



**CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE REPORT  
FINANCIAL YEAR 2012**

(prepared pursuant to Articles 123-bis of the Consolidated Financial Law, 89-bis and 144-decies of the Issuers Regulation by CONSOB)

APPROVED ON MARCH 12, 2013

[www.lottomaticagroup.com](http://www.lottomaticagroup.com)



**CORPORATE BODIES  
(AS AT DECEMBER 31, 2012)**

Chairman of the Board of Directors	Lorenzo Pellicoli
CEO	Marco Sala
Members of the Board of Directors	Pietro Boroli Donatella Busso Paolo Ceretti Alberto Dessy Marco Drago Jaymin Patel Gianmario Tondato Da Ruos
General Manager	Renato Ascoli
Manager in charge of drawing up corporate reports and financial statements	Alberto Fornaro
Secretary of the Board of Directors	Pierfrancesco Boccia
Board of Statutory Auditors	Sergio Duca, Chairman Angelo Gaviani (effective member) Francesco Martinelli (effective member) Giampiero Balducci (alternate member) Giulio Gasloli (alternate member) Umile Sebastiano Iacovino (alternate member) Guido Martinelli (alternate member) Marco Sguazzini Viscontini (alternate member)

## THE REPORT

This report illustrates the corporate governance rules, measures and procedures adopted by Lottomatica Group S.p.A. (hereinafter the "Company" or "Lottomatica"), as issuer of ordinary shares listed on the market organised and managed by the Italian stock exchange Borsa Italiana S.p.A.

This report refers to the financial year ended on December 31, 2012 and was approved by the Board of Directors during the meeting of March 12, 2013. The data and information provided herein refer to the date of approval of the report unless otherwise stated.

Sections are generally numbered, if possible, in accordance with the sections of the format for the preparation of corporate governance and ownership structure reports prepared by Assonime and Assirevi along with Borsa Italiana S.p.A., published in January 2013.

### 1. Profile of the issuer

The Company is one of the largest lottery operators in the world and one of the leaders in the sector at national level. The internationalization process started on August 29, 2006 with the acquisition of American multinational GTECH Holdings Corporation (hereinafter "GTECH") - a holding company of a group that is a leading provider of gaming technologies and services with registered offices in the State of Rhode Island, United States - was accomplished as announced to the market on January 24, 2013, through the new corporate reorganization structured on three geographical areas (Americas, international and Italy) supported by a central products and services structure, expected to be fully implemented and executed by the end of 2013.

In 2012, Lottomatica reached more than Euro 3 billion consolidated revenues and an EBITDA of Euro 1 billion, and with more than 120 subsidiaries, it has more than 8,000 employees in over 60 countries.

The Company is organized on the basis of the "traditional" model: Shareholders' Meeting, Board of Directors and Board of Statutory Auditors. These bodies are joined, among the other, by the Control and Risk Committee, the Remuneration and Nomination Committee and the Independent Directors' Committee, within the Board of Directors, as well as by the manager in charge of drawing up corporate reports and financial statements, the Director in charge of supervising the control system, the manager in charge of the control system, the person in charge of internal audit, the Surveillance Body established pursuant to legislative decree no. 231 of June 8, 2001 and the Global Compliance and Governance Committee.

### 2. information on the ownership structure

#### Share capital ownership

The deliberated share capital amounts to Euro 185,431,467.00 the underwritten and paid up portion of which amounts to Euro 172,363,202.00. This quota is divided into 172,363,202 ordinary shares with a par value of Euro 1.00 each, all equipped with equal rights; all shares are dematerialized.

Lottomatica is directly controlled by De Agostini S.p.A. (53.698%) (hereinafter, "De Agostini") which is responsible for the management and coordination of the Company. De Agostini is owned by B&D Holding di Marco Drago e C. S.A.p.A. (hereinafter "B&D"), that is in turn owned by New B&D Holding di Marco Drago e C. S.A.p.A. that heads a group that has been involved in the publishing sector for over a century, and more recently also in the media and financing sectors.

The Company has in addition issued:

- ▶ in 2006 subordinated interest-deferrable capital securities, listed on the Luxembourg Stock Exchange, due March 2066 for a total value of Euro 750 million at an annual interest rate of 8.25% for the first ten years and, starting from the tenth year, at a floating interest regulated at EURIBOR six months + 505 base points (hereinafter referred to as, the "2006 Hybrid Bonds"). The 2006 Hybrid Bonds may be entirely or partially redeemed in 2016;
- ▶ in 2007 Sponsored Level I American Depositary Receipts (ADR) on the basis of a program agreed with Bank of New York as depositary bank. Each ADR represents no. 1 ordinary share of Lottomatica, and is traded over the counter (OTC) on the United States' Pink Sheet market under the symbol "LTTOY" and with the following CUSIP number: 545697104;
- ▶ in 2009 guaranteed notes (expiring December 5, 2016) for a total of Euro 750 million. Interest on the 2009 notes is payable annually in arrears on each December 5, commencing on December 5, 2010, at 5.375% per annum. The bonds have been admitted to the listing on the Luxembourg Euro-MTF market (hereinafter referred to as, the "2009 Eurobonds");
- ▶ in 2010 guaranteed notes (expiring February 2, 2018) for a total of Euro 500 million. Interest on the 2010 notes is payable annually in arrears on each February 2, commencing on February 2, 2012, at 5.375% per annum (hereinafter referred to as the "2010 Eurobonds");
- ▶ in 2012 guaranteed notes negotiated on the Luxemburg EURO MTF market, expiring on March 5, 2020, for an overall amount of Euro 500 million. Interest is payable annually on each March 5 commencing on March 5, 2013, at 3.5% per annum (hereinafter referred to as the "2012 Eurobonds").

In October 2012 the mandatory exchangeable bonds issued by UBI Banca International SA on October 29, 2009, were fully converted into shares for a counter value of Euro 350 million.

Lottomatica has in place stock based compensation plans in favour of employees of the Company and its subsidiaries. The plans provide for the allocation of (i) options to subscribe ordinary shares (stock options) at a pre-determined price or (ii) free shares (restricted stock) vesting upon achievement of predetermined economic objectives at consolidated level within a three year period. The main purpose of the plans consists in encouraging beneficiaries' loyalty by providing incentives to stay with the Company or its subsidiaries, connecting compensation with the creation of value for the Shareholders, as well as ensuring the market competitiveness of beneficiary compensation packages.

For a detailed analysis of the stock based compensation plans of the Company, refer to

information documents prepared pursuant to Article no. 84-bis of the regulations issued by CONSOB (the Italian Securities and Investments Board) by resolution 11971 dated May 14, 1999 and subsequent amendments and integrations (hereinafter the "Issuers' Regulations") available under the Governance section of the website of the Company.

#### Relevant participations to the share capital

According to the data received by the Company as at December 31, 2013, the only entity other than the controlling shareholder known to hold, either directly or indirectly, more than 2% of the share capital is Assicurazioni Generali S.p.A., with a direct/indirect participation of 2.844%.

DECLARANT	DIRECT SHAREHOLDER	NO. OF SHARES	% OWNED ON THE ORDINARY CAPITAL	% OWNED OF VOTING CAPITAL
New B&D	De Agostini	92,556,318	53.698%	53.698%
	DeA Partecipazioni SpA	10,073,006	5.844%	5.844%
	<b>TOTAL</b>	<b>102,629,324</b>	<b>59.542%</b>	<b>59.542%</b>
Assicurazioni Generali SpA	Alleanza Toro SpA		2.598%	2.598%
	Other companies of the Generali Group		0.246%	0.246%
	<b>TOTAL</b>	<b>4,901,354</b>	<b>2.844%</b>	<b>2.844%</b>

#### Shareholders' agreements

The shareholders of B&D entered on June 30, 2012, into a three year shareholders' agreement in order to regulate the corporate governance rules and the reallocation of the stock interests owned by the same (hereinafter referred to as, the "Project") at the level of B&D and of its subsidiaries De Agostini and B&D Finance S.p.A.

The Project - through a series of corporate transactions currently under implementation - will allow some shareholders of B&D (i) to hold directly an overall participation equal to 27.95% of the share capital of De Agostini and of B&D Finance S.p.A., while for both companies the majority participation of 72.05% of the share capital shall remain with the parent company and (ii) to exercise an exit option in 2015, aimed at terminating the participation directly held in De Agostini in favour of B&D (or one of its subsidiaries) or, in the event it would not be possible to pursue such solution, to initiate a series of alternatives.

#### "Change of control" clause and statutory provisions on public offerings

The Company is not aware of any material agreement entered into by it or by any of its subsidiaries pursuant to Article no. 123-bis, paragraph 1, letter h) of the legislative decree no. 158 of February 24, 1998 (hereinafter referred to as the "Consolidated Financial Law"), that become effective, are amended or terminated, upon a change of control of the Company.

Standard clauses that provide for an immediate reimbursement of any amounts still due (so called "mandatory prepayment") in the event of a change of control of the Company

or of the fully owned subsidiary GTECH Corp, as the case may be, are provided under the terms and conditions governing the following loan agreements and bond regulation:

- ▶ 2006 Hybrid Bonds;
- ▶ 2009 Eurobonds;
- ▶ 2010 Eurobonds;
- ▶ 2012 Eurobonds;
- ▶ facilities agreement executed in December 2010 consisting of (i) a term loan of USD 700 million having GTECH Corp as borrower, and (ii) of Euro 900 million multicurrency revolving credit facilities having GTECH Corp. and Lottomatica as borrowers for Euro 500 million and Euro 400 million respectively.

Moreover, in light of its scarce contendibility due to the current ownership structure, the Company did not introduce in its bylaws the so called "passivity rule" whereby the target company of a takeover must refrain from executing deeds or carrying out transactions that may impair the success of the same takeover, unless the deed or the transaction is authorized by the Shareholders' Meeting, nor the so called "breakthrough rule" that renders inapplicable, in the event of a takeover those provisions of the bylaws of the target company or of any shareholders' agreements that may impair the execution of the offering and void the special controlling powers granted to the shareholders, if any.

#### **Delegation of powers to increase the share capital and authorization to purchase and dispose of Company own shares**

On April 28, 2011, the Shareholders' Meeting granted the Board of Directors, pursuant to Article no. 2443 of the Italian Civil Code and subject to prior revocation of all existing delegated powers: (i) the power to increase the share capital against payment and/or for free, on one or more occasions and even in tranches, with no pre-emption right pursuant to the fourth paragraph, second sentence, of Article no. 2441 of the Italian Civil Code, up to the maximum nominal amount of Euro 17,201,537, for a period of no more than five years from the date of the resolution, serving: (a) existing and future compensation plans based on Lottomatica shares and/or financial instruments related to Lottomatica shares, in favor of directors and employees of the Company and/or its subsidiaries, up to the maximum limit of 33% per annum with the possibility to carry over any unused portion of a given year for use together with the amounts allocated for subsequent years, and/or in favor of employees of the Company and/or its subsidiaries for assignment pursuant to Article no. 2349 of the Italian Civil Code, and/or (b) transactions for acquisition of equity investments (including mergers and de-mergers), companies or company branches operating in sectors of strategic interest for the Company, without any annual limit, as well as (ii) the power to increase the share capital against payment, on one or more occasions and even in tranches, up to the maximum nominal amount of Euro 125,000,000, for a period of no more than five years from the date of the resolution, to cover certain provisions of the 2006 Hybrid Bonds, granting the Directors the broadest powers to determine, from time to time, the method, terms and conditions of the increase of share capital, including the number of shares to issue from time to time in the exercise of this mandate, the subscription price

(including any premium) and the related subscription ratio for exercising the option rights that will be in case offered to shareholders.

In execution of such powers, the Board of Directors resolved to increase free of charge the share capital, pursuant to Article no. 2443 of the Italian Civil Code, even in tranches, with no pre-emption right:

- ▶ on May 9, 2012, up to maximum nominal Euro 330,000.00, through the issuance, in one or more instalments, of up to a maximum of no. 330,000 new ordinary shares, each of a nominal value Euro 1.00 worth, having normal dividend rights, to be allocated to the beneficiaries of the "Lottomatica Group 2009-2013 Stock Allocation Plan", pursuant to Article no. 2349 of the Italian Civil Code, from the "Plan Reserve pursuant to Article 2349 of the Italian Civil Code", already established by the Shareholders' meeting on April 23, 2007, to be subscribed by no later than December 31, 2013;
- ▶ on July 26, 2012 up to maximum nominal Euro 1,768,483.00, through the issuance, in one or more instalments, of up to maximum no. 1,768,483 new ordinary shares, each of a nominal value of Euro 1.00 worth, at a unit price of Euro 15.25 each, inclusive of nominal value and share premium, having normal dividend rights, to be subscribed by no later than December 31, 2018, to be used in connection with the "Lottomatica Group 2012-2018 Stock Option Plan reserved for employees" of the Company and/or its subsidiaries.

Moreover, the above Shareholders' Meeting of May 9, 2012 once again authorized the purchase, in one or more times, and on a revolving basis, of up to no. 34,428,159 ordinary shares, or any other number representing a maximum of 20% of the Company's share capital in the event of an increase/decrease in share capital during the eighteen month period of the authorization, also taking into account the shares that could be from time to time owned by the subsidiaries of the Company, and in any case always in respect of the limits laid down by the law.

The report by the Board of Directors to the Shareholders' Meeting on the share buy-back program is available on the internet website of the Company.

#### **Direction and coordination activity**

As indicated above, the Company is subject to the direction and coordination of De Agostini, pursuant to Article no. 2497 of the Italian Civil Code; the latter, in full respect of the independence of the Directors of the Company issued, and regularly updates, uniform managerial instructions to its subsidiaries, including Lottomatica.

### **3. Compliance**

During 2012 the Company continued to comply with the latest edition of the Corporate Governance Code for listed issuers of December 2011 issued by the Italian Stock Exchange (the "Code"), implementing during the year some of the novelties introduced by the Code, as accounted in detail in the paragraphs that follow.

The Company annually informs the public on its corporate governance system and on its compliance to the Code by means of this report, that highlights the degree of

implementation of the principles and criteria provided by the Code and by international best practices. The report is annually made available to the Shareholders together with the documentation for the annual Shareholders' Meeting on the Company's website ([www.lottomaticagroup.com](http://www.lottomaticagroup.com)) and sent to the Italian Stock Exchange that makes it available to the public.

The relevant annual reports issued by the Company are available on its internet website under the Governance section ([www.lottomaticagroup.com](http://www.lottomaticagroup.com)).

#### **4. The board of directors**

Following the novelties introduced by the Code, the Board of Directors, during the meeting of November 7, 2012, amended the charter it had adopted upon its appointment on April 29, 2011, providing, in particular, (i) a cap for the number of offices held elsewhere by the members of the board of directors of the Company, (ii) relevance thresholds for transactions carried out by the Company also through its subsidiaries, to be reserved to the competence of the board of directors (e.g. tenders that imply an offer higher than Euro 100 million, ordinary and extraordinary activity agreements that imply an investment higher than Euro 60 million or 50 million respectively, new financings for more than Euro 200 million) as well as (iii) new internal control and risk management functions.

The Company expects that such charter - inspired by principles shared by some of the most representative Italian listed companies on corporate governance matters, as well as the contributions resulting from the annual self-evaluations of the managing body - may lead to ensure the highest efficiency of the works of the Board.

The charter is available on the Governance section of the Company's website ([www.lottomaticagroup.com](http://www.lottomaticagroup.com)).

#### **Appointment and replacement**

The Board of Directors is composed of seven to fifteen members. Directors serve for no more than three financial years, on the basis of the term established by the Shareholders' Meeting upon their appointment, and can be re-appointed. Their term of office expires on the date of the Shareholders' Meeting called to approve the financial statements for the last financial year of their term of office.

On accepting the directorship, as well as at the moment of taking the office, candidate Directors of the Company and those that may have been appointed by the Board of Directors during the year, are invited to evaluate whether they may diligently perform their duties. In particular, each concerned candidate is systematically invited to carefully consider the number of offices held as director or auditor in other companies listed on regulated markets (including foreign markets), in financial companies, banks, insurance companies or companies of considerable size. Such offices are (i) brought to the attention of the Shareholders, when called to appoint new Directors, and of the Board of Directors, when called to periodically evaluate the continuing existence of the conditions for the diligent performance of Directors' duties, and (ii) recorded in the annual corporate governance report.

As previously indicated, the Board of Directors, in compliance with the recommendations of the Code, deems compatible with an efficient execution of the office of Director of the Company the maximum number of offices provided in the charter of the Board of Directors. In particular the, the charter takes into account other offices held such as "general manager", "executive" or "non-executive directors", or offices held in control bodies of other listed companies, financial, banking and insurance entities, or "relevant size" entities (pursuant to the "Issuers' Regulation" adopted by Consob through resolution no. 11971 of May 14, 1999), or in other entities, assigning each office a particular score, and indicating a maximum score deemed compatible with an efficient execution of the office with the board of directors of the Company. In particular, each further office held within the group (meaning the parent, subsidiary and affiliated entities as a whole) weighs 1/10 of the values indicated in the charter, for listed companies, financial or similar entities, whilst is not considered in the event of other entities. In any event, in consideration of the commitment requested by the other offices held, exceptions to the threshold are admitted at the discretion of the Board of Directors, upon proposal by the Remuneration and Nomination Committee, if established, and having heard the opinion of the Board of Statutory Auditors.

As to the selection of the members of the Board of Directors, the parent company De Agostini follows strict procedures when selecting candidate Directors to be submitted to the approval by the Shareholders' Meeting or, in the event of co-opted Directors, by the Board of Directors. Such procedures have always ensured a diversified composition of the Board and a mix of experiences amongst its members, who have been systematically chosen among university professors, entrepreneurs and professional experts in the areas of business of the Company. To this regard the Board of Directors, also in light of the novelties introduced by the Code, amended during its meeting of July 26, 2012 the charter of the Remuneration Committee, assigning it new consulting and proposing competences on (i) the composition and size of the Board of Directors, (ii) appointment of independent directors by the Board of Directors and (iii) initial and periodical ascertainment of independence and integrity requirements, as well as non-existence of incompatibility, ineligibility and termination from office causes for the Directors, as well as (iv) new compensation competences more thoroughly described under Section no. 8 hereinafter.

On their part, candidate Directors ensure that they meet the requisites set by the competent gaming authorities in the foreign countries where the Company indirectly operates; candidates are individually assisted in their self-assessment through the guidelines available on the Company's website and by the support of the competent corporate departments.

The Board of Directors is not aware of any activity carried out by any of its members in competition with the Company, nor have the Shareholders authorized in advance any such activity pursuant to Article no. 2390 of the Italian Civil Code.

Article no. 13 of the bylaws of the Company - implementing the provisions of Legislative Decrees no. 27 of January 27, 2010, and no. 91 of June 18, 2012 implementing the EC directive 2007/36 (the so-called "shareholders' rights directive") - as recently amended by the Shareholders' Meeting on April 28, 2011, provides that Directors are appointed by means of voting lists, so as to reserve the minorities the appointment of at least one

Director and that: (i) only the Shareholders who, alone or with other Shareholders, represent the minimum percentage required by law indicated in the notice of call for the Shareholders' Meeting called to appoint the Board of Directors (currently 2% of the company's share capital) have the right to submit lists of candidates; (ii) the lists given that have not met the minimum number of votes required by the law or the bylaws (less than one eightieth of the share capital) are not considered; (iii) the minimum number of Directors contemplated by the law (one) is selected from the minority Shareholders' list that has obtained the highest number of votes and which is not linked in any way, even indirectly, to the shareholders who have submitted or voted for the list that obtained the highest number of votes; (iv) in the event of an equal number of votes for several lists, the one list submitted by the Shareholders holding the largest stake at the time of submission prevails or, alternatively, the list submitted by the most shareholders; (v) the acceptance of the office depends on holding the individual requisites established by the law, and an adequate number of directors (at least two for the current board) must meet the independence requirements established by the law (see this section no. 4, sub-paragraph "independent Directors"). Moreover, on March 12, 2013 the Board of Directors resolved to propose to the Shareholders' meeting called to approve the financial statements as at December 31, 2012, some amendments to Article 13 of the bylaws in order to provide, upon nomination of the Board of Directors, for the possibility that at least one third of the candidates of each list of at least three candidates, belong to the gender less represented; should the application of the so called "list vote" not respect the gender quota, the last elected candidates belonging to the most represented gender of the majority list are automatically replaced with the first non-elected candidates of the same list of the less represented gender, as provided by the bylaws to ensure the minimum number of independent directors required by the law. Should the above system fail to ensure the nomination, than the Shareholders' meeting may integrate the composition of the Board of Directors in accordance with the majorities set by the relevant law provisions, in order to ensure gender diversity among the members of the Board.

