

**Texas Department of Public Safety
Criminal Intelligence Service
GTECH Overview
For the Texas Lottery Commission Meeting on
Wednesday, July 19, 2006**

Investigation Overview:

Criminal Intelligence Service investigators began the overall investigation of the Italian companies and GTECH at the end of January, 2006. Emphasis was placed on the Italian companies first, then subsequently to GTECH. Throughout this time, we shared the time spent on this investigation with our other routinely assigned organized crime and counter terrorism intelligence investigations.

Six investigators and two civilians were assigned to this investigation and several of them worked this investigation full-time. The team has a combined 145 years of law enforcement and investigative experience. Over the past few months, approximately 3000 hours has been spent on this investigation.

We anticipate that some additional information may come in about GTECH, DE AGOSTINI and LOTTOMATICA. We will inform your legal staff when these items come in and report them accordingly.

GTECH Overview:

GTECH is a global company primarily involved in the lottery business, and are also involved in various capacities in casinos, video gaming, pari-mutuel tracks, and scratch-offs. In some jurisdictions contracting with GTECH, they also provide commercial services through their lottery terminals or networks.

The State of Texas has contracted with GTECH for many years to provide all lottery services to Texas. As we've already reported, there is an offer on the table for the Italian Lottery company LOTTOMATICA S.p.A. and their parent company DE AGOSTINI S.p.A. to purchase GTECH. The result of this purchase will be a global company that, according to media reports, will control two-thirds of the world's lotteries.

This is a complete financial buyout of GTECH by LOTTOMATICA. The newly created company will be majority owned by DE AGOSTINI S.p.A. and a portion of its ownership will be publicly traded on the Milan Stock Exchange.

While this is a financial takeover of GTECH by LOTTOMATICA, DE AGOSTINI has designed the new company so that it will be led by the current GTECH management. GTECH's CEO Bruce Turner, who has served as permanent CEO of GTECH since August of 2002, is expected to be the CEO of the new LOTTOMATICA.

In the words of Bruce Turner, "It will be my company to run."

DPS Criminal Intelligence Service personnel traveled extensively and conducted hundreds of interviews to conduct an administrative background investigation at the request of the Texas Lottery Commission. DPS was tasked with determining the character, reputation and ethics of GTECH as well as of DE AGOSTINI and LOTTOMATICA since GTECH will run the new company.

Current GTECH Board members who are expected to transfer to a position on the Board of the newly created LOTTOMATICA or to a position with the company are as follows:

Robert Manson Dewey Jr., who is the current Chairman of GTECH's Board of Directors, Anthony Ruys, who is a current GTECH Board member, and James Francis McCann, who is a current GTECH Board member, will be Independent Directors on LOTTOMATICA's Board.

Sir Jeremy James Hanley, who is a current GTECH Board member, will serve on a LOTTOMATICA executive committee as required by UK law and is expected to become a Board member of LOTTOMATICA in the near future.

GTECH is governed by a Board of Directors who, with the exception of Bruce Turner, are all independent of the company. In contrast, the planned membership of the new LOTTOMATICA's Board of Directors will have DE AGOSTINI Board members in a majority position. As DPS investigators have noted, DE AGOSTINI Board members are involved in the current LOTTOMATICA's management. LOTTOMATICA's officers have stated that no major decision is made at LOTTOMATICA without DE AGOSTINI's input.

Bruce Turner has stated that many of GTECH's current officers have agreed to sign 5-year contracts to work for the newly created company if the acquisition occurs. Two of GTECH's officers, Timothy Nyman and Marc Crisafulli, who are both vice-presidents, declined to accept the contracts. Nyman retired and Crisafulli was terminated.

No disqualifying criminal history was located on any of the GTECH personnel interviewed by DPS personnel including those who provided disclosure statements.

GTECH is a very aggressive business entity that has a past history of protecting its contracts by lawsuit or threat of lawsuit and of pursuing new contracts with sometimes questionable actions. This was evidenced by the revelation that one of their co-founders, Guy Snowden, had offered to bribe Richard Branson in the UK over their attempting to gain that contract.

Texas is also well aware of GTECH's aggressive nature with some well-known and reported infamous historical and unethical events here.

Bruce Turner admits that their past continues to follow them and will always be associated with their company. He states, however that they no longer conduct their operations in an unethical or questionable manner. He also reported that several high-profile company officers have been fired for unethical behavior and that their policy is that that type of behavior is not acceptable.

Brazil:

This is a complicated matter that is the subject of a long-term and extensive investigation by Brazilian authorities and, according to the news media, by the Securities and Exchange Commission. We will discuss here only a few of the many issues in Brazil concerning GTECH's contract.

