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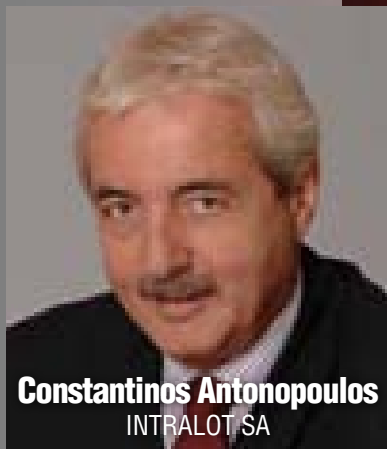
FEATURED INTERVIEWS:



Todd McLeay
New Zealand Lottery



Michele Eichhorn
Illinois Lottery



Constantinos Antonopoulos
INTRALOT SA



Inaugural Presentation
of the **Sharon Sharp Award**
for Good Causes

Lottery Industry Hall of Fame
2009 Inductees:
Gerald Aubin
William Fox
Risto Nieminen
Donald Stanford
Dr. Winfried Wortmann

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PGR Institute is much more than a news aggregator. We follow-up on the news to deliver the perspective and genuine insight you need to understand the gaming industry and how it is likely to evolve. Any questions or comments, e-mail Paul Jason at pjason@PublicGaming.com or call U.S. + 425.449.3000.

Thank you!



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From the Publisher

Paul Jason, CEO, Public Gaming International Magazine

Thank you to **Jim Scroggins** and his magnificent team at the **Oklahoma Lottery** for hosting a fabulous NASPL conference. **David Gale** and the **NASPL administrative team** have totally got their act together when it comes to staging a conference.

And thank you to **John Musgrave** (Director West Virginia Lottery) for his stewardship and service to NASPL as president over the past year. As a result, we've never been in a better place to serve our mission to support Good Causes.

In her first speech as the new president of NASPL, **Margaret De-Francisco** (CEO Georgia Lottery) announced the successful resolution of the cross-selling agreement between the Powerball and Mega-Millions states to sell both jackpot games. Lots of states are moving forward post haste with plans to implement both jackpot games. Let's hope this is the first of many collaborative efforts that hold the potential to reshape our industry in the image of lottery and its mission to serve the public interest.

The inaugural ceremony for the **Sharon Sharp award for Good Causes** was a heartwarming event. Sharon was not only an inspirational leader, she was, as former Illinois Governor Thompson said, just plain so much fun to be around. Rebecca Hargrove and Sharon's children, Laura Brackett and Kip Sharp, reflected on the memories of our friend before introducing the first winner of the Sharp award for achieving the highest percentage increase in funds contributed to good causes. **Tom Shaheen** accepted the award on behalf of the entire team at the **North Carolina Education Lottery**. We're honored to present this award on an annual basis and look forward to NASPL in Grand Rapids, MI in 2010.

Did somebody comment that we need to move beyond traditional lotto? Of course they did, as they have done at every industry conference for the past twenty years. Nobody suggests we shouldn't continue to optimize the tremendous profit stream of lotto for many, many years to come. But the impetus to allocate significant focus, along with concrete financial and human capital, to move into new gaming and distribution spaces is reaching the proverbial "tipping point". That's evidenced by the NASPL conference breakout sessions and presentations, as well as the focus on the trade show floor. Internet gaming is finally assuming its rightful place as a transformational gaming platform, integral to the distribution of traditional games and to the development of an entirely new generation of games.

The regulatory landscape for internet gaming in Europe has just been impacted in a major way. **Philippe Vlaemminck** and **Annick Hubert** explain the significance and implications of the recent European Court of Justice decision in favor of Portugal's right to control and regulate internet gaming within its borders. This is truly a landmark case that will go a long way towards creating a stable and healthy regulatory climate in Europe. That's what's been needed to enable the industry to grow and prosper. For a drill-down look at how an individual jurisdiction is attempting to evolve a gaming model that allows for multiple operators, read **Valeria Fagone's** description of how the regulatory and licensing system works in Italy. (France is attempting a similar "controlled opening".)