Each list must be deposited at the headquarters of the Company within the term provided for by the law (currently 25 days) prior to the date of the Shareholders' Meeting summoned for the appointment of new Directors, and must be accompanied by the following documentation:

- ▶ exhaustive information on the personal and professional qualifications of the candidates, indicating whether or not they are deemed to qualify as independent pursuant to the law and any self-regulatory codes issued by market management companies or trade associations which the Company subscribes to (i.e. the Code);
- ▶ a statement through which each candidate accepts its candidature and certifies under his/her own responsibility that there are no reasons of ineligibility or incompatibility provided under the law, as well as that he/she possesses all requisites provided by the law and the bylaws;
- ▶ indication of the identity of the Shareholders that have submitted the list and the percentage of share capital held overall, as well as a copy of the certificates issued by authorized intermediaries certifying the ownership of the number of shares required to submit the list.

The Company shall immediately, and in any event within the term provided for by the law (currently 21 days prior to the Shareholders' Meeting called to resolve on the appointment of the Directors) make available to the public all the lists regularly submitted.

The bylaws provide that the denial, or the grounded risk of denial, of the satisfaction to be expressed by public bodies or public or private entities (e.g. Amministrazione Autonoma dei Monopoli di Stato, U.S. jurisdictions, etc.) pursuant to administrative or law provisions, also foreign, applicable to the Company or its subsidiaries, are to be construed as causes of ineligibility to the office of Director or, if appointed, shall result in the Director's termination from office.

Directors can be replaced pursuant to Article no. 2386 of the Italian Civil Code and Article no. 13.8 of the bylaws, save for the Directors appointed by the minorities, if any, who are replaced automatically according to the progressive number on the list on which the Director to be replaced was included.

The Company has not deemed necessary to adopt a succession plan for executive Directors. This was mainly due to the crystallisation of the controlling assets, which has, until now, been the reason for the choice of not proceeding with the establishment of an ad hoc nomination committee, but also to save the Company from undertaking rather strict procedures for the replacement of top management individuals who already require the prior and subsequent approval of Italian and foreign gaming authorities. Furthermore, as to the CEO Marco Sala and the Chairman and CEO of GTECH Corp. Jaymin Patel, the existence of a suitable term of notice in the case of their exit ensures an adequate amount of time to provide for their replacement, while the non-competition agreement which is binding on Jaymin Patel also makes his exit more unlikely. Lastly, the partial overlapping of powers and roles between the Chairman, the CEO and the General Manager of the Company, and of the CEO of GTECH Corp., would allow for the provisional management of the Company even if any one of the said figures were to be absent.

### **Composition**

The Board of Directors, following the single list of candidates submitted by the Shareholder De Agostini, at the date of approval of this Report, is composed of the following directors:

- ▶ Lorenzo Pellicoli (Chairman);
- ▶ Marco Sala (CEO);
- ▶ Pietro Boroli;
- ▶ Donatella Busso;
- ▶ Paolo Ceretti;
- ▶ Alberto Dessy;
- ▶ Marco Drago;
- ▶ Jaymin Patel;
- ▶ Gianmario Tondato Da Ruos.

Severino Salvemini, appointed director by the Shareholders' meeting on the basis of the only list of candidates presented by the shareholder De Agostini on April 28, 2011, resigned starting from the Shareholders' meeting of May 9, 2012, and was replaced by the (independent) director Donatella Busso appointed by the Shareholders during the same meeting.

The Board is therefore composed of nine directors, three of whom are executive directors, also in consideration of the delegated powers they have been granted individually by the Company (Chairman and CEO) and by the strategic important subsidiary GTECH Corp. (Jaymin Patel), and six non-executive directors, three of whom declared themselves to be independent upon appointment, pursuant to the Code and the laws in force.

Independent directors, by number (1/3 of the total) and expertise (university professors, professionals and a CEO of similar sized company), actively contribute to the discussions at Board meetings and concur to the adoption of well-balanced decisions, as shown by the significant number of meetings attended by them and by the high level of their interventions and proposals, also made possible by the offices held by them in the Remuneration and Nomination and/or Control and Risk committees of the Company, as well as the few other offices held, as prescribed by the Code. Non-executive directors also play an important role in the supervision of potential conflicts of interest involving the members of the Board, as well as, more in general, on those matters where the interests of some executive directors and those of minority Shareholders might not coincide with each other, such as the compensation of the executive directors and related party transactions, as governed by the internal charter adopted by the Board on November 15, 2010, as more thoroughly described under Section no. 12 below.

Table no. 1 provided at the end of this Report illustrates the composition of the Board of Directors and of its internal committees, with reference to the 2012 financial year (therefore including those who held the office of director only for a part of the financial year), together with other useful information concerning each single director.

Hereinafter a brief personal and professional resume of each director, also available on the internet website of the Company.

#### LORENZO PELLICOLI - (Chairman)

Born on July 29, 1951 in Alzano Lombardo (Bergamo). Married, three children. He lives in Milan. He started his career as a journalist for the newspaper Giornale Di Bergamo and afterwards he became Bergamo TV Programmes Vice President. From 1978 to 1984, he held different posts in the sector of the Italian private television for Manzoni Pubblicità, Publikompass up to his nomination as Rete4 General Manager. In 1984, he joined the Gruppo Mondadori Espresso, the first Italian publishing group. He was initially appointed General Manager for Advertising Sales and Mondadori Periodici (magazines) Vice General Manager and afterwards President and CEO of Manzoni & C. S.p.A, advertising rep of the Group. During this period he contributes to modernizing the commercial sales techniques of news media adapting them to a market prevailed more and more by the television media. In addition, at the same time he participates in launching news magazines such as Donna Moderna and Marie Claire. From 1990 to 1997,

he was appointed first President and CEO of Costa Cruise Lines in Miami, being part of Costa Crociere Group operating in the North American market (USA, Canada and Mexico) and then became Worldwide General Manager of Costa Crociere S.p.A., based in Genoa. From 1995 to 1997 he was also appointed President and CEO of the Compagnie Française de Croisières (Costa-Paquet), the Paris-based subsidiary of Costa Crociere. Having coming back to Europe in 1993, he leads the cruising European market development whose Costa Crociere is the unchallenged European leader. By using all the marketing techniques available, Costa transforms the item cruise from dusty and old-fashioned holidays into young and up-to-date ones, doubling the outstanding performance of the north American market. As from 1997, he took part to the privatization of SEAT Pagine Gialle purchased by a group of financial investors. After the acquisition he was appointed CEO of SEAT. It represents the greatest European buy-out leverage of the time. During the following two years Seat changes from being a governmental and traditional company into one of the leading company of the new economy thanks to the launch of Yellow Pages Online and the telephone service 892424 and buying the Viriglio portal both. In February 2000, he was also in charge of the "Internet Business Unit" of the Telecom Italia Group following the sale of SEAT. In September 2001, following the acquisition of Telecom Italia by the Pirelli Group, he resigned. As from November 2005 he is CEO of the De Agostini Group, an Italian financial group with ownership in the publishing sector (De Agostini Editore), games and lotteries (Lottomatica/GTECH), media and communications (Antena Tres – Spanish television leader, Zodiak Media Group, a leader company in the production and distribution of television and media content), in the financial investments (DeA Capital). He is Chairman of the Board of Directors of Lottomatica, Chairman of the Board of Directors of DeA Capital, companies listed on the Milan stock market, chairman of Zodiak Media, Deputy Chairman of the Supervisory Board of Générale de Santé and he is member of the Executive Committee and Board of Directors of Assicurazioni Generali S.p.A. He is also Vice President of Editions Atlas in France. He is also member of the Advisory Boards of Investitori Associati IV, Wisequity II e Macchine Italia and Palamon Capital Partners. From 2006 he is member of the Global Clinton Initiative. He was formerly also a member of the Boards of Directors of Enel, INA-Assitalia, Toro Assicurazioni and of the Advisory Board of Lehman Brothers Merchant Banking.

#### MARCO SALA

Born in 1959 in Milan, where he graduated in Business and Economics at Bocconi University. He joined Kraft in 1985, holding various roles in the Marketing Department. In 1993 he was appointed Marketing Director of the Fresh Food Division, and two years later was given the role of Sales Director in the same division. In 1997 he joined Magneti Marelli (a Fiat Group company) as Head of the Spare Parts Division. Two years later he also became Head of the Lubricants Division. In April 2001 he joined SEAT Pagine Gialle as Head of the Italian Business Directories Division. In November he became Head of the entire Business Directories area with responsibility for a number of international companies such as Thomson (Great Britain), Euredit (France) and Kompass (Italy). After a brief period as CEO of Buffetti, in March 2003 he joined Lottomatica in the role of

Chief Executive and Member of the Board. Following Lottomatica's takeover of GTECH, leading international supplier of technologies for games and services, in August 2006 he was appointed CEO and General Manager of Lottomatica with responsibility over European activities and, since April 2009, he is CEO of Lottomatica with powers on the entire group.

#### DONATELLA BUSSO

Born in Savigliano (Cuneo) in 1973, she lives in Turin. In 1996, she graduated with honors in Economics and Business at the University of Turin. In 1996, she began to work at the Department of Management – University of Turin as Assistant Lecturer. After obtaining a permanent position as a researcher in 2000, in 2006 she qualified as associate professor of "Economics and business administration". In the same University, she teaches "Consolidated Financial Statements", "International GAAP" and "Financial Planning". Currently she is Vice Dean in charge of teaching activities at University of Turin, Department of Management. She is advisor for some Italian listed and non-listed companies. She is speaker in numerous training programs about financial accounting, IAS/IFRS and consolidated financial statement for Italian listed companies and other primary institutions. Certified Public Accountant (Dottore Commercialista), from 2009 to 2013 she was statutory auditor of Tyco Electronics Italia Holding S.r.l.

#### PIETRO BOROLI

Born in Novara on 21 November 1957, Pietro Boroli graduated in Political Science at Pavia University. In 1979, he started to work with the De Agostini Geographic Institute. From 1981 to 1983, he was assistant to the Managing Director, Marco Drago. In 1984 he was appointed Advertising Manager, in 1985 Sales Director for Magazines and Collections and, in 1990, Collectables Division Manager, coordinating activities both on the Italian and foreign markets. From 1993, he was Managing Director of the De Agostini Geographic Institute. In 1999, he was appointed CEO and Vice Chairman of the De Agostini Geographic Institute and, since 2003, has been Chairman of De Agostini Editore, the publishing sub-holding. He is Vice Chairman of De Agostini, the Group holding company and holds various other positions within the Group companies, such as Chairman of UTET, Director of Lottomatica and Zodiak Media S.A. He is a member of the Delegation of magazine publishers of small-size firms, of FIEG (Federazione Italiana Editori Giornali), Chairman of the SGP Publishing house which controls the Corriere di Novara, Chairman of HLM – Hachette Lifestyle Media S.r.l. and member of the Board of Directors of Venchi S.p.A. and of Banzai S.p.A.

#### PAOLO CERETTI

Born in Turin in 1955, he gained his professional experience inside the Agnelli Group, holding from 1979 positions of increasing importance at Fiat (Internal Auditing and Finance) and in the Financial Services Sector (Planning, Credit and Control) and subsequently assuming the position of Head of Strategic Planning and Development of IFIL (now Exor). After assuming responsibility for the internet B2C sector of Fiat/IFIL in 1999 as CEO of CiaoHolding and CiaoWeb, he was appointed CEO of Global Value, a

Fiat/IBM joint venture in the Information Technology sector. Since 2004, he has joined De Agostini group, where he is currently general manager of the holding company De Agostini and CEO of DeA Capital – listed on the Italian Stock Exchange – and of De Agostini Editore. He is also a member of the board of directors of Zodiak Media, Generale de Santé, IDeA Fimit and other companies.

#### ALBERTO DESSY

A chartered accountant specialised in corporate finance, and especially the evaluation of companies, trademarks, equity and investments, financial structure, channels and loan instruments, funding for development and in acquisitions and disposals of companies. He has been an expert witness for parties to lawsuits and as an independent expert appointed by the court in various legal disputes. He has been and still is on the boards of directors of many companies, both listed and unlisted, such as Redaelli Tecna S.p.A. with head office in Milan, Laika Caravans S.p.A. with head office in Tavarnelle Val di Pesa (FI), Premuda S.p.A. with head office in Genoa, I.M.A. with head office in Castenaso (BO), Milano Centro S.p.A. with head office in Milan, and DeA Capital S.p.A. with head office in Milan. He graduated from Bocconi University in Milan in 1978 with a final grade of 110 cum laude, and was Professor of “Business Valuation” in the Masters’ course in Business Administration at Bocconi University from 1988 to 2008.

#### MARCO DRAGO

Since 1997 Marco Drago has been the Chairman of De Agostini S.p.A., the holding company of the De Agostini Group. He leads one of Italy’s largest family-run groups, which he has steered through an extraordinary phase of development and diversification in new activities. As Chief Executive Officer of the Editorial Group during the 80s and 90s he was the driving force behind the exceptional growth in Italy and especially abroad. With more than hundred years of activities today De Agostini Editore operates in 30 countries with publications in 13 languages through the following companies: De Agostini Publishing, Editions Atlas, De Agostini Libri and Digital De Agostini. Since 2000, as part of a strong diversification strategy, he has led the Group to expand in the following sectors: Lotteries, games and services with GTECH a worldwide leader operating in 40 countries, listed in Italy in the MIB30; Media and communications with ATRESMEDIA in Spain (in joint venture with Planeta Group, leading company in TV and radio) and Zodiak Media Group, operating in TV production in 20 countries; Finance, with DeA Capital, listed on the Milan Stock Exchange as well, managing private equity investments with direct relevant participations such as Générale de Santé (leader in the French private healthcare) and Migros Türk (Turkey’s largest food retailer) and indirectly with the presence in several international funds. DeA Capital is also active in the Real Estate Asset Management through IDeA Fimit, leader in Italy, and in the Alternative Asset Management; Insurance, until 2006 with Toro Assicurazioni, then sold to Assicurazioni Generali, of which the Group has then become a shareholder. Today the De Agostini Group is operating worldwide, with revenues over 5 bln/€ and about 12.000 employees. He is Chairman of B&D Holding di Marco Drago & C. Sapa, a family limited partnership created by Drago’s&Boroli’s families to ensure cohesion in share ownership, consistency of intent and continuity in

deliberation making over the long term. He is also Vice President of De Agostini Planeta Group, Director of Atresmedia, GTECH, DeA Capital, De Agostini Editore, Zodiak Media, DeA Communications, S. Faustin (Techint Group), and member of the Assonime's board of governors. Born in Settimo Torinese, in 1946, he graduated in Economics and Business at Università Bocconi in Milan in 1969. He started his career that same year in the family company joining Istituto Geografico De Agostini. In 1997 he replaced Achille Boroli as Chairman of De Agostini Holding SpA, having previously fulfilled as Executive Officer and Managing Director. In 1970 he married Donata Morandi and they have three children: Marcella, graduate in Modern Literature, Enrico and Nicola, both graduate in Economics at Università Bocconi. He has received important awards such as "Bocconiano dell'anno" in 2001, and was made "Cavaliere del Lavoro" in 2003.

#### JAYMIN PATEL

As President and CEO of GTECH Corporation, Jaymin Patel is responsible for overseeing the strategic direction of the Company. He works directly with GTECH's and Lottomatica's management teams to execute the Company's vision in the continuous effort to deliver value to its customers, shareholders, and employees. In May 2007, Patel was named President and Chief Operating Officer of GTECH, and was appointed a member of the Lottomatica Board of Directors in November 2007. Patel joined GTECH in July of 1994, after approximately five years with PricewaterhouseCoopers in London. From January 2000 to April 2007, Patel served as Senior Vice President and Chief Financial Officer of GTECH Corporation, and from August 2006 to April 2007, he also served as Chief Financial Officer of Lottomatica S.p.A. During his seven years as Chief Financial Officer of GTECH, Patel was instrumental in driving growth across the business, leading several mergers and acquisitions, cost optimization initiatives, and substantially improving the capital efficiency of the Company. Patel's tenure as the Chief Financial Officer culminated in his leading the cross-border financing for the Lottomatica acquisition of GTECH. Patel holds a BA (honors) degree from Birmingham Polytechnic (UK), and qualified as a Chartered Accountant with PricewaterhouseCoopers, London.

#### GIANMARIO TONDATO DA RUOS

Has been the CEO of Autogrill, the world's leading provider of catering and retail services for travellers, since March 2003. He joined the Group in 2000 and went to the United States to manage the integration of the North American subsidiary HMSHost. He has supervised an intensive program of strategic refocusing of concession operations and diversification in terms of type of business, channels and geographical regions. His implementation of a policy combining organic growth and acquisitions enabled Autogrill to nearly double its sales. The acquisition of Aldeasa, Alpha Group and World Duty Free Europe made the Company the world's top airport retail operator, integrating its offer of catering services. After graduating in Economics and Business at Ca' Foscari University in Venice, he began his career in 1985 at the Gruppo Arnoldo Mondadori Editore and then in various Benetton Group companies, where he worked on re-organization projects and international mobility. Gianmario Tondato Da Ruos is also Lead Independent Director at Lottomatica, Chairman of Autogrill Group Inc., and

a director of Aldeasa S.A. and Autogrill Holdings UK Plc. A passionate athlete, skier and former rugby player, Gianmario Tondato Da Ruos is married with two children.

#### **Other offices**

Below are the main offices held by the directors in other companies listed on regulated markets (including foreign markets) as well as in financial companies, banks, insurance companies or companies of considerably large size, among the others, as at December 31, 2012:

Lorenzo Pellicoli

Director and member of the executive committee of Assicurazioni Generali S.p.A.;

Member of the board of partners of B&D Holding di Marco Drago e C.;

Member of the board of partners of New B&D Holding;

Chairman of DeA Capital S.p.A.;

General manager of DeA Partecipazioni S.p.A.;

Director and member of the executive committee of De Agostini Editore S.p.A.;

Director of Editions Atlas (France) S.A.S.;

Director of Editoriale Genesis S.r.l.;

Vice Chairman of the board of directors of General de Santé S.A.;

Sole Director of Investendo S.r.l.;

Vice Chairman of Xantos S.A.S.;

Chairman of Zodiak Media SA;

Sole Director of Yellow Properties S.r.l.

Marco Sala

Director of Banca ITB S.p.A.

Pietro Boroli

Director of Banzai S.p.A.;

Vice Chairman of DeA Planeta SL;

Chairman and chairman of the executive committee of De Agostini Editore S.p.A.;

Chairman of De Agostini Libri S.p.A.;

Chairman of De Agostini Publishing Italia S.p.A.;

Chairman of De Agostini Publishing S.p.A.;

Vice chairman of De Agostini;

Director of De Agostini UK Ltd.;

Director of Editions Atlas (France) SAS;

Vice executive chairman of Editorial Planeta De Agostini SA;

Director of the Fondazione Achille e Giulia Boroli;

Director of the Fondazione Teatro Coccia;

Director of Grupo Planeta-De Agostini SL;

Director of Lottomatica;

Director of Luigi Lavazza S.p.A.;  
Director of M-Dis Distribuzione Media S.p.A.;  
Chairman of Società Gestione Periodici S.r.l.;  
Director of Venchi S.p.A.;  
Sole director of Vis Value Partecipazioni S.r.l.

Donatella Busso  
member of the board of statutory auditors of Tyco Electronics Holding Italia S.r.l.

Paolo Ceretti  
General Manager of De Agostini;  
Managing Director of De Agostini Editore S.p.A.;  
Managing Director of DeA Partecipazioni S.p.A.;  
Director of Lottomatica;  
Director of Générale de Santé S.A.;  
Managing Director of De Agostini Communications S.p.A.;  
Director of De Agostini Communications SA  
Director of DeA Communications SA;  
Director of Zodiak Media SA;  
Director of De Agostini Libri S.p.A.;  
Director of De Agostini Publishing S.p.A.;  
Director of Editions Atlas (France) S.A.;  
Director of IDeA Fimit SGR S.p.A.;  
Chairman of Mish Mash Holding S.r.l.;  
Director of Santé S.A.;  
Chairman of DeA Capital Investments S.A.

Alberto Dessy  
Chairman of the Board of Directors of Milano Centro S.p.A.

Marco Drago  
Director and member of the executive committee of Antena 3 TV SA;  
Member of the Board of Directors of Assonime;  
Director of Blue Acquario Prima S.p.A.;  
Chairman of the Board of Partners of B&D;  
Director of DeA Capital S.p.A.;  
Director of DeA Communications S.A.;  
Director and member of the executive committee of De Agostini Editore S.p.A.;  
Chairman of De Agostini;  
Director of the Fondazione De Agostini;  
Vice Chairman of Grupo Planeta De Agostini S.L. (Spain);  
Chairman of the board of Partners of New B&D;  
Director of San Faustin S.A.;  
Director of Zodiak Media S.A.

Jaymin Patel

Director, Chairman and CEO of GTECH Holdings Corporation;  
Director, Chairman and CEO of GTECH Corp.;  
Director of Cam Galaxy Group Limited;  
Director of Europrint (Games) Limited;  
Director of Europrint Holdings Limited;  
Director of Europrint Promotions Limited;  
Director of Interactive Games International Limited;  
Director of JSJ Limited;  
Director of Southern Africa (Proprietary) Limited;  
Director of GTECH Sweden AB;  
Director of GTECH U.K. Limited;  
Chairman of the Board of Managers of Northstar Lottery Group, LLC;  
Director of Invest Games S.A.

