 the Public Ministry Attorneys initiated a civil action in the Federal Court of Brasilia against GTECH Brazil; 17 former officers and employees of CEF; the former president of Racimec; Antonio Carlos Rocha; and Marcos Andrade, another former officer of GTECH Brazil. The focus of this civil action is the contractual relationship between CEF, GTECH Brazil and Racimec during the period 1994 to 2002. This civil action alleges that the defendants acted illegally in entering into, amending and performing, the 1997 Contract, and the 2000 Contract.

As previously reported, this lawsuit also seeks to impose damages equal to the sum of all amounts paid to us under the 1997 Contract and the 2000 Contract, and certain other permitted amounts, minus our proven investment costs. The applicable statute also permits the assessment of interest and, in the discretion of the court, penalties of up to three times the amount of the damages imposed. We estimate that through the date of the lawsuit we received under the 1997 Contract and the 2000 Contract a total of approximately 1.5 billion Brazilian reais (or approximately 702 million United States dollars at currency-exchange rates in effect as of February 25, 2006). In addition, although it is unclear how investment costs would be determined for purposes of this lawsuit, we estimate that our investment costs through the date of the lawsuit were approximately between 1.2 billion and 1.4 billion Brazilian reais (or approximately between 562 million and 656 million United States dollars) at currency exchange rates in effect as of February 25, 2006 in aggregate; however, these investment costs could be disputed by CEF, and are ultimately subject to approval by the court.

As previously reported, we believe we have good and adequate defenses to the claims made in this lawsuit. We intend to defend ourselves vigorously in these proceedings, which, we have been advised by our Brazilian counsel, are likely to take several years, and could take longer than 15 years in certain circumstances, to litigate through the appellate process to final judgment. It is our position that we were appropriately awarded the 1997 Contract by CEF after a competitive procurement, and that at all times since 1997, we have been appropriately compensated for services performed under valid contracts with the CEF.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15—COMMITMENTS AND CONTINGENCIES (Continued)

While we cannot rule out the possibility that we will ultimately be held liable in this matter, or estimate the amount of such liability in such event, we believe that the outcome of this lawsuit is not likely to have a material adverse affect on our results of operations or business.

As previously reported, in June 2004, the Federal Court of Brasilia granted a procedural injunction in connection with this civil matter which ordered that 30% of payments made subsequent to the date of the injunction to GTECH Brazil by CEF under the 2000 Contract be withheld and deposited into an account maintained by the Court. This injunction also put in place restrictions that effectively prevented the transfer or sale of our Brazilian assets, including the share capital of GTECH Brazil, with certain limited exceptions. The injunction was granted as part of a confidential ex parte proceeding in which we were not afforded an opportunity to participate.

We filed an appeal respecting the court's grant of this injunction in July 2004. On March 22, 2005, a panel of judges of the Brazilian Federal Court of Appeals heard our appeal of the procedural injunction granted by the Federal Court of Brasilia and issued an order: (a) discontinuing the withholding of payments due to GTECH Brazil from CEF that had been mandated by the procedural injunction; (b) removing the procedural injunction's restrictions on the transfer or sale of our Brazilian assets; and (c) requiring the return to GTECH Brazil of amounts in excess of 40 million Brazilian reais held in escrow pursuant to the procedural injunction, thereby permitting the return to GTECH of approximately 11 million United States dollars of the 26 million United States dollars held in escrow as of the end of fiscal 2005. The appeals court also ordered that 40 million Brazilian reais continue to be held in escrow, and that the procedural injunction's requirements that defendants report assets to the court, and that the Brazilian Central Bank report any transaction associated with these assets, be maintained. We have appealed the Court of Appeals decision with respect to the continued withholding of 40 million Brazilian reais in a court account and the deadline for the Public Ministry Attorneys to appeal this decision of the Court of Appeals has expired. Amounts, exclusive of interest, held in escrow as of February 25, 2006 were valued at approximately 18.2 million United States dollars at currency exchange rates in effect as of such date.

Popular Claim. As previously reported, in February 2004, Vincius Bijos, a Brazilian, commenced a public class action lawsuit in Brazil's Brasilia District Court of the Federal District against the Brazilian Federal government; CEF; several former and current officers of CEF; the former president of Racimec; and GTECH Brazil, seeking, among the relief requested of the Court, a preliminary injunction prohibiting CEF from making further payments to GTECH Brazil under the now superceded 2000 Contract, and an order that would terminate such contract and require the defendants, jointly and severally, to refund amounts received by GTECH Brazil under the 1997 Contract and the 2000 Contract, together with interest, appropriate monetary adjustments, court costs and expenses. This public class action lawsuit bases its claims upon numerous alleged defects and irregularities, which the suit asserts violate Brazilian law, in the 1997 Contract and the 2000 Contract, and the manner in which the procurement processes that gave rise to the awards of these contracts were organized and administered. We intend to mount a vigorous challenge to the far-reaching claims that make up this lawsuit. We note that the Public Ministry Attorneys filed an opinion with the federal court disagreeing with the request that an injunction enjoining payments from CEF to GTECH Brazil be entered and requesting that this suit be consolidated with the Public Ministry Attorneys' civil action described above.

We believe that we have good and adequate defenses in this matter and intend to defend ourselves vigorously in these proceedings. We further believe that the claims and determinations of the public class action lawsuit will be merged into the civil action instituted by the Public Ministry Attorneys described

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15—COMMITMENTS AND CONTINGENCIES (Continued)

above, and are, accordingly, unlikely to represent an independent source of liability for us. While we cannot rule out the possibility that we will ultimately be held liable in this matter, or estimate the amount of such liability in such event, we believe that the outcome of this lawsuit is not likely to have a material adverse effect on our results of operations or business.

TCU Audit. As previously reported, in June 2003, the Federal Court of Accounts (“TCU”), the court charged with auditing agencies of the Brazilian federal government and its subdivisions, summoned us, together with several current and former employees of the CEF, to appear before TCU’s Brasilia court to show cause why the defendants should not be required to jointly pay a base amount determined on a preliminary basis by the TCU to be due of 91,974,625 Brazilian reais, duly indexed for inflation and interest as of May 26, 2000 (Decision No. 692/2003). We estimate that this claim, in aggregate, is for the local currency equivalent of approximately 43 million United States dollars at currency exchange rates in effect as of February 25, 2006. The allegations underlying this summons are set forth in a report (the “2003 Audit Report”) issued by the TCU in May 2003 respecting an audit conducted by the TCU of the 1997 Contract.

The central allegation of the 2003 Audit Report is that under the 1997 Contract we were accorded certain payment increases respecting lottery services, and we contracted to supply to CEF certain lottery-related services, that were not contemplated by the procurement process respecting the 1997 Contract and that are not otherwise permitted under applicable Brazilian law. The 2003 Audit Report alleges that as a result of this, CEF overpaid us under the 1997 Contract for the period commencing in January 1997 through May 26, 2000, and that we are liable with respect to such alleged overpayments as specified above. The 2003 Audit Report does not allege that we have acted improperly.

In November 2003, we presented our defense to the claims and preliminary determination of the TCU that CEF had overpaid us. In light of its defense, in September 2004, the TCU reduced its determination of the amount alleged to have been overpaid to us by CEF under the 1997 Contract from 91,974,625 Brazilian reais to 30,317,721 Brazilian reais, or approximately 14 million United States dollars at currency exchange rates in effect as of February 25, 2006. This determination by the TCU remains subject to approval by TCU’s judges.

In June 2005, the TCU issued a second preliminary report (the “2005 Audit Report”; collectively with the 2003 Audit Report, the “TCU Audit Reports”) respecting our contracts with CEF. While we have not been formally served with a copy of the 2005 Audit Report, we understand that its central allegations are that the 1997 Contract was improperly transferred from Racimec to GTECH Brazil; we were accorded certain payment increases respecting financial services transactions that were not contemplated by the procurement process respecting the 1997 Contract or otherwise permitted under applicable Brazilian law; and the 2003 Contract Extension was entered into a manner inconsistent with Brazilian law and the procurement process respecting the 1997 Contract. The 2005 Audit Report alleges that as a result of these considerations, CEF overpaid us under the 1997 Contract and the 2000 Contract. The 2005 Audit Report seeks payment from the Company of a base amount determined on a preliminary basis by TCU to be approximately 300 million Brazilian reais. We estimate this claim in aggregate, is for the local currency equivalent of approximately 140 million United States dollars at currency exchange rates in effect as of February 25, 2006. Amounts sought by the TCU under the 2005 Audit Report are independent of, and in addition to, amounts sought under the 2003 Audit Report.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15—COMMITMENTS AND CONTINGENCIES (Continued)

We plan to vigorously defend ourselves against the allegations made by TCU in the TCU Audit Reports and the proceedings initiated by the TCU with respect thereto. We believe that we have good defenses to the claims and determinations of the TCU. We further believe that the claims and determinations of the TCU Audit Reports will, in essence, be merged into the civil action instituted by the Public Ministry Attorneys described above, and are accordingly unlikely to represent an independent potential source of liability for us. While we are unable to rule out the possibility that we will ultimately be held liable in this matter, we believe that the outcome of this matter is not likely to have a material adverse effect on our results of operations or business.

Serlopar Suit

As previously reported, in April 2002 Serlopar, the lottery authority for the Brazilian state of Parana, sued our subsidiaries Dreamport Brasil Ltda. and GTECH Brazil in the 2nd Public Finance Court of the City of Curitiba, State of Parana, under an agreement dated July 31, 1997, as amended (the “VLT Agreement”). Pursuant to the VLT Agreement, we agreed to install and operate video lottery terminals (“VLTs”) in Parana. The Serlopar lawsuit alleges that we installed only 450 of the 1,000 VLTs that we were allegedly obliged to install, and that we were overpaid, and failed to reimburse Serlopar certain amounts alleged to be due to Serlopar, under the VLT Agreement. The Serlopar lawsuit seeks payment from us in an amount (after adjustment for inflation and interest through February 25, 2006) equal to 124,252,740 Brazilian reais, or approximately 58 million United States dollars (at currency exchange rates in effect on February 25, 2006), together with unspecified amounts alleged to be due from the defendants with respect to general losses and damages (including loss of revenues), court costs and legal fees. We believe we have good defenses to the claims made by Serlopar in this lawsuit, and intend to continue to defend ourselves vigorously in these proceedings. We believe that the outcome of this suit will not have a material adverse impact on our results of operations or business.

Other Legal Proceedings

Shareholder Class Action Suits

On January 10, 2006, the Company and Lottomatica announced that they had entered into an agreement (the “Merger Agreement”) pursuant to the terms and conditions of which Lottomatica has agreed to acquire the Company for merger consideration equal to \$35.00 in cash per Holdings share. Two shareholder class action lawsuits were subsequently filed against us and our directors respecting this proposed merger.

On January 12, 2006, a shareholder class action lawsuit captioned *Ralph Sellite, individually and on behalf of all others similar situated, v. GTECH Holdings Corporation, W. Bruce Turner, Robert M. Dewey, Paget L. Alves, Christine M. Courmoyer, James F. McCann, The Rt. Hon. Sir Jeremy Hanley KCMG, Philip R. Lochner, Jr., Anthony Ruys and Burnett W. Donoho*, was filed in the Rhode Island Superior Court of Kent County. This lawsuit generally alleges that the consideration to be received by our shareholders in connection with the merger with Lottomatica is inadequate and that the individual defendants breached their fiduciary duties to our shareholders by approving the merger transaction on the basis of such allegedly inadequate consideration and under circumstances of certain allegedly disabling conflicts of interest. The lawsuit further alleges that we aided and abetted the individual defendants in the breach of their fiduciary duties to our shareholders by entering into the Merger Agreement. The complaint seeks injunctive relief: (i) declaring the Merger Agreement to have been entered into in breach of the fiduciary

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15—COMMITMENTS AND CONTINGENCIES (Continued)

duties of the individual defendants, and therefore unlawful and unenforceable; (ii) enjoining the defendants from proceeding with the Merger Agreement, including consummating the proposed transaction, unless the defendants implement procedures to obtain the highest possible price for the Company; and (iii) directing the individual defendants to obtain a transaction which is in the best interests of our shareholders and to exercise their fiduciary duties to disclose all material information in their possession respecting the proposed transaction prior to our shareholder vote on same. The complaint also seeks to recover costs and disbursements from us and the individual defendants, including reasonable attorneys' and experts' fees.

On March 6, 2006, a second shareholder class action lawsuit, captioned *Claire Partners, on behalf of itself and all others similar situated, v. W. Bruce Turner, Robert M. Dewey, Jr., Paget L. Alves, Christine M. Cournoyer, Burnett W. Donoho, The Rt. Hon. Sir Jeremy Hanley KCMG, Philip R. Lochner, Jr., James F. McCann, Anthony Ruys, GTECH Holdings Corporation, and Lottomatica S.p.A.*, was filed in the Rhode Island Superior Court of Kent County. This lawsuit generally alleges that each of the individual defendants breached their fiduciary duties to our shareholders by reason of agreeing to consummate the merger between the Company and Lottomatica on the basis of allegedly inadequate consideration and under circumstances of certain allegedly disabling conflicts of interest, and for allegedly failing to fully and fairly disclose details of the transaction to our shareholders. The complaint further alleges that Lottomatica aided and abetted the individual defendants in such alleged breaches of their fiduciary duties. The complaint seeks injunctive relief: (i) declaring the defendants to have breached their fiduciary duties and/or aided and abetted such breaches; (ii) enjoining or rescinding the Merger Agreement; (iii) awarding plaintiff class compensatory and/or necessary damages as well as allowable interest; (iv) awarding plaintiffs the cost of disbursements and reasonable attorneys' and expert's fees and other costs; and (v) awarding the plaintiffs such other relief that the court may deem just and equitable.

We plan to vigorously defend ourselves and our directors against the claims made in these lawsuits which we believe to be without merit. Nevertheless, at the present time we are unable to predict the outcome of these lawsuits.

Argentina Money Transfer Matter

In February 2005, GTECH Foreign Holdings Corporation, Argentina Branch ("GFHC") and the Company's Argentina legal counsel, Dr. Jorge Perez of Perez, del Barba and Rosenblum, received notification from the Central Bank of Argentina that they were being indicted for alleged violations of Argentina's currency exchange laws. The Argentina laws in question prohibit the transfer of foreign currency from Argentina, subject to certain exceptions not here relevant. At issue is a February 2002 agreement (the "BofA Agreement") between GFHC and Bank of America, N.A., Buenos Aires Branch ("BofA") pursuant to which BofA assigned to GFHC a certificate of deposit in the amount of 571,429 United States dollars (the "CD"), issued by Bank of America, Charlotte, North Carolina Branch ("BofA-North Carolina"), in consideration for the payment of 1.4 million Argentina pesos. Upon maturity of the CD, the agreement provided for BofA-North Carolina to pay 571,429 United States dollars to a GFHC branch bank account in the United States. We understand that the central claim of the Argentina Central Bank's indictment will be that GFHC's agreement with BofA was a transaction in which foreign currency was transferred, in essence, from Argentina to the United States in violation of applicable Argentina law.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15—COMMITMENTS AND CONTINGENCIES (Continued)

If GFHC is found guilty of violating applicable Argentina currency exchange laws, as charged in the indictment, we would be liable to pay a fine of up to approximately 5.7 million United States dollars (i.e., ten times the amount of United States dollars allegedly transferred from Argentina) and could be prohibited for up to ten years from importing goods into, or exporting goods from, Argentina.

We note that BofA, which solicited us to enter into the BofA Agreement, and approximately 20 other customers of BofA including several subsidiaries of large multi-national corporations, have been indicted in connection with transactions similar to the transaction outlined in the BofA Agreement. We understand that the Central Bank of Argentina's indictments against BofA were rejected by the courts. BofA explicitly represented to us in the BofA Agreement that the transaction described therein did not violate any Argentina law or regulation, and we believe that we took appropriate measures independent of this representation (including obtaining the opinion of local counsel) in advance of entering into the BofA Agreement to ascertain that this transaction was legal under applicable Argentina law. We believe that we have good defenses to the claims made in the indictment, and we intend to vigorously defend ourselves in these proceedings. We do not believe that the outcome of this suit will have a material impact on our results of operations or business.

Trinidad and Tobago

In 1993, a subsidiary of GTECH and the National Lottery Control Board ("NLCB") of Trinidad and Tobago ("Trinidad") entered into an agreement (the "Trinidad Agreement") for a five year term pursuant to which we would provide online lottery services and technology to the NLCB. We assigned that contract to a subsidiary (the "Subsidiary") doing business in Trinidad and Tobago. In July 1999, the Trinidad Agreement was amended to extend the term for an additional seven years, and to increase the compensation that the Subsidiary would receive if lottery proceeds in Trinidad exceeded a stated threshold. In connection with negotiating this extension, we proposed to provide up to \$2.8 million in funding for community programs in Trinidad, and the extension amendment we entered into requires the Subsidiary to undertake such community programs in Trinidad as are agreed with the NLCB.

From 1999 until 2001, the Subsidiary paid \$1.9 million to a private entity in connection with a proposal, approved by the NLCB, to provide community services in Trinidad. In March 2006, representatives of the Attorney General of Trinidad contacted us regarding an allegation that a portion of that amount was paid by the private entity to a person who was a financial supporter of a Trinidad political party, and that the private entity had provided no services in return for the payments. We have commenced an investigation into the circumstances surrounding the payments. The investigation is ongoing.

We have informed the SEC about the allegations and investigation. The SEC or other law enforcement agencies in the United States or Trinidad may commence investigations and actions as a result of the allegations or the investigation. The NLCB also may pursue an investigation or commence legal action as a result of the allegations. In the event that any such investigation or action is commenced, we may be subject to fines, penalties or adverse judgments in amounts that cannot be determined at this time.

In light of the fact that our reputation for integrity is an important factor in our business dealings with lottery and other governmental agencies, an allegation or finding of improper conduct by us or any of our current or former employees that are attributable to us could have a material adverse effect on our results of operations, business or prospects, including our ability to retain existing contracts, renew our existing contract with the NLCB or obtain new or renewal contracts elsewhere.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15—COMMITMENTS AND CONTINGENCIES (Continued)

Cohen Suit

As previously reported, on August 7, 2002 we terminated without cause the employment of Howard S. Cohen, our former President and Chief Executive Officer. In March 2003, Mr. Cohen attempted to exercise options granted by us in April 2002 to purchase (on a pre-split adjusted basis) 450,000 shares of our Common Stock at a per-share exercise price of \$23.30. The non-qualified stock option agreement entered into between Mr. Cohen and us respecting the April 2002 grant of options provides by its terms that, in the event that Mr. Cohen's employment was terminated without cause, options remaining exercisable must be exercised within six months from the date of termination (i.e., by February 7, 2003).

Because Mr. Cohen failed to exercise his April 2002 options within the term provided in the applicable stock option agreement, we did not permit Mr. Cohen to exercise these options. In May 2003, Mr. Cohen filed suit in Rhode Island Superior Court against us and the attorneys who had advised him in connection with the negotiation of his severance agreement, respecting his attempt to exercise the April 2002 stock options. The suit, captioned *Howard S. Cohen v. GTECH Corporation, GTECH Holdings Corporation, Michael J. Tuchman, Levenfeld Pearlstein, Charlene F. Marant and Marant Enterprises Holdings LLC*, alleges that: (i) we breached our agreements with Mr. Cohen in failing to allow him to exercise his April 2002 options; (ii) through fraud by us, or the mutual mistake of the parties, the April 2002 option grant does not reflect the intent of the parties, and (iii) we had a duty to advise Mr. Cohen of his mistaken belief (if such it was) as to the exercise term of the April 2002 options, and failed to so advise Mr. Cohen. Mr. Cohen also alleges that his attorneys had failed in their duty of care in misadvising him as to the correct period during which he could exercise his options, and, in addition, had practiced law in Rhode Island without a license in violation of applicable Rhode Island law. Mr. Cohen seeks damages against us and the other defendants in an amount of not less than 4.0 million United States dollars, plus interest, costs and reasonable attorneys fees. With respect to us, he also seeks an order reforming the terms of the April 2002 option grant to reflect the alleged intent of the parties with respect to the post-termination exercise term, and other equitable relief. Mr. Cohen also asks for a declaratory judgment construing our 2000 Omnibus Stock Option and Long Term Incentive Plan and Mr. Cohen's employment and severance agreements, as to the relevant option exercise period. We believe that we have good defenses to the claims made by Mr. Cohen in this lawsuit and we intend to vigorously defend ourselves in these proceedings. Nevertheless, at the present time we are unable to predict the outcome of this lawsuit.

NOTE 16—GUARANTEES AND INDEMNIFICATIONS

Performance and other bonds

In connection with certain contracts and procurements, we have been required to deliver performance bonds for the benefit of our customers and bid and litigation bonds for the benefit of potential customers, respectively. These bonds give the beneficiary the right to obtain payment and/or performance from the issuer of the bond if certain specified events occur. In the case of performance bonds, which generally have a term of one year, such events include our failure to perform our obligations under the applicable contract. To obtain these bonds, we are required to indemnify the issuers against the costs they incur if a beneficiary exercises its rights under a bond. Historically, our customers have not exercised their rights

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16—GUARANTEES AND INDEMNIFICATIONS (Continued)

under these bonds and we do not currently anticipate they will do so. The following table provides information related to potential commitments at February 25, 2006 (in thousands):

Performance bonds	\$258,656
Financial guarantees	44,618
Litigation bonds	7,870
All other bonds	4,964
	<u>\$316,108</u>

Atronic

On March 24, 2005, we guaranteed Euro 25 million of Atronic's obligations due under a Euro 50 million loan made by a commercial lender to Atronic (the "Agreement"). Our maximum liability under this guarantee is equal to the lesser of Euro 25 million or 50% of Atronic's obligations under the Agreement. On December 22, 2005, Atronic repaid Euro 25 million principal amount of the loan. At February 25, 2006, our maximum liability under this guarantee was Euro 25 million (approximately \$29.7 million). The guarantee arose in connection with our planned acquisition of Atronic by December 2007. We would be required to perform under the guarantee should Atronic fail to make any interest or principal payments in accordance with the terms and conditions of the Agreement. Our guarantee expires on April 26, 2010. As of February 25, 2006, the carrying amount of the liability for our obligations under this guarantee is \$2.0 million, which is included in Other Liabilities in our Consolidated Balance Sheet. A corresponding asset of \$2.0 million is included in Other Non-Current Assets in our Consolidated Balance Sheet.

The Agreement stipulates that if any event of default should occur and be continuing under the Credit Facility, we would be required to deposit in an account with the commercial lender, Euro 25 million, which would be held by the commercial lender as collateral for the payment and performance of our obligations under the guarantee. The commercial lender would have control over this account. The cash deposit would be released to us three business days after all the events of default have been cured or waived.

On January 10, 2006, we agreed to provide an additional guarantee of approximately Euro 20 million (\$23.7 million at the February 25, 2006 exchange rate) of loans made by unrelated commercial lenders to Atronic. As of February 25, 2006, our guarantee obligations had not yet commenced.

Loxley GTECH Private Limited

We have a 49% interest in Loxley GTECH Private Limited Co. ("LGT"), which is accounted for using the equity method of accounting. LGT is a corporate joint venture that will provide an online lottery system in Thailand. On March 29, 2005, in order to assist LGT with obtaining the financing they required to enable them to perform under their obligation to operate the online lottery system in Thailand, we guaranteed, along with the 51% shareholder in LGT, Baht 1.925 billion (approximately \$48.9 million at the February 25, 2006 exchange rate) principal amount in loans and Baht 455 million (approximately \$11.6 million at the February 25, 2006 exchange rate) in performance bonds and trade finance facilities made to LGT by an unrelated commercial lender (collectively the "Facilities"). We are jointly and severally liable with the other shareholder in LGT for this guarantee. We would be required to perform under the guarantee should LGT fail to make interest or principal payments in accordance with the terms and

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16—GUARANTEES AND INDEMNIFICATIONS (Continued)

conditions of the Facilities. Our guarantee obligations commenced in July 2005 and will terminate upon the start-up of the online lottery system in Thailand, currently expected to occur in June 2006. At February 25, 2006, the principal amount of loans outstanding that we guaranteed totaled \$14.9 million. As of February 25, 2006, the carrying amount of the liability for our obligations under this guarantee is \$0.5 million, which is included in Accrued Expenses in our Consolidated Balance Sheet. A corresponding asset of \$0.5 million is included in Other Current Assets in our Consolidated Balance Sheet.

Lottery Technology Services Corporation

We have a 44% interest in Lottery Technology Services Corporation (“LTSC”), which we account for using the equity method of accounting. LTSC provides equipment and services (which we supplied to LTSC), to the Taipei Fubon Bank. The Taipei Fubon Bank holds the license to operate the Taiwan Public Welfare Lottery.

In 2002, we signed an agreement with Acer, Inc. (“Acer”), the partner that holds the remaining 56% interest in LTSC, which provides that in the event a third party lender to LTSC requires the guarantee of GTECH or Acer as a condition of making a loan to LTSC, we, along with Acer, will provide such a guarantee on reasonable terms. This potential guarantee is limited to 44% of any such third-party loan and would expire on December 31, 2006.

Lottery Technology Enterprises

We have a 1% interest in Lottery Technology Enterprises (“LTE”), a joint venture between us and District Enterprise for Lottery Technology Applications of Washington, D.C. (“DELTA”). The joint venture agreement terminates on December 31, 2012. LTE holds a 10-year contract (which expires in November 2009) with the District of Columbia Lottery and Charitable Games Control Board. Under Washington, D.C. law, by virtue of our 1% interest in LTE, we may be jointly and severally liable, with DELTA, for the obligations of the joint venture.

World Headquarters Facility

Under our Master Contract with the State of Rhode Island, we are to invest (or cause to be invested) at least \$100 million in the State of Rhode Island, in the aggregate, by December 31, 2008. This investment commitment includes the development of a new world headquarters facility in Providence, Rhode Island by December 31, 2006. We have entered into (i) a development agreement with US Real Estate Limited Partnership (the “Developer”), whereby the Developer will develop and own the facility; and (ii) an office lease with the Developer, whereby we will lease a portion of the facility from the Developer for 20 years. We also entered into (i) a 149 year ground lease with Capital Properties, Inc. (the “Ground Landlord”) with respect to the land upon which the facility will be constructed; and (ii) a completion guarantee in favor of the Ground Landlord whereby we guaranteed the completion of the facility and the payment of the rent and real estate taxes under the ground lease until the completion of the facility. We have assigned the ground lease to the Developer but remain liable under the ground lease and the completion guarantee. Rent payable under the ground lease is currently \$0.1 million per year. It is our position that our liability under the ground lease will expire upon completion of the facility. Upon completion of the facility, the Ground Landlord’s recourse in the event of a default by the Developer under the ground lease is limited to the facility.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16—GUARANTEES AND INDEMNIFICATIONS (Continued)

Rent payments are expected to begin March 1, 2007. We have the right to cancel the lease after June 30, 2023 if the Master Contract with the State of Rhode Island is not renewed, in exchange for a termination fee equal to six months of base rent and operating expenses. The lease includes two ten year extension options. We have the unilateral right to extend the lease under the two extension options under the same terms as in the base term. The lease contains a restriction which does not allow us to assign or sublease our portion of the building without the lessor's approval, which is not to be unreasonably withheld or conditioned.

Under Emerging Issues Task Force Issue No. 97-10, "The Effect of Lessee Involvement in Asset Construction", we are considered the owner of the Facility (for accounting purposes only). Accordingly, we are recording the construction cost of the Facility along with a related liability in our Consolidated Balance Sheets, which is included in Property, Plant and Equipment, net and Other Liabilities, respectively. (See Note 7).

NOTE 17—ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of, and changes in, accumulated other comprehensive loss are as follows:

	Foreign Currency Translation	Net Gain (Loss) on Derivative Instruments	Unrealized Gain (Loss) on Investments	Treasury Rate Lock	Total
	(Dollars in thousands)				
Balance at February 22, 2003	\$(95,695)	\$ 265	\$(58)	\$ —	\$(95,488)
Changes during the year, net of tax	26,418	(1,423)	(15)	—	24,980
Balance at February 28, 2004	(69,277)	(1,158)	(73)	—	(70,508)
Changes during the year, net of tax	24,618	677	(2)	1,988	27,281
Balance at February 26, 2005	(44,659)	(481)	(75)	1,988	(43,227)
Changes during the year, net of tax	7,313	507	75	(330)	7,565
Balance at February 25, 2006	<u>\$(37,346)</u>	<u>\$ 26</u>	<u>\$ —</u>	<u>\$1,658</u>	<u>\$(35,662)</u>

Foreign currency translation

Our current contract with Caixa Economica Federal ("CEF"), the operator of Brazil's National Lottery and our largest customer in fiscal 2006 based on annual revenues, is scheduled to expire in May 2006. Foreign currency translation related to our operations in Brazil of \$48.4 million (which is included in the \$37.3 million at February 25, 2006 above), would be recorded as a charge to our consolidated income statement upon the expiration of our contract with CEF should we determine that the expiration of the CEF contract results in a substantial liquidation of our investment in Brazil. Refer to Note 15 for detailed disclosures regarding Brazilian legal proceedings.

