



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.

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 to operate Instant and Traditional Lotteries, which prior to that time had been operated by the AAMS. The remaining quotas 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 are available at approximately 40,900 points of sale (of which approximately 29,200 are also Lotto points of sale), mainly consisting of tobacconists but also at bars, motorway restaurants and newspaper stands. 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.

For the year ended December 31, 2006, total wagers collected for Instant and Traditional Lotteries were approximately €3.96 billion, and generated revenues for Lottomatica of €138.7 million, or approximately 15% of total revenues.

As compensation for its management of the Instant and Traditional Lotteries, Lottomatica receives a fee, equal to a percentage of the amount wagered.

Sports Pools and Other Pari-Mutuel Betting

For the year ended December 31, 2006, total wagers collected for Sports Pools and Other Pari-Mutuel Betting, including Totocalcio, Totogol, 9 and other pari-mutuel betting, were approximately €207 million, which generated Revenues for the Consorzio Lottomatica Giochi Sportivi of €6.9 million or approximately 0.7% 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).

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 Comitato Olimpico Nazionale Italiano. The remaining 10% of Consorzio Lottomatica Giochi Sportivi is owned by Totocom-Agenzie online 5% and Telcos S.p.A. 5%. The Totocalcio concession expires on July 31, 2007. Totocalcio is played by wagering on the outcome of 14 sporting events, usually soccer matches.

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 either on a pari-mutuel or a fixed-odds basis.

In August 2004, the Ministry of Economy and Finances authorized 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 authorized by the AAMS from time to time.

Pari-Mutuel Horse Racing Betting

In December 2005, the Ministry of Economy and Finances authorized 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”.

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.

New Fixed Odds and Horse Betting

Following a competitive tender completed in the last quarter of 2006, Lottomatica has been awarded a non-exclusive concession by the AAMS to operate fixed odds sports betting at 1,144 points of sale, horse betting at 500 points of sale and the right to operate sports betting over the Internet. Once operations commence, expected to be in the second half of 2007, the Company will extend his presence in Italy to almost all products of the gaming business, reinforcing its leadership position in the Italian market.

This new opportunity, in one of the fastest growing segments of the worldwide gaming industry, is anticipated to contribute significantly to revenues through the expiration of the license in 2015.

GTECH'S LOTTERY BUSINESS

Online Lottery Business

GTECH serves online government sponsored lotteries under facilities management or product sales contractual arrangements which are described in more detail below.

Facilities Management Contracts.

GTECH's Facilities Management Contracts typically require GTECH 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 online 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 online 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, GTECH 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 (including the central system, terminals, software and communications network) during the contract term at a predetermined price, which is calculated so that it exceeds the net book value of the lottery 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 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 GTECH receives fees based upon a percentage of the sales of the instant-ticket games.

A list of GTECH's Facilities Management Contracts is set forth on *Table 2* of this report.

Product Sales Contracts.

Under Product Sales Contracts, GTECH constructs, sells, delivers and installs turnkey lottery systems or lottery equipment and license 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 GTECH's 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 online 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.

A list of GTECH's direct or indirect customers that since March 1, 2000 have purchased (or have agreed to purchase) from GTECH new online lottery systems, software and/or terminals and equipment in connection with the expansion or replacement of existing lottery systems is set forth on *Table 3* of this report.

Instant Ticket Vending Machine Business

In 2003, GTECH acquired Interlott, a leading provider of instant ticket vending machines (ITVMs) for the lottery industry worldwide. Similar to GTECH's online business, GTECH's ITVM business is generally conducted under the same type of contractual arrangements as online contracts, Facilities Management Contracts and Product Sales 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 is typically 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.

GTECH's ITVM Facilities Management Contracts feature a compensation structure based upon a negotiated percentage of the ITVM instant ticket sales revenues. Under GTECH's ITVM Facilities Management Contracts, GTECH retains title to the ITVMs, while providing its customers with necessary support services. In most of GTECH's 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.

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.

A list GTECH's ITVM Contracts is set forth on *Table 4* of this report.

Instant Ticket Printing Business

In February 2007, GTECH purchased substantially all of the assets of Creative Game International, Inc. ("CGI"), a leading provider of instant lottery tickets for the global lottery industry. CGI has established itself as a highly-regarded instant ticket printer with contracts throughout North America and the Caribbean. Headquartered in Plant City, Florida, CGI has a total production capacity of more than three billion instant tickets annually.

