



2006 ANNUAL REPORT

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LOTTOMATICA S.p.A.

Group Profile

Company Name	Lottomatica - Società per Azioni
Fiscal Code	08028081001
Share Capital	€ 154,592,210 authorized ordinary shares, € 1.00 par value per share; 150,749,576 shares paid and subscribed
Registered Office	Roma - Viale del Campo Boario 56/d
Board of Directors:	
Chairman	Mr. Lorenzo PELLICOLI
Vice Chairman	Mr. Robert DEWEY Jr. *
Chief Executive Officer - General Manager	Mr. Bruce TURNER
Managing Director - General Manager	Mr. Marco SALA
Board Members	Mr. Paolo AINIO * Mr. Rosario BIFULCO Mr. Pietro BOROLI Mr. James MCCANN * Mr. Paolo CERETTI Mr. Marco DRAGO Mr. Anthony RUYS * Mr. Severino SALVEMINI * Mr. Gianmario TONDATO DA RUOS *
* Denotes Independent Directors	
Board of Statutory Auditors :	
Chairman	Mr. Francesco MARTINELLI
Regular Members	Mr. Angelo GAVIANI Mr. Paolo Andrea COLOMBO
Substitute Members	Mr. Marco SGUAZZINI VISCONTINI Mr. Giulio GASLOLI
Independent Auditors	Reconta Ernst & Young S.p.A.

Members of the Executive Committee

Mr. Lorenzo PELLICOLI (Chairman)
Mr. Pietro BOROLI
Mr. Paolo CERETTI
Mr. Marco DRAGO
Mr. Marco SALA
Mr. Bruce TURNER

Members of the Audit Committee

Mr. Severino SALVEMINI (Chairman)
Mr. Paolo AINIO
Mr. Paolo CERETTI

Members of the Remuneration Committee

Mr. Gianmario TONDATO DA RUOS (Chairman)
Mr. Robert DEWEY Jr.
Mr. James MCCANN

LOTTOMATICA

Lottomatica S.p.A. (sometimes referred to as “*Lottomatica*” or the “*Company*”) is one of the largest lottery operators in the world based on total wagers and, through its subsidiary GTECH Corporation (“*GTECH*”), is a leading provider of lottery and gaming technology solutions worldwide. The Company is listed on the Stock Exchange of Milan under the trading symbol LTO. On August 29, 2006, Lottomatica completed its acquisition of GTECH’s parent company, GTECH Holdings Corporation (“*GTECH Holdings*”), for a purchase price of approximately €4.0 billion including the assumption of GTECH Holding’s existing indebtedness. The two companies have combined to create the only vertically integrated full service lottery company.

The Company operates in the publicly regulated gaming market consisting of online, instant and traditional lotteries, sports pools and pari-mutuel betting and publicly sponsored machine gaming.

Lottomatica has built an extensive real-time, online distribution network in Italy, with approximately 150,000 terminals in 80,000 points of sale (including approximately 22,000 points of sale where Lottomatica provides only Processing Services for third parties), comprised of tobacconists, bars, petrol stations, newspaper stands and motorway restaurants. Since 1993, Lottomatica has been the sole concessionaire for the Italian Lotto game. In addition to online games, Lottomatica operates instant and traditional lottery games, which in recent years has been a high growth area for the Company. In 2006, Lottomatica received authorization to distribute online instant lottery games. In 2003, Lottomatica began operating sports pools and other pari-mutuel betting through its extensive retail network. The Company’s GTECH group is the world’s leading operator of highly-secure online lottery transaction processing systems, doing business in 49 countries worldwide. GTECH designs, sells and operates a complete suite of lottery-enabled point-of-sale terminals that are electronically linked with a centralized transaction processing system that 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, 25 of the 43 online lottery authorities in the United States, and 60 of the 122 non-U.S. online lottery authorities.

Additionally, Lottomatica provides information technology services for gaming machines through its Italian subsidiary Lottomatica Videolot Rete S.p.A. (formerly known as RTI Videolot) and its Canadian subsidiary Spielo Manufacturing, ULC (“*Spielo*”), a leading provider of video lottery terminals and related products and services to the global gaming industry. The Company has leveraged its distribution and transaction processing competence to expand its activities beyond Lottery and also provides Commercial Services through its networks worldwide and operates PolCard S.A. (“*PolCard*”), the leading debit and credit card merchant transaction acquirer and processor in Poland and BillBird S.A., the leading provider of electronic bill payment services in Poland.

The Company currently operates in three segments: (i) its Lottery segment where the Company operates and provides a full range of services, technology and products to government sponsored online, instant and traditional Lotteries and pari-mutuel betting and sports pools; (ii) its Gaming Solutions segment where the Company provides solutions, products and services relating to video lottery terminals (VLTs) and systems for VLTs and amusement with prize machines (AWPs); and (iii) its Commercial Services segment, where the Company performs high-volume transaction processing of non-lottery commercial transactions such as retail debit, credit and charge card transactions, bill payments, electronic tax payments, utility payments, prepaid cellular telephone recharges, and retail-based programs. For the year ended December 31, 2006, Lottomatica generated total revenues, EBITDA and operating income of €938.9 million, €361.2 million and €219.3 million, respectively.

The Company has operations in over 50 countries worldwide on six continents and approximately 6,100 employees.

BUSINESS OVERVIEW

LOTTERY BUSINESS

LOTTOMATICA'S ITALIAN LOTTERY BUSINESSES

Since 1993, Lottomatica has been the sole concessionaire for the Italian Lotto game, which is the largest online lottery in the world in terms of wagers, according to *La Fleur's 2006 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 online infrastructure for Lotto, wagers have grown significantly. Lottomatica has gained 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 lottery 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" games. Since 2003, Lottomatica, through Consorzio Lotterie Nazionali, which is 63% owned by Lottomatica, has had an exclusive concession to operate Instant and Traditional Lotteries.

Lottomatica operates both online lotteries and games, which are conducted through computerized 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 computerized (except for ticket distribution and validation purposes).

A list of Lottomatica's concessions in Italy is set forth on *Table 1* of this report.

Online Lottery

Lotto is a traditional game that was played off-line for centuries and that originated roughly 500 years ago in Genoa. It is now the most successful game in the Republic of Italy in terms of both the number of players and wagers. In July 2006, Lottomatica introduced Lotto Istantaneo, a game that allows players an option to participate in an instant draw game using the same numbers selected for the Lotto game.

For the year ended December 31, 2006, total wagers collected for Lotto were €6.588 billion, which generated revenues for Lottomatica of €406.1 million or approximately 43.2% of total revenues.

As compensation for its management of Lotto, Lottomatica receives a fee, equal to a percentage of the amount wagered.

Lottomatica is required to provide a performance bond in an amount equal to 0.3% of total wagers to the Amministrazione Autonoma dei Monopoli di Stato ("AAMS") to guarantee performance of Lottomatica's obligations pursuant to the Lotto concession. The latest performance bond has been calculated on 2005 total wagers. The amount of the performance bond is updated upon request of the AAMS.

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 which relate to the operation of the Lotto game. A similar requirement exists with respect to the termination of the other concessions as well.