Treasury rate lock

The treasury rate lock of \$1.7 million at February 25, 2006 represents the net amount of deferred gains we realized related to our agreements to lock in interest rates to hedge our 4.5% Senior Notes due December 2009 and our 5.25% Senior Notes due December 2014, against potential increases to interest

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 17—ACCUMULATED OTHER COMPREHENSIVE LOSS (Continued)

rates prior to their issuance. The deferred gains are being amortized to interest expense over the life of the respective debt instrument.

NOTE 18—CONSOLIDATION OF VARIABLE INTEREST ENTITIES

In December 2003, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities” (“FIN 46”). We were required to apply FIN 46 in our consolidated financial statements for periods ending after December 15, 2003 (our fiscal 2004 fourth quarter) for interests in variable interest entities that were considered to be special-purpose entities and for periods ending after March 15, 2004 (our fiscal 2005 first quarter) for all other types of variable interest entities. Earlier application was permitted.

FIN 46 addresses the consolidation of entities to which the usual condition of consolidation does not apply (ownership of a majority voting interest) and focuses on controlling financial interests that may be achieved through arrangements that do not involve voting interests. FIN 46 concludes that in the absence of clear control through voting interests, a company’s exposure (variable interest) to the economic risks and potential rewards from the variable interest entity’s assets and activities are the best evidence of control. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. Upon consolidation, the primary beneficiary is generally required to include assets, liabilities and noncontrolling interests at fair value and subsequently account for the variable interest as if it were consolidated based on majority voting interest.

We determined that we are the primary beneficiary of the following variable interest entities and have consolidated these entities in accordance with FIN 46.

West Greenwich Technology Associates, L.P.

Prior to February 1, 2005, we had a 50% limited partnership interest in West Greenwich Technology Associates, L.P. (the “Partnership”), which owns our world headquarters facilities and leases them to us. The general partner of the Partnership was an unrelated third party. Prior to the third quarter of fiscal 2004, we accounted for the Partnership using the equity method of accounting. Beginning in the third quarter of fiscal 2004, we consolidated the Partnership and as a result, we recorded our world headquarters facilities owned by the Partnership as an asset and the Partnership’s loan as a liability in our consolidated financial statements. The consolidation of the Partnership increased balance sheet assets and liabilities by \$30.0 million and \$26.7 million, respectively, and resulted in a one-time, non-cash, after-tax gain of \$3.3 million. The pre-tax gain of \$5.3 million was recorded in Other Income (Expense) in our Consolidated Income Statements and not as a cumulative-effect adjustment because the gain was not material to our consolidated financial statements.

On February 1, 2005, we repaid the Partnership’s loan and acquired the remaining 50% interest in the Partnership from the general partner.

Aitken Spence GTECH Private Limited

We have a 50% interest in Aitken Spence GTECH Private Limited (“ASG”), a corporate joint venture that aids in the operation and management of the lottery in Sri Lanka. The other partner is an unrelated third party. We consolidated ASG in the fourth quarter of fiscal 2005 which increased balance sheet assets and liabilities by \$7.7 million and \$5.1 million, respectively, as of February 26, 2005. Our investment in

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 18—CONSOLIDATION OF VARIABLE INTEREST ENTITIES (Continued)

ASG (including loans) totaled approximately \$4.6 million and \$4.0 million at February 25, 2006 and February 26, 2005, respectively, representing our maximum exposure to loss. Creditors of ASG do not have recourse against the general credit of the Company as a result of including ASG in our consolidated financial statements.

NOTE 19—STOCK-BASED COMPENSATION PLANS

We have various stock-based compensation plans whereby nonemployee members of our Board of Directors, officers and other key employees may receive grants of incentive stock options, nonqualified stock options, restricted stock, stock appreciation rights and performance awards. We are authorized to grant up to 27.2 million shares of common stock under these plans.

The stock options granted under these plans are to purchase our common stock at a price not less than fair market value at the date of grant. Stock options granted prior to April 2005 generally vest ratably over a four-year period from the date of grant and subsequent grants generally vest ratably over a four-year period beginning on the second anniversary date of the grant. Stock options expire 10 years after the date of grant (unless an earlier expiration date is set at the time of grant) and are subject to possible earlier exercise and termination in certain circumstances. Stock options are generally forfeited if the employee leaves the Company before the stock options vest.

We apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations in accounting for our plans. We have adopted the disclosure-only provisions of SFAS 148, an amendment of SFAS 123. Therefore, no compensation cost has been recognized for stock option grants under the plans because the exercise price of all options granted was equal to 100% of the fair market value of our common stock on the respective date of each grant.

A summary of stock option activity under the plans is as follows:

	Fiscal Year Ended					
	February 25, 2006		February 26, 2005		February 28, 2004	
	Shares under Options	Weighted Average Exercise Price	Shares under Options	Weighted Average Exercise Price	Shares under Options	Weighted Average Exercise Price
Outstanding at beginning of year	8,142,416	\$13.50	8,675,900	\$10.52	10,703,852	\$ 8.32
Granted	1,067,200	24.04	1,326,500	28.77	2,170,900	17.10
Exercised	(935,225)	10.13	(1,517,784)	8.92	(3,259,352)	7.35
Forfeited	(564,850)	21.42	(342,200)	17.28	(939,500)	11.68
Outstanding at end of year	<u>7,709,541</u>	14.79	<u>8,142,416</u>	13.50	<u>8,675,900</u>	10.52
Exercisable at end of year	<u>4,928,860</u>	\$10.14	<u>4,448,240</u>	\$ 9.23	<u>3,927,000</u>	\$ 8.60

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19—STOCK-BASED COMPENSATION PLANS (Continued)

Exercise prices for stock options outstanding under the plans as of February 25, 2006 are summarized as follows:

Range of Exercise Prices	Options Outstanding	Weighted Average		Options Exercisable	Weighted Average Exercise Price
		Remaining Contractual Life (Years)	Exercise Price		
\$ 4.00 - \$10.00	3,160,365	5.2	\$ 7.45	3,027,865	\$ 7.35
\$10.01 - \$15.00	1,293,000	6.1	12.37	1,273,000	12.35
\$15.01 - \$25.00	2,230,426	8.0	19.94	530,624	17.24
\$25.01 - \$30.00	1,025,750	8.3	29.28	97,371	29.14
	<u>7,709,541</u>			<u>4,928,860</u>	

During fiscal 2006, 2005 and 2004, we awarded 342,300, 219,350 and 528,000 shares of restricted stock, respectively, to nonemployee members of our Board of Directors, officers and certain other key employees of our Company. Such shares had a weighted average fair value at the date of grant of \$24, \$28 and \$18 per share, respectively. Recipients of restricted stock do not pay us any cash consideration for the shares. The fair value of the restricted stock award is being charged to expense over the vesting period. We recorded noncash charges to operations during fiscal 2006, 2005 and 2004 of \$5.8 million, \$4.9 million and \$3.3 million, respectively, as compensation expense related to restricted stock.

NOTE 20—EMPLOYEE STOCK PURCHASE PLAN

We have an employee stock purchase plan (the “ESPP”) that is open to substantially all employees (with the exception of those employees who are 5% or more shareholders in our Company), which provides that eligible employees may purchase shares of our common stock, through regular payroll deductions, of up to 10% of their base earnings. The purchase price of our common stock is equal to 85% of the fair market value of the stock on the first or last trading day of the six-month offering period, whichever is lower. Employees may purchase shares of our common stock having a fair market value of up to \$25,000 per calendar year. All shares of our common stock purchased must be retained for a period of one year. No compensation expense is currently recorded in connection with the ESPP. The ESPP expires upon the earlier of:

- August 31, 2009;
- early termination by the Board of Directors or;
- the date the shares provided by the ESPP have been purchased.

A total of 1,200,000 shares were made available for purchase under the ESPP, of which 1,023,973 shares remain available for future purchase as of February 25, 2006.

NOTE 21—EMPLOYEE BENEFITS

At February 25, 2006, we had a defined contribution 401(k) retirement savings and profit sharing plan (the “Plan”) covering our employees in the United States. Under the Plan, an eligible employee may elect to defer receipt of a portion of base pay each year. We contribute this amount on the employee’s behalf to the Plan and also make a matching contribution. On December 31, 2005, we terminated our defined

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 21—EMPLOYEE BENEFITS (Continued)

contribution 401(k) retirement savings and profit sharing plan covering substantially all employees in the Commonwealth of Puerto Rico.

The Company's matching contribution is equal to 100% on the first 3% that the employee elects to defer, up to a maximum matching contribution of 3% of the employee's base pay. Employees are fully vested at all times in the amounts they defer and in any earnings on these contributions. Employees are fully vested in the Company's matching contributions, profit sharing and any earnings on these contributions on the first anniversary of their date of hire. Benefits under the Plans will generally be paid to participants upon retirement or in certain other limited circumstances.

At our discretion, we have contributed additional amounts to the Plan on behalf of employees based upon our profits for a given fiscal year. Beginning in fiscal 2005, we discontinued the payment of profit sharing contributions.

Prior to fiscal 2005, we had a defined contribution Supplemental Retirement Plan (the "SRP") that provided additional retirement benefits to certain key employees. At our discretion, we contributed additional amounts to the SRP on behalf of such key employees equal to the percentage of profit sharing contributions contributed to the Plan for the calendar year multiplied by the key employees' compensation (as defined by the SRP) for such year. Beginning in fiscal 2005, we discontinued the payment of additional retirement benefits.

In fiscal 2006, 2005, and 2004, we recorded expense under the Plan and the SRP of \$3.4 million, \$3.4 million and \$7.3 million, respectively.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 22—EARNINGS PER SHARE

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004
	(In thousands, except per share amounts)		
Numerator:			
Net income (Numerator for basic earnings per share)	\$211,045	\$196,394	\$183,200
Effect of dilutive securities:			
Interest expense on 1.75% Convertible Debentures, net of tax	970	2,125	2,126
Numerator for diluted earnings per share	<u>\$212,015</u>	<u>\$198,519</u>	<u>\$185,326</u>
Denominator:			
Denominator for basic earnings per share-weighted average shares	121,884	116,739	116,464
Effect of dilutive securities:			
1.75% Convertible Debentures	5,545	12,727	12,727
Employee stock options	2,696	2,859	3,158
Unvested stock awards and employee stock purchase plan shares	260	234	276
Dilutive potential common shares	8,501	15,820	16,161
Denominator for diluted earnings per share-adjusted weighted-average shares and assumed conversions . .	<u>130,385</u>	<u>132,559</u>	<u>132,625</u>
Basic earnings per share	<u>\$ 1.73</u>	<u>\$ 1.68</u>	<u>\$ 1.57</u>
Diluted earnings per share	<u>\$ 1.63</u>	<u>\$ 1.50</u>	<u>\$ 1.40</u>

There were 555,000, 1,286,000 and 492,000 shares of common stock in fiscal 2006, 2005 and 2004, respectively, that were not included in the computation of diluted earnings per share because the option's exercise prices were greater than the average market price of the common shares during each respective fiscal year and therefore, the effect would be anti-dilutive.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 23—INCOME TAXES

Income before income taxes is based on the geographical contract source of income (rather than the location where the income is taxed) and consists of the following:

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004
	(Dollars in thousands)		
United States	\$ 52,538	\$ 24,466	\$ 37,355
Foreign	265,838	281,920	253,439
	<u>\$318,376</u>	<u>\$306,386</u>	<u>\$290,794</u>

Significant components of the provision for income taxes were as follows:

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004
	(Dollars in thousands)		
Current:			
Federal	\$ 49,480	\$ 12,254	\$ (4,145)
State	2,862	6,892	5,877
Foreign	41,398	56,106	46,405
Total Current	<u>93,740</u>	<u>75,252</u>	<u>48,137</u>
Deferred:			
Federal	\$ 6,800	\$ 44,007	\$ 58,510
State	569	2,532	3,049
Foreign	6,222	(11,799)	(2,102)
Total Deferred	<u>13,591</u>	<u>34,740</u>	<u>59,457</u>
Total Provision	<u>\$107,331</u>	<u>\$109,992</u>	<u>\$107,594</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 23—INCOME TAXES (Continued)

The tax effects of temporary differences and carryforwards that give rise to deferred tax assets and liabilities consist of the following:

	<u>February 25, 2006</u>	<u>February 26, 2005</u>
	(Dollars in thousands)	
Deferred tax assets:		
Accruals not currently deductible for tax purposes	\$ 16,851	\$ 21,933
Cash collected in excess of revenue recognized . .	16,503	9,952
Providence building lease	11,469	—
Depreciation	9,454	7,832
Net operating losses	8,045	1,682
Tax credit carryforward	5,526	13,658
Inventory reserves	3,445	5,471
Interest rate swap gain	613	736
Other	9,529	9,677
	<u>81,435</u>	<u>70,941</u>
Valuation allowance for deferred tax assets	(8,045)	(1,682)
Deferred tax assets, net of valuation allowance . . .	73,390	69,259
Deferred tax liabilities:		
Depreciation	(120,999)	(114,893)
Acquired intangible assets	(12,694)	(15,333)
Providence building lease	(11,469)	—
Contingent interest on convertible debt	(540)	(11,371)
Other	(652)	(2,237)
	<u>(146,354)</u>	<u>(143,834)</u>
Net deferred tax liabilities	<u>\$ (72,964)</u>	<u>\$ (74,575)</u>

At February 25, 2006, we had net operating loss carryforwards for income tax purposes of \$26.1 million that expire at various dates through 2025.

A valuation allowance at February 25, 2006 of \$8.0 million has been recognized to offset the related deferred tax assets due to the uncertainty of realizing the benefits of the deferred tax assets. The valuation allowance is primarily related to the net operating loss carryforwards. The net change in the total valuation allowance for the fiscal year ended February 25, 2006 was an increase of \$6.4 million.

Undistributed earnings of foreign subsidiaries amounted to \$160.1 million at February 25, 2006. If these earnings had been remitted, additional U.S. tax cost of \$8.8 million would have been incurred. The earnings reflect full provision for foreign income taxes and are intended to be indefinitely reinvested in foreign operations.

On October 22, 2004, the American Jobs Creation Act of 2004 (“AJCA”) was signed into law and includes a deduction of 85% of certain foreign earnings that are repatriated, as defined in the AJCA. During fiscal 2006, we completed our evaluation of these provisions and concluded that we would not remit any foreign earnings pursuant to this provision.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 23—INCOME TAXES (Continued)

The effective income tax rate on income before income taxes differed from the statutory federal income tax rate for the following reasons:

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004
Federal income tax using statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	1.2	2.0	2.0
Nondeductible expenses	1.2	0.4	0.4
Tax credits	(0.3)	(0.4)	(0.4)
Foreign tax rate differential	(2.4)	(0.1)	(0.5)
Other	(1.0)	(1.0)	0.5
	<u>33.7%</u>	<u>35.9%</u>	<u>37.0%</u>

NOTE 24—TRANSACTIONS WITH RELATED PARTIES

Receivables from related parties, which are included in Trade and Other Receivables, net in our Consolidated Balance Sheets, are as follows:

	February 25, 2006	February 26, 2005
	(Dollars in thousands)	
Lottery Technology Services Corporation	\$2,704	\$2,693
Loxley GTECH Private Ltd.	2,050	—
Uthingo Management Proprietary Limited	1,476	1,641
The Republic of Italy (Cogetech)	1,424	—
Lottery Technology Enterprises	407	298
Wireless Business Solutions (Proprietary) Limited	316	35
	<u>\$8,377</u>	<u>\$4,667</u>

Lottery Technology Services Corporation

We have a 44% interest in Lottery Technology Services Corporation (“LTSC”), which we account for using the equity method of accounting. LTSC provides equipment and services (which we supplied to LTSC), to the Taipei Fubon Bank. The Taipei Fubon Bank holds the license to operate the Taiwan Public Welfare Lottery. Revenues from LTSC were \$18.0 million, \$27.8 million and \$27.8 million in fiscal 2006, 2005 and 2004, respectively.

Loxley GTECH Private Limited

We have a 49% interest in Loxley GTECH Private Limited Co. (“LGT”), which is accounted for using the equity method of accounting. LGT is a corporate joint venture that will provide an online lottery system in Thailand. We will recognize 51% of gross profit on product sales to LGT and defer the remaining 49% as a result of our equity interest in LGT. We will recognize the 49% deferral over the life our contract with LGT.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 24—TRANSACTIONS WITH RELATED PARTIES (Continued)

At February 25, 2006, \$11.6 million and \$2.1 million are included in Advance Payments from Customers and Deferred Revenue and Advance Billings in our Consolidated Balance Sheet, respectively. These amounts (less the 49% deferral), will be recognized as revenue in fiscal 2007 upon the start-up of the online lottery system in Thailand.

Uthingo Management Proprietary Limited

We have a 10% interest in Uthingo Management Proprietary Limited (“Uthingo”), which is accounted for using the equity method of accounting. Uthingo holds the license to operate the South African National Lottery. Revenues from Uthingo were \$10.1 million, \$18.7 million and \$19.8 million in fiscal 2006, 2005 and 2004, respectively.

The Republic of Italy (Cogetech SPA)

We have a 35% interest in Cogetech SPA which is accounted for using the equity method of accounting. Cogetech SPA is a corporate joint venture that operates a communications network and related central computer system linking gaming machines in the Republic of Italy. Revenues from Cogetech SPA were \$1.7 million in fiscal 2006. There were no revenues from Cogetech SPA during fiscal 2005 or 2004.

Lottery Technology Enterprises

We have a 1% interest in Lottery Technology Enterprises (“LTE”) which is accounted for using the equity method of accounting. LTE holds a 10-year contract (which expires in November 2009) with the District of Columbia Lottery and Charitable Games Control Board. Revenues from LTE were \$4.0 million, \$3.8 million and \$3.4 million in fiscal 2006, 2005 and 2004, respectively.

Wireless Business Solutions (Proprietary) Limited

We have a 40% interest in Wireless Business Solutions (Proprietary) Limited (“WBS”), an entity that holds a national mobile data telecommunications license issued by the South African government and is the telecommunications provider to Uthingo. In 2005, we determined that we no longer had a controlling interest in WBS that would require consolidation in our financial statements due principally to the expiration of our guarantee of loans made by an unrelated commercial lender to WBS. Consequently, we account for WBS using the equity method of accounting. Revenues from WBS were \$1.6 million and \$0.4 million in fiscal 2006 and 2005, respectively.

West Greenwich Technology Associates, L.P.

Prior to February 1, 2005, we had a 50% limited partnership interest in West Greenwich Technology Associates, L.P. (the “Partnership”), which owns our world headquarters facilities and leases them to us. The general partner of the Partnership is an unrelated third party. Prior to the third quarter of fiscal 2004, we accounted for the Partnership using the equity method of accounting. Beginning in the third quarter of fiscal 2004, we consolidated the Partnership in accordance with FIN 46 and as a result, we recorded our world headquarters facilities owned by the Partnership as an asset and the Partnership’s loan as a liability in our consolidated financial statements. On February 1, 2005, we repaid the Partnership’s loan and acquired the remaining 50% interest in the Partnership from the general partner.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 24—TRANSACTIONS WITH RELATED PARTIES (Continued)

Spelparken

We have a 19% interest in Spelparken which is accounted for using the equity method of accounting. Spelparken is a corporate joint venture that is expected to provide internet gaming related activities in Sweden. There were no revenues from Spelparken during fiscal 2006, 2005 or 2004.

Delaware LLC

At February 24, 2004, we held a 50% interest in Gaming Entertainment (Delaware) L.L.C. (“GED”), an entity that manages a racino for Harrington Raceway, Inc. (“Harrington”). During the first quarter of fiscal 2005, we sold our 50% interest in GED to Harrington for \$11.8 million and recognized a gain of \$10.9 million which was recorded in Other Income (Expense) in our consolidated Income Statements.

NOTE 25—LEASES

We lease certain facilities, vehicles and equipment under operating leases. We are generally required to pay all maintenance costs, taxes and insurance premiums relating to our leased assets. The majority of our operating leases are for facilities and vehicles.

Facilities

Our facility leases expire at various dates through fiscal 2014 and whenever possible we seek to tie the term of the lease to the term of the related lottery contract. Leasehold improvements are capitalized and amortized over the shorter of the remainder of the lease term or the lottery contract term. Certain of these leases have escalation clauses and renewal options.

Vehicles

Our vehicle leases require us to lease each vehicle for a minimum of one year. Whenever we cancel a vehicle lease, the lessor generally sells the vehicle and we either pay the lessor the difference between the sales price and the book value if the sales price is lower than book value or the lessor pays us if the sales price is in excess of the book value. Historically, we have not had to make any material payments to the lessor for canceling vehicle leases. Rent on these vehicle leases fluctuates based on changes in the interest rate on 30 day commercial paper.

Future minimum lease payments for operating leases with initial lease terms in excess of one year at February 25, 2006 were as follows:

<u>Fiscal Year</u>	<u>Lease Payments</u> <u>(in thousands)</u>
2007	\$20,431
2008	10,996
2009	8,016
2010	6,078
2011	3,966
Thereafter	1,428
Total minimum lease payments	<u>\$50,915</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 25—LEASES (Continued)

Rental expense for operating leases was \$31.8 million, \$32.1 million and \$27.9 million for fiscal 2006, 2005 and 2004, respectively.

NOTE 26—BUSINESS SEGMENT AND GEOGRAPHIC DATA

We are a global gaming and technology company providing software, networks and professional services that power high-performance, transaction processing systems. We have a single operating and reportable business segment, the Transaction Processing segment, with our core market being the lottery industry. The accounting policies of the Transaction Processing segment are the same as those described in Note 1—"Organization and Summary of Significant Accounting Policies." Management evaluates the performance of this segment based on operating income.

The Company's geographic data, based on the location of the customer, is summarized below:

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004
	(Dollars in thousands)		
Revenues from external sources:			
United States	\$ 667,229	\$ 599,914	\$ 531,776
Brazil	148,634	93,084	106,913
Poland	77,368	68,499	47,116
United Kingdom	69,789	68,702	85,595
Other foreign	341,786	427,036	279,930
	<u>\$1,304,806</u>	<u>\$1,257,235</u>	<u>\$1,051,330</u>

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004
	(Dollars in thousands)		
Systems, equipment and other assets relating to contracts, net:			
United States	\$573,505	\$588,899	\$481,340
Poland	37,358	40,857	27,032
Other foreign	81,682	90,682	82,990
	<u>\$692,545</u>	<u>\$720,438</u>	<u>\$591,362</u>

For fiscal 2006, the aggregate revenues from Caixa Economica Federal, the operator of Brazil's National Lottery, represented 11.1% of our consolidated revenues. No other customer accounted for more than 10% of our consolidated revenues in fiscal 2006, 2005 or 2004. See Note 15 for additional information concerning Brazil.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 27—SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information is summarized as follows:

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004
	(Dollars in thousands)		
Income taxes paid	\$50,953	\$67,677	\$66,729
Interest paid, net of amounts capitalized	30,672	16,412	5,725

Non-cash investing and financing activities are excluded from the consolidated statement of cash flows. Non-cash activities are summarized as follows:

	Fiscal Year Ended		
	February 25, 2006	February 26, 2005	February 28, 2004
	(Dollars in thousands)		
Non-cash activities that occurred in connection with the conversion of our 1.75% Convertible Debentures:			
Issuance of 9,975,660 shares of Holding common stock	\$137,166	\$ —	\$ —
Issuance of 2,270,506 treasury shares	31,219	—	—
Excess deferred tax liabilities associated with the contingent interest feature	13,733	—	—
Forfeited interest	285	—	—
Debt issuance costs	(4,122)	—	—
Reclassification to Shareholder's Equity	<u>\$178,281</u>	<u>\$ —</u>	<u>\$ —</u>
Non-cash investment related to our new world headquarters facility in Providence, RI	\$ 26,393	\$6,604	\$ —
Treasury shares issued under stock award plans	2,846	3,139	2,437
Issuance of 1,435,130 shares of Holding common stock in connection with the acquisition of Interlott Technologies, Inc.	—	—	30,834

NOTE 28—SUPPLEMENTAL GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION

On December 18, 2001, Holdings (the “Parent Company”) issued, in a private placement, \$175 million principal amount of 1.75% Convertible Debentures due December 15, 2021 (the “Debentures”). On October 9, 2003, the Parent Company issued, in a private placement, \$250 million principal amount of 4.75% Senior Notes due October 15, 2010, and on November 16, 2004, issued \$150 million principal amount of 4.75% Senior Notes due December 1, 2009 and \$150 million principal amount of 5.25% Senior Notes due December 1, 2014 (collectively, the “Senior Notes”). All of the Senior Notes were subsequently exchanged for Senior Notes registered under the Securities Act of 1933. The Debentures and Senior Notes are unsecured and unsubordinated obligations of the Parent Company that are jointly and severally, fully and unconditionally guaranteed by GTECH and two of its wholly owned subsidiaries: GTECH Rhode Island Corporation and GTECH Latin America Corporation (collectively with GTECH, the “Guarantor Subsidiaries”). Condensed consolidating financial information is presented below.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 28—SUPPLEMENTAL GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION
(Continued)

Selling, general and administrative costs and research and development costs are allocated to each subsidiary based on the ratio of the subsidiaries' combined service revenues and sales of products to consolidated revenues.