GAMING SOLUTIONS

For the year ended December 31, 2006, Revenues for Lottomatica from Gaming Solutions were €29.3 million or approximately 3.1% of Total Revenues.

In July 2004, Lottomatica, through its subsidiary Lottomatica Videolot Rete, was granted a license by the AAMS to activate and operate a network in Italy that links amusement and entertainment machines installed in outlets consisting of bars, licences betting halls, tobacconists and hotels to a central system. Lottomatica Videolot Rete has agreements with approximately 80 operators who have connected approximately 10,000 machines located in about 5,000 points of sale to Lottomatica's central system. For the year ended December 31, 2006, revenues from Lottomatica Videolot Rete in Italy were €8.5 million.

Outside of Italy, the Company provides complete gaming systems technology primarily to government-sponsored programs as well as commercial and Native American gaming venues. The Company is the world's leading provider of central systems for government sponsored machine gaming programs and is a single source provider for online central systems, system design, terminals, and games. The Company is typically compensated on a "participation" basis whereby the Company retains title to the equipment and receives a percentage of sales or "net win" per machine or on a product sales basis whereby the Company receives a purchase price for the equipment. Set forth on *Tables 5 and 6* is list of GTECH's Gaming Solutions participation and product sales, respectively, customer contracts. During 2004, GTECH acquired Spielo, a leading provider of video lottery terminals and related products and services to the global gaming industry. During 2004, GTECH entered into an agreement with the owners of the privately-held Gauselmann Group ("*Gauselmann*") to acquire a 50 percent 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 approximately 225 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. The combination of GTECH, Spielo, and Atronic creates an organization that will become a leading end-to-end solutions provider for the global gaming industry.

COMMERCIAL SERVICES

Leveraging its distribution network and transaction processing experience, Lottomatica offers 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.

Commercial Services. The Company distributes services for commercial operators including electronic top-up services distributed by Lottomatica for prepaid mobile and fixed-line telephone accounts, ticketing for sporting and musical events and collects payments from end-users for which it retains a fee.

Payment Services. Through its LIS Finanziaria S.p.A. subsidiary, the Company provides collection and payment services in Italy for the payment of utility bills, local fines and duties and also collects payments due on behalf of the creditor.

Processing services. Lottomatica provides a processing and network service on behalf of third parties, without collecting amounts due. The most important of these services are telephone top-ups and Digital Terrestrial TV cards, payment of car road taxes, fidelity card services and, starting from 2005, stamp duties services.

Lottomatica's Italian services network comprises over 60,000 points of sale (including approximately 22,000 points of sale where Lottomatica provides only Processing Services for third-parties) divided among tobacconists, bars, petrol stations, newspaper stands, motorway restaurants. Lottomatica has over 60,000 POS terminals installed at these locations (of which over 22,000 overlap with Lotto points of sale) and about 26,000 Lis Printers installed at tobacconists. The Lis Printer is a proprietary dedicated terminal for printing stamp duties. All services are provided through Lottomatica's own 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 Italy.

In addition, through CartaLis IMEL S.p.A., Lottomatica has launched on a trial basis at the end of 2006, stored value services, issuing and acquiring services related to prepaid electronic funds cards, for which necessary authorization has been received from the Bank of Italy.

In 2003, GTECH acquired a controlling equity position in PolCard, the leading debit and credit card merchant transaction acquirer and processor in Poland and in 2004, GTECH acquired BillBird S.A., the leading provider of electronic bill payment services in Poland. During fiscal 2006 GTECH announced that it had successfully integrated the commercial services payment capability of its BillBird subsidiary into its existing Enterprise Service system, thereby offering GTECH customers the opportunity to merge their lottery and commercial services operations. GTECH offers Commercial Services through several networks outside of the United States.

OPERATING AND FINANCIAL REVIEW

Overview

The following operating and financial review is provided as a supplement to, and should be read in conjunction with, the Company's financial statements and the accompanying notes.