Hoping to get a 360 degree perspective on these issues, I asked **Constantinos Antonopoulos** to help us understand the view from the commercial side of the business. Of course, we expected that Constantinos

would have an optimistic view. And sure enough, his thoughts on how and why the promise of a new era of gaming, one in which governments have a clearer picture of what they want to accomplish and how they can accomplish it, is exciting. The role of lotteries and government licensed operators is being reinforced and supported by high court rulings. That's good for lotteries, for the public, and for the commercial partners who thrive in the regulated world of government-licensed gaming. And, we talk about INTRALOT Interactive, the new division that is dedicated to the internet gaming sector.

New Zealand Lottery is the host of this year's **APLA (Asia Pacific Lottery Association) conference**. My discussion with **Todd McLeay**, the CEO of the New Zealand Lottery, ended up probing a lot of uncharted territory. Lots of interesting initiatives to push sales growth in the traditional products, some innovative and even wacky ideas (like the Bullseye online drawing. That's wacky, Todd). It's just what you would expect from the Kiwis: very fun, creative solutions for achieving the desired results. But grounded in thoughtful strategic vision and solid execution. And with an end result that's not so bad ... 16% year-over-year sales increase in traditional games.

I saw a press release in which **Michele Eichhorn** described the Illinois Lottery's new \$30 instant ticket. "Our research indicated that players who have not normally played the lottery, but have frequented casinos, are very interested in playing this game. We are hoping to attract these new players through an exciting digital campaign." My questions about that turned into a more expansive interview. The main theme is that actual consumer behavior may not be conforming to the discreet demographic profiles in which we like to put them. With the proliferation of casino-style gaming, and the emergence of other gamers with new and varied buying motives, it would seemed that we better start creating traditional lottery games that appeal to these new recreational gamers. Michele explains the research that helped them find the points where the buying motives of previous non-players converge with those of loyal lottery players to create new selling opportunities for the traditional games.

The proliferation of Internet poker, the entrance of Sega into the online gambling market, recent European high court decisions, New Media concepts being presented at NASPL ... these are all evidence of a convergence between "gambling" in the casino environment, playing the lottery, and gaming for entertainment only. As **Irena Szrek** says, "There has always been a line distinguishing gaming systems from gambling systems. With the arrival of New Media, that line has become blurry." Security in the off-line gambling world is quite evolved and sophisticated. Security in the digital world is new and evolving. Irena explains the technology that will protect the players and preserve the integrity of the games in the digital world.

We now send out an electronic newsletter four times a week, dubbed the PGRI Daily News Digest. Please visit www.PublicGaming.com or e-mail Sjason@PublicGaming.com to be put on the distribution list.

Thank you all for your support. We need it and depend upon it and are dedicated to working hard to earn it. I welcome your feedback, comments, or criticisms. Please feel free to e-mail me at pjason@publicgaming.com.

— Paul Jason

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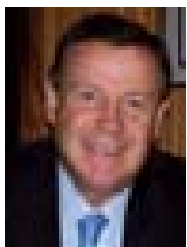
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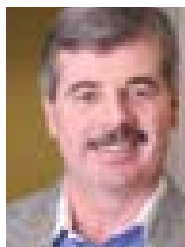
Gerry Aubin, Bill Fox, and Don Stanford were honored at a ceremony held at the NASPL conference in Oklahoma City on October 8. We hope to schedule a similar induction ceremony for Mr Nieminen and Dr Wortmann for January 28 or 29 in London, but do not have confirmation on that yet. We'll keep you posted at www.PublicGaming.com.



Gerald S. Aubin,
Director of the
Rhode Island
Lottery

Gerald S. Aubin is the third Director to lead the Rhode Is-

land Lottery, appointed to the position in May 1996. Gerry is currently Chair of the Multi-State Lottery Association (MUSL) Cashola Group, as well as Chair of the National Association of State and Provincial Lotteries (NASPL) Security Sub Committee, Past President of NASPL, Past President of MUSL, and Past Chair of both the MUSL Development Committee and the PowerBall® Group.



Bill Fox,
U.S. Regional
Vice-President
of Sales,
Scientific Games
Corporation

Mr. Bill Fox has dedicated over 37 years of his career to the advancement of services across multiple facets of the lottery industry. One of the original shapers of the cooperative services model, Bill has been with Scientific Games for over 15 years and is currently Regional Vice President of Sales. Before joining Scientific Games, Bill served in several senior management positions with GTECH, Gamma International, and GameTec.