Gianmario Tondato Da Ruos

Managing Director of Autogrill S.p.A.;  
Chairman di Autogrill Group Inc.;  
Director of Aldeasa S.A.;  
Director of Autogrill Holdings UK Plc.

As also indicated in detail in the sub-paragraph above on the appointment and replacement of the members of the board of directors, the charter of the board of directors provides for general criteria on the maximum number of engagements held in other companies by the directors of GTECH that is deemed compatible with an efficient execution of the office held within the Company, also in light of the participation to the committees.

During the referenced financial year, the Company, in consideration of the accrued experience by almost all of the directors in the fields of activity of the Company, as well as of the participation by key managers to the board meetings and by the constant update on relevant provisions of law by the Secretary of the board, has not deemed necessary to promote further initiatives aimed at fostering the knowledge of the activities of the Company, its dynamics and their evolution by the directors (so called "induction programme").

#### **Role of the Board of Directors**

The activity of the Board of Directors is regulated by the bylaws and the law, as well as by the aforementioned charter last approved on November 7, 2012.

The Board of Directors meets on a regular basis for the approval of the annual and infra-annual financial reports as well as for the approval of budgets and industrial plans.

The meetings of the Board, that may also be held by means of videoconference and/or teleconference, are summoned by the Chairman by means of a written communication sent to the directors and statutory auditors at least three working days before the date

scheduled for the meeting; in case of urgency, the term can be reduced to forty-eight hours.

The Board may also be summoned by the Board of Statutory Auditors or even by each single statutory auditor; meetings are nevertheless considered validly held when all directors and the effective statutory auditors are in attendance and no one opposes the discussion of the items proposed on the agenda.

The charter provides that, in order to allow directors to pass resolutions with full awareness, the documents and information supporting the items to be discussed upon during each meeting of the Board, as well as of any internal Committee, are made available with reasonable advance both in Italian and English, normally upon calling of the meeting, or at least three working days prior to the meeting, a term deemed appropriate by the directors as resulted from the annual board assessment on the works of the board and of its committees. Documents and information supporting the items on the agenda are also made available to directors and statutory auditors through a remote electronic data room, jointly with the relevant presentations summarizing the most significant and relevant aspects of the decisions in the agenda. In some cases, the chairman of the Board may provide the information documents directly at the venue of the meeting, prior notice to the directors and statutory auditors, for sake of confidentiality or of other nature. In such case, immediately after the closing of the meeting, the information is sent to the directors or statutory auditors that did not attend the meeting, or attended remotely, adopting all necessary measures needed to ensure the said needs.

The resolutions of the Board of Directors are taken by means of absolute majority vote of those attending, save for those cases where a different majority is required by the law.

In order to ensure well balanced and transparent Board resolutions, the Company encourages its directors to report, in the ways indicated in Article no. 2391 of the Italian Civil Code (directors' interests), those instances in which their interests are parallel to those of the Company. For this purpose, directors are informed at the beginning of their mandate that they are bound to inform the other directors and the Board of Statutory Auditors in writing of any interest they may have, on their own behalf or that of third parties, in any specific transaction on the part of the Company, or which is in any case subject to examination and approval by the Board prior to the concerned Board meeting. The CEO must also refrain from carrying out any transaction of this kind without having first reverted the matter to the competence of the Board, as expressly specified in the powers granted him by the management body. In order to avoid influencing the resolutions of the management body, the CEO must not only refrain from carrying out the transaction being considered, but must momentarily leave the meeting, as required by the aforementioned charter, as the powers to execute the transaction are conferred upon another director (normally the Chairman). In all such cases, and more generally in the event of a related party transaction, the Board of Directors has always motivated the reasons and the convenience of the transaction for the Company.

Some executives of the Company normally attend the meetings in order to contribute to the presentation of some of the items to be discussed and to the drafting

of the minutes. Such persons are nevertheless bound to confidentiality obligations provided under the charter of the Board of Directors, prior warning by the chairman of the meeting and/or registration in the register of parties having access to privileged information, established by the Company as provided by the law.

At the end of each Board meeting a draft of the relevant minutes is prepared by the Secretary and sent to all directors and statutory auditors within 15 working days, for considerations and comments, if any, that may be discussed until the next meeting.

In 2012, the Board of Directors met eight times: February 14, March 8, May 9, July 26, October 5, November 7, November 21 and December 5. Each meeting lasted on average two hours, and the average attendance was 84% for directors, 95% for independent directors and statutory auditors. Their absence was always duly justified.

In 2013, the Board has so far met on January 24, February 12 and March 12; further meetings are planned for the examination and approval of the infra-annual financial reports, as indicated in the timetable published at the end of January 2013.

#### **Powers**

As expressly provided by the bylaws, by the charter of the Board of Directors and by the corporate practice, the Board of Directors has all the powers for the ordinary and extraordinary management of the Company in pursuance of the corporate purpose. In particular, the Board of Directors, also following the amendments of November 7, 2013 to its charter, is also expressly responsible for the following matters that may not be delegated:

- ▶ merging and spin-off resolutions concerning the Company, pursuant to Articles no. 2505, 2505-bis and 2506-ter, last paragraph, of the Italian Civil Code (merger and spin-off of at least 90% owned subsidiaries);
- ▶ setting up or closing secondary premises;
- ▶ share capital reduction in the event of withdrawal of Shareholders;
- ▶ amendments to the bylaws aimed at making them fully compliant with laws and regulations;
- ▶ transfer of the headquarters to another municipality within Italy;
- ▶ issuing non-convertible bonds and setting the terms and conditions of their placement;
- ▶ examine and approve the budget as well as the strategic, industrial, financial and operational plans of the Company and of the controlled entities, periodically monitoring their implementation;
- ▶ guide the governance system of the Company and the structure of the Group towards adoption of national and international best practices;
- ▶ evaluate the adequacy of the organizational, administrative and accounting structure of the Company and of its subsidiaries of strategic relevance, in particular with regard to the internal control and risk management system (the "System");
- ▶ define the guidelines of the System, so as to correctly identify, measure, manage and monitor the main corporate risks, and determine the nature and level of risk deemed compatible with the identified strategic objectives;

- ▶ evaluate the adequacy of the System, with the aid of the advices and proposals of the control and risk committee;
- ▶ identify one or more directors charged with the establishment and maintenance of the System (each, the “Director in Charge of the System”);
- ▶ upon proposal by the Director in Charge of the System and upon prior favorable opinion of the control and risk committee, and having heard the board of statutory auditors, appoint and revoke the person in charge of internal audit, ensure that the same is provided with adequate resources for the fulfillment of his/her responsibilities and define the relevant compensation consistently with the policies of the Company. Moreover, the Board shall annually approve the work plan prepared by the person in charge of internal audit, having heard the board of statutory auditors, the Director in Charge of the System and, in general, exercise towards the person in charge of internal audit, directive powers through the Director in Charge of the System;
- ▶ determine, upon proposal by the compensation and nomination committee, if established, and having heard the board of statutory auditors, the remuneration of the Chief Executive Officers and of other directors who hold particular positions and also, if the shareholders’ meeting has not already done so, determine the allocation of the global remuneration due to members of the Board;
- ▶ evaluate the general performance of the Company, taking into account, in particular, the information received from the executive committee and also compare periodically the results achieved with those planned;
- ▶ resolve on the transactions of the Company, also carried out through its subsidiaries, when so required by the governance guidelines of the group as approved from time to time by the Board and in any case such transactions have a significant strategic, economic, or financial impact for the Company. The following transactions are deemed, in any event, as such:
  - ▶ the presentation of offers for an amount higher than Euro 100 million, net of guarantees and other accessory burdens, with tenders for concessions, licenses or any type of contract;
  - ▶ the entering into ordinary and extraordinary management agreements for an investment respectively higher than Euro 60 and 50 million, also in more installments;
  - ▶ obtaining financings and guarantees outside the Group, as well as the issuance of indebtedness instruments, for an overall amount higher than Euro 200 million each.

The meetings of the Board of Directors meetings also represent an opportunity for the Chairman, also with the aid of experts, to update the Directors on new provisions of the law or of the Italian Stock Exchange that may concern the Company.

As provided by the bylaws, in case of particular urgent matters, the Chairman may take, upon proposal by, and jointly with, the CEO, any resolution falling under the competence of the Board of Directors, informing the Board on its next meeting.

The Chairman and the CEO normally report to the Board of Directors at least on a quarterly basis and, through persons specifically delegated, the Board of Statutory

Auditors on the main transactions respectively carried out in accordance with the specific powers granted them, leaving recourse to ratification for extraordinary cases of limited significance.

The following main matters are expressly reserved by the law and/or bylaws to the Shareholders' Meeting and, as a result, all of the other competences of the Board of Directors may be identified on a residual basis:

- ▶ in ordinary session: the approval of the Company's stand-alone financial statements, the appointment and removal of Directors and Statutory Auditors, determination of relevant compensation, purchase and disposal of Company own shares;
- ▶ in extraordinary session: amendments to the bylaws not required by mandatory provisions, mergers and spin-offs of companies that are not at least 90% owned by the Company, issuance of convertible bonds and, in accordance with Article no. 25 of the bylaws, appointment of one or more receivers and resolutions on their respective powers and fee.

#### **Assessment on the performance of the Board of Directors and of the Committees**

In 2012, the Board of Directors carried out (and completed in November) an evaluation on the adequacy of the size, composition and performance of the Board as well as of the internal committees (Remuneration and Nomination Committee, Control and Risk Committee and Independent Directors' Committee).

The evaluation process, coordinated by the Lead Independent Director, was carried out, as in previous years, through a self-evaluation questionnaire submitted to each director, prepared by the Lead Independent Director and the Corporate Affairs department, with the support of the Chairman of the Control and Risk Committee. The results were also shared with the statutory auditors during the Board meeting held on November 7, 2012. As shown by the Lead Independent Director during the meeting, such initiative highlighted the progress made by the Company with reference to the results of the 2011 evaluation.

The self-evaluation of the Board of Directors and of its internal Committees has highlighted the directors' satisfaction with the structure of the Board, especially as to the number of non-executive and independent directors, while directors called for an improvement of the recently introduced system that makes remotely available to them the documentation supporting the items on the meetings' agenda. Risk analysis was also consciously met by the directors, that deemed that the time and level of analysis could be enhanced, also given the importance dedicated it by the Code. The attention on this topic resulted in risk management being carefully addressed during the last meetings of the Board of Directors, of the Control and Risk Committee, as well as of the Board of Statutory Auditors; the Board, as illustrated more thoroughly under Section no. 11 that follows, defined the structure of the System through general risk management guidelines. Directors were also satisfied with the overall control System, calling nevertheless for an even better coordination among its bodies, coordination currently already underway through the recent amendments to the charter of the control and risk committee further to the novelties introduced by the Code.

More in particular, the composition of the Board of Directors was deemed adequate, so as the mix of executive, non-executive and/or independent directors, adequately diversified in terms of professional expertise. On one instance, it was deemed that the average number of offices held by non-executive directors could be "improved", so as to allow them to dedicate sufficient time to the Company; likewise, Directors are striving for an even deeper knowledge of the Company and its business dynamics.

Meetings of the Board of Directors, in terms of information, cooperation with the Committees and frequency, have met the favour of the directors. Decisions adopted by the Board, as also reflected in the relevant minutes, were unanimously deemed adequately clear and well considered. As to compensation, directors were unanimously satisfied with the transparency and structure of their compensation and of that of the top management of the Company and of its subsidiaries, and in such respect expressed awareness of and appreciation for the annual compensation report published along with the financial statements of the Company. The work of the Compensation Committee during the referenced year (2012) was also met with satisfaction.

As to the internal Committees, their advisory responsibilities underwent extensive amendments in the last semester, as recommended by the new Code: the Compensation Committee (now "Remuneration and Nomination Committee") was granted further nomination responsibilities, those of the Internal Control Committee (now "Control and Risk Committee") were rescheduled so as to ensure the necessary coordination among the different control bodies of the Company and include the identification, measurement and monitoring of corporate risks, while the independent directors' committee was charged with the supervision of the corporate governance, on top of the so called "related-party transactions". All of the three Committees were consequently granted with the necessary powers and resources. Such novelties, as well as the performance of the Committees lead the directors to express unanimous satisfaction as to the support and contributions of the same Committees to the works of the Board of Directors.

Finally, directors were satisfied with the self-assessment process being managed by the Lead Independent Director, with the support of the Chairman of the Control and Risk Committee and of the Company's Corporate Affairs department, rather than reverting to external consultants. Directors were provided with comparative studies by national and international best practices, as well as by universities, so as to provide them with a standardised benchmark.

### **Delegated Bodies**

#### **Chairman**

As provided by the bylaws, the Chairman of the Board of Directors is the legal and judicial representative of the Company. The Chairman reports periodically to the Board of Directors on his on-going activities.

As mentioned above, in the interests of urgency, the Chairman, upon proposal by, and together with, the CEO, may take any measure falling under the competences of the Board of Directors, reporting back to the Board at the first meeting.

On April 29, 2011, the Board of Directors, upon proposal by Lorenzo Pellicoli,

appointed Marco Sala as the Company's Chief Executive Officer (CEO), and granted new powers to the Chairman and to the General Manager Renato Ascoli.

The Board of Directors, upon its first meeting following its establishment on April 29, 2011, has granted the following powers to the Chairman, also in order to allow - through the sharing of some of the powers and roles with those of the CEO and of the General Manager of the Company - an at least provisional management of the Company in the event of one such offices be incapacitated:

The Chairman was granted the following powers and competences:

***"ORDINARY ACTIVITIES***

- ▶ 1. Defining, together with the Company's CEO, the strategic guidelines for the management of the Company and its subsidiaries, ensuring consistency with the overall strategies of the Group to which the Company belongs;
- ▶ 2. Negotiating and entering into contracts for the ordinary management of the Company, up to an overall amount of 30 million Euros for each agreement, including, but not limited to, contracts for the sale and purchase of products, services, goods and equipment related to the everyday activities of the Company and of its subsidiaries, including the agreements with government bodies and public administration;
- ▶ 3. Negotiating and entering into sponsorship agreements for the Company for total amounts up to 2.5 million Euros for each agreement;
- ▶ 4. Negotiating contracts and agreements with government bodies and public administrations worth over 60 million Euros each to be submitted to the Board of Directors for approval and with the latter's agreement on all relative clauses and conditions;
- ▶ 5. Organizing calls for tenders for the supply of goods, services and works, as well as competition events and similar, also providing for the relative awarding, up to a maximum of 30 million Euros for each tender procedure, event or competition, entering into, amending or terminating the relative contracts and specifications, defining the most suitable ad hoc clauses including the arbitration clause, and, in any case, providing for all deeds necessary for the definition and conclusion of the relative contracts;
- ▶ 6. Taking part in tender procedures, bidding and competition procedures of any kind, organized by public and/or private entities in Italy or abroad, for the supply of goods or services and/or to obtain concessions and/or licences of any kind, also entering into companies, consortia and/or temporary joint ventures and depositing the relative capital, consortium funds or similar, stipulating the relative contracts and regulations, as well as providing all relative deposits, guarantees and other complementary or connected elements, signing bids for up to 50 million Euros each – also in the case of offers signed together with the CEO or previously authorized by the Board of Directors – to be submitted to the contract awarding bodies, to offer price adjustments, to take part in possible ballots, to sign declarations and, in the event of being awarded a bid, to enter into and sign the relative contracts, accepting agreements and methods of execution, signing all relative documents

including those that are complementary to or in any way connected with the contract, therefore including all relative securities and other guarantees;

- ▶ 7. performing all acts and formalities required to obtain licences, concessions and authorisations in general from government bodies and offices;
- ▶ 8. receiving, opening and paying back deposits, including guarantee deposits, allowing all types of such deposits to be entailed or released up to 15 million Euros each;
- ▶ 9. performing all credit and debit financial and banking operations necessary for the ordinary management of the Company within the assigned thresholds; accessing new credit lines to be used for letters of credit and overdrafts, up to a maximum of Euro 100 million for each line; executing new guarantees for such credit lines, or increasing existing guarantees, without limit in the case of guarantees for obligations bearing on the Company, its subsidiaries or consortia, and up to a maximum amount of Euro 40 million for each guarantee in any other case;
- ▶ 10. representing the Company before all Italian or foreign judicial or administrative authorities and all courts including the Supreme Court, the Court of Auditors, the Council of State, at every phase and degree, appointing lawyers and attorneys and carrying out the obligatory conciliation attempt in civil and commercial disputes required by Legislative Decree 28 dated March 4, 2010 and subsequent amendments and integrations;
- ▶ 11. appearing before any civil, administrative, criminal or tributary judicial authority in litigations and/or disputes and for both individual and collective labour matters or those concerning compulsory social security and welfare insurance;
- ▶ 12. exercising the right to sue and appear as a civil party, filing petitions and complaints;
- ▶ 13. executing, signing and submitting all documents, certificates and returns of an administrative or tributary nature addressed to the competent public bodies and administrations, such as, merely for example, income VAT returns, including at the consolidated level;

#### **INTRA-GROUP ACTIVITIES**

- ▶ 14. in respect of the dispositions in force on the matter, including the Company regulations concerning related party transactions, and the contractual commitments undertaken by the Company:
  - ▶ a) managing the Company's stock holdings in corporations, companies and entities, also abroad, exercising all the related powers and assuming responsibility for the related deliberations, representing the Company in the shareholders meetings and exercising all related powers and voting rights, including corporate appointments of any entity or corporate body whose assets be equal to at least 5% of the consolidated assets, as resulting from the last consolidated financial statements or infra-annual reports, he must abide by that resolved in advance by the Company's Board of Directors;
  - ▶ b) executing and paying in increases in the share capital of subsidiaries and entities of the Company, including foreign subsidiaries, up to a maximum of 50 million Euros each;

- ▶ c) entering into and granting loans and guarantees to subsidiaries and entities of the Company, including foreign subsidiaries, with the prior authorisation of the Board of Directors or the Executive Committee for amounts of more than 100 million Euros each;
- ▶ d) obtaining loans and guarantees from subsidiaries and entities of the Company, including foreign subsidiaries, with the prior authorisation of the Board of Directors or the Executive Committee for amounts of more than 100 million Euros each;
- ▶ e) unless otherwise provided by these powers, deciding, executing and performing intra-group transactions under market conditions, for up to 30 million Euros each; transactions, also carried out indirectly, with related parties that are not subsidiaries and intra-group unusual transactions or intra-group transactions under atypical conditions, for up to 1 million Euros each; in any case in compliance with the relevant laws and the internal regulations governing intra-group transactions and transactions with other related parties;

#### **PUBLIC RELATIONS AND COMMUNICATIONS**

- ▶ 15. managing, within the general guidelines established by the Board of Directors, top level public relations and corporate communication of the Company and of its subsidiaries, as well as institutional relationships with public bodies and public or private, domestic or foreign entities, consortia, partnerships, joint ventures, associations and the relevant members, including, in particular, relations with the Ministry of the Economy and Finance and with the Amministrazione Autonoma dei Monopoli di Stato;
- ▶ 16. making available and distributing liberalities and donations for amounts of up to 25,000.00 Euros each;

#### **PERSONNEL AND ORGANIZATION**

- ▶ 17. defining with the CEO:
  - ▶ a) the configuration of the macro-organisation of the Company and its direct or indirect subsidiaries;
  - ▶ b) in coherence with the guidelines defined in agreement with the CEO, with prior consultation of the Company's Remuneration Committee if required, and in compliance with the internal charter governing related party transactions, preparing the programs on employment, general policies and compensation of personnel of the Company and its subsidiaries, including the appointment of top management figures and key executives, in coherence with the annual budget and long-term plan of the Company and the group it belongs to;

#### **INTERNAL AUDIT**

- ▶ 18. the Chairman shall further supervise the effective activity of the Company's internal audit system, it being understood that the Internal Audit Department shall directly report to him;

#### **CONSULTING SERVICES**

- ▶ 19. engaging consultants and advisors in relation to specific requirements linked to company activities or the work of the Company Board of Directors, even if included in the Budget, for an amount of not more than 500,000.00 Euros annually per

consultant;

#### **EXTRAORDINARY ACTIVITIES**

- ▶ 20. incorporating companies and paying up the relative share capital; carrying out any extraordinary transaction not contemplated in these powers and provided in the budgets approved by the Company, or in any case involving an investment of not more than 25 million Euros for the Company, such as – for example and not limited to – the undertaking or transfer of holdings, companies or branches of companies, the incorporation of consortia, associations including joint ventures, committees and temporary consortia, and also the purchase, sale or exchange of real estate assets;
- ▶ 21. settling any dispute worth up to an overall amount of 5 million Euros, appointing arbitrators and signing the relevant documentation binding upon the Company;
- ▶ 22. waiving, with the prior approval of the Board of Directors, mortgages and mortgage subrogation, including legal, chargeable to debtors or third parties and to the benefit of the Company, and therefore relating to credit items, holding the competent Land Registrars free from all and any liability;

#### **OTHER ACTIVITIES**

- ▶ 23. other than for the cases provided above, making payments for amounts up to 30 million Euros on bank accounts;
- ▶ 24. implementing the resolutions of the Board of Directors.