A comparison of the Company's revenue concentration is as follows:

Consolidated Revenues

	December 31,		Change	
	2006	2005	€	%
	(€ in thousands)			
<i>By Segment</i>				
Lottery	818,658	511,588	307,070	60.0
Commercial Services	90,949	64,707	26,242	40.6
Gaming Solutions	29,273	6,500	22,773	>100.0
Total revenues	<u>938,880</u>	<u>582,795</u>	<u>356,085</u>	<u>61.1</u>
<i>By Legal Entity</i>				
Lottomatica	649,627	582,795	66,832	11.5
GTECH	289,253	-	289,253	---
Total revenues	<u>938,880</u>	<u>582,795</u>	<u>356,085</u>	<u>61.1</u>

Lottomatica's revenues from Italian operations are primarily derived from operating contracts under which Lottomatica manages all of the activities along the lottery value chain including collecting wagers, paying out prizes, managing all accounting and other back-office functions, running advertising and promotions, operating data transmission networks and processing centers, training staff, providing retailers with assistance and supplying materials for the game.

GTECH's revenues are primarily comprised of service revenues 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. These contracts generally provide compensation to GTECH 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. GTECH's product sale revenues are derived primarily 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. GTECH's product sale revenues from period to period may not be comparable due to the size and timing of product sale transactions.

GTECH has developed and continues to develop new lottery games, licenses 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.

As a result of the acquisition of GTECH, substantial portions of the Company's assets now consist of equipment GTECH uses to operate online lottery systems for its customers outside of Italy.

Operations Review

Key Operating Performance Indicators

	December 31,		Percentage of Revenues	
	2006	2005	2006	2005
	(€ in thousands)			
Revenues	938,880	582,795	-	-
EBITDA	361,196	264,036	38%	45%
EBIT	218,878	212,343	23%	36%
Net income	822	114,232	-	20%

EBITDA in 2006 includes €47.4 million of transaction and other costs. Excluding these items, EBITDA would have been approximately €408.6 million, or 44% of revenue in 2006.

EBIT in 2006 includes €47.4 million of transaction and other costs along with €37.8 million of depreciation, amortization and other non-cash charges associated with the acquisition of GTECH. Excluding these items, EBIT would have been approximately €304.1 million, or 32% of revenue in 2006.

The computation of EBITDA and EBIT appear below:

	December 31,		Change	
	2006	2005	€	%
	(€ in thousands)			
Operating income	219,290	212,343	6,947	3.3
Depreciation, amortization and write-downs	136,473	51,693	84,780	>100.0
Other non-cash items	5,845	-	5,845	---
Equity loss	(412)	-	(412)	---
EBITDA	361,196	264,036	97,160	36.8

	December 31,		Change	
	2006	2005	€	%
	(€ in thousands)			
Operating income	219,290	212,343	6,947	3.3
Equity loss	(412)	-	(412)	---
EBIT	218,878	212,343	6,535	3.1

Comparison of 2006 with 2005

Consolidated revenues, which includes four months of revenue from GTECH, increased by 61.1% versus 2005.

Italian Operations

Revenues from Lottomatica's Italian operations are comprised of the following:

	December 31,		Change	
	2006	2005	€	%
	(€ in thousands)			
Lotto	406,053	432,448	(26,395)	(6.1)
Instant tickets	138,740	54,931	83,809	152.6
Other	21,468	24,209	(2,741)	(11.3)
Lottery	566,261	511,588	54,673	10.7
Commercial Services	74,879	64,707	10,172	15.7
Gaming Solutions	8,487	6,500	1,987	30.6
Total revenues	649,627	582,795	66,832	11.5

Lotto

The Company's Lotto revenues declined 6.1% in 2006 compared to 2005, primarily due to a decline in game wagers. Total wagers decreased by 9.9% from €7.315 billion in 2005 to €6.588 billion in 2006. Wagers for late numbers totaled €1.172 billion in 2006, down from €1.574 billion in 2005. This trend was due mainly to the introduction of a third weekly drawing that significantly impacted late numbers wagers. As a result, core wagers also decreased to €5.370 billion in 2006 compared to €5.741 billion in 2005.

Instant tickets

Throughout 2006, the strong performance in instant ticket sales continued. Instant ticket revenues increased by 152.6% over 2005, primarily due to higher sales of Scratch and Win tickets. In 2006, 1.631 billion Scratch & Win tickets were sold generating total sales of €3.880 billion. In 2005, approximately 795 million Scratch & Win tickets were sold generating total sales of €1.492 billion. Growth in instant ticket sales was driven principally by the introduction of the 5-euro lottery ticket, "Miliardario" which generated new sales of €2.019 billion in its first year.

Commercial Services

Revenues from Commercial services improved by 15.7% over last year, driven primarily by an increase in the number of cellular phone top-ups that were processed.