The Parent Company conducts business through its consolidated subsidiaries and unconsolidated affiliates and has, as its only material asset, an investment in GTECH. Equity in earnings of consolidated affiliates recorded by the Parent Company includes the Parent Company's share of the after-tax earnings of GTECH. Taxes payable and deferred income taxes are obligations of the subsidiaries. Income tax expense related to both current and deferred income taxes are allocated to each subsidiary based on our consolidated effective income tax rates.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 28—SUPPLEMENTAL GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION
(Continued)

Condensed Consolidating Balance Sheets
February 25, 2006

	<u>Parent Company</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminating Entries</u>	<u>Consolidated</u>
	(Dollars in thousands)				
Assets					
Current Assets:					
Cash and cash equivalents	\$ —	\$ 158,150	\$ 77,041	\$ —	\$ 235,191
Investment securities available-for-sale	—	260,725	—	—	260,725
Trade and other receivables, net	—	95,894	87,667	—	183,561
Due from subsidiaries and affiliates	—	75,758	—	(75,758)	—
Refundable performance deposit	—	—	8,000	—	8,000
Inventories	—	32,329	63,906	(8,211)	88,024
Deferred income taxes	—	15,418	10,980	—	26,398
Other current assets	—	12,982	34,837	—	47,819
Total Current Assets	—	651,256	282,431	(83,969)	849,718
Systems, Equipment and Other Assets Relating to Contracts, net	—	600,437	104,241	(12,133)	692,545
Investment in Subsidiaries and Affiliates	1,005,372	474,696	—	(1,480,068)	—
Goodwill	—	115,981	230,115	—	346,096
Property, Plant and Equipment, net	—	67,002	34,414	—	101,416
Intangible Assets, net	—	19,277	44,935	—	64,212
Other Assets	—	27,272	18,643	—	45,915
Total Assets	<u>\$1,005,372</u>	<u>\$1,955,921</u>	<u>\$714,779</u>	<u>\$(1,576,170)</u>	<u>\$2,099,902</u>
Liabilities and Shareholders' Equity					
Current Liabilities:					
Accounts payable	\$ —	\$ 52,023	\$ 41,182	\$ —	\$ 93,205
Due to subsidiaries and affiliates	—	—	75,758	(75,758)	—
Accrued expenses	—	23,231	22,989	—	46,220
Employee compensation	—	24,084	7,720	—	31,804
Advance payments from customers	—	19,758	44,010	—	63,768
Deferred revenue and advance billings	—	9,213	8,676	—	17,889
Income taxes payable	—	66,646	452	—	67,098
Taxes other than income taxes	—	6,409	10,697	—	17,106
Current portion of long-term debt	—	6,615	2,533	—	9,148
Total Current Liabilities	—	207,979	214,017	(75,758)	346,238
Long-Term Debt, less current portion	—	542,206	53	—	542,259
Other Liabilities	—	86,173	20,498	—	106,671
Deferred Income Taxes	—	93,847	5,515	—	99,362
Shareholders' Equity	1,005,372	1,025,716	474,696	(1,500,412)	1,005,372
Total Liabilities and Shareholders' Equity	<u>\$1,005,372</u>	<u>\$1,955,921</u>	<u>\$714,779</u>	<u>\$(1,576,170)</u>	<u>\$2,099,902</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 28—SUPPLEMENTAL GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION
(Continued)

Condensed Consolidating Balance Sheets
February 26, 2005

	<u>Parent Company</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminating Entries</u>	<u>Consolidated</u>
	(Dollars in thousands)				
Assets					
Current Assets:					
Cash and cash equivalents	\$ —	\$ 23,020	\$ 71,426	\$ —	\$ 94,446
Investment securities available-for-sale	—	196,825	—	—	196,825
Trade and other receivables, net	—	85,427	86,740	—	172,167
Due from subsidiaries and affiliates	—	53,345	—	(53,345)	—
Refundable performance deposit	—	—	8,000	—	8,000
Inventories	—	30,387	34,366	(3,618)	61,135
Deferred income taxes	—	14,030	17,405	—	31,435
Other current assets	—	6,669	19,977	—	26,646
Total Current Assets	—	409,703	237,914	(56,963)	590,654
Systems, Equipment and Other Assets Relating to					
Contracts, net	—	616,204	118,436	(14,202)	720,438
Investment in Subsidiaries and Affiliates	655,768	448,499	—	(1,104,267)	—
Goodwill	—	115,981	215,041	—	331,022
Property, Plant and Equipment, net	—	40,120	34,438	—	74,558
Intangible Assets, net	—	22,157	48,682	—	70,839
Other Assets	—	32,890	34,740	—	67,630
Total Assets	<u>\$655,768</u>	<u>\$1,685,554</u>	<u>\$689,251</u>	<u>\$(1,175,432)</u>	<u>\$1,855,141</u>
Liabilities and Shareholders' Equity					
Current Liabilities:					
Accounts payable	\$ —	\$ 41,525	\$ 57,709	\$ —	\$ 99,234
Due to subsidiaries and affiliates	—	—	53,345	(53,345)	—
Accrued expenses	—	29,277	24,950	—	54,227
Employee compensation	—	13,252	8,610	—	21,862
Advance payments from customers	—	8,113	34,752	—	42,865
Deferred revenue and advance billings	—	11,369	18,336	—	29,705
Income taxes payable	—	11,902	4,597	—	16,499
Taxes other than income taxes	—	7,688	8,884	—	16,572
Short-term borrowings	—	—	334	—	334
Current portion of long-term debt	—	—	2,476	—	2,476
Total Current Liabilities	—	123,126	213,993	(53,345)	283,774
Long-Term Debt, less current portion	—	723,539	2,790	—	726,329
Other Liabilities	—	64,035	19,225	—	83,260
Deferred Income Taxes	—	101,266	4,744	—	106,010
Shareholders' Equity	655,768	673,588	448,499	(1,122,087)	655,768
Total Liabilities and Shareholders' Equity . . .	<u>\$655,768</u>	<u>\$1,685,554</u>	<u>\$689,251</u>	<u>\$(1,175,432)</u>	<u>\$1,855,141</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 28—SUPPLEMENTAL GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION
(Continued)

Condensed Consolidating Income Statements
Fiscal Year Ended February 25, 2006

	<u>Parent Company</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminating Entries</u>	<u>Consolidated</u>
	(Dollars in thousands)				
Revenues:					
Services	\$ —	\$753,180	\$369,488	\$ —	\$1,122,668
Sales of products	—	63,530	118,608	—	182,138
Intercompany sales and fees	—	178,547	55,102	(233,649)	—
	—	995,257	543,198	(233,649)	1,304,806
Costs and expenses:					
Costs of services	—	441,692	237,418	(4,582)	674,528
Costs of sales	—	32,504	71,533	—	104,037
Intercompany cost of sales and fees	—	146,658	13,950	(160,608)	—
	—	620,854	322,901	(165,190)	778,565
Gross profit	—	374,403	220,297	(68,459)	526,241
Selling, general & administrative	—	84,953	50,762	—	135,715
Research and development	—	31,224	18,645	—	49,869
Operating expenses	—	116,177	69,407	—	185,584
Operating income	—	258,226	150,890	(68,459)	340,657
Other income (expense):					
Interest income	—	8,623	2,289	—	10,912
Equity in earnings of unconsolidated affiliates	—	2,644	(703)	—	1,941
Equity in earnings of consolidated affiliates	211,045	97,593	—	(308,638)	—
Other expense	—	(481)	(3,860)	—	(4,341)
Interest expense	—	(29,376)	(1,417)	—	(30,793)
	211,045	79,003	(3,691)	(308,638)	(22,281)
Income before income taxes	211,045	337,229	147,199	(377,097)	318,376
Income taxes	—	113,646	49,606	(55,921)	107,331
Net income	<u>\$211,045</u>	<u>\$223,583</u>	<u>\$ 97,593</u>	<u>\$(321,176)</u>	<u>\$ 211,045</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 28—SUPPLEMENTAL GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION
(Continued)

Condensed Consolidating Income Statements
Fiscal Year Ended February 26, 2005

	<u>Parent Company</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminating Entries</u>	<u>Consolidated</u>
	(Dollars in thousands)				
Revenues:					
Services	\$ —	\$718,920	\$298,763	\$ —	\$1,017,683
Sales of products	—	105,848	133,704	—	239,552
Intercompany sales and fees	—	95,463	63,651	(159,114)	—
	—	920,231	496,118	(159,114)	1,257,235
Costs and expenses:					
Costs of services	—	417,553	202,522	(3,442)	616,633
Costs of sales	—	56,515	101,472	(13)	157,974
Intercompany cost of sales and fees	—	103,009	22,008	(125,017)	—
	—	577,077	326,002	(128,472)	774,607
Gross profit	—	343,154	170,116	(30,642)	482,628
Selling, general & administrative	—	76,904	40,349	—	117,253
Research and development	—	34,482	18,077	—	52,559
Operating expenses	—	111,386	58,426	—	169,812
Operating income	—	231,768	111,690	(30,642)	312,816
Other income (expense):					
Interest income	—	2,137	2,478	—	4,615
Equity in earnings of unconsolidated affiliates	—	2,891	(79)	—	2,812
Equity in earnings of consolidated affiliates	196,394	74,146	—	(270,540)	—
Other income	—	2,571	2,785	—	5,356
Interest expense	—	(17,922)	(1,291)	—	(19,213)
	196,394	63,823	3,893	(270,540)	(6,430)
Income before income taxes	196,394	295,591	115,583	(301,182)	306,386
Income taxes	—	105,969	41,437	(37,414)	109,992
Net income	<u>\$196,394</u>	<u>\$189,622</u>	<u>\$ 74,146</u>	<u>\$(263,768)</u>	<u>\$ 196,394</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 28—SUPPLEMENTAL GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION
(Continued)

Condensed Consolidating Income Statements
Fiscal Year Ended February 28, 2004

	<u>Parent Company</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminating Entries</u>	<u>Consolidated</u>
	(Dollars in thousands)				
Revenues:					
Services	\$ —	\$684,299	\$273,172	\$ —	\$ 957,471
Sales of products	—	40,643	53,216	—	93,859
Intercompany sales and fees	—	101,932	47,881	(149,813)	—
	—	826,874	374,269	(149,813)	1,051,330
Costs and expenses:					
Costs of services	—	372,109	169,451	(3,721)	537,839
Costs of sales	—	21,433	37,856	(63)	59,226
Intercompany cost of sales and fees	—	100,111	20,865	(120,976)	—
	—	493,653	228,172	(124,760)	597,065
Gross profit	—	333,221	146,097	(25,053)	454,265
Selling, general & administrative	—	75,213	33,879	—	109,092
Research and development	—	39,530	17,788	—	57,318
Operating expenses	—	114,743	51,667	—	166,410
Operating income	—	218,478	94,430	(25,053)	287,855
Other income (expense):					
Interest income	—	1,882	3,851	—	5,733
Equity in earnings of unconsolidated affiliates	—	2,038	4,198	—	6,236
Equity in earnings of consolidated affiliates	183,200	61,334	—	(244,534)	—
Other income (expense)	—	5,817	(3,928)	—	1,889
Interest expense	—	(9,724)	(1,195)	—	(10,919)
	183,200	61,347	2,926	(244,534)	2,939
Income before income taxes	183,200	279,825	97,356	(269,587)	290,794
Income taxes	—	103,535	36,022	(31,963)	107,594
Net income	<u>\$183,200</u>	<u>\$176,290</u>	<u>\$ 61,334</u>	<u>\$(237,624)</u>	<u>\$ 183,200</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 28—SUPPLEMENTAL GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION
(Continued)

Condensed Consolidating Statements of Cash Flows
Fiscal Year Ended February 25, 2006

	<u>Parent Company</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminating Entries</u>	<u>Consolidated</u>
	(Dollars in thousands)				
Net cash provided by operating activities	\$ —	\$ 375,301	\$ 56,634	\$(2,311)	\$ 429,624
Investing Activities					
Acquisitions (net of cash acquired)	—	—	(23,084)	—	(23,084)
Purchases of systems, equipment and other assets relating to contracts	—	(106,101)	(33,526)	2,311	(137,316)
Purchases of available-for-sale investment securities	—	(147,275)	—	—	(147,275)
Maturities and sales of available-for-sale investment securities	—	83,375	—	—	83,375
Purchases of property, plant and equipment	—	(8,213)	(1,443)	—	(9,656)
License fee	—	—	(1,750)	—	(1,750)
Investments in and advances to unconsolidated subsidiaries	—	—	(1,488)	—	(1,488)
Refundable performance deposit	—	—	8,000	—	8,000
Decrease in restricted cash	—	—	5,080	—	5,080
Proceeds from sale of investment	—	—	3,000	—	3,000
Net cash used for investing activities	—	(178,214)	(45,211)	2,311	(221,114)
Financing Activities					
Principal payments on long-term debt	—	—	(2,302)	—	(2,302)
Purchases of treasury stock	(32,051)	—	—	—	(32,051)
Dividends paid	(41,672)	—	—	—	(41,672)
Proceeds from stock options	9,473	—	—	—	9,473
Intercompany capital transactions	61,863	(61,863)	—	—	—
Other	2,387	(129)	(6,697)	—	(4,439)
Net cash used for financing activities	—	(61,992)	(8,999)	—	(70,991)
Effect of exchange rate changes on cash	—	35	3,191	—	3,226
Increase in cash and cash equivalents	—	135,130	5,615	—	140,745
Cash and cash equivalents at beginning of year	—	23,020	71,426	—	94,446
Cash and cash equivalents at end of year	<u>\$ —</u>	<u>\$ 158,150</u>	<u>\$ 77,041</u>	<u>\$ —</u>	<u>\$ 235,191</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 28—SUPPLEMENTAL GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION
(Continued)

Condensed Consolidating Statements of Cash Flows
Fiscal Year Ended February 26, 2005

	<u>Parent Company</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminating Entries</u>	<u>Consolidated</u>
	(Dollars in thousands)				
Net cash provided by operating activities . . .	\$ —	\$ 262,868	\$ 122,821	\$(10,480)	\$ 375,209
Investing Activities					
Acquisitions (net of cash acquired) . . .	—	—	(200,730)	—	(200,730)
Purchases of systems, equipment and other assets relating to contracts . . .	—	(204,163)	(51,909)	10,480	(245,592)
Purchases of available-for-sale investment securities	—	(246,975)	—	—	(246,975)
Maturities and sales of available-for- sale investment securities	—	272,000	—	—	272,000
Purchases of property, plant and equipment	—	(12,331)	(544)	—	(12,875)
Investments in and advances to unconsolidated subsidiaries	—	—	(2,071)	—	(2,071)
Increase in restricted cash	—	—	(5,112)	—	(5,112)
Proceeds from sale of investment	—	—	11,773	—	11,773
Net cash used for investing activities . . .	—	(191,469)	(248,593)	10,480	(429,582)
Financing Activities					
Net proceeds from issuance of long- term debt	—	343,254	—	—	343,254
Principal payments on long-term debt . .	—	(135,000)	(32,692)	—	(167,692)
Purchases of treasury stock	(120,658)	—	—	—	(120,658)
Dividends paid	(39,830)	—	—	—	(39,830)
Premiums and fees paid in connection with the early retirement of debt . . .	—	(10,610)	—	—	(10,610)
Proceeds from stock options	13,546	—	—	—	13,546
Intercompany capital transactions	144,948	(312,948)	168,000	—	—
Other	1,994	(2,904)	405	—	(505)
Net cash provided by (used for) financing activities	—	(118,208)	135,713	—	17,505
Effect of exchange rate changes on cash .	—	873	1,102	—	1,975
Increase (decrease) in cash and cash equivalents	—	(45,936)	11,043	—	(34,893)
Cash and cash equivalents at beginning of year	—	68,956	60,383	—	129,339
Cash and cash equivalents at end of year	<u>\$ —</u>	<u>\$ 23,020</u>	<u>\$ 71,426</u>	<u>\$ —</u>	<u>\$ 94,446</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 28—SUPPLEMENTAL GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION
(Continued)

Condensed Consolidating Statements of Cash Flows
Fiscal Year Ended February 28, 2004

	<u>Parent Company</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminating Entries</u>	<u>Consolidated</u>
	(Dollars in thousands)				
Net cash provided by operating activities . . .	\$ —	\$ 339,643	\$ 76,286	\$(862)	\$ 415,067
Investing Activities					
Acquisitions (net of cash acquired)	—	(40,691)	(33,751)	—	(74,442)
Purchases of systems, equipment and other assets relating to contracts	—	(252,273)	(16,599)	862	(268,010)
Purchases of available-for-sale investment securities	—	(242,050)	—	—	(242,050)
Maturities and sales of available-for-sale investment securities	—	20,200	—	—	20,200
Purchases of property, plant and equipment	—	(12,772)	—	—	(12,772)
License fee	—	(12,500)	—	—	(12,500)
Investments in and advances to unconsolidated subsidiaries	—	(1,185)	(1,700)	—	(2,885)
Refundable performance deposit	—	—	(20,000)	—	(20,000)
Net cash used for investing activities	—	(541,271)	(72,050)	862	(612,459)
Financing Activities					
Net proceeds from issuance of long- term debt	—	251,006	1,582	—	252,588
Principal payments on long-term debt . .	—	(27,759)	(5,534)	—	(33,293)
Dividends paid	(29,977)	—	—	—	(29,977)
Premiums and fees paid in in connection with the early retirement of debt	—	(731)	—	—	(731)
Proceeds from stock options	23,943	—	—	—	23,943
Intercompany capital transactions	4,959	(38,710)	33,751	—	—
Other	1,075	(2,125)	(5,274)	—	(6,324)
Net cash provided by financing activities . .	—	181,681	24,525	—	206,206
Effect of exchange rate changes on cash . .	—	164	4,187	—	4,351
Increase (decrease) in cash and cash equivalents	—	(19,783)	32,948	—	13,165
Cash and cash equivalents at beginning of year	—	88,739	27,435	—	116,174
Cash and cash equivalents at end of year . .	<u>\$ —</u>	<u>\$ 68,956</u>	<u>\$ 60,383</u>	<u>\$ —</u>	<u>\$ 129,339</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 29—QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following is a summary of the unaudited quarterly results of operations for fiscal 2006 and 2005:

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
	(Dollars in thousands, except per share amounts)			
Fiscal year ended February 25, 2006:				
Service revenues	\$291,364	\$266,341	\$270,889	\$294,074
Sales of products	35,035	43,601	29,249	74,253
Gross profit	135,878	123,574	117,824	148,965
Net income	54,844	48,952	47,833	59,416
Basic earnings per share	\$.48	\$.41	\$.38	\$.47
Diluted earnings per share43	.38	.37	.45
Fiscal year ended February 26, 2005:				
Service revenues	\$253,326	\$248,114	\$251,945	\$264,298
Sales of products	26,879	75,401	63,702	73,570
Gross profit	116,995	131,160	115,498	118,975
Net income	53,615	53,081	45,855	43,843
Basic earnings per share	\$.45	\$.45	\$.40	\$.38
Diluted earnings per share40	.40	.35	.34

We operate on a 52-week or 53-week fiscal year ending on the last Saturday in February. Fiscal 2006 and 2005 were 52-week years.

Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly basic earnings per share in fiscal 2006 and the sum of the quarterly diluted earnings per share in fiscal 2005 do not equal the total computed for the year.

During the third and fourth quarters of fiscal 2006, we recorded one-time costs of \$1.9 million and \$6.1 million, respectively, associated with the pending transaction with Lottomatica S.p.A, which was recorded in Selling, General and Administrative Expense in our Consolidated Income Statement (refer to Note 3 for detailed disclosures).

During the first quarter of fiscal 2005, we sold our 50% interest in Gaming Entertainment (Delaware) L.L.C. for \$11.8 million and recognized a gain of \$10.9 million which was recorded in Other Income (Expense) in our Consolidated Income Statement.

During the first quarter of fiscal 2005, we recorded a net charge of \$0.8 million in connection with the repurchase of \$90.0 million of our 7.87% Series B Guaranteed Senior Notes due May 2007, which is included in Other Income (Expense) in our Consolidated Income Statement.

**APPENDIX D—CONSOLIDATED FINANCIAL STATEMENTS OF GTECH PREPARED IN
ACCORDANCE WITH IFRS AS OF AND FOR THE PERIOD ENDED DECEMBER 31, 2005**

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES

Management Report

Report of Independent Auditors on Special Purpose IFRS Financial Statements

Consolidated Financial Statements under IFRS

December 31, 2005

MANAGEMENT REPORT

DESCRIPTION OF THE BUSINESS

Business

GTECH Holdings Corporation (“GTECH” or “the Company”) is a global gaming and technology company providing software, networks and professional services that power high-performance, transaction processing systems. The Company is the world’s leading operator of highly-secure online lottery transaction processing systems, doing business in 51 countries worldwide and has a growing presence in commercial gaming technology (“Gaming Solutions”) and financial services transaction processing (“Commercial Services”). The Company’s revenue concentration is as follows:

<u>Consolidated Revenues</u>	<u>Period Ended December 31, 2005</u>
Lottery	85%
Commercial Services	9%
Gaming Solutions	6%
	<u>100%</u>

Being a global business, the Company derives a substantial portion of its revenues from operations outside of the United States. In addition, substantial portions of the Company’s assets, primarily consisting of equipment used to operate online lottery systems for its customers, are held outside of the United States. The Company is also exposed to more general risks of international operations, including increased governmental regulation of the online lottery industry in the markets where it operates; exchange controls or other currency restrictions; and significant political instability.

The Company’s service revenues are derived primarily from lottery service contracts, which are typically at least five to seven years in duration for the base contract term with three to five years of extension options resulting in total contract lives of eight to ten years. The Company’s contracts generally provide compensation to the Company based upon a percentage of a lottery’s gross online and instant ticket sales. These percentages vary depending on the size of the lottery and the scope of services provided to the lottery. The Company primarily derives product sale revenues from the installation of new online lottery systems, installation of new software and sales of lottery terminals and equipment in connection with the expansion of existing lottery systems. The Company’s product margins fluctuate depending on the mix, volume and timing of product sale contracts. Product sale revenues from period to period may not be comparable due to the size and timing of product sale transactions.

Over the past several years, the Company has experienced and may continue to experience a reduction in the percentage of lottery ticket sales it receives from certain customers resulting from contract rebids, extensions and renewals due to a number of factors, including the substantial growth of lottery sales over the last decade, reductions in the cost of technology and telecommunications services, and general market and competitive dynamics. In anticipation of and response to these trends, beginning in calendar year 2000, the Company began the implementation of the GTECH Enterprise Series™-led technology strategy combined with the implementation of a number of ongoing cost savings initiatives and efficiency improvement programs designed to enable the Company to maintain market leadership in the lottery industry. In addition, the Company developed and continues to develop new lottery games designed to maintain a strong level of same store sales growth for its customers.

The Company’s business is highly regulated, and the competition to secure new government contracts is often intense. In addition, the ability to consummate the acquisition, which the Company announced in December 2004, of a 50% controlling equity interest in the Atronic group of companies, and to otherwise

expand the business in non-lottery gaming markets, is contingent upon obtaining required gaming licenses. From time to time, competitors challenge contracts awarded to the Company and there have been, and may continue to be, investigations of various types, including grand jury investigations conducted by government authorities into possible improprieties and wrongdoing in connection with efforts to obtain and/or the awarding of lottery contracts and related matters. Because such investigations frequently are conducted in secret, the Company may not necessarily know of the existence of an investigation which might involve the Company. Because the Company's reputation for integrity is an important factor in business dealings with lottery, gaming licensing, and other governmental agencies, a governmental allegation or a finding of improper conduct on the Company's part or attributable to the Company in any manner could have a material adverse effect on the business, including the ability to retain existing contracts, obtain new or renewal contracts and to expand the business in non-lottery gaming markets. In addition, continuing adverse publicity resulting from these investigations and related matters could have a material adverse effect on the Company's reputation and business.

Growth Strategy

The Company has made significant strategic progress with the acquisition in calendar 2004 of three privately-held companies that strengthened the Company's growth strategy in Commercial Services and Gaming Solutions. In addition, the Company's growth strategy in Gaming Solutions was significantly advanced when in December 2004, the Company signed an agreement to acquire a 50% controlling equity position in the Atronic group of companies, a video slot machine manufacturer that also develops slot machine games and customized solutions for dynamic gaming operations.

The Commercial Services market includes the processing and transmission of commercial, non-lottery transactions including debit and credit card transactions (both acquiring and issuing processing), bill payments, electronic tax payments, pre-paid utility payments and pre-paid cellular telephone recharges. Currently, networks the Company operates in Brazil, Poland, Chile, the Czech Republic, Jamaica and other countries process debit and credit card transactions, bill payments and other commercial services transactions. In the near term, the Company expects to concentrate its efforts to grow commercial services revenues principally in Central and Eastern Europe and other selected emerging economies, with the goal of leveraging the Company's existing technology, infrastructure and relationships to drive growth in Commercial Services.

In addition, the Company will continue to identify and evaluate a variety of selective opportunities for acquisitions in the Lottery, Commercial Services, and Gaming Solutions markets, as well as investing in growth through licensing when the right opportunities present themselves.

UPDATE ON THE BUSINESS FOR THE PERIOD ENDED DECEMBER 31, 2005

Lottery Contract Awards

During calendar 2005, GTECH received a number of contract awards and extensions from lottery authorities.

New Online Customers. During calendar 2005, the Company acquired two new online customers.

In June 2005, GTECH entered into an agreement to acquire the operation and management rights of The Barbados Lottery and to become the exclusive central system and lottery services supplier to The Barbados Lottery. The Barbados Lottery was formed in April 2005 upon the consolidation of three previously independent Barbados lotteries: the Barbados Olympic Association, the Barbados Cricket Association and the Barbados Turf Club. While GTECH has been a technology and services provider to the Barbados Olympic Association and the Barbados Cricket Association, the Barbados Turf Club has in the past operated its online games using another vendor's equipment. Under the terms of the 18-year integrated services agreement, GTECH has agreed to migrate the online games of all three entities to

GTECH Enterprise Series™ solution which will be operated out of Austin, Texas. GTECH has also agreed to provide approximately 250 Altura® terminals and an IP-based wireless communications system to be installed as the interface between the retailers and the central system.

In August 2005, Loxley GTECH Technology Co. Ltd. (“LGT”) signed a five-year agreement to provide equipment and services for a national online lottery in Thailand. LGT is a company that GTECH formed in joint venture with Loxley Public Company Limited, a leading trading and telecommunications conglomerate in Thailand. GTECH owns a 49 percent equity interest, and Loxley Public Company Limited owns a 51 percent equity interest, in LGT. Under the agreement, GTECH will be the principal provider of technology and services to LGT, supplying to LGT a turnkey system, consisting of GTECH Enterprise Series™ solution and approximately 12,000 Altura® terminals. LGT will, in turn, supply equipment and integrated services to the Government Lottery Office of Thailand. This award followed a competitive procurement. Sales for this national online lottery are expected to begin by May 2006.

New Contracts With, And Extensions And Orders By, Existing Customers

During calendar 2005, GTECH also was awarded new contracts by, or received contract extensions or orders from, a number of its existing customers.

In November 2005, following a competitive procurement, GTECH entered into a five-year integrated services contract with the Arizona lottery authority to provide a new online lottery system, terminals and communications network. Under the terms of the contract, GTECH has agreed to convert the Arizona lottery authority’s existing system to GTECH Enterprise Series™ technology platform, replace the Arizona lottery’s existing terminal base with approximately 2,600 Altura® terminals and provide an IP-based communications network.

In November 2005, following a competitive procurement, the New Jersey lottery authority named GTECH as the apparent successful bidder to provide a new integrated online and instant ticket lottery system, terminals and communication network. Sales under this new five-year contract, the terms of which are being finalized, are expected to commence in June 2006.

In August 2005, following a competitive procurement, GTECH was selected by the Washington lottery authority to negotiate a long-term contract, and in December 2005, GTECH and the Washington Lottery Authority entered into a contract, under which GTECH is to provide a new online and instant lottery system, terminals, communications network and ongoing services.

Several of GTECH’s calendar 2005 contract developments related to sales of products and services. In June 2005, GTECH entered into a new software license agreement and agreement to provide software and hardware maintenance and support services to Societe de la Loterie de la Suisse Romande (“LoRo”), the Swiss lottery authority. At such time, GTECH also entered into a product sale agreement with LoRo to provide a new integrated online and instant ticket lottery system, Altura® terminals and communications network.

In July 2005, GTECH signed a five-year contract to provide ongoing software support and enhancements, as well as certain general contractor services, to Westdeutsche Lotterie GmbH & Co. OHG, the operator of online and instant-ticket lottery games in the German state of Nordrhein-Westfalen.

In July 2005, GTECH signed an agreement with the Spanish National Organization for the Blind (Organización Nacional de Ciegos Espanoles), which is authorized to administer lottery and wagering games in Spain, to provide 5,000 additional handheld lottery terminals and to upgrade the authority’s central system hardware.

In August 2005, GTECH entered into an agreement with the New Zealand lottery authority to provide a complete lottery system conversion, including a new integrated online and instant ticket lottery system and new terminals, together with ongoing software support and terminal maintenance services.

In August 2005, GTECH received an order from the California lottery authority for a variety of lottery products, including 550 additional Altura® terminals, 700 Altura CVT terminals, 1,000 Instant Ticket Vending Machines and other self service lottery solutions.

During calendar 2005, the Ohio lottery authority, Dansk Tipstjeneste (GTECH's lottery customer in Denmark), and Supreme Ventures Limited (GTECH's lottery customer in Jamaica), each exercised options to extend the terms of their respective online contracts with GTECH. In addition, in May 2005, GTECH signed a new one-year contract with Caixa Economica Federal ("CEF"), the administrator of the National Lottery in Brazil, which provides for GTECH to continue to operate the existing lottery and financial transaction processing systems for CEF through May 14, 2006, or such later date as CEF may elect.

During calendar 2005, GTECH received several awards, or extensions of awards, to provide ITVMs in addition to orders of ITVMs from the North Carolina and California lottery authorities in the context of the larger contracts as awards described above. In June 2005, GTECH entered into a product sale agreement, following a competitive procurement, with the operator of the French National Lottery, LaFrancaise Des Jeux ("FDJ"), to provide FDJ not less than 575 ITVMs and repair services. In June 2005, GTECH entered into a two-year extension with the Ohio lottery commission for the lease of ITVMs.

Other Products And Services

During calendar 2005, GTECH entered into a number of agreements, and announced a number of other developments, respecting products and services outside of its traditional online lottery product offerings.

Video Lottery And Gaming. In February 2005, AB Svenska Spel, the Swedish lottery authority, agreed to purchase from Spielo Manufacturing, Inc. ("Spielo") 2,000 next generation wide area video lottery terminals which were deployed commencing in September 2005. In September 2005, following a competitive procurement, GTECH entered into an agreement with the Pennsylvania Department of Revenue to provide a gaming central control system to monitor and control up to 61,000 gaming machines which are to be installed at approximately 14 venues. In December 2005, following a competitive procurement, GTECH entered into an agreement to provide a video gaming monitoring system and site controllers for the Louisiana Department of Public Safety and Corrections' video gaming program.

New Product Offerings And Developments. In June 2005, GTECH entered into a joint venture agreement with Viekkas Oy, the operator of the Finnish national lottery, to develop and market innovative new games and solutions for the lottery and gaming industries. The primary focus of this joint venture, in which GTECH will hold an 81% equity stake, is the development of government-sponsored games and solutions (with an emphasis on sports-betting games and solutions) over interactive channels such as Internet, mobile telephony and interactive television.

In November 2005, GTECH announced the successful integration of its Lottery Inside technology into the Nucleus Point of Sale ("POS") Platform offered by Dresser Wayne, a business unit of Dresser Inc. and a pioneer in the retail fueling industry. GTECH's Lottery Inside technology enables the sale of lottery tickets through PC-based POS devices used by retailers, thereby obviating the need for retailers to maintain dedicated lottery terminals.

GTECH reported several new product offerings and other developments during calendar 2005 respecting its video lottery and gaming businesses.