Risto Nieminen,
President and
CEO Veikkaus
(Finland Lottery)

After serving Veikkaus in a variety of leadership positions,

Risto was appointed CEO in 2001. Risto is very active in international gaming organizations and international co-operation, serving on the Executive Committee as Senior Vice President of WLA, and as a former Executive Committee Member of ELA. Risto and Veikkaus are hosting the next European Lottery Congress and Trade Show in Helsinki in 2011, so mark your calendars!



Donald Stanford,
GTECH Fellow
and Acting
Chief Technology
Officer

Beginning on the team that created the

first dedicated lottery POS terminal, Don then guided the growth of GTECH's software staff from four people in 1979 to over 1,000 IT professionals worldwide, collecting numerous patents along the way. A 30-year veteran of the lottery industry, Don was the Chief Technology Officer at GTECH from 1979 to 2002, and has once again assumed that leadership role.



**Dr. Winfried
Wortmann,**
Managing
Director West-
deutsche Lottery,
Germany

As managing director of the largest of Germany's state lotteries since 1994; and serving as president of the European Lotteries Association in a two-year term that just ended in June of this year, Dr Wortmann has been at the center of many changes in the European gaming environment. His service has contributed immensely to the promising trend towards respect for national rights to control and regulate gambling in the European Union. ♦

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Todd McLeay

Chief Executive Officer, New Zealand Lotteries (NZ Lotteries)

Coming off of a year-over-year sales increase of 16% sets the bar pretty high for future performance. The future for NZ Lotteries includes “bridge strategies” to better integrate internet gaming with traditional products, product development of new games that appeal to the thrill of the unexpected, continuing to pay most attention to your core player market and, most importantly, always staying connected to the mindset of your players. As host to APLA '09 in Auckland (November 9-12), Mr. McLeay welcomes you to participate in the most important Asia-Pacific Lottery conference of the year. Visit www.apla2009.com for complete information.

Public Gaming: There's a wonderful pitch on your website... “Instant Kiwi is all about being positive and optimistic and remembering that life is not a spectator sport! Whether you like to make that feeling last a bit longer with a Crossword or Bingo game, or whether you like the quick thrill of a fast play game. Life is for living – it's about getting out there and giving it a go – Live a Little.” This is part of your new instant ticket advertising and complements the new Lotto ‘Wish List’ campaign which is a radical change from the ad that won the Best Numbers Game advertising award at the WLA Conference in Rhodes Greece in November of 2008. Why change when you had such a good thing going?

Todd McLeay: The short answer is that times change and the advertising has to change with the times. It's very important that the images you project, the feeling that is created with your advertising be tuned in to the attitude and national psyche of the people. Of course, that's changed a lot over the past 18 months.

We actually had this new campaign planned out before we won the award for the previous one in Greece. That was in November of 2008. It takes us between six and nine months to go from the start point to the end point of the process. In the middle of 2008 we realized that even though we were in great shape, our brands are doing very well, people love the products and the advertising, everything's looking like you wouldn't want to change a thing – we realized that we needed

to prepare for the start of 2009 when things would likely be different.

The ad that won in 2008 was very much of a dream ad, what we call aspirational. It told the story of an older man whose dreams include seeing again a long lost love from his youth. He wins the lottery, is able to fulfill his dream to travel and see the woman, then changes his mind and decides to indulge in all kinds of fun and travel and activities that winning the lottery allowed him to do. The theory, though, is that this would appeal to a mindset which has its basic needs satisfied and so has the luxury to dream of indulgence. When we detected that the economy was likely to soften, we knew we needed to change our focus. Our customers' mindset would be less about indulging fantasies as it would be about temporary escapism and meeting more basic needs. People become more concerned with making house payments, solving everyday problems like picking the kids up from school, being able to afford birthday parties, making sure your spouse and family is provided for, basic things like that. Moving from self-indulgence and fun to a focus on security and family. That's why our new advertising is more grounded in the family unit.

Describe your new Wish List campaign.

T. McLeay: A man wins the lottery, and then he remembers that when he was a child he wrote a wish list. The advertising follows him as he goes and finds that childhood wish list and then makes his dreams come true as an adult, now looking at that wish list through

grown up eyes. For example, you see him as a kid trying to sleep in a room with his brother who's annoying him, and he writes in his wish list “Get my own room.” And then you see him as an adult creating a special secret room for himself in a crazy hectic household that allows him to escape and watch sport on his big screen TV in peace. And there's a whole series of ads that we've made around this wish list concept. And the point of them is that they are a lot more about reinforcing the emotions tied in with the sense of family. Building your own room would not have made the cut in a climate of self-indulgence and aspirational dreams. But in difficult times, it becomes more important to help people connect with the positive emotions tied to family and more modest dreams.