GTECH Operations

Consolidated revenues for 2006 include the following amounts for GTECH:

	Four months ended December 31, 2006		
	Service Revenue	Product Sales	Total Revenue
	(€ in thousands)		
United States	151,387	1,161	152,548
International	90,933	8,917	99,850
Lottery	242,320	10,078	252,398
Commercial Services	16,070	-	16,070
Gaming Solutions	10,131	10,654	20,785
	<u>268,521</u>	<u>20,732</u>	<u>289,253</u>

Company Operating Costs

	December 31,		Change	
	2006	2005	€	%
	(€ in thousands)			
Raw materials, services and other costs	422,341	246,483	175,858	71.3
Personnel	194,902	72,276	122,626	>100.0
Depreciation, amortization and write-downs	136,473	51,693	84,780	>100.0
Capitalization of internal construction costs- labor and overhead	(34,126)	-	(34,126)	---
Total operating costs	<u>719,590</u>	<u>370,452</u>	<u>349,138</u>	<u>94.2</u>
Percentage of total revenue	76.6%	63.6%		

Operating costs include twelve months of costs for Lottomatica's Italian operations and four months of costs for GTECH operations.

Operating costs as a percentage of revenue increased from 63.6% in 2005 to 76.6% in 2006 primarily due to higher depreciation and amortization expense resulting from the acquisition of GTECH.

The €175.9 million increase in Raw materials, services and other costs was principally due to €124.5 million of costs incurred by GTECH along with €51.4 million of higher costs incurred by Lottomatica principally related to the increase in instant ticket and commercial services revenues.

The €122.6 million increase in Personnel costs was principally due to €120.8 million of costs incurred by GTECH.

The €84.8 million increase in Depreciation, amortization and write-downs was principally due to €80.0 million incurred by GTECH, including €32.5 million related to depreciation and amortization expense resulting from the acquisition of GTECH.

Capitalization of internal construction costs - labor and overhead of €34.1 million, relates to lottery construction activities by GTECH. A substantial portion of GTECH revenues are derived from facility management contracts, under which GTECH constructs and installs lottery systems for its customers. Labor and overhead costs incurred by GTECH during the construction of the lottery system are capitalized to the balance sheet.

Interest Income

	December 31,		Change	
	2006	2005	€	%
	(€ in thousands)			
Interest income	31,835	5,112	26,723	>100.0

The €26.7 million increase in interest income relates principally to interest earned on the proceeds of debt and equity raised in connection with the acquisition of GTECH.

Foreign exchange gains (losses), net

	December 31,		Change	
	2006	2005	€	%
	(€ in thousands)			
Hedging premiums	(69,690)	-	(69,690)	---
Realized foreign exchange losses	(33,588)	(591)	(32,997)	>100.0
Unrealized foreign exchange gains (losses)	(17,671)	2,654	(20,325)	>100.0
Total	<u>(120,949)</u>	<u>2,063</u>	<u>(123,012)</u>	<u>>100.0</u>

Prior to the acquisition of GTECH on August 29, 2006, Lottomatica entered into foreign exchange contracts to mitigate its exposure to foreign exchange rates resulting from Lottomatica's commitment to acquire GTECH for US\$35 per share. The Euro equivalent of these foreign exchange contracts was approximately €2.1 billion. Lottomatica paid €69.7 million in premiums to the various financial institutions that were counterparties to the foreign exchange contracts. During 2006, Lottomatica incurred approximately €33.6 million of realized foreign exchange losses of which approximately €16.9 million related to cash losses on the €2.1 billion of foreign exchange contracts and the balance of approximately €16.7 million related principally to foreign exchange losses on €849 million of cash balances that Lottomatica converted to US\$ prior to the acquisition. In addition, during 2006 Lottomatica recorded approximately €17.7 million of unrealized foreign exchange losses related primarily to a US\$762.3 million intercompany loan to GTECH on August 29, 2006.

The foreign exchange losses and hedging premiums were more than offset by a lower purchase price for GTECH in euros due to a significant strengthening of the euro against the US dollar between the announcement of the acquisition in January 2006 and when the acquisition was completed on August 29, 2006.

Interest expense

	December 31,		Change	
	2006	2005	€	%
			(€ in thousands)	
Interest expense	(95,821)	(18,006)	(77,815)	>100.0

Interest expense increased €77.8 million over last year primarily due to borrowings of €1.3 billion under the Senior Credit Facility on August 29, 2006 and €420 million on October 2, 2006 along with the issuance of €750 million of Capital Securities on May 17, 2006.