In February 2005, GTECH announced the development of HotTrax,® an exciting new lottery monitor game that creates the illusion of an auto race that is taking place in three dimensions.

In May 2005, GTECH and Harrah's Operating Company, Inc., a subsidiary of Harrah's Entertainment, Inc. ("Harrah's"), entered into a strategic relationship whereby GTECH agrees to supply

Harrah's properties with gaming machines, and the two companies agree to work together to develop new game content.

In August 2005, GTECH announced that its subsidiary, Spielo, had launched WinWave™, its next generation video lottery terminal, which was developed in consultation with lotteries to meet specific needs of venues and players.

In September 2005, GTECH announced the development of its "Dynamic Floor Management System," which permits operators of casinos to customize the game, denomination and mode of play for a single machine or group of machines through commands and content sent via server.

In December 2005, GTECH signed a licensing agreement with Hasbro Properties Group, the intellectual property arm of Hasbro, Inc., granting GTECH exclusive rights in the United States and Canada to develop and market slot machines and video lottery terminals featuring The Game of Life® property brand in the casino and government-sponsored environments.

Regarding its commercial services business, in July 2005, GTECH announced that it had successfully integrated the commercial services payment capability of its Billbird subsidiary into GTECH's existing GTECH Enterprise Series™ system. This solution, GTECH Enterprise Series Commercial Payments™, offers GTECH's customers the opportunity to merge their lottery and commercial services operations.

EXPLANATION OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Introduction: On January 10, 2006, the Company entered into an agreement and plan of merger ("Merger") with Lottomatica S.p.A., an Italian corporation listed on the Italian Stock Exchange and exclusive license holder and operator of the Republic of Italy's Lotto ("Lottomatica"). The December 31, 2005 consolidated financial statements were prepared to facilitate Lottomatica's planned funding of the Merger through an offering of ordinary shares of Lottomatica ("Rights Offering") and an offering of subordinated interest-deferrable capital securities (collectively, the "Offerings").

In connection with the Offerings, Commissione Nazionale per le Società e la Borsa ("CONSOB", the Italian regulator for the securities market) requires pro-forma consolidated financial statements as of December 31, 2005 and for the period ending December 31, 2005 of Lottomatica, which give retroactive effect to the acquisition of the Company and to the related financial transactions. Such pro-forma consolidated financial statements are to be presented on the basis of the historical financial statements of Lottomatica and the Company prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Pro-forma consolidated financial statements of the Company and Lottomatica as of December 31, 2005 and for the period then ended shall include a balance sheet, income statement, pro-forma adjustments and pro-forma assumptions. The Company is required to prepare audited IFRS financial statements as of December 31, 2005 to support the pro-forma consolidated financial statements. These pro-forma consolidated financial statements will be filed with CONSOB and will not be included in "Prospetto Infomartivo" (the prospectus for the Rights Offering). Being a single year of IFRS financial statements (to enable the preparation of the pro-forma), comparative data for the prior year, segment information, shareholders' equity and cash flow statements are omitted.

Purpose: As per IFRS 1.38, an entity is required to explain how the transition from United States Generally Accepted Accounting Principles to IFRS affected its reported financial position, financial performance and cash flows. The reconciliations and explanation of transition are to give sufficient detail to enable users to understand the material adjustments to the financial statements under IFRS. This "explanation of transition to IFRS" is applicable only in the case of first-time adopters of IFRS.

Scope: IFRS 1 applies when an entity adopts IFRS for the first time by an explicit and unreserved statement of compliance with IFRS. An entity's first IFRS financial statements are the first annual

financial statements in which the entity adopts IFRS, by an explicit and unreserved statement in those financial statements of compliance with IFRS.

IFRS 1 applies when an entity first adopts IFRS. It does not apply when, for example, an entity:

- a) stops presenting financial statements under national requirements, having previously presented them as well as another set of financial statements that contained an explicit and unreserved statement of compliance with IFRS;
- b) presented financial statements in the previous year under national requirements and those financial statements contained an explicit and unreserved statement of compliance with IFRS; or
- c) presented financial statements in the previous year that contained an explicit and unreserved statement of compliance with IFRS, even if the auditors qualified their audit report on those financial statements.

As the pro-forma financial statements require only a limited set of financial statements for the convenience of the Offerings, comparative data for the prior year, segment information, shareholders' equity and cash flow statements are omitted. As the December 31, 2005 financial statements are a limited set and are not in full compliance with IFRS, the Company will not be considered a first time adopter for this purpose. The Company plans to be fully compliant with IFRS by December 31, 2006, making January 1, 2005 the transition date. Accordingly, a full explanation of the transition to IFRS was not prepared.

DESCRIPTION OF METHOD OF COMPUTING STOCK COMPENSATION

We have various stock-based compensation plans whereby nonemployee members of the Company's Board of Directors, officers and other key employees may receive grants of incentive stock options, nonqualified stock options, restricted stock, stock appreciation rights and performance awards. We are authorized to grant up to 27,200,000 shares of common stock under these plans.

The stock options granted under these plans are to purchase the Company's common stock at a price not less than fair market value at the date of grant. There are no cash settlement alternatives. Stock options granted prior to April 2005 generally vest ratably over a four-year period from the date of grant and subsequent grants generally vest ratably over a four-year period beginning on the second anniversary date of the grant. Stock options expire 10 years after the date of grant (unless an earlier expiration date is set at the time of grant) and are subject to possible earlier exercise and termination in certain circumstances.

Stock compensation expense has been computed in accordance with IFRS 2 and is included in "Personnel" costs with a corresponding increase in "Additional paid-in-capital" within shareholders' equity in the accompanying financial statements.

EMPLOYEES

As of December 31, 2005, the Company had 5,292 employees compared to 5,358 employees at December 31, 2004.

Report of Independent Auditors on Special Purpose IFRS Financial Statements

Board of Directors and Shareholders
GTECH Holdings Corporation and Subsidiaries

We have audited the accompanying preliminary/provisional consolidated balance sheet of GTECH Holdings Corporation and subsidiaries as of December 31, 2005 and the related consolidated statement of income for the period January 2, 2005 to December 31, 2005 prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the EU (the “preliminary/provisional financial statements”). These preliminary/provisional financial statements are the responsibility of the Company’s management. They have been prepared for the purpose of their incorporation in the Italian Prospectus for the offering of ordinary shares of Lottomatica S.p.A. (with which the Company entered into an agreement and plan of merger) to be filed in the Republic of Italy with *Commissione Nazionale per le Società e la Borsa* (“CONSOB”) and for the purpose of their incorporation in the International Offering Circulars for the offering of ordinary shares and of subordinated interest-deferrable capital securities of Lottomatica S.p.A. to international institutional investors. Our responsibility is to express an opinion on these preliminary/provisional financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the preliminary/provisional financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the preliminary/provisional financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the preliminary/provisional financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these preliminary/provisional financial statements as of December 31, 2005 and for the period January 2, 2005 to December 31, 2005 have been prepared, in all material respects, in accordance with the basis set out in Note 2, which describes how IFRS as adopted by the EU have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management, upon completion of the planned merger, will prepare its first complete set of IFRS financial statements.

Without qualifying our opinion, we draw attention to the fact that Note 2 explains why there is a possibility that the preliminary/provisional financial statements may require adjustment before constituting the IFRS financial statements for purposes of their utilisation as the comparative data for the first complete consolidated financial statements to be prepared in accordance with IFRS as adopted by the EU. Moreover, we draw attention to the fact that, under IFRS only a complete set of financial statements with the statements of cash flows and shareholders’ equity, comparative financial information and explanatory notes can provide a fair presentation of the Company’s financial position, results of operations and cash flows in accordance with IFRS as adopted by the EU.

Ernst & Young LLP

Boston, Massachusetts
March 14, 2006

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
at December 31, 2005

	<u>Notes</u>	<u>US\$000</u>
ASSETS		
Non-current assets		
Systems, equipment and other assets related to contracts, net	3	\$ 693,307
Property, plant and equipment, net	4	70,091
Goodwill	5	331,163
Intangible assets, net	5	61,945
Other non-current assets	6	50,536
Deferred income taxes	7	91,557
Total non-current assets		<u>1,298,599</u>
Current assets		
Inventories	8	107,585
Trade and other receivables	9	193,727
Other current assets	6	46,487
Investment securities available-for-sale	10	260,725
Cash and cash equivalents	10	178,513
Total current assets		<u>787,037</u>
TOTAL ASSETS		<u><u>\$2,085,636</u></u>
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	11	\$ 1,264
Additional paid-in-capital		474,302
Convertible debentures—equity	12	1,778
Other reserves	11	1,118
Income carried forward		238,084
Net income for the period		183,598
		<u>900,144</u>
Minority interests		5,335
Total equity		<u>905,479</u>
Non-current liabilities		
Long-term debt, less current portion	12	540,732
Deferred income taxes	7	148,473
Other liabilities	13	109,128
Total non-current liabilities		<u>798,333</u>
Current liabilities		
Accounts payable		90,724
Accrued expenses		77,078
Employee compensation		28,054
Advance payments from customers		62,411
Deferred revenue and advance billings		35,684
Dividends payable	14	11,259
Current portion of long-term debt	12	18,809
Income taxes payable		57,805
Total current liabilities		<u>381,824</u>
TOTAL EQUITY AND LIABILITIES		<u><u>\$2,085,636</u></u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
For the period from January 2, 2005 to December 31, 2005

	<u>Notes</u>	<u>US\$000</u>
Service Revenues		\$1,096,521
Product Sales		184,256
Change in inventories of finished goods and work in progress		13,709
Total Revenues		<u>1,294,486</u>
Raw Materials, Services and Other Costs		534,831
Personnel	15	347,508
Depreciation, Amortization and Write-downs	3, 4, 5	181,776
Capitalization of internal construction costs—labor and overhead		(79,008)
Total Costs		<u>985,107</u>
Operating Income		309,379
Interest income		8,838
Equity income		2,497
Other income		2,362
Other expense		(8,562)
Foreign exchange losses, net		(1,336)
Interest expense		(30,174)
		<u>(26,375)</u>
Income before income taxes		283,004
Income taxes for the period	7	99,406
Net income		<u>\$ 183,598</u>
Attributable to:		
Equity holders of the parent		185,179
Minority interest		(1,581)
		<u>183,598</u>
Earnings per share—basic:	16	<u>\$ 1.54</u>
Earnings per share—diluted:	16	<u>\$ 1.43</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

GTECH Holdings Corporation (“Holdings”) is a global gaming and technology company providing software, networks and professional services that power high-performance, transaction processing systems. We are the world’s leading operator of highly-secure online lottery transaction processing systems, doing business in 51 countries worldwide and we have a growing presence in commercial gaming technology and financial services transaction processing. In these notes, the terms “Holdings,” “Company,” “we,” “our,” and “us” refer to GTECH Holdings Corporation and all subsidiaries included in the consolidated financial statements. Holdings conducts business through its consolidated subsidiaries and unconsolidated affiliates and has, as its only material asset, an investment in GTECH Corporation (“GTECH”), its wholly-owned subsidiary.

The consolidated financial statements of Holdings for the period January 2, 2005 to December 31, 2005 were authorized for issue in accordance with a resolution of the board of directors on March 22, 2006. Holdings is a corporation organized under the laws of the state of Delaware in the United States whose shares are publicly traded on the New York Stock Exchange. Our principal place of business is 55 Technology Way, West Greenwich, Rhode Island 02817.

2.1 Basis of preparation

The consolidated financial statements are presented in United States dollars and all values are rounded to the nearest thousand (US\$000) except when otherwise indicated.

Statement of compliance

On January 10, 2006, Holdings entered into an agreement and plan of merger (“Merger”) with Lottomatica S.p.A., an Italian corporation listed on the Italian Stock Exchange and exclusive license holder and operator of the Republic of Italy’s Lotto (“Lottomatica”). The December 31, 2005 consolidated financial statements were prepared to facilitate Lottomatica’s planned funding of the Merger through an offering of ordinary shares of Lottomatica and an offering of subordinated interest-deferrable capital securities (collectively, the “Offerings”).

In connection with the Offerings, Commissione Nazionale per le Società e la Borsa (“CONSOB”, the Italian regulator for the securities market) requires pro-forma consolidated financial statements as of December 31, 2005 and for the period ending December 31, 2005 of Lottomatica, which give retroactive effect to the acquisition of Holdings and to the related financial transactions. Such pro-forma consolidated financial statements are to be presented on the basis of the historical financial statements of Lottomatica and Holdings prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”).

A full set of consolidated financial statements of Holdings as of December 31, 2005 and for the period then ended in accordance with IFRS as adopted by the EU, has not been prepared because comparative information, segment information, shareholders’ equity and cash flow statements are omitted. Because we are issuing a limited set of preliminary/provisional consolidated financial statements solely for their inclusion in the Offerings, we will not be considered a first time adopter of IFRS.

The preliminary/provisional consolidated financial statements of Holdings and all its subsidiaries have been prepared in accordance with IFRS as adopted by the EU as of December 31, 2005. However, the approval process on the part of the EU and the adaptations and interpretations of the official bodies in charge of these activities is still in progress. At the time of the preparation of the first complete IFRS

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.1 Basis of preparation (Continued)

consolidated financial statements, new IFRS standards and International Financial Reporting Interpretations Committee interpretations could be in effect that may be allowed to be applied at an earlier date. For these reasons, the data presented in the accompanying consolidated financial statements could change for purposes of their utilization as the comparative data for the first complete consolidated financial statements prepared in accordance with IFRS.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Holdings, GTECH, and all majority-owned or controlled subsidiaries at December 31, 2005. The financial statements of the subsidiaries are prepared for the same reporting year as Holdings, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets have been eliminated.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which we obtain control, and continue to be consolidated until the date that such control ceases.

We use the equity method to account for our investments in 20% to 50% owned affiliates and investments in corporate joint ventures, providing we are able to exercise significant influence over the investee's operating and financial policies. Consolidated net income includes our share of the net earnings of these companies. We account for our investments in less than 20% owned affiliates under the cost method.

2.2 Significant accounting judgments and estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying value of goodwill at December 31, 2005 was \$331.2 million.

Impairment of long-lived assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. This requires an estimation of the value in use of the cash-generating units to which the asset is associated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying value of systems, equipment and other assets related to contracts, net was \$693.3 million at December 31, 2005.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.2 Significant accounting judgments and estimates (Continued)

Inventory obsolescence

The Company regularly reviews inventory quantities on hand and record reserves for potentially obsolete or slow-moving inventory based primarily on our estimated forecast of product demand and production requirements. We believe our reserves are adequate; however, should future sales forecasts change, our original estimates of obsolescence could increase by a significant amount requiring additional reserves. The carrying value of inventories was \$107.6 million at December 31, 2005.

PolCard fair value options

The Company marks to market at each reporting date, its liability related to the fair value options it has to purchase the remaining interest in PolCard S.A. (see Notes 13 and 17). The Company uses a valuation technique to estimate this fair value consisting of a combination of earnings before interest, taxes, depreciation and amortization ("EBITDA") multiples current in the market for similar transactions and a supporting discounted cash flow analysis. The carrying value of this liability was \$48.5 million at December 31, 2005.

Income tax expense and accruals

Our annual income tax rate is based upon our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual income tax rate and in evaluating our tax positions. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are likely to be challenged and that we may not succeed. We adjust these reserves in light of changing facts and circumstances, such as the result of a tax audit. An estimated effective annual income tax rate is applied to our quarterly operating results. In the event there is a significant or unusual item recognized in our quarterly operating results, the tax attributable to that item is separately calculated and recorded at the same time.

Tax law requires items to be included in the income tax return at different times than the items are reflected in the financial statements. As a result, our annual income tax rate reflected in our financial statements is different than that reported in our tax return (our cash tax rate). Some of these differences are permanent, such as expenses that are not deductible in our income tax return, and some differences reverse over time, such as depreciation expense. These timing differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our income tax return in future years for which we have recorded the tax benefit in our income statement. Deferred tax assets are not recognized when the realization of the tax benefit is not probable. Deferred tax liabilities generally represent income tax expense recognized in our financial statements for which payment has been deferred, or expense for which we have taken a deduction in our income tax return but have not yet recognized an expense in our financial statements. We have not recognized any United States income tax expense on undistributed international earnings since we intend to reinvest the earnings outside the United States for the foreseeable future.

A number of years may elapse before a particular matter, for which we have established a reserve, is ultimately resolved. The number of years with open tax audits varies depending on the jurisdiction. While it is often difficult to predict the final outcome or the timing of resolution of any particular matter, we believe our reserves reflect the most probable outcome of known contingencies.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies

Foreign currency translation

The consolidated financial statements are presented in United States dollars, which is the Company's functional and presentation currency. The functional currency for the majority of our foreign subsidiaries is the applicable local currency and items included in the financial statements of each entity are measured using that functional currency. For those subsidiaries, we translate assets and liabilities at exchange rates in effect at the balance sheet date, and income and expense accounts at weighted average exchange rates. The resulting foreign currency translation adjustments are recorded in Other Reserves in our Consolidated Balance Sheet. Gains or losses resulting from foreign currency transactions are recorded in our Consolidated Income Statement. In accordance with IFRS 1, the cumulative translation differences for all foreign operations were deemed to be zero at the date of transition to IFRS (January 2, 2005).

For those foreign subsidiaries operating in a highly inflationary economy or whose functional currency is the United States dollar, nonmonetary assets and liabilities are translated at historical rates and monetary assets and liabilities are translated at current rates. The resulting foreign currency translation adjustments are recorded in our Consolidated Income Statement.

Systems, equipment and other assets related to contracts, net

Systems, equipment and other assets related to contracts are stated on the basis of cost. The cost is depreciated over the estimated useful life of the assets using the straight-line method depending on the type of cost. Cost is comprised of two categories:

- hard costs (for example: terminals, mainframe computers and communications equipment) and;
- soft costs (for example: software development).

Hard costs are depreciated using the straight line method over the base term of the contract plus extension years provided for in the contract that are deemed probable, but not to exceed 10 years. Soft costs are depreciated using the straight line method over the base term of the contract, but not to exceed 10 years.

The carrying values of systems, equipment and other assets related to contracts are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Property, plant and equipment, net

Property, plant and equipment is stated on the basis of cost. The cost is depreciated over the estimated useful life of the assets using the straight-line method. The estimated useful lives are generally 10 to 30 years for buildings and five to 10 years for furniture and equipment.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Borrowing costs

Pursuant to International Accounting Standards ("IAS") 23, the Company capitalizes borrowing costs. Borrowing costs capitalized during the period January 2, 2005 through December 31, 2005 were \$0.3 million.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Goodwill and other intangible assets

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- Represents the lowest level within the Company at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on either the Company's primary or the Company's secondary reporting format determined in accordance with IAS 14 Segment Reporting

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and any expenditure is charged against profits in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement within the caption "Depreciation, Amortization and Write-downs".

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Research and development

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognized only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete and the availability to measure reliably the expenditure during the development. Following initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Any expenditure capitalized is amortized over the period of expected future revenues from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the year.

Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows take into account the risks specific to the asset and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Impairment losses are recognized in the income statement within the caption "Depreciation, Amortization and Write-downs".

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are required for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognized in income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

Inventories and obsolescence

Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. Inventories include amounts we manufacture or assemble for our long-term service contracts, which are transferred to systems, equipment and other assets related to contracts, net upon shipment. Inventories also include amounts related to product sales contracts, including product sales under long-term contracts. We regularly review inventory quantities on hand and record reserves for potentially obsolete or slow-moving inventory based primarily on our estimated forecast of product demand and production

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

requirements. We believe our reserves are adequate; however, should future sales forecasts change, our original estimates of obsolescence could increase by a significant amount requiring additional reserves.

Trade receivables and other receivables

Trade accounts receivable, which generally have 30 day terms, are reported net of allowances for doubtful accounts and liquidated damages (penalties incurred due to a failure to meet specified deadlines or performance standards). Allowances for doubtful accounts are generally recorded for all items greater than 60 days past due and when there is objective evidence that we will not be able to collect the related receivables. Bad debts are written off when identified. Allowances for liquidated damages are recorded when penalties resulting from a failure to meet specified deadlines or performance standards are probable and estimable.

Cash and cash equivalents

We classify short-term, highly liquid investments with an original maturity of three months or less at the date of purchase as cash equivalents.

Long-term debt

All debt is initially recorded at the fair value of the consideration received less directly attributable debt issuance costs. Once recorded, debt is subsequently measured at amortized cost using the effective interest method. Gains and losses are recorded in the income statement when the liabilities are extinguished as well as through the amortization process.

Upon the issuance of convertible debt, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a liability on the amortized cost basis until extinguished upon conversion or redemption. The remainder of the proceeds is allocated to the conversion option and recognized and included in equity, net of issuance costs. The value of the conversion option is not changed in subsequent years. The discount on the convertible debt is amortized through the estimated life of the debt. Issuance costs are apportioned between the liability and equity components of the convertible debt based on the allocation of proceeds to the liability and equity components.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Whenever the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost. Provisions are included within Accrued Expenses in our Consolidated Balance Sheet.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Share-based payment transactions

Employees (including members of the Board of Directors) of the Company may receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (“equity-settled transactions”). The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external appraiser, further details of which are given in Note 15.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“vesting date”). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period. No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, at a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Company has taken advantage of the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after November 7, 2002 that had not vested on January 2, 2005.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognized as an expense in the income statement over the lease term.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, would be capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments would be apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges would be charged directly against income.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Revenue recognition

Lottery and gaming transaction processing services

We generally conduct our lottery and gaming business under two types of contractual arrangements: Facilities Management Contracts and Product Sales Contracts.

Facilities management contracts

A majority of our revenues are derived from facilities management contracts, under which we construct, install, operate and retain ownership of the online lottery system (“lottery system”). These contracts generally provide for a variable amount of monthly or weekly service fees paid to us directly from the lottery authority based on a percentage of a lottery’s gross online and instant ticket sales or a percentage of net machine income. These fees are recognized as revenue in the period earned and are classified as Service Revenues in our Consolidated Income Statement when all of the following criteria are met:

- Persuasive evidence of an arrangement exists, which is typically when a customer contract has been signed
- Services have been rendered
- Our fee is deemed to be fixed or determinable and free of contingencies or significant uncertainties
- Collectibility is reasonably assured

In instances where customer acceptance of the product or system is required, revenue is deferred until all the acceptance criteria have been met.

Product sales contracts

Under product sales contracts, we construct, sell, deliver and install a turnkey lottery system or deliver lottery equipment, and license the computer software for a fixed price, and the lottery authority subsequently operates the lottery system. Product sale contracts generally include customer acceptance provisions and general customer rights to terminate the contract if we are in breach of the contract.

Because product sales contracts include significant customization, modification and other services prior to customer acceptance that are considered essential to the lottery software inherent in our lottery systems, revenue is recognized using contract accounting. Under contract accounting, amounts due to us, and costs incurred by us in constructing the lottery system, prior to customer acceptance, are deferred. Revenue attributable to the lottery system is classified as Sales of Products in our Consolidated Income Statement and is recognized upon customer acceptance as long as there are no substantial doubts regarding collectibility.

Revenues attributable to any ongoing services provided subsequent to customer acceptance are classified as Service Revenues in our Consolidated Income Statement in the period earned.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

In certain product sale contracts (primarily the stand alone sale of lottery or video lottery terminals and software deliverables that do not involve significant customization of software) we are not responsible for installation and we recognize revenue when all of the following criteria are met:

- Persuasive evidence of an arrangement exists, which is typically when a customer contract has been signed
- The product has been delivered
- Our fee is deemed to be fixed or determinable and free of contingencies or significant uncertainties
- Collectibility is reasonably assured

In instances where installation and/or customer acceptance of the product is required, revenue is deferred until installation is complete and any acceptance criteria have been met.

Our typical payment terms under product sale contracts include customer progress payments based on specific contract milestones with final payment due on or shortly after customer acceptance. We do not generally offer our customers payment terms that extend substantially beyond customer acceptance. In the rare case that we provide a customer with extended payment terms, we defer revenue equal to the amount of the extended payment until it is received.

Non-lottery transaction processing services

We offer high-volume transaction processing services outside of our core market of providing online lottery services that consist of the acquiring, processing and transmission of commercial non-lottery transactions. Such transactions include retail debit, credit and charge card transactions, bill payments, electronic tax payments, utility payments, pre-paid cellular telephone recharges and retail-based programs.

We earn a fee for processing commercial non-lottery transactions that is transaction-based (a fixed fee per transaction or a fee based on a percentage of dollar volume processed). We recognize these fees as service revenue at the time a transaction is processed based on the net amount retained.

Deferred revenue and liquidated damage assessments

Amounts received from customers in advance of revenue recognition are recorded in Advance Payments from Customers in our Consolidated Balance Sheet. We record liquidated damage assessments, which are penalties incurred due to a failure to meet specified deadlines or performance standards, as a reduction of revenue in the period they become probable and estimable. Liquidated damage assessments equaled 0.65% of our total revenues in 2005.

Income taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Derivative financial instruments and hedging

The Company uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability;
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction; or
- Hedges of a net investment in a foreign operation

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Company's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.

The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2.3 Summary of significant accounting policies (Continued)

Cash flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Hedges of a net investment in a foreign operation

The Company does not have any hedges of a net investment in a foreign operation as of December 31, 2005.

3. Systems, equipment and other assets related to contracts, net

Systems, equipment and other assets related to contracts, net at December 31, 2005 consist of the following:

	Land and Buildings	Terminals and Systems	Furniture and Equipment	Contracts in Progress	Total
			(US\$000)		
Net Book Value at January 2, 2005	\$ 547	\$ 563,744	\$ 48,166	\$ 91,495	\$ 703,952
Additions	—	33,032	8,085	105,260	146,377
Depreciation and write downs	(50)	(138,120)	(20,949)	—	(159,119)
Exchange adjustment	—	683	(5,820)	342	(4,795)
Transfers and other	—	150,545	23,830	(167,483)	6,892
Net Book Value at December 31, 2005	<u>\$ 497</u>	<u>\$ 609,884</u>	<u>\$ 53,312</u>	<u>\$ 29,614</u>	<u>\$ 693,307</u>
At January 2, 2005					
Cost	\$1,182	\$1,306,297	\$186,790	\$ 91,495	\$1,585,764
Accumulated Depreciation	(635)	(742,553)	(138,624)	—	(881,812)
Net Book Value	<u>\$ 547</u>	<u>\$ 563,744</u>	<u>\$ 48,166</u>	<u>\$ 91,495</u>	<u>\$ 703,952</u>
At December 31, 2005					
Cost	\$1,182	\$1,421,917	\$203,119	\$ 29,614	\$1,655,832
Accumulated Depreciation	(685)	(812,033)	(149,807)	—	(962,525)
Net Book Value	<u>\$ 497</u>	<u>\$ 609,884</u>	<u>\$ 53,312</u>	<u>\$ 29,614</u>	<u>\$ 693,307</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Property, plant and equipment, net

Property, plant and equipment, net at December 31, 2005 consist of the following:

	<u>Land and Buildings</u>	<u>Furniture and Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
	(US\$000)			
Net Book Value at January 2, 2005	\$39,326	\$ 20,941	\$ 8,036	\$ 68,303
Additions	99	8,529	3,556	12,184
Depreciation and write downs	(1,629)	(8,849)	—	(10,478)
Exchange adjustment	172	83	—	255
Transfers and other	323	3,584	(4,080)	(173)
Net Book Value at December 31, 2005	<u>\$38,291</u>	<u>\$ 24,288</u>	<u>\$ 7,512</u>	<u>\$ 70,091</u>
At January 2, 2005				
Cost	\$43,653	\$ 123,066	\$ 8,036	\$174,755
Accumulated Depreciation	(4,327)	(102,125)	—	(106,452)
Net Book Value	<u>\$39,326</u>	<u>\$ 20,941</u>	<u>\$ 8,036</u>	<u>\$ 68,303</u>
At December 31, 2005				
Cost	\$44,247	\$ 126,148	\$ 7,512	\$177,907
Accumulated Depreciation	(5,956)	(101,860)	—	(107,816)
Net Book Value	<u>\$38,291</u>	<u>\$ 24,288</u>	<u>\$ 7,512</u>	<u>\$ 70,091</u>

5. Goodwill and other intangible assets

Goodwill

A reconciliation of the net carrying amount of goodwill at December 31, 2005 is as follows:

	<u>December 31, 2005</u>
	(US\$000)
Balance at the beginning of the period	\$333,756
Goodwill acquired during the period	644
Adjustments to purchase price allocations during the period	(3,237)
Balance at the end of the period	<u>\$331,163</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Goodwill and other intangible assets (Continued)

Other intangible assets

A reconciliation of the net carrying amount of intangible assets, net is as follows:

	<u>December 31, 2005</u>
	(US\$000)
Balance at the beginning of the period	\$ 71,879
Intangible assets acquired during the period:	
License fee	1,750
Amortization and write downs	(12,179)
All other	495
Balance at the end of the period	<u>\$ 61,945</u>

Intangible assets, net, which are subject to amortization, are being amortized over their estimated useful lives, with no estimated residual values. Intangible assets not subject to amortization were determined to have indefinite lives. The following tables present detailed information for intangible assets.