In recent years there have been numerous revelations of corruption involving political officials and parties in Brazil. Most of the allegations involve bribery by officials of state-owned companies or contractors with the money being allegedly used for political campaigns. Some of the companies involved include energy companies, garbage companies and gaming companies. This was so prevalent that one politician interviewed in 2005 stated that it was "...an obligation to try to get financial contributions for the [political parties] from contractors." These were the conditions under which GTECH operated since 1997 as the only provider of lottery services to Caixa, the state-owned bank that runs the national lottery in Brazil. The Brazilian lottery contract amounted to approximately 10% of GTECH's revenues.

GTECH's contention is that under these conditions they did not use bribery or payoffs in order to obtain contracts or contract extensions in Brazil. GTECH indicated that the bribery allegation against them actually was an extortion attempt that was a result of political corruption in Brazil.

Criminal Intelligence Service personnel traveled to Brazil and reviewed evidence and conducted interviews of some relevant parties and witnesses. Additionally, interviews were conducted in the United States with various persons who have knowledge of this case.

During March and April of 2003, GTECH was negotiating for an extension of the Brazil contract. Bruce Turner was the CEO of GTECH during this time. GTECH ultimately won an extension. Brazilian news sources reported in 2004 that GTECH had been involved with individuals who had allegedly solicited bribes from GTECH in order to renew the contract. GTECH denied that money had ever been paid in response to what they termed to be extortion.

GTECH indicated that it was only after they were made aware of the 2004 news reports, they had hired a firm to investigate the allegations, and that the only output of the investigation firm was a power point presentation given to GTECH's Board members. When questioned about obtaining a record of this presentation to the Board members, Texas Lottery Commission personnel were told that the presentation was not in the Board minutes nor was it able to be heard on any recordings of the minutes. The fact that no written report had been made was told to Texas Lottery Commission personnel, and also told to Criminal Intelligence Service personnel during interviews with GTECH's officers and Board members and during the July 13th interview with Bruce Turner.

Criminal Intelligence Service personnel learned that GTECH had actually hired the firm to investigate a request for a suspicious payment by a GTECH employee in Brazil. This firm was hired shortly after the contract extension was obtained in 2003 and DPS investigators learned that the initial *written* report produced by the firm indicated that no employee of GTECH had

violated the Foreign Corrupt Practices Act. Later, the same firm had produced a second report in 2004 in power point format after having been tasked with looking at the media allegations.

Multiple requests to GTECH to produce all written reports that they initially denied existed but have now acknowledged exist have gone unanswered as of this date.

Another major issue surrounding the contract extension in Brazil involves GTECH's involvement with Rogerio Buratti, an individual GTECH considered hiring as a consultant after Buratti was introduced to GTECH. As Bruce Turner explained, when GTECH put out the word that they were looking for a Government Relations (GR) consultant, Buratti showed up. It was Buratti who GTECH alleges was attempting to extort money from GTECH in return for the successful contract extension in Brazil. In fact, GTECH was negotiating with several entities regarding their contract extension in Brazil and Buratti's attempted extortion was not the only one that allegedly occurred.

GTECH explained that they attempted to vet Buratti, and they immediately learned that he was not qualified as a consultant and therefore his services were not utilized.

Criminal Intelligence Service personnel learned, however, that the vetting process for Buratti was not as cut and dried as GTECH has indicated. In fact, according to evidence found in Brazil, the April 2003 request from GTECH Headquarters to their vetting firm was informal and not a formal vetting process. Additionally, Rhode Island personnel asked that there be no trace of the informal check on Buratti that could be discovered by either GTECH officials or the government.

GTECH indicated that the vetting process found that Buratti would not pass, however as stated above, there was no vetting process, so subsequently no record was made on the vetting of Buratti.

DPS investigators also reviewed evidence indicating that a clean break from Buratti was not made because additional meetings with Buratti occurred even after the contract extension was signed. This was because GTECH and their vetting firm believed that Buratti may have been important enough to the contract extension process that they could not immediately cut off their relations with him.

Further, DPS investigators interviewed Anfranio Nabuco, a consultant who was retained by GTECH early on in the 2003 contract extension process. Nabuco explained that he resigned from GTECH's employ when he learned that GTECH was associating with "crooks" and that GTECH was holding secret meetings where he was not invited. He further stated that he was given no guidance in negotiations he was taking part in with Caixa. Criminal Intelligence Service personnel reviewed a copy of his resignation letter to GTECH that corroborated his statement. GTECH officials stated that Nabuco was terminated, though no explanation for his termination was given.