How does this affect aspects of game design and prize structure?

T. McLeay: A few years ago we introduced a mid-week jackpot game that was based around aspirational prizes. Rather than just cash, you win a range of prizes. It starts off with two luxury cars and two million dollars cash. Over the course of the following four weeks those prizes and jackpots change so that eventually there's a credit card loaded with cash, a boat, there's a house package, there's a holiday house, there's global international travel. And then once all the aspirational prizes are all there, we start the cash component of the jackpot. This game had been very successful for us. But we knew it had to be revamped this

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Michele Eichhorn

Director, Product Development, Illinois Lottery

Public Gaming: Your new holographic, \$30 scratch-off game includes the casino player as part

of your target market. I've been told that there is not much cross-over between lottery players and casino players.

Michele Eichhorn: That may have been true in the past, but we have researched this extensively and, in fact, have found just the opposite. Casino players can definitely be attracted to play lottery. Player behaviors change. That's why it's important to keep your finger on the pulse of the market at all times.

How are the motivations different for the casino player and what do you do to appeal to those motivations? And how did you figure this out?

M. Eichhorn: We started by simply asking ourselves why casinos players might not play the lottery. What is the player experience that appeals to them and what can we do to deliver that experience? Then we set about doing the research. We relied heavily on focus groups to help us understand how each component contributed to or detracted from the overall player experience.

We approached our research with the tentative hypothesis that one of the obstacles to success with the casino player was the perception that lottery did not offer the excitement they wanted. That turned out to be correct. It is what the players themselves said when asked about their likes and dislikes. The key term itself, 'excitement,' was used by our players. But as you know, people are not always the best judges of why they behave the way they do. Sometimes they literally don't know what their real motivations are. Sometimes they don't want to be honest about their motivations. In any event, what people say and what they do are often two different things. That's why focus groups are so telling. Not only can we see their reaction to

the games through non verbal cues and the expressions on their faces, but we can also use simulated spending exercises to gain a better understanding of how they would behave when presented with different components of the games. It was fun for us to watch because it was apparent that some of the focus group subjects began this process with the expectation that a lottery game would not be fun and exciting. Their enthusiasm appeared to be stimulated by the fact that they were surprised at their own responses.

Not surprisingly, we did find that casino players are more sensitive to the value proposition. The positive aspect of that is their willingness to go to a higher price point if they perceive that as the way to improve their odds of winning. The casino player is very responsive to the promotion that connects higher price with higher value. This was revealed in the spending exercise section of our research. Once the core casino players were educated about the value components of the \$30 game, their spending increased dramatically. The percentage of \$30 game spending increased from 31.5% to 66% after being educated about the game.

One of the insights you gain in focus groups is that many of the elements that appeal to a new player are likely to be different from what appeals to your core player. A basic notion in the case of casino players is that they want the game to be simple. The holographic image gets attention and creates excitement and then they want to know if they've won. That's the thrill of the game for them. So they do not relate as well to the extended-play experience that many core lottery players enjoy so much. Of course, you need to go for simplicity when introducing lottery to any new group of players, whether they're casino players or not. Our research indicates, though, that the motivational impulse of the casino player is still quite different from the typical player journey of the core lottery player. The strategies that will enable us to grow

and change with our casino customer will also be different. It's too early to tell for sure what the most effective player retention strategies for casino players will be, but we expect them to be different from the traditional lottery markets. Overcoming that first obstacle to engaging the interest of casino players – the perception that "lottery is not for me" or "lottery is not that exciting," is the first step. Evolving a player retention strategy that is distinct from the traditional lottery player is the next step.

When you say excitement, do you mean value proposition or the playing experience, or both?

M. Eichhorn: Both. It's the value proposition of the prizes that must appeal to them right away to get their attention. That definitely has to be there. It must come first, and be the cornerstone of your marketing message. But after they play the games, and have fun playing them, they then tune in to the excitement of the playing experience as well. So I would say both.

Explain the research and the process of tapping in to the dominant buying motives of casino players?