		<u>As of January 2, 2005</u>		
	<u>Weighted Average Amortization Period</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
		(US\$000)		
<i>Subject to amortization</i>				
Customer contracts	10	\$53,195	\$ 8,345	\$44,850
Capitalized computer software	5	24,373	16,366	8,007
License fee	20	12,500	941	11,559
Patents	6	5,100	1,072	4,028
Non-compete agreement	4	640	236	404
Trademarks	4	160	29	131
		<u>95,968</u>	<u>26,989</u>	<u>68,979</u>
<i>Not subject to amortization</i>				
Trademarks		2,900	—	2,900
		<u>\$98,868</u>	<u>\$26,989</u>	<u>\$71,879</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Goodwill and other intangible assets (Continued)

As of December 31, 2005				
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(US\$000)				
<i>Subject to amortization</i>				
Customer contracts	11	\$52,444	\$14,845	\$37,599
Capitalized computer software	5	24,465	19,191	5,274
License fee	20	14,250	1,616	12,634
Patents	6	5,100	1,922	3,178
Non-compete agreement	4	669	398	271
Trademarks	4	160	71	89
		<u>97,088</u>	<u>38,043</u>	<u>59,045</u>
<i>Not subject to amortization</i>				
Trademarks		2,900	—	2,900
		<u>\$99,988</u>	<u>\$38,043</u>	<u>\$61,945</u>

The aggregate amount of research and development expenditures recognized as expense during the period is \$49.5 million.

License fee

In May 2003, we entered into a Master Contract with the Rhode Island Lottery (the “Lottery”) that amended our existing contracts with the Lottery and grants us the right to be the exclusive provider of online, instant ticket and video lottery central systems and services for the Lottery during the 20-year term of the Master Contract for a \$12.5 million up-front license fee which we paid in July 2003. This license fee is included in Intangible Assets, net in our Consolidated Balance Sheet and is being amortized as a reduction in service revenue on a straight-line basis over the 20-year term of the Master Contract.

The Master Contract is part of a comprehensive economic development package that provides incentives for us to keep our world headquarters and manufacturing operations in Rhode Island. Under the terms of the Master Contract, we are to invest (or cause to be invested) at least \$100 million in the State of Rhode Island, in the aggregate, by December 31, 2008. This investment commitment includes the \$12.5 million up-front license fee; new online and video lottery related hardware, software and services; the development of a new world headquarters facility of at least 210,000 square feet in Providence, Rhode Island by December 31, 2006; and improvements to our existing manufacturing facility in West Greenwich, Rhode Island. We have agreed to employ at least 1,000 people full-time in Rhode Island by the end of calendar year 2005 (such requirement was met) and maintain that level of employment thereafter. In the event the State of Rhode Island takes certain actions which affect our financial performance, we will be automatically released from the in-state employment obligation. We currently plan to satisfy our obligation to invest (or cause to be invested) at least \$100 million in the State of Rhode Island by December 31, 2006. In addition, in July 2003 we entered into a tax stabilization agreement with the City of Providence (the “City”), whereby the City agreed to stabilize the real estate and personal property taxes payable in connection with our new world headquarters facility in the City for 20 years. We also agreed to complete and occupy the facility by December 31, 2006, employ 500 employees at the facility by 2009, and we made certain commitments regarding our employment, purchasing and education activities in the City. The Lottery may terminate the Master Contract in the event that we fail to meet our obligations as stated above.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other assets (non-current and current)

	<u>December 31, 2005</u>
	(US\$000)
Other non-current assets	
Investments in and advances to unconsolidated affiliates	\$18,956
Refundable performance deposit	12,000
Atronic guarantee	2,000
All other	17,580
	<u>\$50,536</u>
Other current assets	
Pre-paid expenses	\$12,849
Value-added tax receivable	10,029
Refundable performance deposit	8,000
Minority shareholder receivable	6,204
Vendor advances	5,920
Thailand guarantee	500
All other	2,985
	<u>\$46,487</u>

Refundable performance deposit

In September 2003, we entered into a 12-year contract extension to provide online lottery products and services to SAZKA, a.s. (“SAZKA”), the operator of lottery and betting games in the Czech Republic. The contract extension will commence on January 1, 2006 and expires on December 31, 2017. As part of the contract extension, we paid SAZKA a \$20 million performance deposit that SAZKA will repay upon the achievement of certain milestones beginning in 2006. The refundable performance deposit is scheduled to be repaid as follows (the January 2, 2006 installment was paid as scheduled):

	<u>US\$000</u>
On or before January 2, 2006	\$ 8,000
On or before January 2, 2007	8,000
On or before January 2, 2008	2,000
On or before January 2, 2009	1,000
On or before January 2, 2010	1,000
	<u>\$20,000</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Income tax

Income before income taxes is based on the geographical contract source of income (rather than the location where the income is taxed) and consists of the following:

	<u>December 31, 2005</u>
	(US\$000)
United States	\$ 15,663
Foreign	<u>267,341</u>
	<u>\$283,004</u>

Significant components of the provision for income taxes are as follows:

	<u>December 31, 2005</u>
	(US\$000)
Current:	
Federal	\$38,891
State	6,298
Foreign	<u>44,418</u>
Total Current	<u>89,607</u>
Deferred:	
Federal	\$10,869
State	141
Foreign	<u>(1,211)</u>
Total Deferred	<u>9,799</u>
Total Provision	<u>\$99,406</u>

Deferred income tax related to items credited to additional paid-in-capital is as follows:

	<u>December 31, 2005</u>
	(US\$000)
Conversion of convertible debentures	\$2,410
Share based compensation	<u>4,533</u>
	<u>\$6,943</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Income tax (Continued)

The tax effects of temporary differences and carryforwards that give rise to deferred tax assets and liabilities consist of the following:

	<u>December 31, 2005</u> (US\$000)
Deferred tax assets:	
Accruals not currently deductible for tax purposes	\$ 17,300
Cash collected in excess of revenue recognized	17,234
Depreciation	13,495
Share based compensation	13,446
Tax credit carryforward	8,358
Capital leases	4,870
Inventory reserves	4,837
Other	12,017
	<u>91,557</u>
Deferred tax liabilities:	
Depreciation	(116,379)
Acquired intangible assets	(11,591)
Capital leases	(4,870)
Contingent interest on convertible debt	(2,452)
Other	(13,181)
	<u>(148,473)</u>
Net deferred tax liabilities	<u>\$ (56,916)</u>

The Company has tax losses of approximately \$25.8 million related to certain foreign tax jurisdictions. These losses expire at various dates through 2026. Deferred tax assets have not been recognized on these amounts as the losses may not be used to offset taxable income in other tax jurisdictions of the Company.

Undistributed earnings of foreign subsidiaries amounted to \$143.5 million at December 31, 2005. No deferred tax liability has been recognized for taxes that would be payable upon distribution of the unremitted foreign earnings because there is no intention by the Company to remit the earnings in the foreseeable future.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Income tax (Continued)

The effective income tax rate on income before income taxes differed from the statutory federal income tax rate for the following reasons:

	<u>December 31, 2005</u>
Federal income tax using statutory rate	35.00%
State taxes, net of federal benefit	2.11
Share based compensation	1.12
Nondeductible expenses	0.44
Domestic manufacturing deduction	(0.62)
Foreign export sale benefits	(0.90)
Foreign tax rate differential	(3.23)
Other	1.21
	<u>35.13%</u>

8. Inventories

	<u>December 31, 2005</u>
	(US\$000)
Raw materials and consumables	\$ 28,312
Work in progress	62,612
Finished goods	16,661
	<u>\$107,585</u>

Total inventory includes reserves for potentially obsolete or slow-moving inventory of \$5.5 million. The total cost of inventory recognized as an expense during the period was \$115.9 million.

9. Trade and other receivables

	<u>December 31, 2005</u>
	(US\$000)
Trade receivables	\$137,554
Receivables from debit and credit card associations	44,907
Receivables from associates and joint ventures	8,161
Sales-type lease receivables	3,105
	<u>\$193,727</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Trade and other receivables (Continued)

Related party disclosures

Receivables from associates and joint ventures are as follows:

	<u>December 31, 2005</u>
	(US\$000)
Loxley GTECH Private Ltd.	\$3,619
Lottery Technology Services Corporation	2,264
Uthingo Management Proprietary Limited	1,047
The Republic of Italy (Cogetech)	852
Lottery Technology Enterprises	274
Wireless Business Solutions (Proprietary) Limited	105
	<u>\$8,161</u>

Lottery Technology Services Corporation

We have a 44% interest in Lottery Technology Services Corporation (“LTSC”), which we account for using the equity method of accounting. LTSC provides equipment and services (which we supplied to LTSC), to the Taipei Fubon Bank. The Taipei Fubon Bank holds the license to operate the Taiwan Public Welfare Lottery. Revenues from LTSC were \$18.4 million during calendar 2005.

Uthingo Management Proprietary Limited

We have a 10% interest in Uthingo Management Proprietary Limited (“Uthingo”), which is accounted for using the equity method of accounting. Uthingo holds the license to operate the South African National Lottery. Revenues from Uthingo were \$11.4 million during calendar 2005.

the Republic of Italy (Cogetech SPA)

We have a 35% interest in Cogetech SPA which is accounted for using the equity method of accounting. Cogetech SPA operates a communications network and related central computer system linking gaming machines in the Republic of Italy. Revenues from Cogetech SPA were \$1.4 million during calendar 2005.

Lottery Technology Enterprises

We have a 1% interest in Lottery Technology Enterprises (“LTE”) which is accounted for using the cost method of accounting. LTE holds a 10-year contract (which expires in November 2009) with the District of Columbia Lottery and Charitable Games Control Board. Revenues from LTE were \$3.9 million during calendar 2005.

Wireless Business Solutions (Proprietary) Limited

We have a 40% interest in Wireless Business Solutions (Proprietary) Limited (“WBS”), an entity that holds a national mobile data telecommunications license issued by the South African government and is the telecommunications provider to Uthingo. In 2005, we determined that we no longer had a controlling interest in WBS that would require consolidation in our financial statements due principally to the

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Trade and other receivables (Continued)

expiration of our guarantee of loans made by an unrelated commercial lender to WBS. Consequently, we account for WBS using the equity method of accounting. Revenues from WBS were \$0.4 million during calendar 2005.

Loxley GTECH Private Limited

We have a 49% interest in Loxley GTECH Private Limited Co. ("LGT") which is accounted for using the equity method of accounting. LGT will provide an online lottery system in Thailand. On March 29, 2005, we guaranteed, along with the 51% shareholder in LGT, certain loans, performance bonds and trade finance facilities made to LGT by an unrelated commercial lender. We are jointly and severally liable with the other shareholder in LGT for this guarantee.

At December 31, 2005, advance billings due from LGT totaling \$3.6 million is included in Deferred Revenue and Advance Billings in our Consolidated Balance Sheet. This amount will be recognized in 2006 upon the start-up of the online lottery system in Thailand.

Terms and conditions of transactions with related parties

Sales of products to and service revenues from related parties are made at normal market prices. Outstanding balances at the period-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided for any unrelated party receivables. For the period ended December 31, 2005, we have not recorded any allowances for doubtful accounts relating to amounts owed by related parties. Allowances are generally required for all accounts receivable greater than 60 days past due and when there is objective evidence that we will not be able to collect the related receivable.

Compensation of key management personnel for the period January 2, 2005 to December 31, 2005

	<u>(US\$000)</u>
Share-based payments	\$10,352
Short-term employee benefits	5,987
Termination benefits	978
Other long-term benefits	728
Post employment benefits	56
Total	<u>\$18,101</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Financial instruments

Fair values

Set out below is a comparison by category of the carrying amounts and fair values of our financial instruments at December 31, 2005.

	<u>Carrying Amount</u>	<u>Fair Value</u>
	(US\$000)	
Financial assets		
Cash and cash equivalents	\$ 178,513	\$ 178,513
Investment securities available-for-sale		
State and Municipal Auction Rate Securities	176,025	176,025
State and Municipal Variable Rate Demand obligations . . .	<u>84,700</u>	<u>84,700</u>
Subtotal investment securities available-for-sale	\$ 260,725	\$ 260,725
Financial liabilities		
Long-term debt		
4.75% Senior Notes due October 2010	(248,229)	(247,832)
4.50% Senior Notes due December 2009	(148,652)	(147,618)
5.25% Senior Notes due December 2010	(147,585)	(152,738)
1.75% Convertible Debentures due December 2021	(16,275)	(33,278)
Fair value of interest rate swaps	3,800	3,800
Other, due through October 2007	<u>(2,600)</u>	<u>(2,600)</u>
Subtotal long-term debt	\$(559,541)	\$(580,266)
Other liabilities		
Fair value of interest rate swaps	\$ (3,800)	\$ (3,800)

Cash and cash equivalents are stated at cost, which approximate fair value.

Investment securities are designated as available-for-sale and are stated at cost, which approximates fair value. We invest in short-term investments that are generally highly liquid and are assigned a minimal credit rating of A- or A3 from Standard and Poor's or Moody's Investor Service, respectively. Any unrealized gains and losses, net of income tax effects, would be recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The carrying amount and estimated fair values of our long-term debt are determined by an independent investment banker. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Financial instruments (Continued)

Interest rate risk

We use various techniques to mitigate the risk associated with future changes in interest rates, including entering into interest rate swap and treasury rate lock agreements. Interest rate swaps outstanding and the related debt instruments are as follows:

	December 31, 2005	
	Debt Carrying Amount	Interest Rate Swaps Outstanding (notional amount)
	(US\$000)	
4.75% Senior Notes due October 2010	\$248,229	\$150,000
4.50% Senior Notes due December 2009	148,652	50,000
5.25% Senior Notes due December 2014	147,585	25,000

These interest rate swaps exchange fixed interest rates for variable interest rates through the due date of the related debt instrument. The fair value of the interest rate swaps was recorded as a liability and the carrying value of the underlying debt was adjusted by an equal amount. The interest rates on the swap agreements are determined by reference to the LIBOR rate plus a margin ranging from 22.5 to 41.65 basis points. The interest rate swap agreements re-price on a six month basis.

Deferred gains of \$1.7 million on the treasury rate lock agreements, which matured prior to calendar 2005, are recorded in Other Reserves in our Consolidated Balance Sheet and are being amortized as a reduction of interest expense over the life of the respective debt instrument.

Foreign currency exchange contracts

The following table summarizes, by major currency, the contractual amounts of our forward exchange and option contracts translated to United States dollars using the contractual forward foreign exchange rates. The buy and sell amounts represent the United States dollar equivalent of commitments to purchase and sell foreign currencies.

	December 31, 2005	
	Buy Contracts	Sell Contracts
	(US\$000)	
Brazilian real	\$10,000	\$15,000
Canadian dollar	9,349	10,450
Mexican peso	5,071	—
Euro	3,605	17,057
Pounds sterling	3,461	4,515
Moroccan dirham	2,685	3,428
Swedish krona	2,268	—
Singapore dollar	2,062	—
Taiwan dollar	1,858	598
Other	3,162	5,148
Total	<u>\$43,521</u>	<u>\$56,196</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Issued capital and reserves

Authorized and issued and fully paid

<u>Class of share capital</u>	<u>Par value</u>	<u>Shares authorized</u>	<u>Shares issued and fully paid</u>	<u>Share Capital</u>
Preferred stock	\$.01 per share	20,000,000	—	—
Common stock	\$.01 per share	200,000,000	126,447,032	\$1,264

Shares outstanding

	<u>Shares Outstanding</u>
Balance at the beginning of the period	115,798,622
Treasury shares purchased	(2,170,500)
Shares issued under employee stock purchase and stock award plans	320,950
Shares issued upon exercise of stock options	954,335
Shares issued upon conversion of debentures	11,543,625
Balance at the end of the period	<u>126,447,032</u>

<u>Other reserves</u>	<u>Foreign currency translation reserve</u>	<u>Net Unrealized/Unrecognized gains reserve</u>	<u>Total</u>
		(US\$000)	
Balance at the beginning of the period	\$(45,871)	\$1,162	\$(44,709)
Cumulative currency translation difference reclassification in accordance with IFRS 1	45,871	—	45,871
Currency translation differences	(1,411)	—	(1,411)
Amortization of unrecognized gain on interest rate locks as a reduction of interest expense	—	(330)	(330)
Unrecognized net gain on derivative instruments	—	1,622	1,622
Unrealized gain on investments	—	75	75
Balance at the end of the period	<u>\$ (1,411)</u>	<u>\$2,529</u>	<u>\$ 1,118</u>

Nature and purpose of other reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record:

- exchange differences arising from the translation of the financial statements of foreign subsidiaries;
- the effect of hedging net investments in foreign operations.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Issued capital and reserves (Continued)

Net unrealized/unrecognized gains reserve

The net unrealized/unrecognized gains reserve is used to record:

- the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge;
- the net amount of deferred gains realized related to our agreement to lock in interest rates to hedge our Senior Notes, along with the related amortization of these gains as a reduction of interest expense over the life of the respective debt instrument
- unrealized gains or losses on other investments

12. Long-term debt

	<u>December 31, 2005</u>
	(US\$000)
4.75% Senior Notes due October 2010	\$248,229
4.50% Senior Notes due December 2009	148,652
5.25% Senior Notes due December 2014	147,585
1.75% Convertible Debentures due December 2021	16,275
Fair value of interest rate swaps	(3,800)
Other, due through October 2007	2,600
	<u>559,541</u>
Less current portion	<u>18,809</u>
	<u>\$540,732</u>

4.75% Senior Notes

In October 2003, Holdings issued, in a private placement, \$250 million principal amount of 4.75% Senior Notes due October 15, 2010, all of which were subsequently exchanged for 4.75% Senior Notes due October 15, 2010 registered under the Securities Act of 1933 (the “2010 Senior Notes”). The 2010 Senior Notes are unsecured and unsubordinated obligations of Holdings that are fully and unconditionally guaranteed by GTECH and certain of its subsidiaries. Interest is payable semi-annually in arrears on April 15 and October 15 of each year.

In conjunction with the 2010 Senior Notes offering, in October 2003, GTECH entered into three interest rate swap contracts that effectively convert \$150 million of the 2010 Senior Notes from a fixed rate debt to a floating rate debt for the period October 15, 2003 to October 15, 2010.

4.50% Senior Notes and 5.25% Senior Notes

In November 2004, Holdings issued, in a private placement, \$150 million principal amount of 4.50% Senior Notes due December 1, 2009, and \$150 million principal amount of 5.25% Senior Notes due December 1, 2014 (collectively, the “Senior Notes”). The Senior Notes were subsequently exchanged for notes with otherwise identical terms registered under the Securities Act of 1933 (the “registered Senior Notes”). The registration statement was initially filed on January 12, 2005 and was declared effective by the

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Long-term debt (Continued)

Securities and Exchange Commission on April 18, 2005. The registered Senior Notes are unsecured and unsubordinated obligations of Holdings that are fully and unconditionally guaranteed by GTECH and certain of its subsidiaries. Interest is payable semi-annually in arrears on June 1 and December 1 of each year.

In conjunction with the Senior Notes offering, in November 2004, GTECH entered into three interest rate swap contracts that effectively convert \$50 million of the registered Senior Notes from a fixed rate to a floating rate for the period November 2004 to December 2009 and \$25 million of the registered Senior Notes from a fixed rate to a floating rate for the period November 2004 to December 2014.

1.75% Convertible Debentures

In December 2001, Holdings issued, in a private placement, \$175 million principal amount of 1.75% Convertible Debentures due December 15, 2021 (the "Debentures"). The Debentures are unsecured and unsubordinated obligations of Holdings that are fully and unconditionally guaranteed by GTECH and certain of its subsidiaries. Interest on the Debentures is payable semi-annually in arrears on June 15 and December 15 of each year and accrues at an initial rate of 1.75% per year, subject to reset beginning December 15, 2006 under certain circumstances. In no event will the interest rate be reset below 1.75% or above 2.5% per year.

On or after December 15, 2006, we may redeem for cash, all or part of the Debentures at a redemption price equal to 100% of the principal amount of the Debentures, plus accrued interest up to, but not including, the date of redemption. Holders of the Debentures may require us to repurchase all or part of their Debentures on December 15, 2004, December 15, 2006, December 15, 2011 and December 15, 2016 at a price equal to 100% of the principal amount of the Debentures, plus accrued interest. We may choose to pay the purchase price in cash, shares of our common stock, or a combination of both. If we elect to pay any of the purchase price in shares, the number of shares we are required to deliver is equal to the portion of the purchase price paid in shares divided by 95% of the fair value of the shares at the time of settlement. In addition, upon a change in control of our Company occurring on or before December 15, 2021, each Debenture holder may require us to repurchase all or a portion of such holder's Debentures for cash. No Debentures were tendered for repurchase on December 15, 2004.

The Debentures were allocated between the debt and equity components at the date of issuance (December 15, 2001). The discount allocated to the debt component of the Debentures was fully amortized as of December 15, 2004. At December 31, 2005, the debt component of the Debentures was classified as current assuming that should the holders of the Debentures require us to repurchase all or a part of them on December 15, 2006, or should we redeem them for cash on or after December 15, 2006, we would use available cash for payment. The equity component of the Debenture was \$1.8 million at December 31, 2005.

The Debentures are convertible at the option of the holder into shares of our common stock at an initial conversion rate of 72.7272 shares of common stock per \$1,000 principal amount of Debentures, which is equivalent to an initial conversion price of approximately \$13.75 per share, subject to certain adjustments, in the following circumstances:

- (i) if the sale price of our common stock is more than 120% of the conversion price (approximately \$16.50 per share) for at least 20 trading days in a 30 trading-day period prior to the date of surrender for conversion;

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Long-term debt (Continued)

- (ii) during any period in which the credit ratings assigned to the Debentures by Moody's or Standard & Poor's are reduced to below Ba1 or BB, respectively, or in which the credit rating assigned to the Debentures is suspended or withdrawn by either rating agency;
- (iii) if the Debentures have been called for redemption; or
- (iv) upon the occurrence of specified corporate transactions.

Should the Debentures meet the conversion requirements, a total of 12.7 million shares of our common stock would be issuable. The Debentures became convertible on May 1, 2003 and remained convertible through the end of calendar 2005 because the sale price of our common stock was more than 120% of the conversion price (approximately \$16.50 per share) for at least 20 trading days in a 30 trading-day period.

During calendar 2005, \$158.7 million principal amount of the Debentures were converted by holders of the Debentures, resulting in the issuance of 11.5 million shares of Holdings' common stock.

Credit Facility

We have a \$500 million unsecured revolving credit facility expiring on October 25, 2009 (the "Credit Facility"). The Credit Facility is unsecured and unsubordinated and is fully and unconditionally guaranteed by Holdings and certain of GTECH's subsidiaries. Interest is generally payable monthly in arrears at rates determined by reference to the LIBOR rate plus a margin based on Holdings senior unsecured long-term debt rating. At December 31, 2005, there were no outstanding borrowings under the Credit Facility. At December 31, 2005, GTECH was required to pay a facility fee of .125% per annum on the total revolving credit commitment. The Credit Facility includes a letter of credit facility of up to \$100 million. At December 31, 2005, we had \$6.7 million of letters of credit issued and outstanding under the Credit Facility and \$53.7 million of letters of credit issued and outstanding outside of the Credit Facility. The total weighted average annual cost for all letters of credit was 0.94%.

The credit agreement for the Credit Facility has covenants including, among other things, requirements relating to the maintenance of certain financial ratios. There are no covenants in the Credit Facility that restrict our ability to pay dividends. At December 31, 2005, we had \$422 million of retained earnings available for the payment of dividends and we were in compliance with all applicable covenants contained in our debt agreements.

13. Other liabilities

	<u>December 31, 2005</u>
	(US\$000)
PolCard fair value options	\$ 48,469
Long-term advance payment from customer	18,298
Deferred revenue	16,569
Fair value of interest rate swaps	3,800
Atronic guarantee	2,000
All other	19,992
	<u>\$109,128</u>

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Dividends paid and proposed

	At December 31, 2005		
	Declared and paid	Declared and unpaid US\$000	Total Dividends
Dividends on common stock:			
January 2005 (\$0.085 per share)	\$ 9,843	\$ 54	\$ 9,897
April 2005 (\$0.085 per share)	9,771	78	9,849
June 2005 (\$0.085 per share)	10,518	66	10,584
October 2005 (\$0.085 per share)	10,635	65	10,700
December 2005 (\$0.085 per share)	—	10,817	10,817
	<u>\$40,767</u>	<u>\$11,080</u>	<u>\$51,847</u>
Dividends declared prior to January 2005 and unpaid at December 31, 2005	—	179	179
	<u>\$40,767</u>	<u>\$11,259</u>	<u>\$52,026</u>

15. Share-based payment plans

Equity-settled share option plans

We have various share-based compensation plans whereby nonemployee members of our Board of Directors, officers and other key employees may receive grants of incentive stock options, nonqualified stock options, restricted stock, stock appreciation rights and performance awards. We are authorized to grant up to 27.2 million shares of common stock under these plans and approximately 5.9 million shares were available for grant at December 31, 2005.

The stock options granted under these plans are to purchase our common stock at a price not less than fair market value at the date of grant. Stock options granted prior to April 2005 generally vest ratably over a four-year period from the date of grant and subsequent grants generally vest ratably over a four-year period beginning on the second anniversary date of the grant. Stock options expire 10 years after the date of grant (unless an earlier expiration date is set at the time of grant) and are subject to possible earlier exercise and termination in certain circumstances. Stock options are generally forfeited if the employee leaves the Company before the stock options vest. We have no cash-settled share-based payments.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Share-based payment plans (Continued)

The following table illustrates the number and weighted average exercise prices of, and movements in, stock options during the period January 2, 2005 to December 31, 2005.

	Shares under Options	Weighted Average Exercise Price
Outstanding at the beginning of the period	8,149,126	\$13.45
Granted during the period	1,109,700	24.07
Forfeited during the period	(585,250)	21.49
Exercised during the period	(954,335)	10.06
Expired during the period	—	—
Outstanding at the end of the period	<u>7,719,241</u>	14.79
Exercisable at the end of the period	<u>4,607,835</u>	\$ 9.99

Outstanding options at the beginning of the period include 5,239,100 options that have not been recognized in accordance with IFRS 2 as the options were granted on or before November 7, 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

The range of exercise prices and weighted average remaining contractual life for stock options outstanding under the plans as of December 31, 2005 are as follows:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Years)
\$4.00 - \$10.00	3,166,965	5.4
\$10.01 - \$15.00	1,295,000	6.2
\$15.01 - \$25.00	2,266,026	8.2
\$25.01 - \$30.00	991,250	8.4
	<u>7,719,241</u>	

The fair value of equity-settled stock options granted is estimated at the date of grant using a Black-Scholes model for options granted prior to April 2005 and a binomial model for subsequent options, taking into account the terms and conditions upon which the options were granted. We changed our option pricing model to a binomial model as we believe the binomial model provides a better estimate of fair value. The weighted average fair value of options granted during the period was \$7.00. The following table lists the inputs to the binomial model used for the period ended December 31, 2005.

Dividend yield (%)	1.43
Expected volatility (%)	34.88
Risk-free interest rate (%)	3.92
Expected life of options (in years)	4.50
Weighted average share price (\$)	24.07

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Share-based payment plans (Continued)

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of option grants were incorporated into the measurement of fair value.

We recorded \$7.0 million of expense during 2005 under our stock option plans, which is included in Personnel in our Consolidated Income Statement.

Other share-based payment plans

During 2005, we awarded 353,650 shares of restricted stock to nonemployee members of our Board of Directors, officers and certain other key employees of our Company. Such shares had a weighted average fair value at the date of grant of \$24 per share, which represents the closing share price of the stock on the date of grant. Recipients of restricted stock do not pay us any cash consideration for the shares.

We have an employee stock purchase plan (the “ESPP”) that is open to substantially all employees (with the exception of those employees who are 5% or more shareholders in our Company), which provides that eligible employees may purchase shares of our common stock, through regular payroll deductions, of up to 10% of their base earnings. The purchase price of our common stock is equal to 85% of the fair market value of the stock on the first or last trading day of the six-month offering period, whichever is lower. Employees may purchase shares of our common stock having a fair market value of up to \$25,000 per calendar year. All shares of our common stock purchased must be retained for a period of one year. We issued 116,382 shares of our common stock in 2005, at a weighted average share price of \$21 per share, pursuant to the ESPP.