Criminal Intelligence Service personnel learned that GTECH Brazil made a November 18, 2002 payment to Dreamport Brazil for \$1.542 million. That same date, Dreamport Brazil transferred

the money to Dreamport USA, a company in Boca Raton, Florida that Bruce Turner stated was created in the mid-1990's to enter into casino business opportunities, among other things. Turner explained that Dreamport USA had been used as a means of moving cash out of Brazil. Information received by DPS investigators suggests that Rogerio Buratti had an account at the same bank where Dreamport USA had its account.

The amount of money paid and transferred is also approximately the same amount of money that Buratti was allegedly attempting to extort from GTECH.

Also of note is that DPS investigators were told by Bruce Turner that Dreamport USA had been closed in 2000. On July 13th, 2006 Turner explained that the fact that the company's account remained active was not unusual as contractual expenses and revenue from the company often continues long after they are closed. Turner continued to affirm that no money was paid to Buratti.

In an April 19, 2006 conference call by GTECH's legal counsel Michael Prescott, Prescott indicated that GTECH had discovered an improper payment that they were concerned about discussing because he did not want anyone in Brazil to focus on it.

DPS investigators discovered that the improper payment referred to was made on February 10, 2003 for more than \$380,000.00 and was made to the Brazilian Institute for Social Development, a non governmental organization (NGO), known in Brazil as IBDS. Criminal Intelligence Service personnel learned Brazilian authorities were aware of the payment to IBDS and that IBDS was a paper company suspected to be used in Brazil as a means for laundering money and making illegal political contributions.

Our investigation revealed that the head of IBDS, Fabio Rolim, has an extensive criminal history in Brazil.

Bruce Turner explained that the payment to IBDS was made at the request of one of GTECH's Brazilian attorneys and that Turner did not know what the payment was for. Turner stated that GTECH would not pursue criminal action against the Brazilian attorney because it would not accomplish anything.

In explaining the multiple Brazilian incidents, Bruce Turner stated to DPS investigators that some of his GTECH Brazil employees may have "...flown dangerously close to the sun."

Ultimately, Brazil has split their lottery contract into four main areas that include technology, communications, terminals, and supplies. This new model developed by Caixa for contracting lottery services resulted in increased competition for those contracts. GTECH chose not to participate in competing for those contracts and it is expected that GTECH will be completely out of business in Brazil as early as August 1, 2006. Turner explained that he believes that governments should not get into the technology business, and that this new Caixa lottery concept ultimately would not affect their company.

Trinidad Tobago:

GTECH personnel disclosed to Criminal Intelligence Service personnel that the country of Trinidad Tobago discovered that payments made by GTECH to Flexx Avitar, a company based in California, were actually diverted to pay Trinidad Tobago National Lottery Control Board officials in the amount of \$1.9 million. These alleged payments occurred between 1999 and 2001. According to media reports, this is one of multiple investigations being conducted in Trinidad Tobago on GTECH.

GTECH explains that they hired Flexx Avitar to provide for community programs in Trinidad, and that the amount of the agreement was \$2.8 million. This agreement was part of their lottery contract extension or renewal. According to Bruce Turner, Flexx Avitar came to GTECH and presented their proposal to provide those community programs. GTECH approached the Trinidad NLCB officials who gave their approval to hire Flexx Avitar.

Interestingly, Bruce Turner admitted that there was no written contract with Flexx Avitar. He also indicated that GTECH relied on their Trinidad employee to oversee their agreement with Flexx Avitar. No other audits occurred.

Board members who were interviewed explained that they don't suspect that GTECH will be found to have committed any wrongdoings.

Criminal Intelligence Service personnel are aware that an independent auditor has been hired by Trinidad to conduct an investigation and that Trinidad has asked the Securities and Exchange Commission to conduct an investigation.

Poland:

In an effort to look at a similar consultant/lobbyist relationships as Brazil and Trinidad, Criminal Intelligence Personnel were made aware of the consultant hired by GTECH to assist them in obtaining the lottery contract for Poland. This came to the attention of DPS personnel while conducting interviews in Rhode Island and after questioning GTECH personnel concerning "co-terminus" contracts. GTECH personnel advised that their contract with Josef Blass was a co-terminus contract, though we later determined that none of the four existing contracts GTECH has with Blass were based on a percentage of earnings or revenue. DPS investigators learned that Blass' original co-terminus contract was bought out in 2000 for over \$6 million.

The issue that Criminal Intelligence personnel had with the Poland contract was not in the wording of the contract. The issue has to do with the amount of money that Blass was to get over the contracts' life compared with the relatively little amount of work that Blass admittedly did for the money. Blass stated that he never was personally involved in consulting activities in Poland. He in fact had only traveled there once recently for other reasons. As we've discussed concerning the Brazil and Trinidad issues, similar large payments for little or no work have

resulted in alleged illegal activity by GTECH personnel in some countries. Similarly also, GTECH has admittedly not audited the work done by Blass just as in Brazil and in Trinidad.