Weighted Average Diluted Shares

Weighted average diluted shares in the 2006 increased by 34.6 million shares to 125.4 million shares, primarily due to the issuance of 57.4 million shares in connection with the June 2006 Rights Offering.

Income Taxes

The Company's effective income tax rate of 97.6% in 2006 was up from 41.8% in 2005 primarily due to acquisition non-deductible expenses (primarily for IRAP in Italy), non-deductible compensation accruals and excess foreign tax credits.

Liquidity, Capital Resources and Financial Position

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash generated by operating activities, bank overdrafts and bank loans. The Company believes its ability to generate excess cash from operations to reinvest in its business is one of its fundamental financial strengths and combined with the Company's committed borrowing capacity, it expects to meet its financial obligations and operating needs in the foreseeable future. The Company expects to use cash generated primarily from operating activities to meet contractual obligations and to pay dividends and that its growth will be financed through a combination of cash generated from operating activities, existing sources of committed liquidity, access to capital markets, and other sources of capital. The Company's debt ratings of Baa3 from Moody's and BBB- from Standard and Poor's contribute to its ability to access capital markets at attractive prices.

Summary Cash Flow Statement

	December 31,	
	2006	2005
	(€ in thousands)	
Profit before income tax	33,754	196,245
Non-cash charges	236,736	83,839
Other	(64,499)	(69,965)
Net cash flows from operating activities	205,991	210,119
Acquisition of GTECH	(3,262,631)	-
Other investing activities, net	(153,722)	(51,414)
Net cash flows used in investing activities	(3,416,353)	(51,414)
Free (negative) cash flow	(3,210,362)	158,705
Proceeds from issuance of Senior Credit Facility	1,769,168	-
Proceeds from issuance of stock	1,459,977	70,500
Proceeds from issuance of Capital Securities	750,000	-
Dividends paid	(119,416)	(67,983)
Repayment of long-term debt	(437,094)	-
Other financing activities	(57,337)	(157,243)
Net cash flows from (used in) financing activities	3,365,298	(154,726)
Net cash flow	154,936	3,979

Analysis of Cash Flows

During 2006, the Company generated €206.0 million of net cash flows from operating activities. Net cash flows used in investing activities were €3.4 billion, principally associated with the acquisition of GTECH. Net cash flows from financing activities of €3.4 billion were principally comprised of proceeds of €1.769 billion borrowed under the Senior Credit Facility in August and October 2006, €1.460 billion generated in connection with the June 2006 Rights Offering, and proceeds from the issuance of €750 million of Capital Securities on May 17, 2006. At December 31, 2006, the Company had €396.6 million of cash and cash equivalents on hand.

In November 2006, GTECH occupied its new headquarters facility in Providence, Rhode Island. In anticipation of the relocation of its headquarters, a Master Plan was created to optimize the value of the former headquarters, the technology center, the child day care center and the undeveloped land in West Greenwich, Rhode Island. Collectively this property is referred to as the West Greenwich Campus (the "WG Campus"). In December 2006, GTECH sold substantially all of the WG Campus for a gross sales price of US\$43 million and entered into two sales-lease back agreements with the new owners. Net proceeds from the sale were used to repay borrowings under the Senior Credit Facility. Substantially all of the proceeds are included in other investing activities in the summary cash flow statement above.

The Company's business is capital-intensive. The Company expects its principal sources of liquidity to be existing cash balances, along with cash the Company generate from operations and borrowings under its Senior Credit Facility. The Senior Credit Facility provides for an unsecured revolving facility of US\$250 million and a Guarantee Facility of US\$250 million and matures in August 2012. There were approximately €8 million of borrowings under the revolving facility at December 31, 2006. At December 31, 2006, there was €0.4 million of letters of credit issued and outstanding under the Guarantee Facility. The Senior Credit

Facility has covenants and restrictions including, among other things, requirements relating to the maintenance of certain financial ratios, limitations on capital expenditures and acquisitions and limitations on dividends. None of these covenants are expected to impact the Company's liquidity or capital resources. At December 31, 2006 the Company was in compliance with all applicable covenants.

The Company currently expects that its excess cash flow from operations, existing cash, available borrowings under its Senior 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 and to pay dividends. The Company may also seek alternative sources of financing to fund future potential acquisitions and other growth opportunities.