The ESPP shares had a fair value at the date of grant of \$6 per share. The fair value is estimated as of the date of grant using a Black-Scholes model, taking into account the present value of the future possible stock prices, the offering period, expected volatility, risk-free interest rate and dividend yield.

We recorded \$7.0 million of expense during 2005 under our restricted stock and ESPP plans, which is included in Personnel in our Consolidated Income Statement.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Earnings per share

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<u>December 31, 2005</u> (US\$000)
Numerator:	
Net income attributable to equity holders of the parent	\$185,179
Interest expense on 1.75% Convertible Debentures, net of tax	1,165
Numerator for diluted earnings per share	<u>\$186,344</u>
Denominator:	
Weighted average number of ordinary shares for basic earnings per share	120,107
Effect of dilution:	
1.75% Convertible Debentures	7,407
Employee stock options	2,222
Unvested stock awards and employee stock purchase plan shares	336
Denominator for diluted earnings per share	<u>130,072</u>
Earnings per share—basic	<u>\$ 1.54</u>
Earnings per share—diluted	<u>\$ 1.43</u>

There were 1,185,192 shares of common stock that were not included in the computation of diluted earnings per share because the option's exercise prices were greater than the average market price of the common shares during the period and therefore, the effect would be anti-dilutive. In addition, there were 1,091,397 shares of common stock that were not included in the computation of diluted earnings per share related to the fair value options to purchase the remaining interest in PolCard S.A. because the effect would be anti-dilutive (see Note 17).

17. Business combination

The Company has elected to apply the relief granted under IFRS 1 in respect of business combinations and therefore did not apply IFRS 3, "Business Combinations", to business combinations that occurred prior to the transition date of January 2, 2005.

Acquisition of PolCard S.A.

In May 2003, we completed the acquisition of a controlling equity position in PolCard S.A. ("PolCard"), for a purchase price, net of cash acquired, of \$35.9 million. PolCard is the leading debit and credit card merchant transaction acquirer and processor in Poland. On September 28, 2005, we purchased an additional 11.681% of PolCard from Innova Capital Sp. z o.o. ("Innova") for cash consideration of approximately \$21.5 million, resulting in PolCard's outstanding equity being owned 74.5% by us, 25.2% by two funds managed by Innova, and 0.3% by the Polish Bank Association, one of PolCard's previous owners.

The terms of the Share Purchase Agreement which govern the purchase of the additional 11.681% of PolCard included a commitment by GTECH and Innova, as the majority shareholders of PolCard, to vote in favor of a general shareholder dividend of approximately \$25.0 million to be paid after the close of

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Business combination (Continued)

PolCard's fiscal year ending on February 25, 2006, and for PolCard to loan to Innova approximately \$6.3 million in anticipation of the dividend. This loan was advanced on December 22, 2005, bears interest at WIBOR plus 1.75% (6.35% as of December 22, 2005), and is fully secured by the dividend and by PolCard shares currently owned by Innova.

We have three fair value options to purchase Innova's interest in PolCard, and Innova has the reciprocal right to sell its interest in PolCard to us at fair value as follows:

<u>Exercise Date Commencing In</u>	<u>Buyout Percentage of the PolCard Outstanding Equity</u>
May 2007	12.6%
May 2008	6.3%
May 2009	6.3%

Each fair value option has a duration of 90 days and, in the absence of an agreed price between the parties prior to the commencement of an option period, will be based on an appraised value from at least two investment banks at the date of each option period. Should we exercise a fair value option, at our election, up to 50% of the purchase price at December 31, 2005, could have been settled in Holdings shares. On February 22, 2006, the Share Purchase Agreement was amended to remove our ability to settle any portion of the purchase price in Holdings shares. We have recorded \$48.5 million in Other Liabilities in our Consolidated Balance Sheet related to these options, which is our best estimate of their fair value at December 31, 2005. See Note 13.

Changes in the fair value of these options resulted in a non-cash charge of \$7.2 million for the period January 2, 2005 to December 31, 2005, which is included in Other Expense in our Consolidated Income Statement.

18. Impairment testing of goodwill and intangibles with indefinite lives

Goodwill acquired through business combinations and trademarks has been allocated to three groups of cash generating units for impairment testing as follows:

- Lottery
- Gaming Solutions
- Commercial Services

The recoverable amounts for the Lottery and Commercial Services cash generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The recoverable amounts for the Gaming Solutions cash generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a 20-year period for the Master Contract with the Rhode Island Lottery and a five-year period for all other contracts. The discount rate applied to cash flow projections is 4.6%. (See Note 5).

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Impairment testing of goodwill and intangibles with indefinite lives (Continued)

Carrying amount of goodwill and trademarks at December 31, 2005:

	<u>Goodwill</u>	<u>Trademarks</u>
	(US\$000)	
Lottery	\$192,314	\$ —
Gaming Solutions	113,876	2,900
Commercial Services	24,973	—
	<u>\$331,163</u>	<u>\$2,900</u>

Key assumptions used in the value in use calculation of Lottery, Gaming Solutions and Commercial Services units for December 31, 2005

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill and trademarks.

Service revenues and related profit—Projected cash flows from service revenues assumes the continuation of recent historical trends adjusted for expected new contract wins, anticipated contract renewal pricing pressures, and the expected impact of sales and marketing initiatives that are being developed or expected to be developed.

Product sales and related profit—Projected cash flows from product sales assumes renewal orders from existing customers in connection with known upcoming procurements, along with orders from new or developing customers and markets, at selling prices generally in line with historical experiences adjusted for expected competitive pressures.

Management believes that any reasonably possible change in any of the key assumptions on which the Lottery, Gaming Solutions and Commercial Services unit's recoverable amount is based would not cause the unit's carrying amount to exceed its recoverable amount.

19. Employee benefits

During 2005 we had two defined contribution 401(k) retirement savings and profit sharing plans (the "Plans") covering substantially all employees in the United States and the Commonwealth of Puerto Rico. The Commonwealth of Puerto Rico Plan was terminated on December 31, 2005.

Under these Plans, an eligible employee may elect to defer receipt of a portion of base pay each year. We contribute this amount on the employee's behalf to the Plans and also make a matching contribution. For 2005, our matching contributions were equal to 100% on the first 3% that the employee elects to defer. Employees are fully vested at all times in the amounts they defer and in any earnings on these contributions. Employees are fully vested in the Company's matching contributions and any earnings on these contributions on the first anniversary of their date of hire. Benefits under the Plans will generally be paid to participants upon retirement or in certain other limited circumstances.

In 2005 we recorded \$3.4 million of expense under the Plans, which is included in Personnel in our Consolidated Income Statement.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Commitments and contingencies

Leases

We lease certain facilities and equipment under noncancelable operating leases that expire at various dates through 2014. Certain of these leases have escalation clauses and renewal options. We are required to pay all maintenance costs, taxes and insurance premiums relating to our leased assets. There are no restrictions placed upon us by entering into these leases.

Future minimum lease payments under non-cancelable operating leases at December 31, 2005 are as follows:

	Lease Payments (US\$000)
Within one year	\$14,402
After one year but not more than five years	30,170
More than five years	<u>2,043</u>
	<u>\$46,615</u>

Rental expense for operating leases was \$23.4 million in 2005.

Contracts

Our facilities management contracts generally contain time schedules for, among other things, commencement of system operations and the installation of terminals, as well as detailed performance standards. We are typically required to furnish substantial bonds to secure our performance under contracts. In addition to other possible consequences, including contract termination, failure to meet specified deadlines or performance standards could trigger substantial penalties in the form of liquidated damage assessments. Many of our contracts permit the customer to terminate the contract at will and do not specify the compensation, if any, that we would be entitled to, were such a termination to occur. In 2005, we paid or incurred liquidated damages (with respect to our contracts) of \$8.4 million.

Acquisition

We entered into an agreement in December 2004, as amended in January 2006, to acquire a 50% controlling equity position in the Atronic group of companies ("Atronic") owned by Paul and Michael Gauselmann (the "Gauselmanns"). The remaining 50% of Atronic will be retained by the Gauselmanns. Atronic is a video slot machine manufacturer and also develops slot machine games and customized solutions for dynamic gaming operations. This transaction is contingent upon regulatory and gaming license approvals and other closing conditions, and is expected to be completed by mid-2007.

The final purchase price for Atronic will be calculated pursuant to a performance-based formula equal to eight times Atronic's EBITDA (earnings before interest, taxes, depreciation and amortization) for its fiscal year ending December 31, 2006, provided however, that the payment shall not be less than Euro 20 million. In addition, the Gauselmanns have the potential to receive an earn-out payment one year after the closing, if Atronic's 2007 performance exceeds certain specified thresholds. We currently expect the all-cash transaction will have a total value of approximately \$100 million to \$150 million, for our 50% share, including the assumption of debt.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Commitments and contingencies (Continued)

Through the end of 2011, we have the option to purchase the Gauselmanns' remaining 50% interest in Atronic at a price calculated pursuant to a performance based formula equal to eight times Atronic's EBITDA for its previous twelve months, plus an earn-out payment pursuant to a performance based formula if certain specified thresholds are exceeded. However, the payment for the second 50% shall not be less than Euro 50 million. During this period, the Gauselmanns have put rights that become effective only under certain circumstances. The exercise price of these puts under the specified circumstances would be calculated through a performance based formula.

Beginning in 2012, we have the option to purchase the Gauselmanns' remaining interests in Atronic and Gauselmann has a reciprocal right to sell its interest to us at a value determined by independent appraisers.

Litigation

Brazilian Legal Proceedings

The CEF Contract Proceedings

Background. In January 1997, Caixa Economica Federal ("CEF"), the Brazilian bank and operator of Brazil's National Lottery, and Racimec Informática Brasileira S.A. ("Racimec"), the predecessor of the Company's subsidiary GTECH Brasil Ltda. ("GTECH Brazil"), entered into a four-year contract pursuant to which GTECH Brazil agreed to provide online lottery services and technology to CEF (the "1997 Contract"). In May 2000, CEF and GTECH Brazil terminated the 1997 Contract and entered into a new agreement (the "2000 Contract") obliging GTECH Brazil to provide lottery goods and services and additional financial transaction services to CEF for a contract term that, as subsequently extended, was scheduled to expire in April 2003. In April 2003, GTECH Brazil entered into an agreement with CEF (the "2003 Contract Extension") pursuant to which: (a) the term of the 2000 Contract was extended into May 2005, and (b) fees payable to GTECH Brazil under the 2000 Contract were reduced by 15%.

In May 2005, CEF completed a procurement process for products and services to replace those that GTECH provided under the 2000 Contract. Based upon the commodity auction nature of the procurement process and the revenue restrictions that were then imposed on GTECH by the courts at the time, GTECH elected not to participate in the bid process. CEF also announced at such time that it was developing its central system in-house.

In May 2005, CEF and GTECH Brazil entered into a new agreement (the "2005 Contract") to provide the same lottery and financial transaction goods and services as were provided under the 2000 Contract. The 2005 Contract includes a discount of approximately 12% from the then-current pricing under the 2000 Contract and provides for a contract term through May 14, 2006, unless CEF elects to extend the term beyond such date. In addition, the 2005 Contract provides for GTECH Brazil to be paid in part based upon the number of terminals installed and connected to the GTECH Brazil central system. As and when new terminals are installed and connected to the CEF central system, terminals will be de-installed from the GTECH Brazil central system, and as this occurs, revenues otherwise payable to GTECH Brazil under the 2005 Contract will be correspondingly reduced. The de-installation of GTECH Brazil terminals from the GTECH central system will materially reduce GTECH's revenues to be received under the 2005 Contract and any short-term extensions thereof. GTECH may be required to record a charge of \$48.4 million to its consolidated income statement respecting accumulated foreign currency translation losses related to its operations in Brazil upon the expiration of the 2005 Contract.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Commitments and contingencies (Continued)

Revenues earned during calendar year 2005 under the 2000 Contract and the 2005 Contract accounted for approximately 10.2% of GTECH's total revenues for calendar year 2005, making CEF its largest customer in calendar year 2005 based on revenues.

Criminal Allegations Against Certain Employees And Related SEC Investigation. As previously reported, in late March 2004 federal attorneys with Brazil's Public Ministry (the "Public Ministry Attorneys") recommended that criminal charges be brought against nine individuals, including four senior officers of CEF, Antonio Carlos Rocha, the former Senior Vice President of Holdings and President of GTECH Brazil, and Marcelo Rovai, GTECH Brazil's marketing director.

The Public Ministry Attorneys had recommended that Messrs. Rocha and Rovai be charged with offering an improper inducement in connection with the negotiation of the 2003 Contract Extension, and co-authoring, or aiding and abetting, certain allegedly fraudulent or inappropriate management practices of the CEF management who agreed to enter into the 2003 Contract Extension. No other current or former employee of the Company or GTECH Brazil has been implicated by the Public Ministry Attorneys. Neither the Company nor GTECH Brazil is the subject of this criminal investigation, and under Brazilian law (which provides that criminal charges may not be brought against corporations or other entities), neither GTECH nor GTECH Brazil can be subject to criminal charges in connection with this matter.

As previously reported, in June 2004, the judge reviewing these charges prior to their being filed refused to initiate the criminal charges against the nine individuals, including against Messrs. Rocha and Rovai, but instead granted a request by the Brazilian Federal Police to continue the investigation which had been suspended upon the recommendation of the Public Ministry Attorneys that criminal charges be brought.

The Brazilian Federal Police subsequently ended their investigation and presented a report of their findings to the court. This report did not recommend that indictments be issued against Messrs. Rocha or Rovai, or against any current or former employee of GTECH.

The Public Ministry Attorneys have since requested that the Brazilian Federal Police reopen their investigation. GTECH understands that investigations by the Brazilian Federal Police are ongoing, including an investigation respecting the award of, and performance under, the 1997 Contract and the 2000 Contract.

As previously reported, GTECH is cooperating fully with the investigations by Brazilian authorities and has encouraged Messrs. Rocha and Rovai to do the same.

In addition, as previously reported, GTECH conducted an internal investigation of the 2003 Contract Extension under the supervision of the independent directors of GTECH Holdings Corporation. The investigation did not reveal any reason to believe that any of GTECH's or GTECH Brazil's current or former employees had committed any criminal offenses.

Notwithstanding the favorable resolution of the Brazilian Federal Police's initial investigation, on January 31, 2006, a special investigating panel of the Brazilian congress issued a preliminary report and voted, among other things, to ask the Public Ministry Attorneys to indict CEF President Jorge Mattoso and more than 30 other people, including one current and three former employees of GTECH Brazil, alleging that the individuals helped GTECH to illegally obtain the 2003 Contract Extension. The report also recommends that the 2005 Contract terminate, and not be extended by CEF, upon the expiration of the term of the 2005 Contract in May 2006. GTECH finds nothing in the congressional report to cause it to

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Commitments and contingencies (Continued)

believe that any present or former employee of GTECH or GTECH Brazil committed any criminal offense in connection with obtaining the 2003 Contract Extension. Nevertheless, there can be no assurance that the Public Ministry Attorneys will not seek to indict or initiate criminal charges against one or more current or former GTECH Brazil employees in the wake of the issuance of the congressional report, or that the final congressional report will not request additional action against GTECH.

As previously reported, the SEC began an informal inquiry in February 2004, which informal inquiry became a formal investigation in July 2004, into the Brazilian criminal allegations against Messrs. Rocha and Rovai, and GTECH's involvement in the facts surrounding the 2003 Contract Extension, to ascertain whether there has been any violation of United States law in connection with these matters. In addition, in May 2005, representatives of the United States Department of Justice asked to participate in a meeting with GTECH and the SEC. GTECH has cooperated fully with the SEC and the United States Department of Justice with regard to these matters, including by responding to their requests for information and documentation.

To date GTECH has found no evidence that it, or any of its current or former employees, has violated any United States law, or is otherwise guilty of any wrongdoing in connection with these matters.

In light of the fact that GTECH's reputation for integrity is an important factor in its business dealings with lottery and other governmental agencies, an allegation or finding of improper conduct by GTECH or any of its current or former employees that is attributable to GTECH could have a material adverse effect on GTECH's results of operations, business or prospects, including its ability to retain existing contracts or to obtain new or renewal contracts within Brazil and elsewhere.

Civil Action By The Public Ministry Attorneys. As previously reported, in April 2004 the Public Ministry Attorneys initiated a civil action in the Federal Court of Brasilia against GTECH Brazil; 17 former officers and employees of CEF; the former president of Racimec; Antonio Carlos Rocha; and Marcos Andrade, another former officer of GTECH Brazil. The focus of this civil action is the contractual relationship between CEF, GTECH Brazil and Racimec during the period 1994 to 2002. This civil action alleges that the defendants acted illegally in entering into, amending and performing, the 1997 Contract, and the 2000 Contract.

As previously reported, this lawsuit also seeks to impose damages equal to the sum of all amounts paid to GTECH under the 1997 Contract and the 2000 Contract, and certain other permitted amounts, minus GTECH's proven investment costs. The applicable statute also permits the assessment of interest and, in the discretion of the court, penalties of up to three times the amount of the damages imposed. GTECH estimates that through the date of the lawsuit it received under the 1997 Contract and the 2000 Contract a total of approximately 1.5 billion Brazilian reais (or approximately 641 million United States dollars at currency-exchange rates in effect as of December 31, 2005). In addition, although it is unclear how investment costs would be determined for purposes of this lawsuit, GTECH estimates that its investment costs through the date of the lawsuit were approximately between 1.2 billion and 1.4 billion Brazilian reais (or approximately between 513 million and 598 million United States dollars) at currency exchange rates in effect as of December 31, 2005 in aggregate; however, these investment costs could be disputed by CEF, and are ultimately subject to approval by the court.

As previously reported, GTECH believes it has good and adequate defenses to the claims made in this lawsuit. GTECH intends to defend itself vigorously in these proceedings, which, GTECH has been advised by its Brazilian counsel, are likely to take several years, and could take longer than 15 years in certain

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Commitments and contingencies (Continued)

circumstances, to litigate through the appellate process to final judgment. It is GTECH's position that it was appropriately awarded the 1997 Contract by CEF after a competitive procurement, and that at all times since 1997, GTECH has been appropriately compensated for services performed under valid contracts with the CEF.

While GTECH cannot rule out the possibility that it will ultimately be held liable in this matter, or estimate the amount of such liability in such event, GTECH believes that the outcome of this lawsuit is not likely to have a material adverse effect on its results of operations or business.

As previously reported, in June 2004, the Federal Court of Brasilia granted a procedural injunction in connection with this civil matter which ordered that 30% of payments made subsequent to the date of the injunction to GTECH Brazil by CEF under the 2000 Contract be withheld and deposited into an account maintained by the Court. This injunction also put in place restrictions that effectively prevented the transfer or sale of GTECH's Brazilian assets, including the share capital of GTECH Brazil, with certain limited exceptions. The injunction was granted as part of a confidential ex parte proceeding in which GTECH was not afforded an opportunity to participate.

GTECH filed an appeal respecting the court's grant of this injunction in July 2004. On March 22, 2005, a panel of judges of the Brazilian Federal Court of Appeals heard GTECH's appeal of the procedural injunction granted by the Federal Court of Brasilia and issued an order: (a) discontinuing the withholding of payments due to GTECH Brazil from CEF that had been mandated by the procedural injunction; (b) removing the procedural injunction's restrictions on the transfer or sale of the Company's Brazilian assets; and (c) requiring the return to GTECH Brazil of amounts in excess of 40 million Brazilian reais held in escrow pursuant to the procedural injunction, thereby permitting the return to GTECH of approximately 11 million United States dollars of the 26 million United States dollars held in escrow as of March 1, 2005. The appeals court also ordered that 40 million Brazilian reais continue to be held in escrow, and that the procedural injunction's requirements that defendants report assets to the court, and that the Brazilian Central Bank report any transaction associated with these assets, be maintained. GTECH has appealed the Court of Appeals decision with respect to the continued withholding of 40 million Brazilian reais in a court account and the deadline for the Public Ministry Attorneys to appeal this decision of the Court of Appeals has expired. Amounts, exclusive of interest, held in escrow as of December 31, 2005 were valued at approximately \$17.1 million United States dollars at currency exchange rates in effect as of such date.

Popular Claim. As previously reported, in February 2004, Vincius Bijos, a Brazilian, commenced a public class action lawsuit in Brazil's Brasilia District Court of the Federal District against the Brazilian Federal government; CEF; several former and current officers of CEF; the former president of Racimec; and GTECH Brazil, seeking, among the relief requested of the Court, a preliminary injunction prohibiting CEF from making further payments to GTECH Brazil under the now superceded 2000 Contract, and an order that would terminate such contract and require the defendants, jointly and severally, to refund amounts received by GTECH Brazil under the 1997 Contract and the 2000 Contract, together with interest, appropriate monetary adjustments, court costs and expenses. This public class action lawsuit bases its claims upon numerous alleged defects and irregularities, which the suit asserts violate Brazilian law, in the 1997 Contract and the 2000 Contract, and the manner in which the procurement processes that gave rise to the awards of these contracts were organized and administered. GTECH intends to mount a vigorous challenge to the far-reaching claims that make up this lawsuit. GTECH notes that the Public Ministry Attorneys filed an opinion with the federal court disagreeing with the request that an injunction

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Commitments and contingencies (Continued)

enjoining payments from CEF to GTECH Brazil be entered and requesting that this suit be consolidated with the Public Ministry Attorneys' civil action described above.

GTECH believes that it has good and adequate defenses in this matter and intends to defend itself vigorously in these proceedings. GTECH further believes that the claims and determinations of the public class action lawsuit will be merged into the civil action instituted by the Public Ministry Attorneys described above, and are, accordingly, unlikely to represent an independent source of liability for GTECH. While GTECH cannot rule out the possibility that it will ultimately be held liable in this matter, or estimate the amount of such liability in such event, GTECH believes that the outcome of this lawsuit is not likely to have a material adverse effect on its results of operations or business.

TCU Audit. As previously reported, in June 2003, the Federal Court of Accounts ("TCU"), the court charged with auditing agencies of the Brazilian federal government and its subdivisions, summoned GTECH, together with several current and former employees of the CEF, to appear before TCU's Brasilia court to show cause why they should not be required to jointly pay a base amount determined on a preliminary basis by the TCU to be due of 91,974,625 Brazilian reais, duly indexed for inflation and interest as of May 26, 2000 (Decision No. 692/2003). GTECH estimates that this claim, in aggregate, is for the local currency equivalent of approximately 39 million United States dollars at currency exchange rates in effect as of December 31, 2005. The allegations underlying this summons are set forth in a report (the "2003 Audit Report") issued by the TCU in May 2003 respecting an audit conducted by the TCU of the 1997 Contract.

The central allegation of the 2003 Audit Report is that under the 1997 Contract GTECH was accorded certain payment increases respecting lottery services, and it contracted to supply to CEF certain lottery-related services, that were not contemplated by the procurement process respecting the 1997 Contract and that are not otherwise permitted under applicable Brazilian law. The 2003 Audit Report alleges that as a result of this, CEF overpaid GTECH under the 1997 Contract for the period commencing in January 1997 through May 26, 2000, and that GTECH is liable with respect to such alleged overpayments as specified above. The 2003 Audit Report does not allege that GTECH has acted improperly.

In November 2003, GTECH presented its defense to the claims and preliminary determination of the TCU that CEF had overpaid it. In light of its defense, in September 2004, the TCU reduced its determination of the amount alleged to have been overpaid to GTECH by CEF under the 1997 Contract from 91,974,625 Brazilian reais to 30,317,721 Brazilian reais, or approximately 13 million United States dollars at currency exchange rates in effect as of December 31, 2005. This determination by the TCU remains subject to approval by TCU's judges.

In June 2005, the TCU issued a second preliminary report (the "2005 Audit Report"; collectively with the 2003 Audit Report, the "TCU Audit Reports") respecting GTECH's contracts with CEF. While GTECH has not been formally served with a copy of the 2005 Audit Report, GTECH understands that its central allegations are that the 1997 Contract was improperly transferred from Racimec to GTECH Brazil; GTECH was accorded certain payment increases respecting financial services transactions that were not contemplated by the procurement process respecting the 1997 Contract or otherwise permitted under applicable Brazilian law; and the 2003 Contract Extension was entered into a manner inconsistent with Brazilian law and the procurement process respecting the 1997 Contract. The 2005 Audit Report alleges that as a result of these considerations, CEF overpaid GTECH under the 1997 Contract and the 2000

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Commitments and contingencies (Continued)

Contract. The 2005 Audit Report seeks payment from GTECH of a base amount determined on a preliminary basis by TCU to be approximately 300 million Brazilian reais. GTECH estimates this claim in aggregate, is for the local currency equivalent of approximately 128 million United States dollars at currency exchange rates in effect as of December 31, 2005. Amounts sought by the TCU under the 2005 Audit Report are independent of, and in addition to, amounts sought under the 2003 Audit Report.

GTECH plans to vigorously defend itself against the allegations made by TCU in the TCU Audit Reports and the proceedings initiated by the TCU with respect thereto. GTECH believes that it has good defenses to the claims and determinations of the TCU. GTECH further believes that the claims and determinations of the TCU Audit Reports will, in essence, be merged into the civil action instituted by the Public Ministry Attorneys described above, and are accordingly unlikely to represent an independent potential source of liability for GTECH. While GTECH is unable to rule out the possibility that it will ultimately be held liable in this matter, it believes that the outcome of this matter is not likely to have a material adverse effect on its results of operations or business.

Serlopar Suit

As previously reported, in April 2002 Serlopar, the lottery authority for the Brazilian state of Parana, sued GTECH's subsidiaries Dreamport Brasil Ltda. and GTECH Brazil in the 2nd Public Finance Court of the City of Curitiba, State of Parana, under an agreement dated July 31, 1997, as amended (the "VLT Agreement"). Pursuant to the VLT Agreement, GTECH agreed to install and operate video lottery terminals ("VLTs") in Parana. The Serlopar lawsuit alleges that GTECH installed only 450 of the 1,000 VLTs that it was allegedly obliged to install, and that GTECH was overpaid, and failed to reimburse Serlopar certain amounts alleged to be due to Serlopar, under the VLT Agreement. The Serlopar lawsuit seeks payment from GTECH in an amount (after adjustment for inflation and interest through December 31, 2005) equal to 124,252,740 Brazilian reais, or approximately 53 million United States dollars (at currency exchange rates in effect on December 31, 2005), together with unspecified amounts alleged to be due from the defendants with respect to general losses and damages (including loss of revenues), court costs and legal fees. GTECH believes it has good defenses to the claims made by Serlopar in this lawsuit, and intends to continue to defend itself vigorously in these proceedings. GTECH believes that the outcome of this suit will not have a material adverse impact on its results of operations or business.

Other Legal Proceedings

Shareholder Class Action Suits

On January 10, 2006, GTECH and Lottomatica announced that they had entered into an agreement (the "Merger Agreement") pursuant to the terms and conditions of which Lottomatica has agreed to acquire GTECH for merger consideration equal to \$35.00 in cash per outstanding GTECH share. Two shareholder class action lawsuits were subsequently filed against GTECH and its directors respecting this proposed merger.

On January 12, 2006, a shareholder class action lawsuit captioned *Ralph Sellite, individually and on behalf of all others similar situated, v. GTECH Holdings Corporation, W. Bruce Turner, Robert M. Dewey, Paget L. Alves, Christine M. Cournoyer, James F. McCann, The Rt. Hon. Sir Jeremy Hanley KCMG, Philip R. Lochner, Jr., Anthony Ruys and Burnett W. Donoho*, was filed in the Rhode Island Superior Court of Kent County. This lawsuit generally alleges that the consideration to be received by GTECH shareholders in connection with the merger with Lottomatica is inadequate and that the individual defendants breached

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Commitments and contingencies (Continued)

their fiduciary duties to GTECH's shareholders by approving the merger transaction on the basis of such allegedly inadequate consideration and under circumstances of certain allegedly disabling conflicts of interest. The lawsuit further alleges that GTECH aided and abetted the individual defendants in the breach of their fiduciary duties to GTECH's shareholders by entering into the Merger Agreement. The complaint seeks injunctive relief: (i) declaring the Merger Agreement to have been entered into in breach of the fiduciary duties of the individual defendants, and therefore unlawful and unenforceable; (ii) enjoining the defendants from proceeding with the Merger Agreement, including consummating the proposed transaction, unless the defendants implement procedures to obtain the highest possible price for GTECH; and (iii) directing the individual defendants to obtain a transaction which is in the best interests of GTECH's shareholders and to exercise their fiduciary duties to disclose all material information in their possession respecting the proposed transaction prior to the GTECH shareholder vote on same. The complaint also seeks to recover costs and disbursements from GTECH and the individual defendants, including reasonable attorneys' and experts' fees.