The amount limits set forth under no. 2., 3., 5., 6., 8., 9., 14e), 16., 19., 20., 21. and 23. above shall be doubled where the relevant powers are exercised jointly with the CEO.

Within the limits of the powers granted to him by the Board of Directors, with the exception of the powers in points 3. and 16. above, the Chairman may be replaced by attorneys for specific deeds or groups of deed and for anything else required for the proper performance of the Company and confer powers and proxies also to employees of the Company and its subsidiaries.”

#### **Chief Executive Officer**

The Board of Directors during the meeting of April 29, 2011, appointed Marco Sala as CEO of the Company.

Such office makes Marco Sala the top executive for the worldwide activities of the Group as well as qualifies him as the person mainly responsible for the management of the Company (i.e. chief executive officer)

Pursuant to Article no. 14.3 of the bylaws of the Company, the CEO reports at least quarterly to the Board of Directors - and also to the Board of Statutory Auditors also through executives appointed to attend on his behalf - on the activities carried out pursuant to the powers granted to him.

Marco Sala was granted the following powers:

#### **“ORDINARY ACTIVITIES**

- ▶ 1. Preparing, consistently with the strategic guidelines agreed with the Chairman of the Board of Directors (hereinafter the “Chairman”), the provisional budget and strategic and operating plans concerning the activities of the Company and the group it belongs to, to be submitted for approval by the Board of Directors, and supervising the execution of the budget, plans and programs approved;

- ▶ 2. providing instructions for the preparation of the financial statements, also the consolidated ones, and infra-annual reports of the Company, preparing the draft financial statements, consolidated financial statements and infra-annual reports to be submitted for approval by the Board of Directors;
- ▶ 3. negotiating and entering into contracts for the day-to-day management of the Company up to an overall amount of 30 million Euros each, including but not limited to contracts for the purchase and sale of products, services, goods and equipment related to the day-to-day business of the Company and its subsidiaries, and including agreements with government bodies and with the public administration;
- ▶ 4. negotiating and entering into sponsorship contracts for the Company worth up to 2.5 million Euros each;
- ▶ 5. negotiating contracts and agreements with government bodies and public administration worth up to 60 million Euros each, to be submitted for approval by the Board of Directors, agreeing all the relevant clauses and conditions;
- ▶ 6. organizing tenders for the supply of services, goods and works and prize-winning events or competitions and awarding them, for an amount of up to 30 million Euros each, executing, amending and terminating the relevant contracts and documentation, defining the most opportune clauses for this purpose, including the arbitration clause, in any case executing any deed required for the definition and finalisation of the relative procedures;
- ▶ 7. collecting any amount due to the Company from any entity, enterprise or person and issuing the relevant receipt;
- ▶ 8. executing all documents related to the Italian vehicle licensing office (Pubblico Registro Automobilistico);
- ▶ 9. taking part in tender, bid or competition proceedings of any kind, both in Italy and abroad, organized by public and/or private entities for the supply of goods or services and/or aimed at obtaining concessions and/or licences of any kind, including entering into companies, consortia and/or temporary partnerships and paying in the relevant capital, consortium funds or similar, and also executing the related contracts and regulations and releasing all the relevant down payments, guarantees and other accessory or related elements, with the right to sign bids for up to 50 million Euros each and – also with reference to bids signed jointly with the Chairman or authorized in advance by the Board of Directors – submitting them to the bids commission, improving the prices, participating in ballots, signing statements and, if successful, intervening in the relevant contracts, subscribing them, accepting pacts and methods, signing the relevant documents, including accessory or related ones, and therefore including all the relevant down payments and other guarantees;
- ▶ 10. performing all acts and formalities required to obtain licences, concessions and authorisations in general from government bodies and offices;
- ▶ 11. collecting letters, packets and parcels received by ordinary, registered and insured mail at post and telegraph offices, shipping companies and airlines and all other transport companies, cashing postal and telegraphic orders, payment orders and cheques of any type and value; requesting and receiving sums, securities, valuables, goods and documents, signing receipts, discharges and disclaimers vis-à-

- vis any administration and any public or private treasury department; performing any other deed and operating at the above-mentioned offices and administrations;
- ▶ 12. demanding and endorsing cheques, drafts and bills exclusively for encashment, discounting and depositing in the Company's accounts and protesting them;
  - ▶ 13. receiving, opening and paying back deposits, including guarantee deposits, allowing all types of such deposits to be entailed or released for up to 30 million Euros each;
  - ▶ 14. performing all financial and banking credit and debit transactions necessary for the ordinary management of the Company and of its subsidiaries within the limits of the powers conferred; accessing new credit lines to be used for letters of credit and overdrafts, up to a maximum of 100 million Euros for each line; executing new guarantees with reference to such credit lines, and increasing existing guarantees, with no limits in the event of guarantees regarding concession-related obligations upon the Company, its subsidiaries or consortia, and up to a maximum amount of 40 million Euros in any other event;
  - ▶ 15. accepting collaterals and/or guarantees, including accepting, setting up, registering and renewing mortgages and liens chargeable to debtors and third parties and to the benefit of the Company, assenting to cancellations and registrations of mortgages chargeable to debtors and third parties and to the benefit of the Company in order to discharge or reduce obligations;
  - ▶ 16. representing the Company vis-à-vis patent and trademark offices, filing and submitting applications to register trademarks, industrial inventions, models and designs at the Italian patent office, the corresponding offices in all foreign countries and in the European Union and in any international bodies, institutions and organizations responsible for industrial property;
  - ▶ 17. representing the Company in legal proceedings before any Italian or foreign legal or administrative authority, including any Magistratures, and thus before the Supreme Court of Cassation, the Court of Auditors and the State Council, at any stage and level of proceedings, appointing lawyers and attorneys at law and fulfilling the obligation of mediation in the civil and trade controversies in Legislative Decree 28 dated March 4, 2010 and subsequent amendments and additions;
  - ▶ 18. appearing before any civil, administrative, criminal or tax authority in connection with actions and/or litigation and disputes involving both individual and collective labour matters, or in connection with compulsory social security and welfare insurance;
  - ▶ 19. suing and appearing as a civil party, filing petitions and complaints;
  - ▶ 20. making declarations in the capacity of garnishee;
  - ▶ 21. executing, signing and submitting all documents, certificates and returns of an administrative or tax nature to be addressed to the competent public bodies and administrations, such as, merely for example, income and VAT returns, including at the consolidated level;
  - ▶ 22. appointing and removing representatives, agents or commission agents and establishing and modifying their rights and duties;

#### **INTRA-GROUP ACTIVITIES**

- ▶ 23. in respect of the laws in force on the matter, including the charter on related party transactions, and the contractual obligations undertaken by the company:
  - ▶ a) managing the Company's stock holdings in corporations, companies and entities, also foreign, exercising all the related powers and assuming responsibility for the related deliberations, representing the Company in the shareholders meetings and exercising all related powers and voting rights including corporate appointments, it being understood that for those appointments of an entity or corporate body whose assets be at least equal to 5% of the consolidated assets, as resulting from the last consolidated financial statements or infra-annual report, the same must abide by the prior resolution by the Company's Board of Directors;
  - ▶ b) executing and paying in increases in the share capital of subsidiaries and entities of the Company, including foreign subsidiaries, up to a maximum amount of 50 million Euros each;
  - ▶ c) entering into and granting loans and guarantees to subsidiary companies and entities of the Company, including foreign subsidiaries, with the prior authorisation of the Board of Directors or the Executive Committee for amounts exceeding 100 million Euros each;
  - ▶ d) obtaining loans and guarantees from subsidiary companies and entities of the Company, including foreign subsidiaries, with the prior authorisation of the Board of Directors for amounts exceeding 100 million Euros each;
  - ▶ e) unless otherwise provided by these powers, deciding, executing and performing intra-group transactions under market conditions, up to 30 million Euros each; transactions, also carried out indirectly, with related parties that are not subsidiaries and intra-group transactions under unusual or atypical conditions, as long as the total value of the single operations does not exceed 1 million Euros;

#### **PERSONNEL AND ORGANIZATION**

- ▶ 24. allocating, with the prior approval of the Chairman, responsibilities among the Staff Units that contribute to the general management of the Company and its subsidiaries, and the responsibility of the Operational Units of the various business sectors of the Company and the subsidiaries reporting to each Operational Unit, as well as deciding on the relevant organizational structure in keeping with the macro organizational structure defined with the Chairman himself;
- ▶ 25. consistently with the guidelines defined in agreement with the Chairman, with the approval of the Remuneration Committee if required, and in respect of the dispositions, including internal, in force concerning related party transactions, preparing staff recruitment plans, the general policies and economic treatment of personnel of the Company and its subsidiaries, including the appointment of top management personnel and key executives, consistently with the annual budget and long-term plans of the Company and the group it belongs to;
- ▶ 26. adopting the measures for the hiring, appointment, allocating and dismissing of personnel and all other measures, including disciplinary, against personnel of the Company, including managers;

- ▶ 27. representing the Company in all relations with all trade unions, both employer and employee, and executing agreements with such organizations in the name and on behalf of the Company, negotiating and agreeing settlements and signing the minutes of settlement agreements;
- ▶ 28. representing the Company vis-à-vis health insurance and social security organizations;
- ▶ 29. signing on behalf of the Company periodic returns for welfare insurance and social security institutions and bodies connected with the payments due for employee contributions;
- ▶ 30. issuing staff payroll extracts and certificates for public and private bodies, ensuring that obligations on the Company as withholding agent are duly fulfilled, signing for such purposes returns, declarations and any other document and certificate whatsoever, including those referred to in Sections 1 and 7 of Presidential Decree no. 600 of September 29, 1973, and subsequent amendments and/or additions; issuing declarations to the banks which grant loans to Company personnel, whereby the Company is bound to deduct repayment instalments and/or residual debt from the salaries of such personnel;
- ▶ 31. granting on behalf of the Company advances on the Staff Severance Fund and loans to employees up to a sum not exceeding the amount that has been set aside as the Staff Severance Fund in relation to the concerned beneficiary;
- ▶ 32. attempting to settle labour disputes in the Company's interest at both union and personal level at conciliation commissions set up in local employment offices, with the power to reach agreements and sign the relevant minutes, pursuant to Sections 410 et seq. of the Code of Civil Procedure, to Law no. 533 of August 11, 1973, and subsequent amendments and/or additions, and any other relevant provisions;
- ▶ 33. performing on behalf of the Company, vis-à-vis government entities, institutions, bodies and private offices, all the acts and transactions in compliance with current laws, regulations and provisions governing environment protection and health and safety at work;
- ▶ 34. formalizing all acts necessary for or in any way connected with inspections and audits on the part of any authority as regards health and safety in the workplace;

#### ***PUBLIC RELATIONS AND COMMUNICATIONS***

- ▶ 35. managing, within the general guidelines established by the Board of Directors, top level public relations, corporate communication and image of the Company and of its subsidiaries, as well as institutional relationships with public bodies and public or private, domestic or foreign entities, consortia, partnerships, joint ventures, associations and the relevant members, including, in particular, the relations with the Ministry of the Economy and Finance and with the Amministrazione Autonoma dei Monopoli di Stato;
- ▶ 36. making available and granting liberalities and donations not exceeding 25,000.00 Euros each

#### ***CONSULTING SERVICES***

- ▶ 37. engaging consultants and advisors for specific tasks connected with the corporate business of the Company or of its subsidiaries, for fees of up to 500,000 Euros per annum for each consultant or advisor concerned;

**EXTRAORDINARY ACTIVITIES**

- ▶ 38. incorporating companies and carrying out any extraordinary transactions provided not contemplated elsewhere in these powers and included in the budgets approved by the Company, or in any case involving an investment by the Company of not more than 25 million Euros, such as, for example and not limited to, the undertaking or transfer of holdings, companies or branches of companies, the incorporation of consortia, joint ventures, committees and partnerships, and the purchase, sale and mortgaging of real estate assets;
- ▶ 39. settling any dispute worth up to an overall amount of 5 million Euros, appointing arbitrators and signing the relevant documentation binding upon the Company;
- ▶ 40. waiving, with the prior approval of the Board of Directors, mortgages and mortgage subrogation, including legal mortgages chargeable to debtors or third parties and to the benefit of the Company, and therefore relating to credit items, holding the competent Land Registrars free from all and any liability;

**OTHER ACTIVITIES**

- ▶ 41. other than for the cases provided above, making payments up to 30 million Euros each and debiting each of the Company's bank accounts for the relevant amount;
- ▶ 42. implementing the resolutions adopted by the Board of Directors.

The amount limits set forth under nos. 3., 4., 6., 9., 13., 14., 23.e), 36., 37., 38., 39. and 41. may be doubled where the relevant powers are exercised jointly with the Chairman.

The CEO of the Company is also responsible to ensure that all subsidiaries, even through their delegated bodies, are managed in accordance with and in implementation of the guidelines set forth by the competent corporate bodies.

Within the powers granted to him by the Board of Directors, the CEO, with the exception of the powers in points 4. and 36 above, may be replaced by attorneys for specific deeds or groups of deeds and whatever else may be required for the proper management of the company, and confer powers and proxies, also to employees of the Company and its subsidiaries."

**Other powers granted**

During the same meeting on April 29, 2011, the Board of Directors updated the powers granted to Renato Ascoli as General Manager of the Company responsible for the Italian market, as follows:

**"ORDINARY ACTIVITIES**

- ▶ 1. Preparing, consistently with the strategic guidelines indicated by the CEO of the Company, the provisional budget and strategic and operating plans concerning the activities of the Company on the Italian market, to be submitted to the Board of Directors for approval;
- ▶ 2. negotiating and entering into contracts for the day-to-day management of the Company in Italy up to an overall amount of 15 million Euros each, including but not limited to contracts for the purchase and sale of products, services, goods and equipment related to the everyday business of the Company and its Italian

subsidiaries, and including contracts and agreements with government bodies and public administration;

- ▶ 3. negotiating and entering into sponsorship contracts for the Company worth up to 500,000.00 Euros each;
- ▶ 4. negotiating contracts and agreements with domestic government bodies and public administration for an overall amount in excess of 30 million Euros each, to be submitted for approval by the Board of Directors or Executive Committee, agreeing all the relevant clauses and conditions;
- ▶ 5. organizing national tenders for the supply of services, goods and up to a maximum of 15 million Euros each, entering into, modifying and terminating the relevant contracts and documentation, defining the most suitable clauses for this purpose, including the arbitration clause, in any case executing any act required for the definition and finalisation of the relative procedures;
- ▶ 6. organizing and awarding contests and prize winning up to a maximum of 5 million Euros each;
- ▶ 7. collecting any amount due to the Company from any entity, enterprise or person and issuing the relevant receipt;
- ▶ 8. executing all documents related to the Italian vehicle licensing office (Pubblico Registro Automobilistico);
- ▶ 9. taking part in tender, bid, competition proceedings of any kind in Italy, organized by public and/or private entities for the supply of goods or services and/or aimed at obtaining concessions and/or licences of any kind, including entering into companies, consortia and/or temporary partnerships and paying up the relevant capital, consortium funds or similar, and also subscribing the relevant contracts and regulations and releasing all the relevant down payments, guarantees and other accessory or related elements, with the right to sign bids for up to 15 million Euros each and submitting them to the bids commission, improving the prices, participating in ballots, signing statements and, if successful, intervening in the relevant contracts, subscribing them, accepting pacts and methods, signing the relevant documents, including accessory or related ones, and therefore including all the relevant down payments and other guarantees;
- ▶ 10. performing all acts and formalities required to obtain licences, concessions and authorisations in general from government bodies and offices;
- ▶ 11. collecting letters, packets and parcels received by ordinary, registered and insured mail at post and telegraph offices, shipping companies and airlines and all other transport companies, cashing postal and telegraphic orders, payment orders and cheques of any type and value; requesting and receiving sums, securities, valuables, goods and documents, signing receipts, discharges and disclaimers vis-à-vis any administration and any public or private treasury department; performing any other act and operating at the above-mentioned offices and administrations;
- ▶ 12. demanding and endorsing cheques, drafts and bills exclusively for encashment, discounting and depositing in the Company's accounts and protesting them;
- ▶ 13. receiving, opening and paying back deposits, including guarantee deposits, allowing all types of such deposits to be entailed or released up to 15 million Euros each;

- ▶ 14. performing all financial and banking credit and debit transactions necessary for the ordinary management of the Company and of its Italian subsidiaries within the limits of the powers granted; requesting new credit lines to be used for letters of credit and overdrafts, for up to a maximum of 100 million Euros for each line; executing new guarantees with reference to such credit lines, and increasing existing guarantees, with no limits in the event of guarantees regarding concession-related obligations upon the Company, its Italian subsidiaries or consortia, and up to a maximum amount of 20 million Euros in any other event;
- ▶ 15. accepting collaterals and/or guarantees, including accepting, setting up, registering and renewing mortgages and liens chargeable to debtors and third parties and to the benefit of the Company, agreeing to cancellations and registrations of mortgages chargeable to debtors and third parties and to the benefit of the Company in order to discharge or reduce obligations;
- ▶ 16. representing the Company vis-à-vis patent and trademark offices, filing and submitting applications to register trademarks, industrial inventions, models and designs at the Italian patent office, the corresponding offices in all foreign countries and in the European Union and in any international bodies, institutions and organizations responsible for industrial property;
- ▶ 17. representing the Company in legal proceedings before any Italian or foreign legal or administrative authority, including any Magistratures, and thus before the Supreme Court of Cassation, the Court of Auditors and the State Council, at any stage and level of proceedings, appointing lawyers and attorneys at law and fulfilling the obligation of mediation in the civil and trade controversies in Legislative Decree no. 28 of March 4, 2010 and subsequent amendments and additions;
- ▶ 18. appearing before any civil, administrative, criminal or tax authority in connection with actions and/or litigation and disputes involving both individual and collective labour matters, or in connection with compulsory social security and welfare insurance;
- ▶ 19. suing and appearing as a civil party, filing petitions and complaints;
- ▶ 20. making declarations in the capacity of garnishee;
- ▶ 21. executing, signing and submitting all documents, certificates and returns of an administrative or tax nature for the competent public bodies and administrations, such as, merely for example, income and VAT returns, including at the domestic consolidated level;
- ▶ 22. appointing and removing representatives, agents or commission agents in Italy and establishing and modifying their rights and duties;

**INTRA-GROUP ACTIVITIES**

- ▶ 23. managing the Company's stock holdings in corporations, companies and entities in Italy, exercising all the related powers and assuming the relate deliberations, representing the Company in the shareholders meetings and exercising all related powers and voting rights including corporate appointments, it being understood that for those appointments of an entity or corporate body whose assets be at least equal to 4% of the consolidated assets, as resulting from the last consolidated financial statements or infra-annual report, they must abide by the prior resolution by the Company's Board of Directors;

- ▶ 24. executing and paying in increases in the share capital of Italian subsidiaries and entities of the Company, up to a maximum unitary amount of 10 million Euros;
- ▶ 25. entering into and granting loans and guarantees to Italian subsidiary companies and entities of the Company, with the prior authorisation of the Board of Directors or the Executive Committee if for an unitary amount of more than 50 million Euros;
- ▶ 26. obtaining loans from Italian subsidiary companies and entities of the Company, with prior authorization of the Board of Directors or the Executive Committee if for an unitary amount of more than 50 million Euros;
- ▶ 27. unless otherwise provided by these powers, and with exclusive reference to operations with Italian subjects, deciding, subscribing and executing intra-group transactions under market conditions, for operations worth up to 15 million Euros each; transaction, also indirectly carried out with related parties that are not subsidiaries and intra-group transactions under unusual or atypical conditions, as long as the total value of the single operations does not exceed 500,000.00 Euros, in respect of the laws in force on the matter and the internal regulations governing significant operations and those with related parties;

**PERSONNEL AND ORGANIZATION**

- ▶ 28. consistently with the guidelines defined by the Board of Directors and/or by the Executive Committee, adopt the measures for hiring, appointing, allocating and dismissing non executive employees of the Company, as well as adopting any other disciplinary procedure;
- ▶ 29. representing the Company in Italy in all relations with all trade unions, both employer and employee, and executing agreements with such organizations in the name and on behalf of the Company, negotiating and agreeing settlements and signing the minutes of settlement agreements;
- ▶ 30. representing the Company vis-à-vis health insurance and social security organizations in Italy;
- ▶ 31. signing on behalf of the Company periodic returns for welfare insurance and social security institutions and bodies connected with the payments due for employee contributions;
- ▶ 32. issuing on behalf of the Company staff pay-roll extracts and certificates for public and private bodies, ensuring that obligations on the Company as withholding agent are duly fulfilled, signing for such purposes returns, declarations and any other document and certificate whatsoever, referred to in Sections 1 and 7 of Presidential Decree no. 600 of September 29, 1973, and subsequent amendments and additions; issuing declarations to the banks which grant loans to Company personnel, whereby the Company is bound to deduct repayment instalments and/or residual debt from the salaries of such personnel;
- ▶ 33. granting on behalf of the Company advances on the Staff Severance Fund and loans to employees up to a sum not exceeding the amount that has been set aside bas Staff Severance Fund in relation to the concerned beneficiary;
- ▶ 34. attempting to settle labour disputes in the Company's interest at both union and personal level at conciliation commissions set up in local employment offices, with the power to reach agreements and sign the relevant minutes, pursuant to Sections

410 et seq. of the Code of Civil Procedure, to Law no. 533 of August 11, 1973, and subsequent amendments and/or additions, and any other relevant provisions;

- ▶ 35. performing on behalf of the Company, vis-à-vis government entities, institutions, bodies and private offices, all the acts and transactions in compliance with current laws, regulations and provisions governing environment protection and health and safety at work;
- ▶ 36. formalizing all acts necessary for or anyway connected with inspections and audits on the part of any public authority as regards health and safety in the workplace;

#### **PUBLIC RELATIONS AND COMMUNICATIONS**

- ▶ 37. managing, consistently with the instructions handed down by the CEO, the activities concerning top level public relations, corporate communications and the image of the Company and of its Italian subsidiaries, as well as continuing institutional relations with public administrations, bodies and authorities and public or private consortia and partnerships, exclusively national, and their respective Italian members consortium members and associates. In particular, managing the day-by-day relations with the Amministrazione Autonoma dei Monopoli di Stato;

#### **CONSULTING SERVICES**

- ▶ 38. engaging consultants and advisors for specific tasks connected with the corporate business of the Company or of its subsidiaries for fees of up to 100,000.00 Euros per annum for each consultant or advisor concerned;

#### **EXTRAORDINARY ACTIVITIES**

- ▶ 39. settling any dispute concerning the Company worth up to an overall amount of Euro 1 million, appointing arbitrators and signing the relevant documentation binding upon the Company;
- ▶ 40. waiving, with the prior approval of the Board of Directors, mortgages and mortgage subrogation, including legal mortgages or constructive subrogation, chargeable to debtors or third parties and to the benefit of the Company, and therefore relating to credit items, holding the competent Land Registrars free from all and any liability;

#### **OTHER ACTIVITIES**

- ▶ 41. other than for the cases provided above, making payments up to 15 million Euros each and debiting each of the Company's bank accounts for the relevant amount;
- ▶ 42. implementing the resolutions of the management bodies once said resolutions are taken.