M. Eichhorn: We did two whole rounds of focus groups, which is twice as much research as we usually do when developing our products. We also studied the sales performance and conducted interviews with multiple state lottery colleagues who had launched higher price-point games; states like Connecticut, New Hampshire, Florida, Indiana, Texas and Massachusetts. We attempted to get a true 360 degree perspective on the entire higher price-point experience. What exactly happens with every small or large tweak to the model? How does every aspect of the plan impact sales? What happens with every manipulation of the game portfolio and change in prize payout matrix? We basically did a full-blown study of sales performance and tried to glean as much insight from other

...continued on page 26

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Constantinos Antonopoulos

Chief Executive Officer, INTRALOT SA

Public Gaming:

I am thinking that the Portugal ruling opens the door for national governments to move into

the internet gaming space. It seems that there has been a reluctance to do so for countries which did not want to open the door to being told by the EU Commission to open up their markets more than they wanted to. Do you think this ruling might embolden national governments to take more of a 'legalize and regulate approach' to internet gaming?

Constantinos Antonopoulos: I think it's true that concern over compliance issues with the EU Commission and the Court of Justice is an issue with government lotteries. Many do have internet gaming programs. Clear guidance from the EU Commission on what is permissible would free the lotteries up to develop the internet gaming sector. That's true in the USA as well. Nobody wants to litigate with the US Department of Justice or the European Court of Justice. Even when you know you're right, you still do not want to incur the cost, negative publicity, and political hassle of legal conflicts. With the recent ECJ Portugal decision, I do think the European Courts are getting closer to clarifying the laws so that the governments of the member states can be more confident in moving forward with plans to create a regulated internet gaming market.

This does, I think, put our industry at the beginning of a new era in gaming. Governments and Lotteries have long recognized the business potential in the regulated online gaming market. But now you have two things happening at the same time. One, you have challenging economic times that increase the need for governments to raise money for good causes and for government services in general. Two, the highest Courts in Europe are clarifying the regulatory laws regarding internet gaming. Gaming is such an excellent resource for governments to raise revenues. As long as governments have clear guidance from the courts on their rights to protect the public with effective regulatory policy, I do think that more governments will look to their national lotteries to implement Internet gaming.

There are already Internet gaming operators based in Malta and Gibraltar and other 'safe-havens.' How will this ruling affect them?

C. Antonopoulos: I think we will see many ".com" players turn to become ".country" operators. That is to say that the players will want to play on the websites that are sanctioned by their own government and based in their own country. They will recognize that these sites are more secure and honest and safe. Of course, the value proposition will be key in this sector as it is in all businesses. Players will migrate to the best games and the best odds for winning. The increase in competition will likely put pressure on everyone's margins, including the lotteries. But that is an inevitability with all growing industries.

Government lotteries have a big advantage over all other operators, especially the remote operators that you mention. Government lotteries have the most powerful brand in the industry by far. As the field gets crowded with more operators, some of those operators may not have good games or may not be honest. The player will want to affiliate with a trusted and exciting gaming operator. For these reasons, the value of brand in the gaming industry will actually increase. The consumer, the player, will definitely be classifying the different operators according to attributes which become a part of their brand. And government lotteries can enter any gaming space with the advantage of a well-established multi-million dollar brand.

I should add that there are different corporate governance and ownership models in what we're referring to as 'government lotteries.' They don't have to be wholly owned by the government. Camelot in the UK and OPAP in Greece have private shareholders but have been operating as the trusted source for government lotteries for a long time now and have tremendous brand value. The player and the general public typically do not think of them any differently than other lotteries which are wholly owned by their governments. There is a more important distinction than who owns the operator. That distinction is between non-government licensed and the government-licensed operators. Operators which are not licensed are not legal and do not necessarily comply with regulatory and tax laws. If they

are not sanctioned by the governments to operate, then they are illegal, and they should not be supported by commercial firms. And that means licensed in every jurisdiction in which they operate. The ECJ Portugal decision makes clear that being licensed in one EU member state does not entitle you to operate in other EU member states. The operator needs to be licensed in every jurisdiction that they have players.

Governments, though, will be challenged to arbitrate fairly between the concerns of licensed operators which are owned by the government and licensed operators which are not owned by the government. It does appear that most jurisdictions will have more than one licensed operator. I think this new era will include competition between multiple operators, but that lotteries all around the world are entering this new era with a tremendous brand awareness and customer support and support of their vendors. But they really should try to move more quickly to optimize the power of their brand and the special relationship they have with millions of consumers.