According to Bruce Turner, only Don Sweitzer, a GTECH Senior Vice President of Global Business Development and Government Affairs, monitors and manages consultant contracts. All consultant contracts are reviewed by Turner annually.

The largest contract between GTECH and Blass was to ultimately total nearly \$18 million over a ten-year period. Blass advised Criminal Intelligence personnel that he hired two people to monitor the government in Poland, which Blass billed back to GTECH as expenses, but that he refused to allow them to use his name in connection with their duties. GTECH advised Criminal Intelligence Service personnel that Blass was hired for his "name" and his influence in Poland that was gained from his participation in the Solidarity Movement.

Blass further admitted that he believed that he received the contracts because he was friends with a former co-founder of GTECH, Victor Markowicz. Turner admitted that Markowicz had recommended to GTECH that a contract be negotiated with Blass.

Criminal Intelligence Service personnel questioned GTECH Board members about this contract, especially after seeing numerous questions by Board members in the review of GTECH's Board minutes. Board members admitted that they knew a lot of money was going to Blass for little work. Bruce Turner admitted to Board members as written in the minutes and he has also admitted to DPS personnel that he alone approved Blass' largest contract.

After these issues were brought up to GTECH's Board members by Criminal Intelligence personnel, and during a July 13th, 2006 interview with Bruce Turner, he stated that at his direction, Josef Blass' largest contract had been recently bought out for a percentage of its remaining value, said to be approximately \$6 million.

Czech Republic:

Bruce Turner was asked on July 13th, 2006 about a Board of Directors meeting minutes comment about the Board not wanting another UK-type incident. Bruce Turner indicated that that statement was in reference to the Board's concern about a \$20 million loan from GTECH for a sports stadium to be built in the Czech Republic that was negotiated during the time that the Czech Republic's contract with GTECH was negotiated.

Criminal Intelligence Service personnel asked Turner for details about the \$20 million loan and whether or not GTECH was in the business of loaning money. Turner advised that this was a necessary business expenditure.

Major Issues for Consideration:

- 1 GTECH's current management is expected to be the management team over the planned new company.

2. No disqualifying criminal history was located on current GTECH personnel who provided disclosure statements.
3. GTECH's Board of Directors are currently all Independent with the exception of Turner himself, and according to our interviews with each of them are not familiar with the day-to-day operations of the company. They rely upon and accept Bruce Turner's explanations for business operations. Under the newly designed company, that will not be the case. LOTTOMATICA's Board of Directors is expected to have DE AGOSTINI Board members as a majority influence. Only three current GTECH Board members will have a place on LOTTOMATICA's planned new Board.
4. Brazil is a complicated matter involving political corruption and a climate that appeared to require bribes to conduct business with state-owned companies. Under these conditions, and fully aware of the corruption in Brazil as the head of GTECH Brazil had already acknowledged as early as 2000, GTECH's contract extension was approved.
 - a. There is a suspicious GTECH money transfer that has not been fully explained by GTECH to a closed subsidiary named Dreamport USA.
 - b. GTECH misrepresented the output of their internal investigation of this incident and has not provided requested documents despite multiple requests.
 - c. GTECH's explanations of their relationship with Buratti are questionable.
 - d. GTECH made a questionable payment to IBDS, a suspect organization in Brazil that has also not been fully explained.
5. GTECH blames one of their contractors for the alleged illegal activity in Trinidad Tobago. They also state that their Trinidad Tobago employees should have watched this company closer. Criminal Intelligence Service personnel note that GTECH entered into an agreement for \$2.8 million with this company with no written contract.
6. Josef Blass, a consultant hired for his influence in Poland and whose largest of four contracts was recently bought out by GTECH, admittedly did little or nothing for that \$18 million contract.
7. GTECH's willingness to loan \$20 million to help finance a sports stadium in the Czech Republic that was described by Bruce Turner as a necessary business expenditure, appears to be completely outside the normal business activity of GTECH, however is evidence to their aggressive contractual negotiation behavior.
8. GTECH's past management style indicates their willingness to spend large amounts of money for consultants with little or no audit process and no accountability for consultant's actions.
9. GTECH's operating style is very aggressive and contracts will likely continue to be pursued by the newly planned company in the current GTECH manner since GTECH will manage the new company.
10. Ultimately, GTECH is likely to continue to take the position that they are the only company that is capable of providing lottery services for the State of Texas.