The General Manager is also responsible for ensuring that the Company and all its Italian subsidiaries, even through their delegated bodies, are managed in accordance with and in implementation of the guidelines issued by the competent bodies of the Company.

Within the limits of the powers conferred upon him, the General Manager, with the exception of the powers in point 3. above, may be replaced by attorneys for specific deeds or groups of deeds and whatever else may be required for the proper management of the company, and confer powers and proxies, also to employees of the Company and its Italian subsidiaries."

#### **Other executive directors**

Following the offices of "director", "President" and "CEO" respectively held in the relevant subsidiaries Invest Games SA and GTECH Corporation, the member of the Board of Directors Jaymin Patel qualifies as an executive director of the Company.

#### **Independent directors**

The Board of Directors periodically evaluates the independence of its members on the basis of the laws in force and of the more detailed and thorough independence principles and criteria provided in the Code.

In order to ensure that, in line with the Code, an adequate number of Directors are independent, the Company requires that Directors make appropriate statements, at least on an annual basis, to be submitted to the evaluation of the Board of Directors together with other available information (and then kept in the official records), in relation to a non-exhaustive number of indicators highlighting the existence of relations with the Company or subjects linked to it, such as to undermine their independence of judgement.

Upon presentation of their candidatures, the following Directors declared their independence pursuant to the Code and applicable provisions of law: Alberto Dessy, Gianmario Tondato Da Ruos and Severino Salvemini, who later resigned from the office of director as from the date of the shareholders' meeting that approved the 2011 annual report. The Board of Directors on May 9, 2012 following the appointment of Donatella Busso as the new Board member replacing Severino Salvemini, carried out the annual independence evaluation of the above directors in accordance with the principles and criteria of the Code and of the Consolidated Financial Law (as to the provisions regulating the statutory auditors of listed companies). The evaluation result was communicated to the market on May 9, 2012 by means of a press release published on the internet website of the Company.

The number and the experience of the independent Directors is deemed adequate to the size of the Board and to the activities of the Company, and ensures the establishment and the effective working of the Remuneration and Nomination and of the Control and Risk Committees, as well as a well balanced management of the Company.

With specific reference to the participation by the independent directors to the Remuneration and Nomination Committee, the Control and Risk Committee and Independent Directors' Committee, the Company believes that their additional remuneration for such offices does not jeopardize nor affect their independence, also keeping into account that the resulting overall remuneration of the independent directors is in line with that of the independent directors of similar sized companies.

The adequacy and proper application of the criteria and procedures followed by the Board of Directors in evaluating the independence of its members is periodically ascertained by the Board of Statutory Auditors, within the framework of the duties attributed to it by the law. Such ascertainment was last positively carried out by the control body during its meeting held on May 9, 2012.

### **Lead independent director**

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

The Lead Independent Director convenes meetings of independent directors, autonomously or upon request by other directors, in order to examine particular matters in relation with the work of the Board of Directors or the management of the Company. The works of the independent Directors are timely recorded, filed among the Company's records and then reported to the Board of Directors by the Lead Independent Director. In 2012, independent directors met on a single occasion, when they were called to resolve on two transactions with related parties of the Company, both transactions considered "ordinary transactions" pursuant to the charter governing related party transactions approved by the Board of Directors on November 15, 2012 pursuant to Consob regulation no. 17221/2010, as more thoroughly accounted for under Section no. 12 that follows, and therefore exempted from the procedures therein.

Moreover, upon the same meeting of July 26, 2012, the Independent Directors' Committee resolved to propose the Board of Directors to update the charter of the Committee following the novelties introduced by the Code, expanding its competences to the overview of the governing system of the Company through opinions, requests and recommendations to the Board. Consequently, on the same day, the Board updated the charter of the Committee and resolved upon allocating Euro 30 thousand for consulting expenses, if any, such as evaluations on the transactions brought to the attention of the independent directors.

As customary, in 2012 independent directors provided a significant contribution through the coordination of the self-evaluation process on the structure and the works of the Board of Directors of the Company and of its internal committees, and in updating the internal charter governing related party transactions.

On April 29, 2011, the Board of Directors reappointed Gianmario Tondato Da Ruos as Lead Independent Director of the Company, in consideration of the office of CEO of the parent company De Agostini held by the Chairman of the Company Lorenzo Pellicoli.

The above internal charter governing related party transactions confers upon the role of Lead Independent Director and the other independent directors new significant competences.

## **5. Handling of corporate information**

### **Investor relations**

The Company has appointed a person in charge of Investor Relations as the reference contact for Shareholders, charged with, among the other, ensuring that corporate information be distributed in a correct, continuous and complete manner, in compliance with the policy described below for the processing of so-called "privileged" information, i.e. information which might significantly affect the price of Company shares if made public, according to the notion recalled in Article no. 114 of the Consolidated Financial Law (hereinafter "Privileged Information").

### **Management of Privileged and non-privileged Information**

In order to ensure that the dissemination of information regarding the Company and its subsidiaries, particularly of Privileged Information, is done in full respect of the relevant provisions of law and best practices, the Company has adopted an internal charter, last updated by the Board of Directors on December 5, 2012, also in order to coordinate its contents with the provisions recently issued by Consob and implemented by the Company on related party transactions.

According to the charter, Privileged Information is disseminated through press releases the contents of which are normally prepared by the Group Corporate Communications together with the other departments and/or units of the Company and/or of the interested controlled entities, after evaluation, in any event, by the head of Investors Relations in coordination with the head of Corporate Affairs, as to the existence of Privileged Information and, pursuant to applicable laws and regulations, as to the convenience to defer disclosure of the relevant press releases.

Prior to its dissemination, each press release is approved by the group's Chief Financial Officer and, subsequently, by the Chairman jointly with the CEO of the Company, whether personally or through designated executives. Press releases containing Privileged Information shared during meetings of the Board of Directors or of the Executive Committee (if established) are, generally, shared within said meetings prior to disclosure.

Once approved, press releases are issued and disseminated without delay in Italian and English by the head of Group Investor Relations of the Company, in accordance with the applicable laws and regulations, and promptly published by the competent departments on the Company's website, where they remain available for the minimum period set forth by the law. For the above purposes, the Company's head of Investor Relations may avail him/herself of third parties trusted by the Company.

The Corporate Affairs department is responsible for the preparation and publication of prospectuses, illustrative reports and informative documents pursuant to the laws and internal rules in relation to the transactions approved by the competent bodies of the Company or of its subsidiaries, whether or not Privileged Information is involved, such as, by way of example, the issuance of financial instruments and operations on the share capital, extraordinary operations and related party transactions of greater importance.

As expressly indicated in the new edition of the charter governing the management of Privileged Information of December 5, 2012, the Company avails itself of the faculty to omit to publish information documents upon execution of significant extraordinary transactions, as allowed by Consob through resolution no. 18079 of January 20, 2012.

Directors and statutory auditors as well as advisors and employees of the Company and its most relevant subsidiaries are bound to keep confidential any Privileged and non-Privileged Information gained in the course of their activities, including information that may not be ascertained as Privileged Information, and must immediately report any such Information to (i) the head of Investor Relations of the Company, or (ii) the head of Investor Relations or equivalent officer (if available) or legal representative of the controlled entity they belong to.

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

In the event of scheduled meetings or conference calls by representatives of the Company with financial analysts and/or institutional investors on a collective basis, the Company shall (i) inform Consob and the Italian Stock Exchange, invite the most representative members of the economic press and timely submit to the said Authorities the materials to be made available or used during the meetings, at the latest simultaneously to the meeting itself; (ii) coordinate with the Corporate Communications and Media Communications departments to open the meeting to members of the economic press or, should this not be possible, be bound to publish a press release illustrating the main items discussed should these not already have been divulged through previous press releases; and (iii) ensure that the above principles are also respected by the subsidiaries of the Company.

Pursuant to the same charter and the laws in force, a register of individuals and entities with access to Privileged Information has been established by the Company. Such register is kept and updated by the Corporate Affairs department. The register shall contain, for at least five years following the expiry of the reasons for their enrolment or update, the full identification details of individuals (at least two referents per entities) having access to Privileged Information, whether on a continuous or occasional basis, for professional reasons, as well as the date and reasons of the enrolment and any relevant update.

Other registers have been similarly established under the supervision of the Company's Corporate Affairs department, on behalf of the subsidiary GTECH Corp.

Failure to comply with the confidentiality obligations by the aforementioned regulations may lead to a series of sanctions: (i) disciplinary sanctions in case of non-compliance by employees of the Company or of its controlled entities, (ii) removal from office for members of the managing and supervisory bodies of the Company or of its controlled entities, and (iii) termination of engagements for consultants and suppliers.

The charter governing the management of Privileged Information is available on the website of the Company under the Governance section ([www.lottomaticagroup.com](http://www.lottomaticagroup.com)).

### **Internal dealing**

The Board of Directors approved on April 4, 2008 the current version of the code of conduct on internal dealing.

The object of the code is to govern the statutory disclosure to the market of transactions related to the purchase, sale, subscription or exchange of shares issued by Lottomatica, or of equity-linked financial instruments, carried out by relevant parties or by persons closely related to relevant parties (as defined in the code).

Relevant parties are required to comply with the Code and ensure that the persons closely related to them are aware of and comply with the code.

The code, in line with the relevant provisions of law:

- ▶ also through the Corporate Affairs department, identifies as (a) “relevant parties”:
  - (i) the members of the managing and supervisory bodies and managers with strategic responsibilities of Lottomatica or its subsidiaries, if the value of the relevant participation represents more than 50% of the total assets of the Company; and (ii) whomever holds a participation of at least 10% of the share capital of Lottomatica represented by shares with voting rights as well as any other subject controlling Lottomatica; and as (b) “persons closely related to relevant parties”: the spouses, children and, if living together for at least one year, the parents, relatives and persons closely related to relevant parties and, among others, the entities in which a “relevant party” or their close relatives holds a management or control office;
- ▶ recognises as significant those transactions carried out by these parties on Company shares or on the related financial instruments, should the relevant total counter-value reach the minimum threshold of Euro 5,000.00 for each party during the year;
- ▶ establishes the terms and conditions for the fulfilment of obligations to communicate and disclose the aforementioned transactions carried out by relevant parties and/or by the Company;
- ▶ introduces predetermined “black-out periods” (e.g. the days prior to the approval of annual and infra-annual accounts of the Company or of its subsidiaries), or to be identified from time to time by the Board of Directors, during which the relevant parties are asked to abstain, and ensure that the persons closely related to them also abstain, from carrying out transactions on the shares and financial instruments related to shares of the Company, unless otherwise expressly authorized by the Board of Directors;
- ▶ identifies the Company’s Corporate Affairs department as the competent department for the implementation of the aforementioned provisions;
- ▶ provides for sanctions against relevant parties for failing to comply with the above obligations.

The code of conduct on internal dealing is available on the website of the Company under the “Governance” section ([www.lottomaticagroup.com](http://www.lottomaticagroup.com)).

## 6. Internal committees of the board

The Board of Directors, as also provided by the bylaws, has established among its members two committees with propositive and consultative functions, namely the Remuneration Committee and the Internal Audit and Compliance Committee, while it has assigned to the Independent Director’s Committee, as indicated under Section no. 12 that follows, the implementation of the provisions of the charter governing related party transactions carried out by the Company, either directly or through its subsidiaries, pursuant to the regulation adopted by Consob by means of resolution no. 17221 of March 12, 2010, as subsequently amended, integrated and interpreted by Consob itself.

Following the novelties introduced by the Code in December 2011, during the meeting of July 26 2012 the Board integrated, upon proposal by the concerned committees, the charters of the internal committees in order to implement the recommendations of the Code more thoroughly accounted for in the Sections that follow. Following the

integrations, two of the three committees were renamed respectively Control and Risk Committee and Remuneration and Nomination Committee. In particular the Board granted - as provided by the Code – to the Remuneration and Nomination Committee established on April 28, 2011, some of the competences of a nomination committee, complying with the recommendations on the composition of the same.

The three committees are composed of three members each, and are responsible for the matters indicated in the Code and in the aforementioned Consob regulation.

The Remuneration and Nomination Committee and the Control and Risk Committee meet periodically, while the Independent Directors' Committee meets when related party transactions are submitted to its examination and at least once a year, as documented in the relevant minutes. Top managers and other employees of the Company regularly participate to the committee meetings, upon invitation by the respective Chairmen, in order to report on matters falling under their competence and act as Secretary to the meeting.

In carrying out their functions, the Committees have the right to access all the information and corporate departments as deemed useful, and also to permanently or occasionally engage external consultants, within the limits of the resources allocated by the Board of Directors.

Sections no. 8, 10 and 12 hereinafter provide for more detailed information on the Remuneration and Nomination, Control and Risk and on the Independent Directors Committees respectively.

## **7. Nomination committee**

As indicated in Section no. 6 above, on the meeting of July 26, 2012 the Board of Directors granted to the Remuneration Committee, upon proposal by the same, new consulting and proposing competences on (i) the composition and size of the Board, (ii) appointment of independent directors by the Board and (iii) indication of the candidatures of the corporate offices of the relevant subsidiaries of the Company (i.e. having assets equal to at least 5% of the consolidated assets), as well as new competences on compensation, such as monitoring the actual and coherent implementation of the compensation policies of the Company.

The Company also chose to avail itself of the possibility provided by the Code and merge two committees provided that the composition requirements are respected.

In particular the role of the Committee on nominations is carried out through opinions, recommendations and proposals to the Board of Directors or to delegated bodies, on the following matters:

- ▶ size and composition of the board of directors, including advice on the opportunity to have particular categories of professionals represented in the board, or specific characteristics deemed appropriate in order to ensure an heterogeneous composition of the board, such as in terms of professional experience, age and nationality;
- ▶ directors' activities in competition with the Company or its subsidiaries, if any;
- ▶ appointment of independent directors by the board of directors, in compliance with the provisions on the minimum number and of the thresholds of the less represented gender;

- ▶ initial and periodical evaluation of the independence and integrity requirements of the directors, as well as on the absence of incompatibility, ineligibility and termination from office causes.

Moreover, the appointment of directors is already thoroughly regulated by the bylaws in compliance with the detailed relevant provisions of law and of the Code focused – especially in the most recent period – on the protection of minorities and the discretion of the Shareholders, especially the controlling one, during the appointment procedure is limited (i) by the prior agreement by the Amministrazione Autonoma dei Monopoli di Stato on the nomination of the Chairman of the Board of Directors and of the CEO pursuant to the provisions governing the Company's public concession for the Lotto game, as well as (ii) by the administrative law provisions of those Countries (especially the United States) in which the Company operates through its subsidiaries, especially in relation to the requisites of the CEO.

Finally, as to the selection of candidates to the office of Director to be submitted to the Shareholders' meeting, provided in the list of the parent company De Agostini, these are systematically selected on the bases of consolidated procedures and best practice criteria to select candidates to the office of Director also with reference to the independent Directors, that have always ensured an adequate mix of high competences.

The composition and works of the Committee are accounted in detail in the Section that follows dealing with the Remuneration Committee.

## **8. Remuneration and nomination committee**

The Remuneration and Nomination Committee (formerly "Remuneration Committee"), established on April 29, 2011, is composed exclusively of non-executive Directors, the majority of whom independent. On the matter of compensation, the Committee is responsible for submitting proposals to the Board of Directors for the remuneration of the CEO and of those Board members holding special offices, as well as proposing remuneration criteria for the top management of the Company and of its subsidiaries, and supervises the effective implementation of the resolutions of the Board in this regard. It is therefore systematically consulted during the drafting, and invested with powers to verify the proper implementation, of the stock based incentives plans in favour of the aforementioned individuals, with specific reference to the definition of the performance objectives and verification of their achievement. The Committee is also responsible for drawing up the compensation report for subsequent approval by the Board, while the Shareholders' meeting called for the approval of the annual financial statements resolves on the first section of the same, on the compensation policy for the members of the Board of Directors, the General Manager and the top executives responsible for Company strategies, for the financial year during which the Shareholders' meeting is called, and also on the procedures followed for their adoption and implementation, which is also the responsibility of the Remuneration and Nomination Committee.

The Committee, in office until the approval of the financial statements as at December 31, 2013, is composed of the following members:

**REMUNERATION AND NOMINATION COMMITTEE**

NAME	OFFICE	% OF PARTECIPATION TO THE MEETINGS OF THE COMMITTEE 2012
Gianmario Tondato Da Ruos	chairman	100%
	lead independent director	
Paolo Ceretti	non executive director	100%
Alberto Dessy	independent director	100%

The coordination of the works of the Committee is entrusted to its chairman, Gianmario Tondato Da Ruos, while among its members, Paolo Ceretti has a significant experience in accounting and finance.

In 2012 the Committee has met three times.

The works of the Remuneration and Nomination Committee are governed by a charter updated by the Board of Directors on July 26, 2012, upon proposal by the same Committee. Among the most restrictive provisions is provided that Directors are forbidden to take part to the meetings of the Committee resolving on their remuneration, while the wider-ranging provisions provide for the right of the Committee to access all the books, registers, documents and company rooms, consult Company personnel and engage consultants and other professionals in carrying out its functions, also having the power to establish their fees within the limits of the allocations made by the Board of Directors.

Anybody can take part in Committee meetings, upon invitation by the Chairman.

Among the preliminary, propositive and consultative activities carried out by the Committee in 2012, specific relevance was given to the proposal of the 2012-2016 and 2012-2018 stock based incentives plans. In addition to the above proposals on nominations, the Committee submitted to the Board meeting of March 8, 2012, a compensation report pursuant to Article no. 123-ter of the Consolidated Financial Law (albeit in the absence of the relevant Consob implementation provisions), the first section of which was favourably resolved upon by the Shareholders' Meeting of May 9, 2012. The report, the second prepared by the Company since 2011, is available on the Company website ([www.lottomaticagroup.com](http://www.lottomaticagroup.com)), and is described in detail in the following Section, together with the aforementioned stock based compensation plans.

Finally, during the meeting of July 26, 2012, the Board of Directors has allocated, for the financial year, a Euro 30 thousand budget to the Committee.

**9. Remuneration of directors**

Directors are remunerated for their activities upon resolution of the Shareholders' meeting and, for any special offices attributed to them, upon resolution of the Board of Directors, upon proposal by the Remuneration and Nomination Committee and having heard the opinion by the Board of Statutory Auditors, and in any event, in full respect of the thresholds set by the Shareholders' meeting. On April 28, 2011, the Shareholders' meeting set the overall compensation amount at Euro 2.3 million, inclusive of attendance tokens and lump-sum expense reimbursement, for the remuneration of all the directors,

included those vested with specific offices, and established additional limits within this threshold for the basic remuneration for the office of director and that of member of the Executive Committee, if established.