Financial Position

Summary Consolidated Balance Sheet

	December 31,		Change	
	2006	2005	€	%
	(€ in thousands)			
Systems, equipment and other assets related to contracts, net	845,890	158,248	687,642	>100.0
Goodwill	2,932,672	663,613	2,269,059	>100.0
Intangible assets, net	856,764	10,774	845,990	>100.0
Other non-current assets	310,716	63,681	247,035	>100.0
Total noncurrent assets	<u>4,946,042</u>	<u>896,316</u>	<u>4,049,726</u>	<u>>100.0</u>
Cash and cash equivalents	396,617	246,163	150,454	61.1
Other current assets	731,121	348,018	383,103	>100.0
Assets held for sale	369,172	-	369,172	---
Total assets	<u>6,442,952</u>	<u>1,490,497</u>	<u>4,952,455</u>	<u>>100.0</u>
Stockholders' equity	1,873,616	512,255	1,361,361	>100.0
Long-term debt, less current portion	2,741,585	359,653	2,381,932	>100.0
Deferred income taxes	507,611	44,233	463,378	>100.0
Other noncurrent liabilities	122,769	16,205	106,564	>100.0
Total noncurrent liabilities	<u>3,371,965</u>	<u>420,091</u>	<u>2,951,874</u>	<u>>100.0</u>
Current liabilities	1,031,844	558,151	473,693	84.9
Liabilities associated with assets held for sale	165,527	-	165,527	---
Total stockholders' equity and liabilities	<u>6,442,952</u>	<u>1,490,497</u>	<u>4,952,455</u>	<u>>100.0</u>

Substantially all of the increases in the balance sheet in 2006 versus 2005 relate to the acquisition of GTECH on August 29, 2006.

Net Financial Position

The Company's net financial position at December 31, 2006 increased by approximately €2.4 billion over its net financial position at December 31, 2005, primarily due to borrowings of €1.3 billion under the Senior Credit Facility on August 29, 2006 and €420 million on October 2, 2006 along with the issuance of €750 million of Capital Securities on May 17, 2006. The computation of net financial position is as follows:

	December 31,		Change
	2006	2005	
	(€ in thousands)		
Cash on hand	384	61	323
Cash at bank	396,233	246,102	150,131
Cash and Cash Equivalents	<u>396,617</u>	<u>246,163</u>	<u>150,454</u>
Current financial receivables	3,371	31,791	(28,420)
Current portion of long-term debt	82,310	473	81,837
Short-term borrowings	14,908	7,260	7,648
Other	2,526	263	2,263
Current financial debt	<u>99,744</u>	<u>7,996</u>	<u>91,748</u>
Net current financial debt	(300,244)	(269,958)	(30,286)
Senior Credit Facility	1,656,264	-	1,656,264
Capital Securities	725,214	-	725,214
4.8% Bonds	358,973	358,443	530
Other	38,345	1,210	37,135
Non current financial debt	<u>2,778,796</u>	<u>359,653</u>	<u>2,419,143</u>
Net financial position	<u><u>2,478,552</u></u>	<u><u>89,695</u></u>	<u><u>2,388,857</u></u>

Dividend Policy

In April 2006, the Company paid a dividend of €119.4 million to its shareholders. The Company currently plans to maintain its continued focus on a competitive dividend distribution. On March 9, 2007, the Board of Directors proposed to pay a dividend on 2006 earnings of €0.79 per share.

Significant Developments During 2006

Italian Lottery Operations

Lotto

Two noteworthy events occurred in the course of the year 2006 regarding Lotto. The drawing of the number 34 in the Cagliari wheel in April 2006 marked a record for the drawing of late numbers. The number 34 came up after more than 200 drawings. The other significant event occurred in July with the launch of the Instant Lotto. Instant Lotto is a game that gives players the opportunity to select numbers to play and numbers are then drawn immediately and directly at the terminal. The numbers selected and drawn and the odds and the amount played are all specified on the Gioco del Lotto playslips.

During 2006 the Company also completed installation of 33,900 new M370E terminals which had begun in 2005. These new terminals have various technological improvements.

Instant Lotteries

The positive sales trend of instant lottery tickets continued throughout 2006. The growth of sales is largely connected to the introduction of the € 5 "Il Miliardario" ticket which generated total sales of €2.0 billion during the first year.