How do you think this ruling might affect other regional and national regulatory policies on internet gaming?

C. Antonopoulos: INTRALOT partners only with licensed operators, though, so we are pleased to work within whatever regulatory requirements a member state wishes to apply. I think the end result will be that the member states are now more free to develop an internet gaming industry because they know what they are allowed to do. That is good for INTRALOT because that is the only way we operate anyway, in full compliance with the laws of each and every jurisdiction.

No single ruling, including this one, is likely to be the definitive last word on Europe's journey towards stability in the gaming industry. There will be more regulatory issues that need to be clarified. But this ruling takes an important step towards clarifying the European Union and the European Court's position on the role that the member state government plays. That is really what has been missing both in Europe and in the U.S. The states in the U.S. and the nation-states in Europe need to be given clear guidance on what their

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Valeria Fagone

Public Affairs Europe Director for Lottomatica Group S.p.A.



With the European Court of Justice decision upholding Portugal's right to regulate gaming within its borders; and with the progress of the French and Italian "controlled opening" of the markets, the European gaming industry seems poised to move forward in a positive healthy way. Hopefully, these are signs that some of the confusion caused by conflicting regulatory structures will be sorted out.

Following is a discussion with Valeria Fagone about the way the regulatory system in Italy works. It is a clear analysis of a very important and interesting situation that is a work in progress. To many of us, the Italian framework seems like a very reasonable approach to meeting the demands of the EU Commission for fair trade while preserving the national right to control the way gaming operators do business. A resolution to the conflict between the EU Commission's push for free trade and the member nations' need to regulate the industry in the best interests of their own citizenry would be a good and wonderful thing!

Public Gaming: Please explain how the Italian system of licensing and regulating internet gaming operators works.

Valeria Fagone: Gaming in Italy is a highly regulated sector. Since 2006, a number of legislative measures have been adopted that have introduced a controlled liberalization of the market.

With Decree 4 July 2006 n. 223, the so called Bersani Decree, in addition to the collection of bets through physical point of sales, Italian and foreign operators matching specific requirements could get the right to collect horse and sport bets – both fixed odds and pari-mutual – via internet or other interactive channels (telephone, TV, etc.). The licenses also included any other games that would be allowed in the future by the Italian Regulator during the duration of the license. The duration of the license was established at 9 years.

Around 40 Italian and foreign operators applied and were granted a concession. The main foreign ones are: Bwin, Lad-

brokes, Coralbet, and Intralot. The concession has a duration of 9 years.

As from 1st January 2008, in addition to the operators who obtained the authorisation through the above tenders, it is possible for any operators to acquire the concession as online operator subject to be compliant with the criteria indicated in the tender documents and paying to the Italian Regulatory Authority (AAMS) a concession fee of 300,000 Euro.

The requirements for an operator to obtain the concession were:

- To be a gaming operator in another country;
- To have achieved in the previous biennium a specific turnover, as gaming operator, of at least 1.500.000 euro.

In terms of compliance, it was requested:

- To incorporate a joint stock company under the Italian law; (this will soon change)
- To dispose of a dedicated technology system;
- To put in place a network for the connection between the operator's system for the elaboration of data and the cen-

tral informatics system of the Regulator (AAMS);

- The center for the elaboration of data must be installed on Italian territory (this will soon change);
- the activation of an operational site in the Italian territory (this will soon change);
- A guarantee of €100,000 to cover for the obligations deriving from the subscription of the concession including those concerning the payment of the wins. In fact, in case of no payment by the authorized concessionaire, AAMS can cash the guarantee and revoke the concession.

Transparency and the ability of the Italian regulatory and tax collection agencies to enforce their laws are assured by the fact that the operator's platform (wherever the server is based, either within Italy or outside of Italy) needs to be connected to the central system of the Italian regulator (AAMS). This process ensures that each transaction is checked in real time by the Regulator. The AAMS central system

controls, for instance, that bets have taken place on an authorised event, that the player has a gaming account, and that everything is in order with that specific bet.