With the support of the Remuneration and Nomination Committee, the Board of Directors has always ensured that the directors' remuneration is set in such a way as to attract, keep in office and motivate Board members with the professional qualities required to perform their role successfully.

The base compensation of directors is determined on a fixed basis, topped up by attendance tokens and a further (fixed) compensation proportional to the commitment requested from them, particularly taking into account their membership of one or more committees and/or the number of other specific offices held in the Company.

The compensation of non-executive directors, as well as that of the executive directors that are not involved in the management on an individual level, is not connected to economic results nor to specific objectives by the Company and its subsidiaries.

The remuneration of other directors of the Company, and well as that of the key personnel of the Company and of its subsidiaries, is normally connected to corporate results achieved and/or to the achievement of specific objectives – so as to align their interests to the priority objective of creating value for the Shareholders – and is not necessarily based on the average market remuneration of similar positions. To this end, in addition to the so called “management by objectives (i.e. “MBOs”) the Company normally adopts stock based compensation plans (stock granting and/or stock option plans) with a three year average vesting period.

The illustrative reports supporting the proposals of the Board to the Shareholders' meeting on the plans, along with the relevant informative documents drawn up pursuant to Article no. 114-bis of the Consolidated Financial Law and Article no. 84-bis of the Issuers' Regulations, are available on the website of the Company under the Governance section ([www.lottomaticagroup.com](http://www.lottomaticagroup.com)).

### **Compensation report 2011-2012**

For the second consecutive year, the Board of Directors of the Company, upon proposal by the Remuneration and Nomination Committee, prepared and presented to the Shareholders' meeting of May 9, 2012 the report on the compensation of the directors, General Manager and other executives with strategic responsibilities, pursuant to Sections 7 of the Code, 123-ter of the Consolidated Financial Law and 84-quarter of Consob's Issuers Regulation.

The report is comprised of two sections. The first illustrates the 2012 compensation policy of the Company for: directors, executives with strategic responsibilities and statutory auditors. The second provides, on a name basis for directors and the General Manager (as well as statutory auditors), and on aggregate for the other executives with strategic responsibilities, (a) a detailed account on each item making up their 2011 compensation, inclusive of the compensation in the event of termination from office or severance, and (b) the compensation paid to each during the previous financial year. As to the items making up the compensation, directors are entitled to a fixed amount

topped with a attendance token depending whether the meeting was physically or remotely attended, in addition to an extra fixed and variable amount for those directors vested with additional engagements (such as Committee's membership). As to the compensation package of the directors with strategic responsibilities, it is made up by a salary and short (MBO) and long (stock based plans) term incentives.

The report is available in double language under the Governance section of the internet website of the Company ([www.lottomaticagroup.com](http://www.lottomaticagroup.com)).

### 2012 Stock based compensation plans

During 2012, the Shareholders' meeting approved the 2012-2016 Stock Granting Plan and 2012-2018 Stock Option Plan in favour of employees of the Company and/or of its subsidiaries, including the directors of Lottomatica Marco Sala and Jaymin Patel, the General Manager Renato Ascoli and the Chief Financial Officer Alberto Fornaro. The Board of Directors has subsequently given it execution identifying all of the beneficiaries and setting the Company performance objectives, and the preparation of the respective regulations, upon proposal by the Remuneration and Nomination Committee.

To serve the stock option plan, the Board of Directors resolved on July 26, 2012 to increase by payment the share capital, pursuant to the powers granted it by the Shareholders' Meeting of April 28, 2011, by a maximum of Euro 1,768,483.00, issuing a maximum of no. 1,768,483 new ordinary Lottomatica shares, in several instalments, at the cost of Euro 15.25 each, inclusive of nominal value and share premium, deemed appropriate by the audit firm Ernst & Young S.p.A. pursuant to Article no. 2441, paragraph 4, second subsection of the Italian Civil Code, to be subscribed no later than December 31, 2018.

The table that follows indicates, as at December 31, 2012, the stockholdings owned by the members of the Board of Directors as well as by the management having a strategic responsibility, deriving, also, from stock-based plans.

## SHARES HELD BY DIRECTORS AND TOP EXECUTIVES IN THE SHARE CAPITAL OF THE COMPANY

NAME	SHARES AT 31.12.2011	SHARES PURCHASED	SHARES SOLD	SHARES ALLOCATED FREE OF CHARGE BY THE PLANS	SHARES AT 31.12.2012
Renato Ascoli	20,888	0	8,725	17,005	29,168
Paolo Ceretti	3,060	0	0	0	3,060
Jaymin Patel	262,126	80,170*	87,088**	16,492	271,700
Lorenzo Pelliccioli	71,400	0	0	0	71,400
Marco Sala	462,206	0	32,279	62,918	492,845

\*shares subscribed in exercise of stock options  
\*\*of which no. 80,170 deriving from stock options

#### **Incentives of the person in charge of internal audit**

In consideration of the new competences granted to the person in charge of internal audit by the Code, and of the consequent appointment of Danielle Cook as such, on December 5, 2012, the Board having heard the human resources departments, acknowledged the adequacy of the compensation of the person in charge both in relation to the corporate policies and the new role, comprised of annual base salary in line with the median compensation of executives of the group with similar competences and seniority, a short term incentive (MBO) as well as the participation to stock based compensation plans (long term incentive) that may in future provide for individual objectives in relation to the contribution given to overall control and risk management system. The competences and role of the internal audit department are thoroughly described under Section no. 11 that follows dealing with the control and risk management system.

#### **Directors indemnities in the event of resignation, dismissal or termination of the relationship resulting from a takeover bid**

No indemnities are provided in the event of dismissals or termination of the office of Director of the Company.

The only members of the Board of Directors that are employees of the Company or of its subsidiaries are the CEO Marco Sala and the President and CEO of GTECH Corporation Jaymin Patel.

The latter, in force of agreements executed upon the acquisition of GTECH by Lottomatica in 2006, is the only Director entitled to indemnities and other benefits in the event, among the other, of resignation, dismissal without just cause or termination of employment relations following a takeover bid.

### **10. Control and risk committee**

During its first meeting on April 29, 2011, the newly appointed Board of Directors established the Internal Audit and Compliance Committee, appointing the independent directors Severino Salvemini, Alberto Dessy and Gianmario Tondato Da Ruos as members of the same. Subsequently, on July 28, 2011, following the resignation of Gianmario Tondato Da Ruos from the sole office of committee member, and of Severino Salvemini from all the offices effective from the Shareholders' meeting of May 9, 2012, the Board appointed respectively in replacement the non-executive director Paolo Ceretti and the independent director Donatella Busso. The Committee is therefore composed exclusively of non-executive directors, the majority of whom independent.

Following the novelties introduced by the Code on December 2011, upon proposal by the Committee, on July 26, 2012 the Board of Directors approved the new charter of the Committee, renamed Control and Risk Committee, providing for some novelties, among which: (i) new competences for identifying, measure and monitor the main corporate risks, as accounted for in detail under Section no. 11 that follows, as well as (ii) giving impulse to the coordination with other bodies and departments included in the control and risk management system, namely the board of statutory auditors,

the manager in charge of the system itself and the person in charge of internal audit. The new charter thus assigns the following competences to the Committee through opinions, recommendations and proposals to the Board of Directors:

- ▶ appointment, removal and remuneration of the person in charge of internal audit;
- ▶ evaluation of the adequacy of the resources provided to the person in charge of internal audit and, more in general, the independence, adequacy, effectiveness and efficiency of the relevant function;
- ▶ examination of the annual work plan and the periodic and non-periodic reports evaluating the system, drafted by the person in charge of internal audit;
- ▶ description of the main elements and expressing and evaluating the adequacy of the System in the annual corporate governance and ownership structure report;
- ▶ evaluation of the correct application of accounting principles as well as their consistency for the purpose of the preparation of the consolidated financial statements;
- ▶ assessment of the findings provided by the external auditor in the letter of suggestions, if any, and in the report on the main issues resulting from its audit activity;
- ▶ identification of the main corporate risks;
- ▶ supervision and report to the board of directors on the compliance related activities on a worldwide basis, with specific but not exclusive reference to the relationships with the gaming, financial and market regulators, jurisdictions and authorities.

In addition to the above tasks, the Control and Risk Committee has always assisted the Board of Directors and its delegated bodies, if any – that are ultimately responsible - in defining the guidelines and periodically assessing the adequacy and functioning of the control and risk management system, in order to ensure that the main risks of the Company and of its subsidiaries are correctly identified, as well as adequately measured, managed and monitored, as well as kept at a level deemed compatible with a management of the Company in line with the identified strategic objectives.

The Committee may carry out investigations and inspections of the Company premises, access all books and documents and personnel of the Company and may engage consultants and any other professional it may deem of use in carrying out its functions, within the limits of the budget allocated by the Board of Directors.

Committee meetings are properly recorded by the Secretary and the Chairman.

The Control and Risk Committee is composed of the following independent Directors with the same term of office as that of the Board of Directors, i.e. until the Shareholders' Meeting called for the approval of the financial statements as at December 31, 2013:

#### **CONTROL AND RISK COMMITTEE (2012)**

NAME	OFFICE	% ATTENDANCE OF COMMITTEE MEETINGS 2012
Alberto Dessy	chairman independent director	100%
Donatella Busso	independent director	100%
Paolo Ceretti	non executive director	100%

The Committee that was in office until the approval of the financial statements as at December 31, 2011, on May 9, 2012, was composed of the following independent directors: Severino Salvemini (Chairman), Paolo Ceretti and Alberto Dessy.

The chairmanship of the Committee is entrusted to the independent director Alberto Dessy, that coordinates the works of the Committee. All three current members hold, among the other, an adequate accounting and finance competence, as shown by their respective resume under Section no. 4 above.

Pursuant to the Code, in order to ensure an adequate coordination among the different bodies, the meetings of the Committee are usually attended by the Chairman of the Board of Statutory Auditors or other effective statutory auditor, the person in charge of internal audit and the managers that assist him/her, the manager in charge of drawing up corporate reports and financial statements, the chief compliance officer, the secretary of the Board of Directors, as well as, upon invitation by the Chairman of the Committee, that may be limited to specific items on the agenda, any other person deemed useful to the meeting.

During 2012, the Control and Risk Committee worked with particular attention, as shown by the number of meetings held (5), their duration (1 hour) and the attendance percentage of its members (100%), and confirmed by the summary report submitted by its Chairman to the Board during the meeting of March 12, 2013. The Committee is expected to meet six times in 2013. In supervising the functioning and effectiveness of the group's control and risk management system, the Committee placed particular emphasis on:

- ▶ its adequacy and effectiveness as well as to the adequacy and effectiveness of the internal audit function;
- ▶ identifying, measuring and monitoring the main corporate risks;
- ▶ the degree of enforcement of the provisions of law and of the Code on corporate governance;
- ▶ the work plan and periodic reports prepared by the Audit Manager.

Finally, during the meeting of July 26 2012, the Board of Directors allocated a budget of Euro 60 thousand for the 2013 financial year.

## 11. Control and risk management system

The System consists of a number of regulations, procedures, and rules aimed at identifying, measuring, managing, and monitoring the Company's significant risks.

The System is designed in accordance with the requirements of the Code, and it has also adopted the COSO ERM framework as a reference model, as this framework is widely considered to be best practice both nationally and internationally.

The System is composed of the following main elements:

- ▶ specific roles and responsibilities assigned towards internal control and risk management within the board of directors with specific reference to the creation of the control and risk committee and the appointment of a director with the task of establishing and maintaining an effective internal control and risk management system ("Director in charge of the System");

- ▶ specific governance bodies (apart from the board of statutory auditors, as prescribed by the law) to focus on different compliance issues, such as the supervisory body provided for by Legislative Decree no. 231 of June 8, 2001 as subsequently amended and integrated (hereinafter the "Surveillance Body") and the global compliance and governance committee;
- ▶ a global compliance program under the responsibility of the chief compliance officer;
- ▶ a legal department with a specific focus on regulatory risk monitoring;
- ▶ clear responsibilities on corporate governance matters upon the corporate affairs department;
- ▶ a risk management function with a specific focus on managing the insurable risk profile of the business;
- ▶ a financial risk management framework consisting of policies and procedures;
- ▶ an internal control over financial reporting framework (pursuant to Italian law n. 262 dated December 28, 2005) and appointment of the manager in charge of drawing up corporate reports and financial statements (hereinafter the "Accounting Manager");
- ▶ the internal audit department, led by the person in charge of internal audit (hereinafter the "Person in charge of internal audit"), charged with the responsibility of monitoring the System.

The Company is currently developing a risk management policy, defining a risk evaluation process to be performed on an annual basis, carried out for the first time in 2012, and identifying the nature and the level of risks which can be deemed consistent with Company's strategic targets.

The System applies to the Company and its subsidiaries of strategic importance.

#### **Financial reporting process**

An integral part of the group's overall System is represented by the internal controls over financial reporting (hereinafter the "ICFR") process. The ICFR process emphasizes the planning, implementation and review of internal controls to ensure their effectiveness. The ICFR process is governed by the Accounting Manager who, together with the group CEO, is responsible for planning, implementing and approving the overall system.

The Accounting Manager is responsible for preparing adequate administrative and accounting procedures for drafting consolidated financial statements, and ensuring the adequacy of the internal control system. The Accounting Manager is also responsible for the periodic assessment of the ICFR process and issuing certifications over the consolidated financial statements.

The Accounting Manager, while carrying out his activities:

- ▶ interacts with the Person in charge of internal audit, who performs independent audits on the internal control system and supports the Accounting Manager in monitoring the system;
- ▶ is supported by the function heads involved, who ensure the completeness and reliability of the information for consolidated financial reporting, for each area of competence;

- ▶ coordinates the activities carried out by the administrative managers of the relevant operating subsidiaries;
- ▶ establishes a mutual information exchange with the control and risk committee, reporting on its activities about the adequacy of the internal control system in place.

Finally, the Accounting Manager informs the board of statutory auditors about the adequacy and the reliability of the administrative and accounting system in use.

The executives in charge of the group's financial report (i.e., the group CEO and the Accounting Manager) certify that the year-end consolidated financial statements and each quarterly report: (i) correspond to the results of the accounting books and records, (ii) are prepared in compliance with applicable laws and regulations and relevant accounting policies and principles, and (iii) provide an accurate and reliable representation of the group's financial position. The group has effectively designed and well-managed disclosure controls and procedures system in place to ensure that all material financial and non-financial information required to be disclosed are identified and communicated in a timely manner to appropriate management, including the certifying officers, so that timely decisions can be made regarding the disclosures. Therefore, management maintains effective internal controls over financial reporting to support this fundamental objective of the executive certification.

The group CEO and the Accounting Manager certifications are supported by various sub-attestations on the group's internal controls' design adequacy and control effectiveness. The sub-attestations are prepared and signed quarterly and annually by the function heads (responsible for a business unit or key process/cycle); the Accounting Manager and the CEO of each of the group's operating segments; internal audit; and other select process or key cycle owners as requested. The individuals specifically attest that the internal controls are (i) adequate to the Company structure and (ii) effectively applied during the preparation of the CONSOB report; and that the financial statements (iii) correspond to the results of the Company's accounting books and records and (iv) provide an accurate and reliable representation of the group's financial position.

In order to monitor and evaluate the group's internal controls over financial reporting, management uses a top-down approach. The approach begins with entity level and financial statement level controls and involves both quantitative and qualitative analysis. Management segregates the group's locations into material sites that receive internal audits, and those less material sites where the documentation of the sites' local controls are detailed in a financial controls checklist.

Each site performs a self-assessment of these control systems. The assessment is then reviewed by the finance director for that business segment and the findings are reported to the CFO of that business segment and to the Accounting Manager.

The process for auditing material sites includes documentation of entity level controls and the sites' internal control systems over financial reporting. The internal control systems are evaluated and findings are reported to management and the Accounting Manager, as more fully described below. To determine the significant locations to be incorporated into each year's audit plan, management first quantitatively identifies significant locations in the group using a threshold of 5% of consolidated revenue. The

remaining insignificant locations are then qualitatively assessed to determine whether any of the following factors pose additional or unusually high risk for a particular location:

- ▶ type of site;
- ▶ services offered;
- ▶ statutory audit results;
- ▶ internal audit results;
- ▶ significant changes to financial systems or financial management;
- ▶ new companies or lines of business;
- ▶ location and relative corruption risk.

Management next reviews the consolidated financial statements to identify significant financial statement line items based on a materiality threshold calculated at 0.5% of total revenue. A qualitative analysis is then performed on these items to determine the relative risk of each based on its susceptibility of loss due to errors or fraud; volume of activity and/or homogeneity of the individual transactions; nature of the account (the integrity, maturity and history of the account); and any accounting and reporting complexities associated with the account.

After this risk analysis has been performed on each financial statement line item, those significant line items are aligned to business processes or financial reporting cycles, as well as any information technology (IT) applications that affect these processes/cycles. Each cycle and any related sub-cycle receive a risk analysis to identify any risks that may result in material misstatement of the financial statements. The qualitative risk factors considered in this analysis include the level of automation of the process, level of documented policies and procedures for that cycle, extent of personnel turnover in the process area, and overall risk of fraud. Based on this risk assessment, the nature and extent of testing to be performed by internal audit is determined.

Management assesses the overall coverage obtained over the consolidated financial statement balances and related processes by reviewing those balances and processes associated with the individually significant locations and any higher risk locations selected for review. The significant processes and related controls at each location are documented to identify any potential control gaps. Process documentation includes narratives, risk and control matrices, and segregation of duties charts. Management engages the group's internal audit department to perform testing of controls over the significant processes/cycles identified at each location. The internal audit department evaluates testing results, identifies internal control deficiencies, reports the deficiencies, if any, to management, and tracks the progress on management's remediation efforts as necessary.

The chief accounting officer and the Person in charge of internal audit hold quarterly meetings with the group CEO and the Accounting Manager to provide a status of the ICFR process along with a summary of all internal control deficiencies identified during the various process reviews. The Person in charge of internal audit also reports this information to the board of statutory auditors and the control and risk committee on a quarterly basis.

The ICFR review process, as described above, culminates in three separate certifications from the Accounting Manager, together with the group CEO, attesting to the following:

- ▶ the appropriateness of the accounting procedures;
- ▶ the effective application of these procedures;
- ▶ the correspondence with the statutory books and with the accounting records;
- ▶ the conformity with the truth of information and data on the group's profits and losses, assets and liabilities and financial situation;
- ▶ the conformity to the international financial reporting standards (IFRS);
- ▶ the reliability of the director's report content.

Three certifications are filed with the year-end CONSOB report, the half-year financial statement and the first and third quarterly reports. We believe the tasks noted above support the required certifications by the Accounting Manager.

Following this approach, we are able to focus on the areas that present a reasonable possibility of material misstatement to the financial statements and related disclosures, which in turn results in our ability to obtain reasonable assurance on the effectiveness of internal controls. The group continuously reviews and updates its ICFR compliance plan based on new legislation and professional guidance, as well as changes to the group's operations and internal controls. Internal and external reviews of the ICFR compliance plan occur before the test work commences and after the results of testing are summarized. A new plan is adopted each year in advance of the certification process.

#### **System evaluation**

For financial year 2012, the board of directors has evaluated the overall adequacy of the System on March 12, 2013. The evaluation was based on a preliminary opinion provided by the control and risk committee, taking into account the results of internal audit activities (contained in the annual audit plan) as well as information received from competent bodies and functions regarding the following:

- ▶ regulatory developments;
- ▶ risk evaluation process;
- ▶ information from the external audit firm;
- ▶ results of the activities carried out by the Surveillance Body;
- ▶ meetings between the control bodies;
- ▶ information from the Accounting Manager.

The Board of Directors determined that the System in place in 2012 was adequate in consideration of the group's size and characteristics, and that it enabled the achievement of corporate objectives.

This evaluation, making reference to the overall System, reflects the limitations that are inherent in all internal control systems. Although well designed and functioning, the System can enable the achievement of corporate objectives with only "reasonable certainty".

Hence, although the board of directors believes that the System is adequate to the size, structure and activities of the Company, Lottomatica is constantly striving to improve said system.

#### **Director in charge of the System**

The Board of Directors on April 29, 2011 appointed Lorenzo Pellicoli as the Director in charge of the System.

The Director in charge of the System has the following responsibilities:

- ▶ supervise the identification of main business risks, taking into account the characteristics of the activities carried out by the group, and submit them periodically for review to the board of directors;
- ▶ implement the guidelines defined by the board of directors, taking care of the planning, realization and management of the System, constantly monitoring its adequacy and effectiveness;
- ▶ adjust such System to the dynamics of the operating conditions and the legislative and regulatory framework;
- ▶ request to internal audit department to carry out reviews of specific operational areas and on the compliance of business operation with rules and internal procedures, giving simultaneous notice to the chairman of the board of directors, the chairman of control and risk committee and the chairman of the board of statutory auditors;
- ▶ promptly report to the control and risk committee (or to the board of directors) issues and problems that resulted from his/her activity or of which he/she became aware of in order for the committee (or the board) to take the appropriate actions.