In November 2006, the Company launched the Scratch & Win game over the Internet which will continue to be rolled out to additional retailers in 2007. Total revenues for 2006 from Internet instant lotteries was €4 million.

Betting

In December 2006, the AAMS granted Lottomatica a nine year concession for sports pools and horse-race betting public games including:

- Pari-Mutuel betting (Big Match, Big Race)
- Sports Pools (Totocalcio, Totogol)
- TOTIP
- Italian Horse-Racing (Vincente, Accoppiata, Tris, Quartè, Quintè)
- Online Gaming
- Other public games that have not yet been identified.

GTECH Lottery Contract Awards

During 2006, GTECH received a number of contract awards and extensions from lottery authorities.

New Online Customers.

During 2006, GTECH acquired three new online customers.

In January 2006, GTECH signed a seven-year agreement with the North Carolina Education Lottery to provide a fully-integrated online and instant ticket lottery system, lottery terminals, a wireless communications network, ITVMs, and on-going services, including management of the warehousing and distribution of instant tickets. 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.

In June 2006, GTECH entered into an agreement with the Virginia Lottery to provide a new lottery central system, new terminals, a new wireless communications network and ongoing services. This integrated services agreement, the award of which followed a competitive procurement, has a term of seven years. GTECH had previously provided online lottery terminals and field services to the Virginia Lottery. Sales are expected to commence under GTECH's new online lottery contract with the Virginia Lottery in the second half of 2007.

In October 2006, GTECH entered into an agreement with Supreme Gaming LLC ("SGL") to become the provider of an online lottery system, products, and ongoing services in Guatemala for 15 years. SGL has contracted with Fundacion Pediatrica Guatemalteca, a non-profit institution that has granted SGL exclusive rights to operate an online lottery in Guatemala on behalf of the Children's Lottery, which it operates, for a 15-year term. Sales are expected to commence under this lottery system in February 2007.

Significant Developments Respecting Existing Online Customers.

During 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 2006, following a competitive procurement, the Oregon Lottery notified GTECH of its intention to award GTECH a seven-year contract to provide a new online lottery system, new terminals and ongoing services. GTECH expects to enter into an agreement with the Oregon Lottery reflecting this award in the first quarter of 2007, and sales are expected to commence under the new system in June 2008.

In November 2006, GTECH entered into a product sale agreement to provide new online lottery terminals to Singapore Pools (Private) Ltd. Under the terms of this agreement, GTECH will also provide its Singapore customer hardware and software maintenance and repair services for a term of five years.

During 2006, GTECH entered into a three-year contract extension to supply the Beijing Welfare Lottery Center ("BWLC") with a new online lottery central system, new lottery terminals, and ongoing software, licensing and support services. GTECH's agreement with BWLC, as so extended, is scheduled to run through December 31, 2015.

During 2006, GTECH also entered a two-year contract extension with the Minnesota lottery authority; a five-year contract extension with the National Lotteries Control Board of Trinidad and Tobago, and a three-year contract extension with the Kentucky Lottery.

During 2006, several of GTECH's existing customers awarded online contracts to competitors. In April 2006, GTECH was notified by China Trust Bank Co., Ltd., the license holder for the Public Welfare Lottery of Taiwan, that it had selected another vendor to provide equipment and services for a new online lottery gaming system, to commence upon the expiration of GTECH's contract in December 2006. In April 2006, GTECH was also notified by the Idaho Lottery Commission of its intent to enter into a contract with another vendor to provide a new online gaming system, terminals, and associated telecommunications network upon the expiration of GTECH's current contract in February 2007. In August 2006, the South Africa Minister of Trade and Industry notified Uthingo Management (Pty) Limited, the current operator of the South Africa National Lottery, of its intention to negotiate a contract with a competing consortium to operate the South Africa National Lottery upon expiration of Uthingo's contract in April 2007. GTECH is a 10 percent equity partner in, and a technology supplier for, the Uthingo consortium.

In addition, in October 2006 the New Jersey lottery authority withdrew its November 2005 notice of intent to negotiate with GTECH a new gaming systems support services contract, in light of a challenge of

the award by a competitor, and announced that it would instead award the contract pursuant to new procurement process in which GTECH is participating.

Finally, GTECH's contract to provide lottery and financial transaction processing systems for Caixa Economica Federal, the administrator of the National Lottery in Brazil, terminated in August 2006 upon the expiration of a 90-day contract extension.