It appears that the EU Commission may deem that the requirement that the server be based in Italy to be discriminatory under EU Law. This issue is presently under discussion between France and the EU Commission. That is why the wording is being changed to "anywhere within the European Economic Area" instead of requiring that the transaction processing servers be physically located on Italian territory.

The important point is that the Italian method of regulation does effectively assure that all licensed operators comply with all laws and tax requirements.

There was no limit to the number of concessions that could be allocated for the collection of remote gaming.

The provision of online games by the authorized concessionaires is subject to the signature of a contract of a gaming account between the player, above 18 years of age, in possession of a tax identification number (fiscal code) and resident in Italy,

and the concessionaire. The scheme of the gaming agreement is approved by AAMS. All the transactions concerning the bets, the winnings and the reimbursements, are registered on the gaming account and transmitted in real time to AAMS.

The player can activate multiple accounts with various concessionaires but only one with a single concessionaire. The opening of the gaming account can take place in a physical point of sale or online by electronic payment.

Taxation is applied where the player is resident (country of destination) and is calculated on the stakes. The amount is a % established and updated by the Government and varying according to type of game.

Following the adoption in Italy of the EU directives 2005/60/EC and 2006/70/EC on anti-money laundering, additional specific rules have been introduced on the collection of online bets that provide for an obligation for each concessionaire to identify all the players that undertake operations of above €1,000, as well as the obligation to record on their archives all the personal identification data of the player,

the transactions of the plays and the IP address for the internet connection.

In addition to fixed odds and pari-mutual betting, instant lotteries and skill games can be collected online.

In the past weeks, new pieces of legislation were adopted in Italy that will change the online gaming sector substantially.

The first is the decree for the reconstruction of the Abruzzo region following the earthquake, which provides for a number of measures aimed at raising 500m Euros in three years through gaming. Novelties introduced by this decree include the launch of online Casino Games (Fixed odds chance games, card games different from tournament e.g. cash poker), peer to peer betting, virtual betting.

The second act is the Italian Community Law 2008, which is substantially updating the requirements for the granting of online gaming concessions providing for a maximum of 200 new concessions of the duration of 9 years; opening to non gambling operators who can from now ap-

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Irena Szrek

Future-Proof Security in the New Media Age

On-line poker fraud has received lots of press over the past year. In just one example of that, the software powering a leading Internet poker site was manipulated so the insiders could see their opponents' hole cards (see <http://www.msnbc.msn.com/id/26563848/>). This fraud triggered a \$75 million claim against the operator. It should be noted that the abnormal winning pattern was not acknowledged initially by the operator. Only after a long period in which players protested the problem was it finally analyzed by the operator and the fraud acknowledged.

What is the relevance of this problem to the lottery?

There has always been a line distinguishing gaming systems from gambling systems. With the arrival of New Media, that line has become blurry. Introduction of interactive games on internet and mobile platforms and competition with grey market operators have made a big impact on the lottery system environment. Systems that used to be limited to dedicated private networks have become open and interconnected between different operators and providers. This has created an entirely new set of player-operator relationships. The stable pace of evolving traditional games has accelerated greatly with the introduction of new interactive channels and new types of games: instant win games, monitor games, multiplayer games, etc. Systems are becoming much more complex with lotteries offering many more games via multiple channels. The time to market of a new product is becoming much shorter, content may be coming from many sources, different licensing models are being applied, such as white label operation, etc. All of these changes create a major challenge for lotteries and require new operating models. The good news is that State and government sponsored lotteries have a huge advantage over the grey market: legality and honesty of the games. This gives lotteries a tremendous opportunity to differentiate themselves in what is becoming an increasingly competitive market. Players already perceive lotteries to have a higher level of integrity. Lotteries need to leverage that perception to win the players over.

New Media system architecture needs to accommodate the new operational requirements and at the same time ensure game security and integrity in the new environment. Security design of these fast-paced systems needs to be future-proofed. That is, it should permit ensuring and determining system integrity regardless of ongoing system and game changes. System security should be built-in so that when new products are being added they will fall into existing security infrastructure. System security should be immune to insider fraud so that a supplier with access to system software and data should not be able to use that information to profit from it illegally. Physical security, access security, and traditional audit (ICS) are no longer enough. For fast paced games the traditional methods of storing data on a digital media and placing it into a safe no longer work.