During financial year 2012 these responsibilities resulted in:

- ▶ updating the System in order to reflect changes in the Code (with specific reference to Article 7) as well as its policies and procedures to reflect the organizational changes;
- ▶ implementing a risk management process, to be repeated annually, that is aimed at identifying potential catastrophic risks (defined as risks that, if unmitigated, would have high impact and high probability of occurrence) and related mitigations;
- ▶ recruiting an external independent firm to assess and identify possible enhancements that would reinforce the System.

#### **Internal audit**

It is the policy of the Company to support an internal audit department as an independent and objective appraisal department that examines and evaluates the Company's system of internal control and underlying business processes as a service to the Board of Directors, the Control and Risk Committee, the Board of Statutory Auditors, and to management.

The Board of Directors, upon proposal of the Chairman of the Control and Risk Committee, and after favorable opinion provided by the Control and Risk Committee itself, after hearing the Board of Statutory Auditors, appointed Danielle Cook as the

Person in charge of internal audit (pursuant to the Code) in charge of verifying the functioning and the adequacy of the System, and has considered her remuneration, also according to corporate policy, and resources as adequate.

The Person in charge of internal audit has no additional operating roles within the group, and directly reports to the board of directors.

In carrying out its functions, the Person in charge of internal audit:

- ▶ evaluates the System on a continuous and on an "ad hoc" basis in accordance with international standards;
- ▶ develops and executes a comprehensive annual risk-based plan, approved by the board of directors, that is consistent with the group's operational, financial, governance, and control risks;
- ▶ provides regular updates on audit activities, including periodic updates of status and changes required in the audit program according to specific business risk and control needs, to the Chairman of the Board of Directors, the Chairman of the Control and Risk Committee, the Chairman of the Board of Statutory Auditors, the Director in charge of the System, providing also information on risk mitigation activities, and an overall evaluation on the adequacy of the System;
- ▶ provides timely reports about relevant events to the Chairman of the Board of Directors, the Chairman of the Control and Risk Committee, the Chairman of the Board of Statutory Auditors and the Director in charge of the System;
- ▶ evaluates the degree of reliability of the information system, with particular reference to the accounting management system and to management reporting;
- ▶ evaluates the efficient use and the degree of protection of corporate assets and resources;
- ▶ supports management in identifying any gaps in the control system, as well as in the evaluation of the adequacy, efficiency, and effective implementation of controls (via testing of controls' operating effectiveness);
- ▶ promotes, also through ad hoc training procedures, an overall favourable environment with reference to the control system.

For these purposes, the Person in charge of internal audit has been provided with a Euro 400.000 budget.

During financial year 2012, the following main activities have been carried out by the Person in charge of internal audit:

- ▶ verified, in alignment with international professional standards, the adequacy and effective functioning of the internal control system, through an annual audit plan. The audit plan was based on a structured analysis and ranking of the Company's main risks;
- ▶ drafted periodic reports containing information on internal audits activities, which include assessments that ensure effective and efficient use of Company resources, reliability of financial reporting, and compliance with applicable laws, regulations and policy;
- ▶ assisted in process and control design as well as fraud prevention and detection;
- ▶ provided opportunities to participate in internal control training and/or seminars;

- ▶ monitored the follow up of internal control deficiencies to ensure corrective action was implemented; the status of outstanding audit findings was reported on a semi-annual basis;
- ▶ retained and built a complement of qualified and capable auditors who possess skills that are consistent with the scope of internal audit's activities and in line with the growth of our business. Internal audit staff were provided with certified continuing professional education opportunities;
- ▶ presented audit results to Company management and various monitoring entities, including the Control and Risk Committee, Board of Statutory Auditors, and the Global Compliance and Governance Committee.

#### Compliance program pursuant to legislative decree no. 231 of June 8, 2001

Pursuant to Legislative Decree no. 231 dated June 8, 2001 and subsequent amendments and additions, the Board of Directors has adopted and updated an organizational model, i.e., a group of internal rules and procedures (drawn up on the basis of guidelines issued by Confindustria) aimed at preventing the Company's criminal liability.

In particular, the compliance program aims at preventing crimes that could be abstractly connected to the activities carried out by the Company, with particular reference to crimes against the public administration and corporate related crimes.

On April 29, 2011, the Board of Directors appointed the members of the Surveillance Body. The members of the Surveillance Body in turn have appointed their own Chairman. All of the Surveillance Body members are to remain in their positions up to the approval of the December 31, 2013 financial statements. In order to better carry out its role as the body responsible for the effective application, observance, and updating of the compliance program, the Surveillance Body is regulated by its own internal charter, which was approved by the board of directors on July 28, 2011.

#### SURVEILLANCE BODY

OFFICE OR CORPORATE ROLE (2012)	NAME AND SURNAME
chairman of surveillance body chairman of control and risk committee independent director	Alberto Dessy
statutory auditor	Angelo Gaviani
internal control manager	Emanuela Chiti

During 2012 there were five meetings of the Surveillance Body, always attended by all of its members. Each subsidiary management body has also appointed a surveillance body, usually composed of a mix of Company managers and external professionals.

The updated organizational model is published on the website of the Company.

In order to set the principles of lawfulness, loyalty, correctness and transparency on which the Company and its subsidiaries base their conduct, the management body of each entity of the group has also adopted a complementary code of conduct to the organizational model.

The Company periodically promotes training meetings with the executives of all the group's Italian subsidiaries, with the aim of promoting maximum knowledge of the organizational model and code of conduct. To the same end, both documents are made available to the public on the Company's website and, for employees, also on the corporate intranet. Each new employee globally was handed a hard copy of each. Furthermore, learning activities are periodically held for all employees of the group's Italian subsidiaries by internal audit and the compliance department.

#### **Audit firm**

In the Shareholders' meeting on April 23, 2007, the audit of the Company was entrusted to Reconta Ernst & Young S.p.A., whose engagement was extended up to the approval of the December 31, 2013 financial statements. The external auditor presents to the Board of Statutory Auditors a report on relevant matters noted during its audit activity, and, in particular, on significant deficiencies, if any, on the internal control systems in relation to the financial information flow process, pursuant to the recently introduced legislative decree no. 39 of January 27, 2010, that implemented the directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts.

In order to safeguard the independence of the external audit firm, the Company has established a procedure regulating the engagement of the audit firm in charge, or of the individuals belonging to its network.

#### **Accounting Manager**

On November 3, 2011, in compliance with the recalled savings protection law, the Company appointed the chief financial officer of the group, Alberto Fornaro, as Accounting Manager. In accordance with the bylaws of the Company and with operational practice, the Accounting Manager:

- ▶ is appointed and revoked by the Board of Directors, subject to the mandatory opinion of the Board of Statutory Auditors;
- ▶ is appointed among those executives having a minimum of three years experience as executive with appropriate responsibilities in the accounting and/or financial departments of the Company or of similarly sized or organized companies;
- ▶ is entrusted with adequate powers and means to carry out the duties assigned by the law;
- ▶ sets appropriate managing and accounting procedures for the preparation of the annual and semi-annual accounts of the Company, as well as for every other disclosure of a financial nature;
- ▶ shall attest, in a report attached to the annual financial statements and semi-annual reports, to the appropriateness and effective application of such procedures, their conformity with the accounting records and their fair representation of the assets as well as the economic and financial conditions of the Company and its group.

### Global compliance and governance program

The Company has approved the global compliance and governance plan and, as part of the plan, set up the global compliance and governance committee in order to ensure that operational expectations are in line with law and regulatory provisions of the controlling authorities supervising the respective regulated markets in which the Company does business.

On May 6, 2008, the Board of Directors approved the compliance plan and appointed as chief compliance officer Luke Orchard, a manager of GTECH Corp., granting him a coordination role for the group's compliance officers and making him a direct interface with the Global Compliance and Governance Committee.

The Global Compliance and Governance Committee, through the chief officer, reports jointly to the Control and Risk Committee and to the Board of Statutory Auditors, and meets at least on a quarterly basis.

The Global Compliance and Governance Committee is currently composed of the following members:

### GLOBAL COMPLIANCE AND GOVERNANCE COMMITTEE

OFFICE OR CORPORATE ROLE	NAME AND SURNAME
chairman of the committee external consultant	Rick Trachok
committee member chief financial officer of the Company	Alberto Fornaro
committee member external consultant	Bob Lewis
committee member external consultant	Peter Lynch

The Global Compliance and Governance Committee includes the following among its main duties:

- ▶ approving proposals for the subscription, renewal or extension of consultancy contracts with government agencies and similar entities that have an annual remuneration in excess of Euro 350 thousand or total long-term remuneration in excess of Euro 1 million. These contracts require the prior approval of the Global Compliance and Governance Committee, while contracts for amounts below said thresholds will be approved by the Government Affairs Committee (GAC) set up by the GTECH Corp. subsidiary;
- ▶ preparing, supervising and assessing the processes and procedures concerning the corporate compliance and governance program (such as the code of conduct and relevant training, the means available for reporting violations to the code of conduct, relevant corporate procedures, advertising expenses, marketing and sponsorships);
- ▶ preparing an internal control system which, in respect of the applicable laws, provides for preventive surveys on the integrity of company consultants, suppliers, distributors, partners, candidates and corporate officers who are subjected to qualification procedures by the aforementioned jurisdictions;
- ▶ relations with the jurisdictions and other international surveillance authorities;
- ▶ supervising the activities of the Government Affairs Committee.

### **Coordination between the different bodies in the System**

The Company has adopted a specific procedure to coordinate the activities of the bodies involved in the System, in order to be sure that all the relevant information flows are in place to provide for the adequacy of the System.

The adopted procedure allows for each body/function involved in governance, risk and compliance activities to operate and report information related to the System in a consistent manner within a specific framework, so as to prevent information from overlapping. In particular, the procedure defines the role of different functions/bodies involved in the System and provides for coordination activities among them in terms of scope, reporting flows, and reporting schedule.

Finally, to enhance coordination between the main actors of the overall System, in 2012 the Company updated the regulation of the Control and Risk Committee, in order to provide for attendance by statutory auditors, the Director in charge of the System, the Person in charge of internal audit, the chief compliance officer, and the Board of Directors' secretary to the Committee meetings. This allows for better information sharing and promotes joint meetings of the Control and Risk Committee and Board of Statutory Auditors.

## **12. Interests of directors and relevant related party transactions**

On November 15, 2010 the Board of Directors, upon proposal by the Control and Risk Committee that had met on November 11, 2010, approved, and later amended on July 28, 2011, a charter governing related party transactions carried out by Lottomatica, directly or through its subsidiaries, implementing the provisions issued by Consob through resolution no. 17221 of March 12, 2010, as subsequently amended, integrated and interpreted pursuant to Article no. 2391-bis of the Italian Civil Code.

The Charter entered into effect on January 1, 2011, and replaced the previous edition approved by the Board of Directors on March 6, 2008.

The new charter provides for two different procedures to be followed in the event of related party transactions classified as of greater or lesser importance in terms of size, characterised by different levels of disclosure and subject to the prior approval of a committee composed of independent directors only.

Transactions of "greater importance" are deemed to occur when the value of the transaction, or the assets or liabilities of the entity or going concern involved, exceed 5% of the consolidated assets or net equity of the Company; on the contrary, the transactions are deemed of "lesser importance" when the value of the transaction amounts up to Euro 1 million, or Euro 500 thousand as long as top management compensation is concerned.

Consequently, related party transactions of an amount lower than the above, as well as – among others – transactions with or among subsidiaries or entities with significant influence, are exempted from the procedures, provided that there are no significant interests held by other related parties to the Company.

Both procedures provide for the engagement of the Independent Directors' Committee, the composition of which, should one or more members of the Committee

be a party to or personally involved in the transaction being evaluated, may be integrated by non-related Directors and/or, if not available, by non-related statutory auditors. In the event of a transaction of lesser importance, the Board of Directors or its delegated bodies approve or execute the transaction of minor importance prior motivated, non-binding, opinion by the Committee, while, in the case of transactions of greater importance, the Board of Directors is exclusively responsible for approving the transaction and resolves on it prior favourable opinion by the Committee. However, with regard to the latter type of transactions, the Board of Directors may approve the transaction despite the adverse opinion of the Committee, provided that the ordinary Shareholders' meeting authorises the execution of the transaction with the majorities indicated in the charter (i.e. with the favourable vote of at least half of the non-related voting Shareholders and provided that the non-related Shareholders attending the meeting represent at least 10% of the share capital with voting rights) (so-called "white wash"). Alternatively, the Committee may issue an opinion subordinating the execution of the transaction to specific conditions that, if satisfied, exempt the Board from the authorisation by the Shareholders' meeting.

Furthermore, the following transactions are exempted from the procedures provided by the charter: proportional spin-offs, Board resolutions on the compensation of those directors vested with particular offices and other managers with strategic responsibilities should the Board have implemented a compensation policy submitted to the Shareholders' meeting for approval, Company transactions with, or among, its subsidiaries, as well as with its associated companies, provided that there are no significant interests held by other related parties of the Company.

During 2012, the Independent Directors' Committee met on one single occasion to discuss two related party transactions deemed by the committee as "ordinary transactions" and hence exempted from the relevant Consob provisions as implemented by the Company.

#### **INDEPENDENT DIRECTORS' COMMITTEE (2012)**

NAME	OFFICE	% ATTENDANCE OF COMMITTEE MEETINGS 2012
Gianmario Tondato Da Ruos	Chairman lead independent director	100%
Donatella Busso	Independent director	100%
Alberto Dessy	Independent director	100%

The Company has prepared a related parties register updated on a half-yearly basis and integrated with the administrative and accounting procedures.

During the meeting of July 26, 2012, the Board of Directors granted a Euro 30 thousand budget to the Committee.

The charter governing related party transactions is available on the Governance section of the internet website of the Company ([www.lottomaticagroup.com](http://www.lottomaticagroup.com)).

### 13. Appointment of statutory auditors

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

As provided for by Article no. 20 of the bylaws and by the relevant provisions of law, Statutory Auditors are appointed by the ordinary Shareholders' meeting on the basis of voting lists submitted by Shareholders owning the minimum share capital required by the law (currently 2% of the corporate share capital) indicated in the notice of call that summons the Shareholders' meeting to resolve on the appointment of the Board of Directors. Such threshold is halved in the event that upon expiry of the term given to present the lists - that in such event is extended as per the term indicated by the relevant provisions of law (currently 3 days) prior communication to the market by the Company - no candidates have been presented by the so called "authentic minorities", i.e. not connected to the majority Shareholder. Moreover, the Board of Directors during the meeting of March 12, 2013 resolved to propose to the Shareholders' meeting called to resolve on the financial statements as at December 31, 2012 some amendments to the corporate bylaws in order to provide that upon appointment of the Board of Statutory Auditors, at least one third of the effective and alternate members of each list of at least three candidates belong to the less represented gender.

Each list must be deposited at the head office of the Company within the term provided by the provisions in force (currently at least twenty-five days) prior to the date of the Shareholders' meeting, accompanied by the following documentation:

- ▶ exhaustive information on the personal and professional qualities of each candidate attesting their acquired expertise and the other management and control positions held and their respective expiry dates;
- ▶ a statement through which each candidate accepts his/her own candidature and certifies under his/her own responsibility that there are no reasons of ineligibility or incompatibility provided under the law, as well as that he/she possesses all requisites provided by the law and by the bylaws;
- ▶ information concerning the identity of the Shareholders that have submitted the list, together with the total percentage of share capital owned, as well as a copy of the certificates delivered by authorized intermediaries and certifying the ownership of the amount of shares required to submit lists;
- ▶ in the event of a list submitted by Shareholders that do not hold any connection to be regarded as relevant pursuant to the law with the Shareholders that hold, also jointly, a controlling or majority holding, a statement certifying the absence of such relations.

The lists, together with the above documentation, are promptly made available to the public at the Company headquarters, at the Italian Stock Exchange and published on the website of the Company.

The current appointment and replacement procedures provided by the bylaws in compliance with the provisions of law, as amended by resolution of the Board of

Directors on March 12, 2013, ensure - to the extent possible - that at least one member of the Board of Statutory Auditors is appointed from among the candidates submitted by the minorities, to be appointed Chairman, while two effective statutory auditors and all alternate statutory auditors indicated as such are appointed from the list that shall have obtained the highest number of votes, following the progressive numbering therein, and in the event that only one list be presented or voted, all effective and alternate statutory auditors are appointed therefrom.

In the event that several lists have repeatedly obtained an equal number of votes, the prevailing list shall be the one submitted by the Shareholders owning the highest number of shares at the time the list was submitted or, in suborder, by the higher number of Shareholders or, in further suborder, the Statutory Auditors shall be taken on the basis of their seniority.

Pursuant to the bylaws, the denial expressed, or the grounded risk of denial, by national or international public administrations as well as by public entities pursuant to law and administrative provisions applicable to the Company, represent a cause of ineligibility, or termination from office, to the office of Statutory Auditor and Chairman of the Board of Statutory Auditors.

#### **14. Composition and works of the board of statutory auditors**

The Board of Statutory Auditors appointed by the Shareholders' meeting of April 28, 2011 and in office up to the approval of the financial statements as at December 31, 2013, is composed of the following members all appointed from the only list of candidates that was presented by the majority shareholder De Agostini, as indicated in greater detail in Table no. 2 at the end of this report: Sergio Duca (Chairman), Angelo Gaviani and Francesco Martinelli.

Pursuant to the provisions notified to each Statutory Auditor upon appointment, any direct or indirect interest in a transaction carried out by the Company implies that the interested party inform the other Statutory Auditors and the Chairman of the Board of Directors on the nature, the terms, origin and extent of its interest. No such interest occurred in 2012.

In 2012, the Board of Statutory Auditors held 12 meetings, with a 100% attendance average by its members. The meetings lasted on average 1 hour and 40 minutes. In 2013 the Board of Statutory Auditors met on March 5, and it is expected to hold another four meetings in 2013.

During the meeting on November 7, 2012, the Board of Statutory Auditors ascertained the independence of all its members as provided by the Code for the Directors, and ascertained that each effective Statutory Auditor member had timely informed CONSOB on the management and control offices held in other companies, in compliance with the rules governing the maximum number of offices and the relevant transparency obligations provided by Articles 144-quaterdecies and subsequent of the Issuers Regulation and by the bylaws.

During the meeting of May 9, 2012, the Board of Statutory Auditors acknowledged to have examined the criteria and procedures adopted by the Board of Directors of

the Company for evaluating the independence of the Directors, and deemed them compliant with the requirements provided by the Code.

In order to ensure an efficient execution of the works of the Board of Statutory Auditors and the coordination with the Control and Risk Committee, the person in charge of the corporate governance of the Company and secretary of the Control and Risk Committee, attends the meetings of the Board.

Below is a brief personal and professional resume of each effective member.

#### SERGIO DUCA

Sergio Duca graduated cum laude in Economics and Business from the Bocconi University in Milan. A certified chartered accountant and public accountant, he acquired broad experience through the PricewaterhouseCoopers network as the external auditor of important Italian listed companies, including Fiat, Telecom Italia, and Sanpaolo IMI. He was the Chairman of PricewaterhouseCoopers S.p.A. from 1997 until July 2007, when he resigned from his office and ceased to be a shareholder of that firm because he had reached the age limit provided for by the bylaws. After serving as, among other things, a member of the Edison Foundation's advisory board and the Bocconi University's development committee, as well as chairman of the Bocconi Alumni Association's board of auditors and a member of the board of auditors of the ANDAF (Italian Association of Chief Financial Officers), he was chairman of the board of statutory auditors of Tosetti Value SIM and an independent director of Sella Gestione SGR until April 2010 as well as an independent director of Telecom Italia Audit & Compliance Services S.c.a.r.l. A member of the Ned Community, an association of non-executive directors, he currently holds high offices on the boards of directors and the boards of statutory auditors of important Italian companies, associations, and foundations, serving as chairman of the board of statutory auditors of Enel, chairman of the board of directors of Orizzonte SGR, an independent director of Autostrada Torino-Milano, in which he holds the office of chairman of the control and risk committee and chairman of the surveillance body, a member of the board of statutory auditors of Exor S.p.A. as well as member of its surveillance body, and chairman of the board of auditors of Compagnia di San Paolo and of the Silvio Tronchetti Provera Foundation, as well as a member of the boards of auditors of the Intesa San Paolo Foundation Onlus, and the ISPI (Institute for the Study of International Politics), chairman of the surveillance body of the Fondazione del Piemonte per l'Oncologia.

#### ANGELO GAVIANI

Born in Novara in 1946. He graduated in Business and Economics at the Università Cattolica Sacro Cuore of Milan in 1971. He was admitted to the Bar of Certified Public Accountants of Novara in 1973. Since 1975 he is managing partner of the Tax and Corporate Consulting Firm in Novara as well as a certified auditor. He is Chairman of the Board of Statutory Auditors and a Statutory Auditor in many relevant sized companies, mainly operating in the publishing and industrial business, including two listed companies. He is also a consultant with numerous capital industrial and commercial companies.