On March 6, 2006, a second shareholder class action lawsuit, *captioned Claire Partners, on behalf of itself and all others similar situated, v. W. Bruce Turner, Robert M. Dewey, Jr., Paget L. Alves, Christine M. Cournoyer, Burnett W. Donoho, The Rt. Hon. Sir Jeremy Hanley KCMG, Philip R. Lochner, Jr., James F. McCann, Anthony Ruys, GTECH Holdings Corporation, and Lottomatica S.p.A.*, was filed in the Rhode Island Superior Court of Kent County. This lawsuit generally alleges that each of the individual defendants breached their fiduciary duties to GTECH's shareholders by reason of agreeing to consummate the merger between GTECH and Lottomatica on the basis of allegedly inadequate consideration and under circumstances of certain allegedly disabling conflicts of interest, and for allegedly failing to fully and fairly disclose details of the transaction to GTECH's shareholders. The complaint further alleges that Lottomatica aided and abetted the individual defendants in such alleged breaches of their fiduciary duties. The complaint seeks injunctive relief: (i) declaring the defendants to have breached their fiduciary duties and/or aided and abetted such breaches; (ii) enjoining or rescinding the Merger Agreement; (iii) awarding plaintiff class compensatory and/or necessary damages as well as allowable interest; (iv) awarding plaintiffs the cost of disbursements and reasonable attorneys' and expert's fees and other costs; and (v) awarding the plaintiffs such other relief that the court may deem just and equitable.

GTECH plans to vigorously defend itself and its directors against the claims made in these lawsuits, which it believes to be without merit. Nevertheless, at the present time GTECH is unable to predict the outcome of these lawsuits.

Argentina Money Transfer Matter

In February 2005, GTECH Foreign Holdings Corporation, Argentina Branch ("GFHC") and GTECH's Argentina legal counsel, Dr. Jorge Perez of Perez, del Barba and Rosenblum, received notification from the Central Bank of Argentina that they were being indicted for alleged violations of Argentina's currency exchange laws. The Argentina laws in question prohibit the transfer of foreign currency from Argentina, subject to certain exceptions not here relevant. At issue is a February 2002 agreement (the "BofA Agreement") between GFHC and Bank of America, N.A., Buenos Aires Branch ("BofA") pursuant to which BofA assigned to GFHC a certificate of deposit in the amount of 571,429 United States dollars (the "CD"), issued by Bank of America, Charlotte, North Carolina Branch ("BofA-North Carolina"), in consideration for the payment of 1.4 million Argentina pesos. Upon maturity of the CD, the agreement provided for BofA-North Carolina to pay 571,429 United States dollars to a GFHC branch bank account in the United States. GTECH understands that the central claim of the

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Commitments and contingencies (Continued)

Argentina Central Bank's indictment will be that GFHC's agreement with BofA was a transaction in which foreign currency was transferred, in essence, from Argentina to the United States in violation of applicable Argentina law.

If GFHC is found guilty of violating applicable Argentina currency exchange laws, as charged in the indictment, GTECH would be liable to pay a fine of up to approximately 5.7 million United States dollars (i.e., ten times the amount of United States dollars allegedly transferred from Argentina) and could be prohibited for up to ten years from importing goods into, or exporting goods from, Argentina.

GTECH notes that BofA, which solicited GTECH to enter into the BofA Agreement, and approximately 20 other customers of BofA including several subsidiaries of large multi-national corporations, have been indicted in connection with transactions similar to the transaction outlined in the BofA Agreement. GTECH understands that the Central Bank of Argentina's indictments against BofA were rejected by the courts. BofA explicitly represented to GTECH in the BofA Agreement that the transaction described therein did not violate any Argentina law or regulation, and GTECH believes that it took appropriate measures independent of this representation (including obtaining the opinion of local counsel) in advance of entering into the BofA Agreement to ascertain that this transaction was legal under applicable Argentina law. GTECH believes that it has good defenses to the claims made in the indictment, and GTECH intends to vigorously defend itself in these proceedings. GTECH does not believe that the outcome of this suit will have a material impact on its results of operations or business.

Trinidad and Tobago

In 1993, a subsidiary of GTECH and the National Lottery Control Board ("NLCB") of Trinidad and Tobago ("Trinidad") entered into an agreement (the "Trinidad Agreement") for a five year term pursuant to which GTECH would provide online lottery services and technology to the NLCB. GTECH assigned that contract to a subsidiary (the "Subsidiary") doing business in Trinidad and Tobago. In July 1999, the Trinidad Agreement was amended to extend the term for an additional seven years, and to increase the compensation that the Subsidiary would receive if lottery proceeds in Trinidad exceeded a stated threshold. The extension amendment also provides that GTECH would undertake to provide community programs in Trinidad.

From 1999 until 2001, the Subsidiary paid \$1.9 million to a private entity in connection with a proposal to provide community services in Trinidad. In March 2006, representatives of the Attorney General of Trinidad contacted GTECH regarding an allegation that a portion of that amount was paid by the private entity to a person who was a financial supporter of a Trinidad political party, and that the private entity had provided no services in return for the payments. GTECH has commenced an investigation into the circumstances surrounding the payments. The investigation is ongoing.

GTECH has informed the SEC about the allegations and investigation. The SEC or other law enforcement agencies in the United States or Trinidad may commence investigations and actions as a result of the allegations or the investigation. The NLCB also may pursue an investigation or commence legal action as a result of the allegations. In the event that any such investigation or action is commenced, GTECH may be subject to fines, penalties or adverse judgments in amounts that cannot be determined at this time.

In light of the fact that GTECH's reputation for integrity is an important factor in its business dealings with lottery and other governmental agencies, an allegation or finding of improper conduct by GTECH or

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Commitments and contingencies (Continued)

any of its current or former employees that is attributable to GTECH could have a material adverse effect on GTECH's results of operations, business or prospects, including its ability to retain existing contracts or to obtain a new or renew its existing contract with the NLCB and elsewhere.

Cohen Suit

As previously reported, on August 7, 2002 GTECH terminated without cause the employment of Howard S. Cohen, GTECH's former President and Chief Executive Officer. In March 2003, Mr. Cohen attempted to exercise options granted by GTECH in April 2002 to purchase (on a pre-split adjusted basis) 450,000 shares of GTECH Common Stock at a per-share exercise price of \$23.30. The non-qualified stock option agreement entered into between Mr. Cohen and GTECH respecting the April 2002 grant of options provides by its terms that, in the event that Mr. Cohen's employment was terminated without cause, options remaining exercisable must be exercised within six months from the date of termination (i.e., by February 7, 2003).

Because Mr. Cohen failed to exercise his April 2002 options within the term provided in the applicable stock option agreement, GTECH did not permit Mr. Cohen to exercise these options. In May 2003, Mr. Cohen filed suit in Rhode Island Superior Court against GTECH and the attorneys who had advised him in connection with the negotiation of his severance agreement, respecting his attempt to exercise the April 2002 stock options. The suit, captioned *Howard S. Cohen v. GTECH Corporation, GTECH Holdings Corporation, Michael J. Tuchman, Levenfeld Pearlstein, Charlene F. Marant and Marant Enterprises Holdings LLC*, alleges that: (i) GTECH breached its agreements with Mr. Cohen in failing to allow him to exercise his April 2002 options; (ii) through fraud by GTECH, or the mutual mistake of the parties, the April 2002 option grant does not reflect the intent of the parties, and (iii) GTECH had a duty to advise Mr. Cohen of his mistaken belief (if such it was) as to the exercise term of the April 2002 options, and failed to so advise Mr. Cohen. Mr. Cohen also alleges that his attorneys had failed in their duty of care in misadvising him as to the correct period during which he could exercise his options, and, in addition, had practiced law in Rhode Island without a license in violation of applicable Rhode Island law. Mr. Cohen seeks damages against GTECH and the other defendants in an amount of not less than 4.0 million United States dollars, plus interest, costs and reasonable attorneys fees. With respect to GTECH, he also seeks an order reforming the terms of the April 2002 option grant to reflect the alleged intent of the parties with respect to the post-termination exercise term, and other equitable relief. Mr. Cohen also asks for a declaratory judgment construing GTECH's 2000 Omnibus Stock Option and Long Term Incentive Plan and Mr. Cohen's employment and severance agreements, as to the relevant option exercise period. GTECH believes that it has good defenses to the claims made by Mr. Cohen in this lawsuit and GTECH intends to vigorously defend itself in these proceedings. Nevertheless, at the present time GTECH is unable to predict the outcome of this lawsuit.

GTECH also is subject to certain other legal proceedings and claims which its management believes, on the basis of information presently available to it, will not materially adversely affect GTECH's results of operations or business.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Commitments and contingencies (Continued)

Guarantees and indemnifications

Performance and other bonds

In connection with certain contracts and procurements, we have been required to deliver performance bonds for the benefit of our customers and bid and litigation bonds for the benefit of potential customers, respectively. These bonds give the beneficiary the right to obtain payment and/or performance from the issuer of the bond if certain specified events occur. In the case of performance bonds, which generally have a term of one year, such events include our failure to perform our obligations under the applicable contract. To obtain these bonds, we are required to indemnify the issuers against the costs they incur if a beneficiary exercises its rights under a bond. Historically, our customers have not exercised their rights under these bonds and we do not currently anticipate they will do so. The following table provides information related to potential commitments at December 31, 2005:

	Total potential commitments
	(US\$000)
Performance bonds	\$234,953
Financial guarantees	36,634
Litigation bonds	8,870
All other bonds	5,032
	<u>\$285,489</u>

Lottery Technology Services Corporation

We have a 44% interest in Lottery Technology Services Corporation (“LTSC”), which we account for using the equity method of accounting. LTSC provides equipment and services (which we supplied to LTSC), to the Taipei Fubon Bank. The Taipei Fubon Bank holds the license to operate the Taiwan Public Welfare Lottery.

In 2002, we signed an agreement with Acer, Inc. (“Acer”), the partner that holds the remaining 56% interest in LTSC, which provides that in the event a third party lender to LTSC requires the guarantee of GTECH or Acer as a condition of making a loan to LTSC, we, along with Acer, will provide such a guarantee on reasonable terms. This potential guarantee is limited to 44% of any such third-party loan and would expire on December 31, 2006.

Lottery Technology Enterprises

We have a 1% interest in Lottery Technology Enterprises (“LTE”), a joint venture between us and District Enterprise for Lottery Technology Applications of Washington, D.C. (“DELTA”). The joint venture agreement terminates on December 31, 2012. LTE holds a 10-year contract (which expires in November 2009) with the District of Columbia Lottery and Charitable Games Control Board. Under Washington, D.C. law, by virtue of our 1% interest in LTE, we may be jointly and severally liable, with DELTA, for the obligations of the joint venture.

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Commitments and contingencies (Continued)

Atronic

On March 24, 2005, we guaranteed 50% of Atronic's obligations due under a Euro 50 million (approximately \$59.2 million at the December 31, 2005 exchange rate) loan made by an unrelated commercial lender to Atronic (the "Agreement"). Our maximum liability under this guaranty is equal to the lesser of Euro 25 million (approximately \$29.6 million at the December 31, 2005 exchange rate) or 50% of Atronic's outstanding obligations under the Agreement. The guarantee arose in connection with our planned acquisition of Atronic in mid-2007. We would be required to perform under the guaranty should Atronic fail to make any interest or principal payments in accordance with the terms and conditions of the Agreement. Our guarantee expires on April 26, 2010. As of December 31, 2005, the carrying amount of the liability for our obligations under this guarantee is \$2.0 million, which is included in Other Liabilities in our Consolidated Balance Sheet. A corresponding asset of \$2.0 million is included in Other Non-Current Assets in our Consolidated Balance Sheet.

The Agreement stipulates that if any event of default should occur and be continuing under the Credit Facility, we would be required to deposit in an account with the commercial lender, Euro 25 million (approximately \$29.6 million at the December 31, 2005 exchange rate), which would be held by the commercial lender as collateral for the payment and performance of our obligations under the guarantee. The commercial lender would have control over this account. The cash deposit would be released to us three business days after all the events of default have been cured or waived.

Loxley GTECH Private Limited

We have a 49% interest in Loxley GTECH Private Limited Co. ("LGT"), which is accounted for using the equity method of accounting. LGT is a corporate joint venture that will provide an online lottery system in Thailand. On March 29, 2005, in order to assist LGT with obtaining the financing they required to enable them to perform under their obligation to operate the online lottery system in Thailand, we guaranteed, along with the 51% shareholder in LGT, Baht 1.925 billion (approximately \$46.9 million at the December 31, 2005 exchange rate) principal amount in loans and Baht 455 million (approximately \$11.1 million at the December 31, 2005 exchange rate) in performance bonds and trade finance facilities made to LGT by an unrelated commercial lender (collectively the "Facilities"). We are jointly and severally liable with the other shareholder in LGT for this guarantee. We would be required to perform under the guaranty should LGT fail to make interest or principal payments in accordance with the terms and conditions of the Facilities. Our guarantee obligations commenced in July 2005 and will terminate upon the start-up of the online lottery system in Thailand, currently expected to occur in April 2006. At December 31, 2005, the principal amount of loans outstanding that we guaranteed totaled \$7.0 million. As of December 31, 2005, the carrying amount of the liability for our obligations under this guarantee is \$0.5 million, which is included in Accrued Expenses in our Consolidated Balance Sheet. A corresponding asset of \$0.5 million is included in Other Current Assets in our Consolidated Balance Sheet.

World Headquarters Facility

Under our Master Contract with the State of Rhode Island, we are to invest (or cause to be invested) at least \$100 million in the State of Rhode Island, in the aggregate, by December 31, 2008. This investment commitment includes the development of a new world headquarters facility in Providence, Rhode Island by December 31, 2006. We have entered into (i) a development agreement with US Real Estate Limited Partnership (the "Developer"), whereby the Developer will develop and own the facility; and (ii) an office

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Commitments and contingencies (Continued)

lease with the Developer, whereby we will lease a portion of the facility from the Developer for 20 years. We also entered into (i) a 149 year ground lease with Capital Properties, Inc. (the "Ground Landlord") with respect to the land upon which the facility will be constructed; and (ii) a completion guarantee in favor of the Ground Landlord whereby we guaranteed the completion of the facility and the payment of the rent and real estate taxes under the ground lease until the completion of the facility. We have assigned the ground lease to the Developer but remain liable under the ground lease and the completion guarantee. Rent payable under the ground lease is currently \$0.1 million per year. It is our position that our liability under the ground lease will expire upon completion of the facility. Upon completion of the facility, the Ground Landlord's recourse in the event of a default by the Developer under the ground lease is limited to the facility.

Rent payments are expected to begin March 1, 2007. We have the right to cancel the lease after June 30, 2023 if the Master Contract with the state of Rhode Island is not renewed, in exchange for a termination fee equal to six months of base rent and operating expenses. The lease includes two ten year extension options. We have the unilateral right to extend the lease under the two extension options under the same terms as in the base term. The lease contains a restriction which does not allow us to assign or sublease our portion of the building without the lessor's approval, which is not to be unreasonably withheld or conditioned.

As of December 31, 2005, we are not carrying any value on our balance sheet for the lease of this facility. Future minimum rentals payable are as follows:

	Lease Payments (US\$000)
Within one year	\$ —
After one year but not more than five years	10,855
More than five years	54,770
	<u>\$65,625</u>

21. Financial risk management objectives and policies

Our principal financial instruments, other than derivatives, are comprised of debt, cash and cash equivalents and investment securities available-for-sale. We have various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from operations.

The primary market risk inherent in our financial instruments and exposures is the potential loss arising from adverse changes in interest rates and foreign currency exchange rates. We enter into derivative transactions, including interest rate swaps and forward currency exchange contracts, the purpose of which is to manage interest rate and currency risks. It is, and has been through the period under review, our policy not to engage in currency or interest rate speculation. Our accounting policies in relation to derivatives are set out in Note 2.3.

Interest rate market risk

Our exposure to the risk for changes in market interest rates relates primarily to our long-term debt obligations with fixed interest rates. Our policy is to manage interest cost using a mix of fixed and variable

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Financial risk management objectives and policies (Continued)

rates. We use various techniques to mitigate these risks associated with future changes in interest rates, including entering into interest rate swap and treasury rate lock agreements. To manage the mix in a cost-effective manner, we have entered into interest rate swaps whereby we agreed to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated as hedges of underlying debt obligations. As of December 31, 2005, after taking into account the effect of interest rate swaps, approximately 59% of our Senior Notes are at a fixed rate of interest. The interest rates on the swap agreements are determined by reference to the LIBOR rate plus a margin ranging from 22.5 to 41.65 basis points. The interest rate swap agreements re-price on a six month basis.

Deferred gains of \$1.7 million on the treasury rate lock agreements, which matured prior to calendar 2005, are recorded in Other Reserves in our Consolidated Balance Sheet and are being amortized as a reduction of interest expense over the life of the respective debt instrument.

Interest rate market risk is estimated as the potential change in the fair value of our total debt or current earnings resulting from a hypothetical 10% adverse change in interest rates. The estimated fair value of our long-term debt and change in the estimated fair value due to hypothetical changes in interest rates are as follows (US\$ in millions):

	Estimated Fair Value		
	At December 31, 2005	10% Increase in Interest Rates	10% Decrease in Interest Rates
\$250 million of 4.75% Senior Notes	\$250.4	\$246.6	\$254.4
\$150 million of 4.50% Senior Notes	148.8	146.7	150.9
\$150 million of 5.25% Senior Notes	153.0	148.5	157.6

The estimated fair values above were determined by an independent investment banker and take into consideration \$225 million of interest rate swaps as follows:

	Estimated Debt Fair Value	Interest Rate Swaps Outstanding (notional amount)
\$250 million of 4.75% Senior Notes	\$250.4	\$150.0
\$150 million of 4.50% Senior Notes	148.8	50.0
\$150 million of 5.25% Senior Notes	153.0	25.0

A hypothetical 10% adverse or favorable change in interest rates applied to variable rate debt would not have a material effect on current earnings.

Foreign currency exchange rate risk

As a result of significant operations world wide, our consolidated balance sheet can be affected significantly by movements in exchange rates due to the translation of foreign currency balance sheet accounts into United States dollar balance sheet accounts. We also have transactional currency exposures arising from current and anticipated transactions denominated in currencies other than our functional currency, which is United States dollars.

We seek to manage our foreign exchange risk by securing payment from our customers in United States dollars, by sharing risk with our customers, by utilizing foreign currency borrowings, by leading and

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Financial risk management objectives and policies (Continued)

lagging receipts and payments, and by entering into foreign currency exchange and option contracts. In addition, a significant portion of the costs attributable to our foreign currency revenues are payable in the local currencies. In limited circumstances, but whenever possible, we negotiate clauses into our contracts that allow for price adjustments should a material change in foreign exchange rates occur.

From time to time, we enter into foreign currency exchange and option contracts to reduce the exposure associated with certain firm commitments, variable service revenues and certain assets and liabilities denominated in foreign currencies, but we do not engage in foreign currency speculation. These contracts generally have maturities of 12 months or less and are regularly renewed to provide continuing coverage throughout the year.

As of December 31, 2005, we had contracts for the sale of approximately \$56.2 million of foreign currency (primarily Euro, Brazilian real and Canadian dollars) and the purchase of approximately \$43.5 million of foreign currency (primarily Brazilian real, Canadian dollars, Mexican pesos and Euro).

At December 31, 2005, a hypothetical 10% adverse change in foreign exchange rates would result in a translation loss of \$18.0 million that would be recorded in the equity section of our balance sheet.

At December 31, 2005, a hypothetical 10% adverse change in foreign exchange rates would result in a net pre-tax transaction loss of \$4.9 million that would be recorded in current earnings after considering the effects of foreign exchange contracts currently in place.

At December 31, 2005, a hypothetical 10% adverse change in foreign exchange rates would result in a net reduction of cash flows from anticipatory transactions during the next twelve months of \$24.6 million, after considering the effects of foreign exchange contracts currently in place. The percentage of anticipatory cash flows that were hedged varied throughout the twelve months ended December 31, 2005, but averaged 35%.

Commodity price risk

Our exposure to commodity price changes is not considered material and is managed through our procurement and sales practices.

Credit risk

We trade only with recognized, creditworthy third parties. We evaluate the collectibility of trade accounts and sales-type lease receivables on a customer-by-customer basis and we believe our reserves are adequate. Trade accounts receivable, which generally have 30 day terms, are generally reported net of allowances for doubtful accounts and liquidated damages. Allowances for doubtful accounts are recorded for all items greater than 60 days past due and when there is objective evidence that we will not be able to collect the related receivables. Bad debts are written off when identified. Allowances for liquidated damages are recorded when penalties resulting from a failure to meet specified deadlines or performance standards are probable and estimable.

With respect to credit risk arising from the other financial assets which are comprised principally of cash, available-for-sale financial assets and certain derivative instruments, our exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. We manage our exposure to counterparty credit risk by entering into financial instruments

GTECH HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Financial risk management objectives and policies (Continued)

with major, financially sound counterparties with high-grade credit ratings and by limiting exposure to any one counterparty.

Liquidity risk

We believe our ability to generate cash from operations to reinvest in our business is one of our fundamental financial strengths and we expect to meet our financial commitments and operating needs in the foreseeable future. We expect to use cash generated from operating activities primarily for contractual obligations and to pay dividends. We expect our growth to be financed through a combination of cash generated from operating activities, existing sources of liquidity, access to capital markets and other sources of capital. Our investment grade ratings from Moody's and Standard and Poor's contribute to our ability to access capital markets at attractive prices.

22. Events after the balance sheet date

Lottomatica acquisition

On January 10, 2006, Holdings entered into an agreement and plan of merger with Lottomatica S.p.A., an Italian corporation and exclusive license holder and operator of the Republic of Italy's Lotto ("Lottomatica"), whereby Lottomatica will acquire Holdings for \$35.00 in cash per outstanding Holdings share. The total value of the transaction is approximately \$4.8 billion, including the assumption of Holding's existing net debt. In connection with the transaction (as currently contemplated), Holdings is responsible for approximately \$13.5M of transaction costs, which are contingent upon completion of the transaction. These costs are subject to change based on changes in terms of the transaction.

Completion of the transaction, which is expected to occur in mid-2006, is subject to receipt of financing, approval by Holdings shareholders, regulatory approvals, receipt of contract assignment assurance from certain significant lottery customers, Lottomatica maintaining a pro forma investment grade credit rating, and other customary conditions. Subsequent to the acquisition, Holdings shares will be delisted on the New York Stock Exchange.

Atronic guarantee

On January 10, 2006, we agreed to guarantee approximately Euro 20 million (\$23.6 million at the December 31, 2005 exchange rate) of loans made by unrelated commercial lenders to Atronic. The guarantee arose in connection with our planned acquisition of Atronic by mid-2007.

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APPENDIX E—LOTTOMATICA—SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES AMONG ITALIAN GAAP, IFRS AND US GAAP

The consolidated financial statements of Lottomatica S.p.A. (the “Company”) as at and for the years ended December 31, 2003 and 2004 included in this Offering Circular are derived from the consolidated financial statements that were prepared pursuant to the Italian legal and statutory requirements, set forth by the Italian Civil Code, governing the preparation of financial statements, as interpreted by and integrated with the accounting principles established by the *Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri* (the “Italian accounting profession”). Such rules, together with the various principles, pronouncements and interpretations of the Italian accounting profession, are collectively referred to as Italian generally accepted accounting principles (“Italian GAAP”).

The consolidated financial statements of the Company as of and for the year ended December 31, 2004 included in this Offering Circular have been restated in accordance with the International Financial Reporting Standards (“IFRS”) as adopted by the EU and a numerical reconciliation between Italian GAAP and IFRS with respect to the year ended December 31, 2004 is included in this Offering Circular.

The consolidated financial statements of the Company as of and for year ended December 31, 2005 included in this Offering Circular have been prepared in accordance with IFRS as adopted by the EU at December 31, 2005.

Italian GAAP differs from IFRS in certain respects which might be material to the financial information as of and for the years ended December 31, 2003 included in this Offering Circular.

Italian GAAP and IFRS differ from generally accepted accounting principles in the United States of America (“US GAAP”) in certain respects which might be material to the financial information as of and for the years ended December 31, 2003, 2004 and 2005 included in this Offering Circular. In making an investment decision, investors must rely upon their own examination of the Company, the terms of the offering and the financial information included herein. Potential investors should consult their own professional advisors for an understanding of the differences among Italian GAAP, IFRS and US GAAP and how those differences might affect the financial information included in this offering circular.

The differences between Italian GAAP and IFRS as of December 31, 2003, and among Italian GAAP, IFRS and US GAAP as of December 31, 2003, 2004 and 2005 relevant to the consolidated financial statements of the Company are summarised below.

This summary, however, does not purport to provide a comprehensive analysis, including quantification, of such differences but rather it is a listing of potential differences in accounting principles that could affect the consolidated financial statements of the Company. This summary does not quantify these differences, nor undertakes a reconciliation of the Italian GAAP financial statements as of December 31, 2003 to IFRS or US GAAP and of the IFRS financial statements as of December 31, 2004 and 2005 to US GAAP. Had any quantification or reconciliation be undertaken, other potentially significant accounting differences may have come to attention which are not identified below. Accordingly, no assurance is provided that the identified differences in the summary below represent all of the principal differences among Italian GAAP, IFRS and US GAAP relating to the consolidated financial statements of the Company. Furthermore, no attempt has been made to identify potential future differences among Italian GAAP, IFRS and US GAAP resulting from prescribed changes in accounting standards. Regulatory bodies that promulgate Italian GAAP, IFRS and US GAAP have significant on-going projects that could affect a future comparison of this type. Finally, no attempt has been made to identify any future differences among Italian GAAP, IFRS and US GAAP that may affect the consolidated financial statements of the Company as a result of transactions or events that may occur in the future.

Property and Equipment and Intangible

Start-up costs

Under Italian GAAP, certain costs related to the formation, start-up, ongoing marketing and research projects of a company may be deferred and capitalized as an intangible asset and amortized on a straight-line basis over a period not exceeding five years, if certain conditions are met. When impairment exists, the recoverable amount related to these costs is written down.

Under IFRS and US GAAP, start-up, marketing and research costs are expensed as incurred. In addition, costs for research and development, including those incurred for the production of internal use software, are required to be expensed until such time as the products are determined to be commercially feasible.

Impairment of property and intangibles

According to Italian GAAP, fixed and intangible assets are generally tested for impairment when circumstances indicate a potential impairment. Only impairments that are other than temporary are recognised as a cost in the statement of income. When there is a change in economic conditions, previous impairment charges can be reversed.

Under IFRS, an entity must assess annually whether there are any indications that an asset may be impaired. If such indication exists, and unless the fair value less costs to sell is higher than the carrying value of the asset, the impairment analysis to determine its value in use compares discounted expected future cash flows to be generated from such an asset to its current carrying value. If the discounted expected future cash flows are lower than the carrying value of the asset, the difference is accounted for as an impairment. An impairment loss must be recognised in the income statement when an asset's carrying amount exceeds its recoverable amount. Except for goodwill, once recognised, impairments must be reversed if impairment losses no longer exist and the fair value recovers.

Under U.S. GAAP a recognition of an impairment is required if certain conditions are met. In the case that there is a "triggering event" that indicates a potential impairment of a fixed or amortising intangible asset, an impairment is tested first by comparing undiscounted expected future cash flows to the carrying value of the asset. If the undiscounted expected cash flows are lower than the carrying value, impairment is considered to be present. Once it is determined that an asset is impaired, the amount of the impairment is calculated as the difference between the carrying value of the asset and its fair market value. US GAAP uses a fair value hierarchy whereby market prices are considered the most reliable indicator, followed by prices for similar assets in traded markets, with the third level of fair value evidence being valuation techniques, including discounted cash flow models. Further, once recognised, impairments under US GAAP cannot be reversed.

Capital costs (costs of an equity transaction)

Under Italian GAAP, costs incurred in connection with the issuance of equity (e.g., capital increases, mergers, acquisitions) may be capitalised and amortised on a straight-line basis over a maximum period of five years.

Under IFRS and US GAAP, such costs are deducted from shareholders' equity.

Debt Issuance Costs

Under Italian GAAP debt issuance costs (underwriting, legal and other direct costs incurred in connection with the issuance of debt) may be capitalised and amortised on a straight-line basis over the life of the debt.

Under IFRS, debt issuance costs are treated as a reduction of the liability recorded in connection with the loan received and amortized using the effective interest rate method over the life of the debt.

Under U.S. GAAP, debt issuance costs are reported through a deferred charge as an asset in the balance sheet and amortized using the effective interest rate method over the life of the debt.

Business combinations

A business combination involves bringing together separate entities into one economic entity. An acquisition is where one of the combining entities obtains control over the other, enabling a purchaser to be identified. A uniting of interests (pooling) occurs where it is not possible to identify a purchaser; instead the shareholders of the combining entities join together in substantially equal arrangements to share control.