Other Products and Services

During 2006, GTECH entered into a number of agreements, and announced a number of other developments, respecting products and services outside of GTECH's traditional online lottery product offerings.

Gaming Solutions.

During 2006, GTECH's Spielo subsidiary entered into agreements to sell its WinWave™ video lottery machines to Atlantic Lottery Corporation (in Canada) and Icelandic Gaming (in Iceland).

In addition, in August 2006 GTECH entered into a product sale agreement to supply the Manitoba Lotteries Corporation with a new video lottery central system and a five-year support agreement. Under the terms of these agreements, GTECH will replace the Manitoba Lottery Corporation's existing video central system, currently supplied by another vendor, with GTECH's Enterprise Series™ video central system, and will supply the Manitoba Lottery Corporation with approximately 650 internet protocol ready video site controllers to link the system's video lottery terminals to the central system and provide validation of winning receipts and printing of retailer reports.

New Product Offerings and Development.

In March 2006, GTECH launched PICK 'N PLAY™ in Illinois. PICK 'N PLAY is GTECH's new game concept designed to combine the appeal of instant gratification and multiple chances to win with the security and integrity of an online game. In addition, during 2006, the Illinois lottery authority became the first lottery authority in the United States to receive GTECH's ISYS™ Text-to-Speech application that enables a visually-impaired retailer's personal computer to audibly "read" text displayed on the ISYS terminal.

In July 2006, GTECH, together with its Spielo subsidiary and the Multi-State Lottery Association, launched Ca\$hola. Ca\$hola is the first multi-state, multi-vendor, video lottery wide-area progressive game launched in the United States.

In October 2006, GTECH launched GameGuard,™ its new automated instant-ticket-management system, at the North American Association of State and Provincial Lotteries conference. Designed to meet the specific needs of retail venues, GameGuard displays and protects 20 different instant ticket games, and is designed to reside on a retail checkout or customer services counter.

In October 2006, GTECH entered into an asset purchase agreement to acquire substantially all of the assets of CGI, a leading provider of instant lottery tickets for the global lottery industry. The acquisition of CGI, which closed in February 2007, provides GTECH with a distribution channel for GTECH's current and future game and branded content, and, in combination with GTECH's worldwide instant-ticket related products and services, gives GTECH a complete end-to-end offering in the instant ticket segment of the lottery business.

OPERATIONS

Intellectual Property

The Company owns or has the right to use all intellectual property that is necessary or appropriate for the operation of its businesses.

The Lottomatica Group, and in particular Lottomatica and its subsidiary Totobit, have internally developed certain software, which are made available to the companies of the Group. Such software is also licensed within the Group for the purposes of the ordinary management of the companies. The Lottomatica Group, and in particular Lottomatica Italia Servizi, is the owner of a "Point of Sale" software ("POS"), developed for the management of the online payments at the points of sale.

Except as described above in relation to the licensing and/or authorization concessions, Lottomatica's activities have no other dependency on patents, licenses, industrial contracts, commercial contracts, brands, franchises, authorizations or manufacturing processes.

The Company is the holder of 209 trademarks which are registered, where appropriate, throughout the world and uses other marks that have not been registered. Unless otherwise noted, all trademarks referred to in this report are owned by or licensed to, Lottomatica.

Reliability

The Company believes that its technology is highly reliable and provides essential continuity of services.

The Company provides its GTECH customers with highly reliable lottery systems with greater than 99.997% uptime. GTECH systems process a transaction volume that ranges from a daily average of 280 million to a daily peak of 500 million. Its terminal manufacturing processes are certified to ISO 9001 to ensure terminal reliability from the time the terminal is built throughout its life cycle.

For Lotto core systems in Italy, service availability has been greater than 99.995%. The reliability of the entire service is also enhanced by the use of automated remote tediagnosis 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 online 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.

Security of Italian Operations

In order to provide an elevated level of security in the collection and management of the bets and in the performance of the other games and services, Lottomatica has adopted, among others, the following precautions in its Italian operations: 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 authorization for that specific level; and the terminals are individually identifiable and their correct assignment to the bet collection points of sale is held under constant control.

Product Development

The Company devotes substantial resources in order to enhance its present products and systems and develop new products. In 2006, the Company spent approximately €15.9 million on research and development.

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 finalized, 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 online 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 utilize 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.

Online Products And Services

A significant portion of GTECH's revenues and cash flow is derived from its portfolio of long-term online 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 online 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 authorization for the originating terminal to accept