**FRANCESCO MARTINELLI**

Born in Naples on October 23, 1942. He is married, has one son and resides in Rome. He graduated in 1967, after having trained at the firm of the former Chairman of Qualified Accountants, in 1970 he was admitted to the register of Auditors (Albo Revisori Ufficiali dei Conti), and worked with some qualified companies. In 1977 he was admitted to the bar as a Certified Auditor by M.D. dated 15/7/1977 and published in O.G no. 203 dated 26/7/1977, and was admitted to the Bar of Chartered Accountants in 1995 under no. 36015. In the early years of professional activity he taught company training courses organised by the Municipality of Cassino. He then worked for a three year period at the school of the Public Administration. Since 1999 he is a lecturer in Tax law and Practice since 1999 at the Link Campus University. Former Chairman of the Board of Statutory Auditors and of the Board of Directors of many different companies such as Ansaldo Trasporti, Società generale Supermercati, ILVA, Serfactoring, Consorzio ICT Lazio and ICE - Istituto Commercio Estero (Institute for Foreign Trade). He is currently Court appointed liquidator of CIC.ZOO. The profession of Qualified Accountant is aimed at assisting companies operating in various commodity sectors, with specific reference to corporate, administrative and tax organization related matters. He is currently Chairman or member of the Board of Statutory Auditors or Standing Auditor of Almaviva Technologies, Almawave, Almaviva S.p.A., Almaviva Contact, Alicos, G.Matica, T.S.F., Arianna 2001, Press & Image, Servizi in Rete, TNET 2001, Servizio Italia, Lottomatica Group, Cartalis Imel, Consorzio Lotterie Nazionali, Lis, Lottomatica Scommesse, Lotterie Nazionali, Lotterie Nazionali Holding, Lottomatica Videolot Rete, PCC Giochi e servizi, Melior Trust, Immo Finanziaria, CFN Compagnia Fondiaria Nazionale, Eurispes Italia, Camfin.

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

**SERGIO DUCA**

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

Chairman of the Board of Directors of Orizzonte S.g.r. S.p.A.;

Independent member of the Board of Directors as well as chairman of the control and risk committee and of the surveillance body of Autostrada Torino – Milano;

Chairman of the board of statutory auditors and member of the surveillance body of Exor S.p.A.

Chairman of the board of auditors of the Compagnia di San Paolo;

Chairman of the board of auditors of the Fondazione Silvio Tronchetti Provera;

Member of the board of auditors of ISPI (Istituti per gli studi di politica internazionale);

Chairman of the Surveillance Body of the Fondazione Piemonte per l'Oncologia.

**ANGELO GAVIANI**

Statutory Auditor of B&D holding di Marco Drago e C. S.a.p.a.;

Statutory Auditor of De Agostini S.p.A.;

Statutory Auditor of New B&D Holding di Marco Drago e C. S.a.p.a.;

Statutory Auditor of De Agostini Editore S.p.A.;

Chairman of the Board of Statutory Auditors of Dea Capital S.p.A.;  
Chairman of the Board of Statutory Auditors of Dea Factor S.p.A.;  
Chairman of the Board of Statutory Auditors of DeA Partecipazioni S.p.A.;  
Statutory Auditor of De Agostini Libri S.p.A.;  
Chairman of the Board of Statutory Auditors of De Agostini Publishing S.p.A.;  
Chairman of the Board of Statutory Auditors of De Agostini Publishing Italia S.r.l.;  
Chairman of the Board of Statutory Auditors of Innovation Real Estate S.p.A.;  
Auditor of the Fondazione De Agostini;  
Statutory Auditor of Lottomatica Italia Servizi S.p.A.;  
Chairman of the Board of Statutory Auditors of Lottomatica Scommesse S.r.l.;  
Statutory Auditor of M.Dis Distribuzione Media S.p.A.;  
Chairman of the Board of Statutory Auditors of Mineral Resources S.r.l.;  
Statutory Auditor of P.C.C. Giochi e Servizi S.p.A.;  
Chairman of the Board of Statutory Auditors of Spig S.p.A.;  
Chairman of the Board of Statutory Auditors of Stoppa Antonio e Figli S.p.A.;  
Statutory Auditor of Ringmaster S.r.l.;  
Statutory Auditor of SW Holding S.p.A..

FRANCESCO MARTINELLI

Statutory Auditor of Almaviva S.p.A.;  
Statutory Auditor of G. Matica S.r.l.;  
Statutory Auditor of Almaviva Contact S.p.A.;  
Statutory Auditor of Servizio Italia S.r.l.;  
Statutory Auditor of Lottomatica Scommesse S.r.l.;  
Chairman of the Board of Statutory Auditors of Almawave S.r.l.;  
Chairman of the Board of Statutory Auditors of Almaviva Technologies;  
Chairman of the Board of Statutory Auditors of Agrisian S.p.A.;  
Chairman of the Board of Statutory Auditors of Servizi in Rete 2001 S.r.l.;  
Chairman of the Board of Statutory Auditors of Arianna 2001 S.p.A.;  
Chairman of the Board of Statutory Auditors of Press & Image S.p.A.;  
Chairman of the Board of Statutory Auditors of TNET 2001 S.p.A.;  
Chairman of the Board of Statutory Auditors of Melior Trust S.p.A.;  
Chairman of the Board of Statutory Auditors of Camfin S.p.A.;  
Chairman of the Board of Statutory Auditors of CartaLis Imel S.p.A.;  
Chairman of the Board of Statutory Auditors of Consorzio Lotterie Nazionali (winding up);  
Chairman of the Board of Statutory Auditors of Lotterie Nazionali S.r.l.;  
Chairman of the Board of Statutory Auditors of SW Holding S.r.l.;  
Chairman of the Board of Statutory Auditors of Consorzio Lottomatica Giochi Sportivi (winding up);  
Chairman of the Board of Statutory Auditors of LIS S.p.A.;  
Chairman of the Board of Statutory Auditors of Lottomatica Videolot Rete S.p.A.;  
Chairman of the Board of Statutory Auditors of PCC GS S.p.A.

In addition to the functions expressly attributed by the Italian Civil Code, the Consolidated Financial Law, and other provisions of the law, the Board of Statutory Auditors is entrusted with the surveillance of the implementation modalities of the corporate governance rules and principles provided by the Code, with specific reference to the assessment of the criteria and procedures adopted by the Board of Directors in assessing the independence of directors, described above.

Moreover, also in accordance with the entry into force of the legislative decree no. 39 of January 27, 2010, the Board of Statutory Auditors monitors the financial information flow process, the efficiency of the internal control systems, internal audit and of risk management, the audit of the annual and consolidated accounts and the independence of the external auditors, having regard to the relevant law provisions as well as to the nature and extent of services other than the audit provided to the Company and its subsidiaries. In this regard, as described under Section no. 11 that follows, the Company adopted a procedure which circumscribes and governs the engagement, other than auditing of accounts, by the Company and its subsidiaries to the audit firm and to those professionals that are part of its network.

The Board of Statutory Auditors also ensures that there is a continuous exchange of information and update between the audit firm and Lottomatica with regards to the identity of the Shareholders and corporate exponents of the former, in order to enable the monitoring of the causes of incompatibility provided by the law.

For the above purposes, and also more generally in order to coordinate their respective activities, those responsible of auditing Lottomatica accounts are systematically invited to attend the meetings of the Board of Statutory Auditors.

In carrying out their activities, statutory auditors normally engage the Internal Audit departments of the Company and of its main subsidiaries, also in order to make assessments on specific operating areas or on specific transactions of the Company. To this regard, Internal Audit managers of the Company and of its main subsidiaries are systematically invited to attend the meetings of the Board of Statutory Auditors, and the annual audit plan is prepared in consideration of the requests and suggestions of the statutory auditors.

The attendance by the Chairman of the Board of Statutory Auditors, or another Statutory Auditor appointed by him, to the Control and Risk Committee meetings ensures an adequate information flow also between these two bodies.

Other forms of collaboration with other audit bodies of the Company or its subsidiaries are currently being evaluated with a view to making the various components of the internal audit system more organic and efficient.

With this same objective, the Company promotes and encourages the attendance to Board meetings by the managers of corporate departments or offices, usually upon request by the Chairman of the Board of Statutory Auditors.

## **15. Relations with the shareholders**

Lottomatica ensures and promotes relations with Shareholders, and with the investors in general, through the Company's competent departments and during the meetings with the stakeholders, as well as through its internet website ([www.lottomaticagroup.com](http://www.lottomaticagroup.com))

where it publishes and promptly updates information of economic and financial nature, such as annual and infra-annual financial reports, press releases as well as other data and documents of interest under the "Investor Relations" section, while the "Governance" section contains (i) information and documents on corporate governance, such as the composition of the corporate bodies, the bylaws, the Shareholders' meeting charter and other internal charters approved by the Board of Directors, (ii) documentation made available to the Shareholders during Shareholders' meetings, such as notices of call and minutes, illustrative reports and information documents prepared by the Board of Directors on the items on the agenda, the lists of candidates for the office of director and statutory auditor, compensation reports, reports on corporate governance and (iii) the internal compliance charters, such as the Code of Conduct and the organizational model pursuant to Legislative Decree no. 231 of June 8, 2001.

#### **Protection of minority Shareholders**

The Company, despite the crystallization of the control assets, has always promoted the broadest and most aware participation by the Shareholders to the Shareholders' meetings and, more in general, their participation to the life of the Company through a number of initiatives aimed at easing the exercise of rights, especially those of the minorities.

To this end, the bylaws of the Company are promptly updated in order to reflect and regulate in the broadest possible sense the instruments aimed at protecting the minorities, that are from time to time introduced by the law, or introduced by the national and international best practices on corporate governance. For example, the right of minorities to add to the list of items to be discussed in Shareholders' meetings and the methods of appointing the management and audit bodies (for which see Sections no.s 4 and 13 above).

On April 28, 2011, the Shareholders' meeting adopted measures aimed at implementing the provisions under Legislative Decree no. 27 of January 27, 2010, which implemented European Directive 2007/36/EC on shareholders' rights (so-called "shareholders' rights" directive), such as: the right to call Shareholders' meetings in a single sitting; the designation for each Shareholders' meeting of an individual upon whom the Shareholders can confer proxy with voting instructions on the items on the agenda; the right to call the meeting for approval of the financial statements within the longer term of 180 days from the end of the corporate financial year, the obligation to make the annual financial report, including the draft financial statements approved by the Board of Directors and the consolidated financial statements, available to the public within 120 days of closure of the corporate financial year holding firm; the right for shareholders submitting lists of candidates for the post of director to state their candidate for Chairman on the list, thus attributing the Shareholders' meeting the same competence as the Board.

#### **Head of investor relations**

The Board of Directors has identified Giuliano Boggiali as the person in charge of handling the relationships with the Shareholders, and specifically the institutional ones.

The person in charge of Investor Relations attends to the section of the Company's website dedicated to the investor relations and Shareholders and, under the supervision of the Chief Financial Officer, attends to the relations with the Italian Stock Exchange (jointly with the Corporate Affairs department), as well as with journalists and analysts and with the specialized economic press.

The head of Investor Relations is further engaged, with the aid of the Corporate Affairs department, to select and summarize the corporate information to be addressed to the market, in coordination with the investor relations departments of the main Company's subsidiaries, with specific reference to the management of Privileged Information in accordance with the charter better described under Section no. 5 hereinabove.

In 2012 the Company's investor relations carried out the following activities:

- ▶ no. 261 investor meetings (one-to-one or via conference call);
- ▶ no. 16 road shows;
- ▶ no. 3 analyst meetings, analysts meetings, upon presentation of the three year strategic plan or annual results, also within conferences organized by financial institutions;
- ▶ no. 4 conference calls on the 2011 annual results and 2012 infra-annual reports.

## 16. Shareholders' meeting

The provisions of the bylaws regulating the Shareholders' meetings of the Company were amended in order to implement the provisions of legislative decree no. 27 of January 27, 2010 (refer to the previous Section).

Shareholders' meetings are summoned in Italy, also outside the City where the head offices of the Company are located, as provided for bylaws, upon resolution by the Board of Directors, by means of a notice of call executed by the Chairman providing information on the date, location, time and agenda of the meeting, to be published in accordance with the relevant provisions of law (currently the notice of call is published at least on the Company website).

Shareholders' meetings can also be called by the Board of Directors upon request by a number of Shareholders representing the minimum thresholds set by the law, or by the Board of Statutory Auditors or at by least two members of the same.

The Shareholders representing, also jointly, the thresholds of share capital set by the law (currently one fortieth) are entitled to request, within ten days of the publication of the notice of call of the Shareholders' meeting, that the list of the items on the agenda be supplemented, supporting the request with a report on the aforementioned items and with a copy of a suitable communication by the intermediaries authorized pursuant to the laws in force certifying their legitimacy to request such additions. At least fifteen days before the date of the Shareholders' meeting, the additional items on the agenda of the Shareholders' Meeting shall be made public in accordance with the above procedure. The illustrative report prepared by the Shareholders proposing the additional items, together with any assessments by the Board of Directors, is simultaneously published by the Company in the same way as that prescribed for the additional documentation available to the Shareholders.

Following the entry into force of legislative decree no. 27 of 2010, the Company amended

Section no. 9 of its bylaws and introduced, among the other, the so called "record date" principle, whereby are entitled to attend the meeting and vote thereat those individuals that own Company's shares up to the seventh market open day prior to the date of the meeting, and provided that their authorized intermediaries keeping their accounts send to the Company the communication required by the current provisions within the terms set by the relevant provisions of law before the date set for the Shareholders' meeting. Communications received in accordance with the above are also valid for calls subsequent to the first.

Those who have the right to intervene in Shareholders' meetings may be represented by written proxy, according to the laws in force, signing the proxy form issued to the person in question by the authorized intermediaries; an additional proxy form is available in Italian and English on the Company website.

Shareholders' meetings resolve, among the other, with the majorities required by the law, on (i) the appointment and revocation of the members of the Board of Directors and of the Board of Statutory Auditors as well as on their compensation; (ii) the approval of the annual financial statements; (iii) the programs to purchase and sale treasury stock; (iv) stock based compensation plans; (v) the amendments to the corporate bylaws other than mere adjustments pursuant to new provisions of law; (vi) the issuance of convertible bonds.

Furthermore, following the approval by the Board of Directors of the new charter governing related party transactions and the acknowledgement by the Shareholders' meeting on April 28, 2011 of the so-called "white wash" mechanism, Shareholders' meetings resolve upon those related party transactions of greater importance that have met the favourable opinion of the Independent Directors' Committee (refer to Section no. 12 above for more details).

Shareholders' meetings are governed by an internal charter approved by the ordinary Shareholders' meeting in 2005, a copy of which is made available to those participating to each Shareholders' meeting and published on the internet website of the Company.

The Company also publishes in the same section on its website the information concerning the Company increasing the awareness of the Shareholders and their knowledge on the items of the agenda (e.g. the notice of call, the illustrative reports of the Board of Directors on each item of the agenda, the financial statements and the lists of candidate directors and statutory auditors together with the relevant documentation provided by the bylaws, etc.).

The same information is made available to all those in attendance at the location where the meeting is held and a detailed summary of them is accounted by the Chairman or Secretary during the discussion of each item on the agenda.

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

For the same purpose of facilitate Shareholders' meetings, the Company:

- ▶ relies on a congruous number of personnel in order to facilitate the course of each meeting;
- ▶ takes resolutions by public ballot whose results are simultaneously calculated by electronic devices;

- ▶ publishes the notices of call and other notices that may be useful in allowing the exercise of corporate rights in at least one national daily newspaper, in the case of the former recalling the attention of Shareholders on the need to ensure that communications by intermediaries legitimising the right of intervention must be received in good time and to appear punctually, or with adequate advance notice in the case of representatives with proxies.

The Shareholders' meeting charter ensures that each person entitled to participate in its meetings pursuant to the law and to the bylaws, as well as each director and statutory auditor, may take the floor on each item on the agenda and make relevant proposals concerning said items.

Those who wish to take the floor must ask the Chairman of the meeting to do so, after that the item on the agenda has been read and discussed.

Lottomatica is aware that annual Shareholders' meetings are an opportunity to share information on the general business trend of the Company and its future strategies, in respect of the rules governing the treatment of privileged information. In this regard, directors, statutory auditors and, in the case of the financial statements, the representatives of the audit firm, are required to attend the meetings.

## **17. Additional corporate governance practices**

### **Advisory Board**

The Company chose to establish an "advisory board" whose members - not directors of the Company - are highly qualified professionals active in the same sector of the Group as well as in the economic, financial and academic sectors. The Advisory Board is currently comprised by Jeremy Hanley, James McCann, Antony Ruys and Bruce Turner, former members of the Board of Directors of the Company up until the approval of the financial statements as at December 31, 2011.

The Advisory Board meets once a year, and represents a high consultancy body for the best achievement of the corporate objectives, especially in relation to the worldwide activity of the Company and to the international matters of those sectors in which GTECH is active.

### **Social report**

Also in 2012 the Board of Directors of the Company examined the corporate responsibility report as at December 31, 2011, which describes the social responsibility initiatives connected to gaming and promoted during the 2011 financial year, certified by Reconta Ernst & Young S.p.A. in terms of transparency and completeness of information, and presented to the press in June 2012.

The social report of Lottomatica reflects the commitment undertaken before all of the Shareholders of the Company to report not only on the economic consequences, but also on those of a social, cultural and environmental nature of business activities and on the overall initiatives deriving from undertaking social responsibility as the guiding principle of the Company's operations. The report also analyses the relationship between the Company and

the different related communities for the worldwide activities of the group of the group.

The document is divided into five sections, respectively dedicated to: (i) group profile, that illustrates the international scenario in which the Company operates, the activity and the structure of the group and the corporate governance system adopted; (ii) group sustainability strategy, which describes what Lottomatica means by responsible gaming, the actions taken in coherence with this concept in Italy and worldwide and the consequent commitments; (iii) economic responsibility; (iv) social responsibility, also dedicated to illustrate the major Shareholders of the Company, the Company's investor relations activities, the relations with the human resources of the entire Group; and lastly (v) environmental responsibility, dedicated to describing the Group's environmental policies and initiatives.

This year, the social report again adopted the "guidelines for sustainability reporting" of the Global Reporting Initiative, the most used at an international level, by which the report was given a rating of "A+" (the highest), in order to increase the quality of reporting and make it more comparable at an international level, given the global scope of activity achieved by the group.

The social report is available on the "Social Responsibility" section of the internet website of the Company.

#### **Code of conduct**

During its meeting on September 9, 2010, the Board of Directors approved the current version of the Group's Code of Conduct.

The Code of Conduct establishes the standards of behaviour and the integrity level requested from all the employees, directors, auditors, officers, consultants, commercial partners, agents, suppliers and other representatives or counterparts of Lottomatica and of its subsidiaries and related parties. The document applies both in Italy and abroad, in compliance with the cultural, social and economic differences of the countries in which the Company works.

The Code of Conduct is available under the Governance section of the internet website of the Company.

#### **Committee for the protection of minors**

In October 2011, in coherence with the constant commitment of the Company in terms of responsible gaming and the respect of gaming provisions in force, the Committee for the Protection of Minors has been established for adopting measures aimed at preventing underage gaming for the Italian gaming business division of Lottomatica.

Among the functions of the Committee, chaired by the General Manager Renato Ascoli:

- ▶ defining the actions to be taken by Lottomatica aimed at preventing underage gaming and presiding over their implementation;
- ▶ analysing the data, operations and behaviour of gamers;
- ▶ assessing the operations and behaviour of significant clients, pursuant to the legal provisions in force, in terms of preventing and prohibiting underage gaming.



TABLE 2

BOARD OF STATUTORY AUDITORS FOR THE 2012 FINANCIAL YEAR							
OFFICE	NAME	IN CHARGE SINCE	IN CHARGE UNTIL	LIST (M/m) (*)	INDEPENDENT PURSUANT TO CODE	% OF ATTENDANCE OF BOARD MEETINGS	NO. OF OTHER OFFICES (**)
Chairman	Sergio Duca	15.04.2008	Approval financials as at 31.12.2013	M	•	100%	10
Effective member	Angelo Gaviani	16.12.2005	Approval financials as at 31.12.2013	M	•	100%	21
Effective member	Francesco Martinelli	16.12.2005	Approval financials as at 31.12.2013	M	•	100%	22
Alternate member	Giampiero Balducci	-	-	-	-	-	-
Alternate member	Giulio Gasloli	-	-	-	-	-	-
Alternate member	Umile Sebastiano Iacovino	-	-	-	-	-	-
Alternate member	Guido Martinelli	-	-	-	-	-	-
Alternate member	Marco Sguazzini Viscontini	-	-	-	-	-	-
(*)	indicates whether a Director was appointed from a majority list (M) or a minority list (m).						
(**)	indicates the percentage of attendance by the single member to the meetings of the body.						
(***)	number of director and statutory auditor offices held by the person in question.						

Lottomatica Group S.p.A.

Registered headquarters:  
Viale del Campo Boario, 56/d  
00154 Rome, Italy

Share capital:  
Euro 172,488,289.00 fully paid-up

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This report was drafted by the Corporate Affairs department of the Company and approved by the Board of Directors on March 12, 2013 and refers to the financial year ended on December 31, 2012.