Under Italian GAAP, the classification of a business combination as a uniting of interests or as an acquisition is largely dependent on the legal form. Moreover, certain business combinations can be classified as a uniting of interests even if a purchaser can be identified and cash was present in the transaction. In addition, Italian GAAP allows flexibility as to the effective date of a business combination, especially with respect to mergers, and it can be established retroactively to the beginning of the fiscal year, irrespective of when the business combination or operating control may have actually occurred.

Under IFRS, business combinations are always accounted for as acquisitions and the purchase method of accounting must be used to portray the financial effect of an acquisition. A business combination is reflected in the financial statements at the date of consummation, which is the date the purchaser obtains control of the acquisition target. Specific IFRS guidance about business combinations excludes from its scope transactions among entities under common control. At the transition date, a first time adopter of IFRS has the possibility to apply certain exemptions to the purchase method with respect to the business combinations consummated before the transition date. US GAAP requires the use of the purchase method of accounting for all business combinations between unrelated parties. A business combination is reflected in the financial statements at the date of consummation.

US GAAP requires a detailed allocation of the purchase price for tangible and intangible assets other than goodwill. Intangible assets should be valued at fair value if based on contractual or other legal rights (regardless of whether those rights are transferable or separable from the acquired entity or from other rights and obligation) or if capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented, or exchanged (regardless of whether there is an intent to do so). Transactions among parties under common control, such as “acquisitions” or divestitures, are treated as reorganizations. As transactions under common control are, by definition, not at arms length, the use of “assessed” or other valuation methods is not allowed. US GAAP requires that these types of transactions be treated on the basis of their historical cost, and the effects are made on a retroactive basis to all financial statements presented, in order to present the financial data as if the controlled group of companies had been organized in that manner from the beginning. Any differences between the value of assets received or disbursed is treated as a capital transaction, no income statement effects occur.

Amortisation and assessment of goodwill (business combinations)

Under Italian GAAP, goodwill arising from the acquisition of a business is capitalised and amortised on a straight-line basis over the period of its estimated useful life, up to a maximum of 20 years.

Under IFRS, goodwill is initially recognised at cost, not subject to amortisation and adjusted for impairment losses. Goodwill is required to be assessed at least on an annual basis based on the lowest cash generating unit for which goodwill is applicable.

Under US GAAP, following to the adoption of SFAS 142, goodwill is no longer amortised. Existing goodwill is required to be tested and adjusted, if necessary, annually for impairment. Goodwill is assessed

at the reporting unit level, which is in turn based on the segments reported by the entity in its financial statements.

Consolidation and investment in subsidiaries

Under Italian GAAP, a subsidiary with activities dissimilar to that of the parent can be excluded from consolidation if such exclusion is essential for the consolidated financial statements to present a true and fair view of the state of affairs of the parent. Subsidiaries excluded from the consolidation are accounted for using the equity method. It is also possible to leave out of the consolidation those subsidiaries that are considered “immaterial” or that are in liquidation. Italian GAAP also allow the proportional consolidation of joint ventures, even in the event that liability is joint and several.

Under IFRS, subsidiaries must be excluded from consolidation if there are severe long-term restrictions on the exercise of the parent’s rights to obtain cash flows or if the parent acquires the subsidiary and holds it exclusively for subsequent re-sale in the near future. Dissimilar activities between a parent and subsidiary are not grounds for excluding the subsidiary from consolidation. Under IFRS, entities that are excluded from consolidation may be classified as either available-for-sale or held for trading financial assets and measured at fair value.

US GAAP initially requires that all entities be reviewed to assess to what degree, if any, the company has a variable interest. Variable interests are contractual, ownership, or other pecuniary interests in an entity that change with changes in the fair value of the entity’s net assets. Fundamentally, FIN 46R, *Consolidation of Variable Interest Entities*, provides guidance to determine which entity, if any, needs to consolidate “affiliated” entities in situations where equity investors do not have the characteristics of a controlling financial interest or the equity investors do not have sufficient equity at risk. The entities that are evaluated for consolidation, utilizing the guidance in FIN 46R, are referred to as variable interest entities (VIEs). Voting interest entities are still evaluated for consolidation utilizing the guidance in Accounting Research Bulletin (ARB) No. 51, *Consolidated Financial Statements*. Importantly, as with voting interest entities, not all VIEs will be consolidated. In those circumstances where a VIE has sufficient equity at risk so that the entity can operate on a stand-alone basis, and where the equity at risk is provided by investors that have characteristics typically associated with controlling financial interests, there may be no need for “another” entity to consolidate the VIE.

Key to the consolidation determination in FIN 46R is whether entities determined to be variable interest entities disperse risks among the parties involved. If those risks are not dispersed, and therefore an enterprise bears the majority of the risks or rewards related to the variable interest entity as defined in FIN 46R, it would consolidate that variable interest entity. If an entity is not considered to be a VIE, or is a VIE but is not required to be controlled because it qualifies for a scope exception or there is no Primary Beneficiary, then under US GAAP, all investments in which a parent company has a controlling financial interest represented by the direct or indirect ownership of a majority voting interest (more than 50%) are required to be consolidated, except those in which control of the subsidiary is temporary or significant doubt exists regarding the parent’s ability to control the subsidiary. Subsidiaries excluded from the consolidation are accounted for using the equity method.

Accounting for inventory

Under Italian GAAP, IFRS and US GAAP inventory is measured at the lower of costs and net realisable value.

There are not significant differences between the three set of accounting principles regarding the definition of cost of inventory and realisable value. However, the costing method allowed by Italian GAAP and US GAAP are FIFO, weighted average cost and LIFO, while IFRS do not permit the adoption of the LIFO costing method.

Classification and accounting for investment securities

Under Italian GAAP securities held-to-maturity of the Group are valued at acquisition or subscription cost adjusted for the portion of the difference between the cost and the redemption value accrued during the year and for the portion of issue differences. In case of impairments other than temporary, appropriate adjustments are made. Write-downs are partly or entirely reversed in subsequent years if the underlying assumptions are no longer applicable. Italian GAAP also allows the treatment of a company's own stock (ie., treasury stock) to be accounted for as an investment, and that securities in otherwise consolidated subsidiaries be classified as "marketable securities", despite the fact that the entity is otherwise consolidated.

Securities held for sale are valued at the lower of purchase cost (calculated according to the continuous average cost method) and market.

Interest on portfolio securities is recognized in the statement of profit and loss through computation of the related accrued interest.

The shares of minority holdings investee companies are usually valued at cost. If the underlying shareholders' equity, resulting from the respective financial statements following the time of acquisition, shows an impairment other than temporary, the related write-down is provided for.

Any write-downs recognized in previous years (up to the amount of the purchase cost), when reverse are recognised to income in the statement of profit and loss.

IFRS have detailed guidance on the measurement of financial assets. Certain categories of financial assets are measured at amortized cost using the effective interest rate method, whereas other assets must be measured at fair value. Under IFRS, all financial assets fall into four categories. Each category of financial asset is measured as follows:

- Loans and receivables are measured at amortized cost using the effective interest rate method, less reduction for impairment or uncollectibility;
- Held-to-maturity investments (debt securities held with a positive intent and ability to hold to maturity) are measured at amortized cost using the effective interest rate method, less reductions for impairment or uncollectibility;
- Financial assets at fair value through profit and loss (debt and equity securities held for sale in the short term) are measured at fair value with unrealized gains and losses recognized in the income statement;
- Available-for-sale financial assets (debt and equity securities not covered by the above categories) are measured at fair value, with unrealized gains and losses recognized directly in equity, through the statement of changes in equity, except for impairment losses and foreign gains and losses, until the financial asset is derecognized, at which time the cumulative gain or losses previously recognized in equity shall be recognized in profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss.

All financial assets are subject to review for impairment. If impairment is warranted for financial assets carried at amortized cost, the carrying amount of the asset is reduced to its estimated recoverable amount, with the loss recorded directly in net profit or loss for the period. If, in a subsequent period, the amount of the impairment decreases and the decrease can be objectively related to an event occurring after the write-down, the write-down of the financial asset should be reversed. The amount of the reversal is included in net profit or loss for the period.

U.S. GAAP defines three categories of marketable equity and debt securities. The classification criteria and requirements for measurement are presented below:

- Held-to-maturity securities (debt securities held with a positive intent and ability to hold to maturity) are measured at amortized cost.
- Trading securities (debt and equity securities that are bought and held principally for the purpose of selling them in the near term) are measured at fair value.
- Available-for-sale securities (debt and equity securities not classified as either held-to-maturity or trading) are measured at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity.

Under U.S. GAAP, if a decline in fair value of held-to-maturity or available-for-sale securities is judged to be other than temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is included in earnings (that is, accounted for as a realized loss). The new cost basis cannot be changed for subsequent recoveries in fair value. US GAAP and IFRS both require that treasury stock be deducted from shareholders equity and not treated as a asset. Finally, all shares in subsidiaries that qualify for consolidation be consolidated, no shares in controlled subsidiaries can be treated as “marketable securities”:

Employee severance indemnities

Under Italian GAAP, employee severance indemnities (“TFR”) are accrued, net of advances paid, on the basis of the amount that would be payable to the employee if he or she left the company at year-end, without taking into account future leaving or discounting the liability.

Under IFRS, employee benefit obligations must be accrued using the “projected unit credit method,” which requires the assessment, on an actuarial basis, of the liability. The actuarial assumptions include expected mortality rates, discount rates, expected return on plan assets and expected levels of future compensation increases.

Under US GAAP, it is acceptable to calculate TFR using either of the above-mentioned methods.

Borrowing costs

In accordance with Italian GAAP, the capitalisation of interest is allowed only in limited circumstances and when a specific borrowing can be attributed to fixed assets, both internally developed or purchased.

Capitalisation of borrowing costs is not mandatory under IFRS: two methods of accounting exist. According to the benchmark treatment, borrowing costs are recognised as an expense in the period in which they are incurred, irrespective of the use of the proceeds from the borrowings; according to the allowed alternative treatment, borrowing costs are expensed as incurred, except to the extent they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset. Entities that adopt this treatment shall apply it consistently to all borrowing costs that are directly attributable to the acquisition, construction or production of all qualifying assets.

US GAAP require interest to be capitalised on both tangible and intangible fixed assets regardless of whether specific borrowings relate to the assets.

Provision for risks and charges

Under Italian GAAP, provisions for liabilities and charges should be made to cover losses or debts, the nature of which are clearly defined and which at the balance sheet date are either likely to be incurred or certain to be incurred, but for which the amount, or the date on which they will arise, is uncertain. The

amount of future cash expenditures expected to be required to settle the obligation is not required to be discounted.

Under IFRS, a provision should only be made when an enterprise has a present obligation (legal or constructive) as a result of a past event, it is probable that a future outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The entity must discount the anticipated cash flows expected to be required to settle the obligation if the impact is material.

The treatment of loss contingencies under US GAAP is similar to that under IFRS. However, if a range of estimates for the obligation is determined and no amount in the range is more likely to be accurate than any other amount in the range, the “minimum” (rather than the mid-point) amount must be used to measure the liability. The entity must discount the anticipated cash flows expected to be required to settle the obligation if the impact is material and if the timing and amount of cash flows is known.

Hedging contracts and derivatives

Under Italian GAAP, contracts related to the hedging of futures contracts or of existing assets and liabilities, including the purchase and sale of other currencies to settle existing foreign currency accounts receivable and payables, are not recognised until the hedged transaction affects the income statement. No accounting principle for other derivative instruments has been issued under Italian GAAP.

Under IFRS, if a contract is designated as and is considered effective as a hedge, it must be designated as a “cash flow” or a “fair value” hedge. Gains and losses of “cash flow” hedges are deferred as a component of shareholders’ equity. The deferred gains and losses are then recognised in the profit and loss statement when the hedged item affects the income statement. Gains and losses of “fair value” hedges are recognised in the income statement during the year incurred.

Under US GAAP, all derivative instruments are required to be recorded in the balance sheet at fair value. Changes in fair value are recorded currently in earnings unless the item is designated, qualifies and is effective as a hedge; changes in the fair value of derivatives designated as part of a hedge transaction are recorded in each period in either current earnings (in the case of fair value hedge transactions) or in other comprehensive income (in the case of cash flow hedge transactions). Gains and losses reported in other comprehensive income are reclassified to earnings in the period in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is immediately recognized in earnings.

Foreign currency transactions

Under Italian GAAP the accounting principle applicable to foreign currency transactions, requires that individual assets and liabilities expressed in foreign currencies be re-measured at the year end exchange rates, and any resulting gains on remeasurement of assets and liabilities or losses on remeasurement be recognized in the statement of operations, and that the unrealized gain, included in the result of the period, is to be recorded in a specific reserve of shareholder’s equity.

Under IFRS and US GAAP all monetary assets and liabilities are re-measured and reported in the balance sheet at the current exchange rate and all resulting unrealized gains or losses are recognized as a charge or a credit to income for the year.

Deferred taxes

Under Italian GAAP, deferred tax assets, including expected benefits from tax loss carry-forwards, are not recognised unless there exists evidence that the assets will be realized with reasonable certainty. Deferred tax liabilities are not recognized when the taxes to be paid on the reversal of the temporary difference is remote and recognition of deferred income taxes on retained earnings that would be subject

to taxation upon distribution is not required when it is not management's intention to distribute such earnings.

Under IFRS, a deferred tax asset should be recognised for all deductible temporary differences (and the carryforward of unused tax losses and credits), to the extent that it is probable (the term "probable" is equivalent to "more likely than not" under US GAAP) that taxable profit will be available against which the deductible temporary difference (or unused tax losses and credits) can be utilized. A deferred tax liability is recognised by an entity for all taxable temporary differences with specific and limited exceptions. In certain circumstances, if management believes that a deferred tax liability will not materialize (such as management's ability to control the timing of distributions that would otherwise trigger a liability), a valuation on a deferred tax liability can be established.

Under US GAAP, income taxes are also required to be accounted for in accordance with a balance sheet approach. Deferred tax assets or liabilities are recognised for differences between the financial reporting and tax bases of assets and liabilities at each reporting date. The benefits of tax loss carry-forwards are recognised as deferred tax assets, with an appropriate valuation allowance for the amount that is more likely than not to be realized, and except for (i) the undistributed earnings of foreign subsidiaries that are considered to be permanently invested and (ii) certain equity reserves created before 15 December 1992 (date of first application of SFAS 109), deferred taxes should be recorded as retained earnings subject to taxation in case of distribution. Deferred tax liabilities related to equity based basis differences, such as asset step ups, are required to have a deferred tax liability, as no exclusion or valuation allowance on deferred tax liabilities can be established.

Share-based payment transactions

Under Italian GAAP, the issuance of stock options to employees or to other parties, such as acquisitions, are not ascribed a value beyond either the par value (in the case that no cash is received) or the value of the strike price. In the event the market price of the underlying stock is higher than the strike price on the option, no recognition of the difference is required. Transactions and grants that involve stock options do not require the recognition of compensation expense.

Under IFRS, transactions with employees or other parties who receive remuneration in the form of sharebased payment transactions, whereby they render services in exchange for shares or rights over shares ("equity-settled transactions") are covered by IFRS 2. The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined by a valuation model. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the vesting or performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). At the transition date, a first time adopter of IFRS has the possibility to apply certain transitional provisions.

Since the publication of IFRS 2 *Share-based Payment* and the revision to FAS 123 *Accounting for Stock- Based Compensation*, which eliminated the alternative of using the APB 25 *Accounting for Stock Issued to Employees* intrinsic value based method, IFRS and US GAAP have similar requirements for accounting for share-based payment.

Revenue Recognition

Under Italian GAAP, revenues are recorded according to the principle of prudence and on an accrual basis, with the recognition of the related accruals and deferrals.

Under IFRS, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is generally recognized by reference to the stage of

completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all the following four conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the enterprise;
- the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should be recognized under IFRS only to the extent of the expenses recognized that are recoverable.

Under US GAAP, revenue for the rendering of services is recognised when all the following four conditions are satisfied:

- persuasive evidence of an arrangement exists;
- services have been rendered;
- the seller's price to the buyer is fixed or determinable; and
- collectibility is reasonably assured.

Minority interests

Under Italian GAAP minority interests are considered part of the total consolidated shareholders' equity.

Under IFRS minority interests are considered part of the total consolidated shareholders' equity.

Under US GAAP minority interests are presented in the consolidated balance sheet separately from liabilities and the parent shareholders' equity.

Recently issued accounting pronouncements

As reported above, the regulatory bodies that promulgate IFRS and US GAAP (IASB and FASB, respectively) also have significant ongoing projects that could affect our financial statements. One of the main projects in course is the convergence projects, which see the IASB and the FASB working together in order to progressively reduce the differences between IFRS and US GAAP.

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APPENDIX F—GTECH—SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN IFRS AND U.S. GAAP

The differences between IFRS and U.S. GAAP might be material to the financial information included in this Offering Circular. In making an investment decision, investors must rely upon their own examination of Lottomatica and GTECH, the Acquisition, the terms of the Offering and the financial information included in this Offering Circular. Potential investors should consult their own professional advisers for an understanding of the differences between IFRS and U.S. GAAP and how those differences might affect the financial information included in this Offering Circular. A summary of the main differences between IFRS and U.S. GAAP is set out below.

This summary, however, does not purport to provide a comprehensive analysis, including quantification, of such differences but rather it is a listing of potential differences in accounting principles that could affect the consolidated financial statements of GTECH. This summary does not quantify these differences, nor undertake a reconciliation of the U.S. GAAP financial statements as of February 25, 2006 to IFRS. Prospective investors should read this section in conjunction with GTECH's audited consolidated financial statements as of and for the fiscal year ended February 28, 2004, February 26, 2005 and February 25, 2006, prepared under U.S. GAAP, and GTECH's special consolidated financial statements as of and for the period ended December 31, 2005, prepared under IFRS and the subject of the special limited audit, included elsewhere in this Offering Circular. Had any quantification or reconciliation been undertaken, other potentially significant accounting differences may have come to attention which are not identified below. Accordingly, no assurance is provided that the identified differences in the summary below represent all of the principal differences among IFRS and U.S. GAAP relating to the consolidated financial statements of GTECH. Furthermore, no attempt has been made to identify potential future differences among IFRS and U.S. GAAP resulting from prescribed changes in accounting standards. Regulatory bodies that promulgate IFRS and U.S. GAAP have significant on-going projects that could affect a future comparison of this type. Finally, no attempt has been made to identify any future differences among IFRS and U.S. GAAP that may affect the consolidated financial statements of Lottomatica as a result of transactions or events that may occur in the future.

Revenue Recognition

Under IFRS, when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is generally recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all the following four conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the enterprise;
- the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should be recognised under IFRS only to the extent of the expenses recognised that are recoverable.

Under U.S. GAAP, revenue for the rendering of services is recognised when all the following four conditions are satisfied:

- persuasive evidence of an arrangement exists;
- services have been rendered;

the seller's price to the buyer is fixed or determinable; and
collectibility is reasonably assured.

Share-based payment transactions

Under IFRS, transactions with employees or other parties who receive remuneration in the form of share based payment transactions, whereby they render services in exchange for shares or rights over shares ('equity settled transactions') are covered by IFRS 2. The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). At the transition date, a first time adopter of IFRS has the possibility to apply certain transitional provisions.

Since the publication of IFRS 2 *Share-based Payment* and the revision to FAS 123 *Accounting for Stock-Based Compensation*, which eliminated the alternative of using the APB 25 *Accounting for Stock Issued to Employees* intrinsic value based method; IFRS and U.S. GAAP have similar requirements for accounting for share-based payments. GTECH's special consolidated financial statements as of and for the period ended December 31, 2005, prepared under IFRS include the effects of IFRS 2. However, GTECH's audited consolidated financial statements as of and for the fiscal year ended February 28, 2004, February 26, 2005 and February 25, 2006, prepared under U.S. GAAP do not include the effects of the revision to FAS 123 as such revision is not effective until the first day of GTECH's fiscal 2007.

Convertible Debt

Under IFRS, an entity recognises separately the components of a financial instrument that (a) creates a financial liability of the entity (component classified as a liability) and (b) grants an option to the holder of the instrument to convert it into an equity instrument of the entity (component classified as equity). Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercise of the option may appear to have become economically advantageous to some holders.

Under U.S. GAAP, where the conversion option is not separable from the debt, U.S. GAAP normally does not permit an allocation of part of the proceeds to the conversion option.

Debt Issuance Costs

Debt issuance costs are underwriting, legal and other direct costs incurred in connection with the issuance of debt.

Under IFRS, debt issuance costs are treated as a reduction of the liability recorded in connection with the loan received and amortised using the effective interest rate method over the life of the debt.

Under U.S. GAAP, debt issuance costs are reported through a deferred charge as an asset in the balance sheet and amortised using the effective interest rate method over the life of the debt.

Revaluation of Property, Plant and Equipment

Under IFRS, there are two possible approaches to revaluation of property, plant and equipment ("PP&E"). The cost model requires an asset to be carried at cost less accumulated depreciation and impairment. Under the revaluation model, revaluation of PP&E at fair value is permitted. The revaluation choice must be applied to an entire class of assets. Such revaluation should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The increase of the carrying amount of an asset as a result of a

revaluation is credited directly to equity under revaluation surplus, unless it reverses a revaluation decrease for the same asset that was previously recognised as an expense. In such a case, the increase is recognised in the income statement. A revaluation decrease is charged directly against any related revaluation surplus for the same asset, with any excess being recognised as an expense.

As a first-time adopter of IFRS, an entity may elect to measure an item of PP&E at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date.

Under U.S. GAAP, PP&E is carried at cost less accumulated depreciation and impairment. Revaluations of PP&E are not permitted.

Impairment of Assets

Under IFRS, an entity must assess annually whether there are any indications that an asset may be impaired. If there is any such indication, the assets are tested for impairment. An impairment loss is recognised in the income statement when an asset's carrying amount exceeds its recoverable amount (although an impairment loss may be offset against a revaluation surplus to the extent it relates to the same asset). IFRS requires reversal of an impairment loss when there has been a change in economic conditions or in the expected use of the asset.

Under U.S. GAAP, an asset is tested for impairment whenever events and circumstances indicate that the carrying amount of the asset may not be recoverable. When an impairment is indicated, the impairment is first measured by comparing undiscounted future cash-flows to the carrying value of the asset. If impairment exists, the impairment loss is the excess of the asset's carrying value over its fair value. The impairment loss results in a new cost basis for the asset. Reversals of impairment losses for assets to be held and used are prohibited.

Business Combinations

A business combination involves bringing together separate entities into one economic entity. An acquisition is where one of the combining entities obtains control over the other, enabling a purchaser to be identified.

Under IFRS, business combinations are accounted for as acquisitions and the purchase method of accounting must be used to portray the financial effect of an acquisition. A business combination is reflected in the financial statements at the date of consummation, which is the date the purchaser obtains control of the acquisition target. Specific IFRS guidance about business combinations excludes from its scope transactions among entities under common control. At the transition date, a first time adopter of IFRS has the possibility to apply certain exemptions to the purchase method with respect to the business combinations consummated before the transition date.

U.S. GAAP requires the use of the purchase method of accounting for all business combinations between unrelated parties. A business combination is reflected in the financial statements at the date of consummation. Under U.S. GAAP, shares issued as consideration are measured at their fair market price over a reasonable period of time (interpreted to be a few days) before and after the parties reach an agreement on the purchase price and the proposed transaction is announced.

Goodwill

Goodwill is the difference between the cost of an acquisition and the fair value of identifiable assets and liabilities acquired. Positive goodwill is capitalised as an intangible asset.

Under IFRS for business combinations agreed to prior to March 31, 2004, goodwill is amortised over the estimated useful life, not to exceed 20 years except in very rare cases. Goodwill is reviewed for

impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, and annually if the estimated useful life exceeds 20 years.

Under IFRS for business combinations agreed to on or after March 31, 2004, goodwill is not amortised but is reviewed for impairment, at the cash-generating unit level (defined as the lowest level at which management monitors the return on investments in assets that include goodwill), at least annually or whenever events or changes indicate that the recoverability of the carrying amount must be assessed. A one-step impairment test is required by comparing the recoverable amount of the cash-generating unit to its carrying amount.

Under U.S. GAAP, for goodwill acquired in business combinations after June 30, 2001 and otherwise effective January 1, 2002, goodwill is not amortised but is reviewed for impairment, at the reporting unit level (defined as an operating segment or one level below), at least annually or whenever events or changes indicate that the recoverability of the carrying amount must be assessed. A two-step impairment test is required.

Financial assets and liabilities

IFRS have detailed guidance on the measurement of financial assets. Certain categories of financial assets are measured at amortised cost using the effective interest rate method, whereas other assets must be measured at fair value. Under IFRS, all financial assets fall into four categories. Each category of financial asset is measured as follows:

Loans and receivables are measured at amortised cost using the effective interest rate method, less reduction for impairment or uncollectibility.

Held-to-maturity investments (debt securities held with a positive intent and ability to hold to maturity) are measured at amortised cost using the effective interest rate method, less reductions for impairment or uncollectibility.

Financial assets at fair value through profit and loss (debt and equity securities held for sale in the short term) are measured at fair value with unrealised gains and losses recognised in the income statement.

Available-for-sale financial assets (debt and equity securities not covered by the above categories) are measured at fair value, with unrealised gains and losses recognised directly in equity, through the statement of changes in equity, except for impairment losses and foreign gains and losses, until the financial asset is derecognised, at which time the cumulative gain or losses previously recognised in equity shall be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss.

All financial assets are subject to review for impairment. If an impairment is warranted for financial assets carried at amortised cost, the carrying amount of the asset is reduced to its estimated recoverable amount, with the loss recorded directly in net profit or loss for the period. If, in a subsequent period, the amount of the impairment decreases and the decrease can be objectively related to an event occurring after the write-down, the write-down of the financial asset should be reversed. The amount of the reversal is included in net profit or loss for the period.

U.S. GAAP defines three categories of marketable equity and debt securities. The classification criteria and requirements for measurement are presented below:

Held-to-maturity securities (debt securities held with a positive intent and ability to hold to maturity) are measured at amortised cost.

Trading securities (debt and equity securities that are bought and held principally for the purpose of selling them in the near term) are measured at fair value.

Available-for-sale securities (debt and equity securities not classified as either held-to-maturity or trading) are measured at fair value, with unrealised gains and losses excluded from earnings and reported in a separate component of shareholders' equity.

Under U.S. GAAP, if a decline in fair value of held-to-maturity or available-for-sale securities is judged to be other than temporary, the cost basis of the individual security is written down to fair value as a new cost basis and the amount of the write-down is included in earnings (that is, accounted for as a realised loss). The new cost basis cannot be changed for subsequent recoveries in fair value.

Investments in Associates and Joint Ventures

Under IFRS and U.S. GAAP, investments in which the investor has significant influence (generally presumed if the investor owns a 20% or more interest in the voting rights of an entity), but not control, are accounted for under the equity method.

Under IFRS, investments in jointly controlled companies may be consolidated on a proportionate basis or accounted for under the equity method.

Under U.S. GAAP, investments in jointly controlled companies are accounted for under the equity method.

Minority Interest

Under IFRS, minority interest is considered part of the total shareholders' equity.

Under U.S. GAAP, minority interest is presented in the balance sheet between liabilities and the parent shareholders' equity.

Deferred Taxes

IFRS and U.S. GAAP are substantially aligned with respect to deferred income taxes, with the following significant differences:

IFRS requires recognition of a deferred tax asset if future realisation of a tax benefit is "probable." Under U.S. GAAP, a deferred tax asset is recognised in full for deductible temporary differences but then is reduced by a valuation allowance if it is "more likely than not" that some portion, or all, of the deferred tax asset will not be realised.

IFRS prohibits and U.S. GAAP requires recognition of a deferred tax asset for a deductible temporary difference related to a nontaxable government grant or investment tax credit.

Current year deferred taxes related to items recognised in shareholders' equity in prior years may arise from changes in assessments of recovery of deferred tax assets and changes in tax rates, tax laws or other measurement factors. IFRS requires and U.S. GAAP prohibits allocation to shareholders' equity of current year deferred taxes related to prior year equity items. Under U.S. GAAP, current year deferred taxes related to prior year equity items are allocated to income.

IFRS requires reduction of goodwill upon subsequent recognition of acquired tax benefits that were not recognised in acquisition date accounting for a business combination. After goodwill is reduced to zero, subsequent recognition of any additional acquired tax benefits increases earnings. U.S. GAAP requires reduction to zero of both goodwill and any acquired intangible assets before acquired tax benefits increase earnings.

Recently issued accounting pronouncements

As reported above, the regulatory bodies that promulgate IFRS and U.S. GAAP (IASB and FASB, respectively) also have significant ongoing projects that could affect Lottomatica's financial statements. One of the main projects in course is the convergence projects, which see the IASB and the FASB working together in order to progressively reduce the differences between IFRS and U.S. GAAP.

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