Traditional audit has been centered on security of process of operations and wager / transaction / ticket security. In the interactive world, the processes are different. The games and their dynamics are different. To ensure security of these games there must be a proactive and fast process to audit the games. Auditable data needs to become an integral part of gaming systems to verify process correctness, addressing issues in a proactive manner, not reactive. Traditional elements of security –

physical security and access security – should be augmented by tamper-evident data; this data should be automatically verified by audit systems so that insiders with access to systems and information would not be able to take advantage of that without getting caught. New innovative solutions are needed to address these challenges.

Fortunately, the technology does exist that offers tools for ensuring security in this new digital world. There has been tremendous progress in information security over the past two decades. The biggest invention in IT security – Public Key Infrastructure (PKI) brings a lot of promising security tools to the gaming environment. PKI is a method that can be used to authenticate and verify games and data. Digital signatures, one way hashes, asymmetric encryption, secure data exchange and digital time-stamping allow creation of auditable data trails and ensure future proof audit.

The PKI based technology is not new to lottery systems; it has been used since the early 90's but in a very limited fashion. It was first introduced by GTECH in California for lottery tickets authentication. German lotteries started using digital time stamping of transactions before the drawings to ensure that wagers were not modified after the drawings. Similarly, Euromillions member lotteries deposit digitally signed game pools before the drawings to ensure that bets are accounted for before draws. Danske Spil, the Danish lottery, introduced auditable random number generation of instant tickets in their internet solution and auditable drawings and individual transactions time stamping for eBingo. Lottomatica uses verification of instant bets placed over internet.

While there are more early adopters and a few commercial offerings of auditable solutions based on PKI available, the industry is relatively slow to implement this technology. It seems that the main reasons for that slowness are the lack of requirements from regulators, the lack of understanding of the insider threats and the added cost. Security continues to be enforced by traditional methods of data access security and logging of transactions to independent balancing systems (ICS). Even the WLA Security Committee appears to be mainly concerned with enforcement of secure processes and procedures and less with a future-proof audit that will make data and process provably secure by analysis of data.

As New Media lottery environments become more prevalent, use of PKI innovative solutions enable the design of security models that will withstand the challenges and protect the players. For example, with PKI technology on-line poker fraud mentioned above could be circumvented. Asymmetric encryption methods allow implementation of algorithms for card distributions such that a player can know the full hand of cards he/she was dealt by the gaming system without the gaming system having access to this information. So, even insiders having access to the gaming system internals would not be able to see cards of other players.

As Lotteries in the US enter the New Media markets, they need to challenge themselves and their vendors to provide future-proof secure systems that offer gaming security to players in this fast changing, dynamic environment ♦

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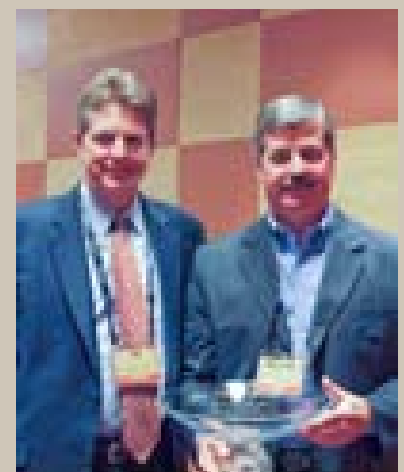
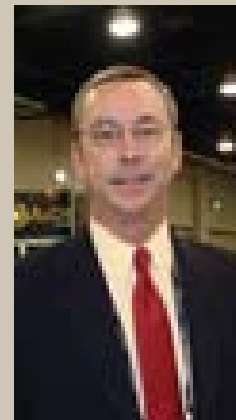
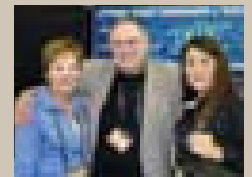
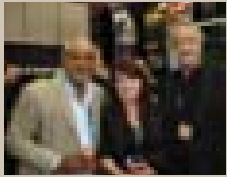
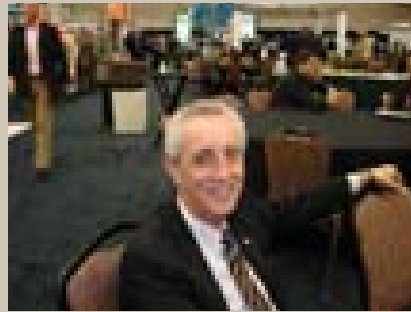
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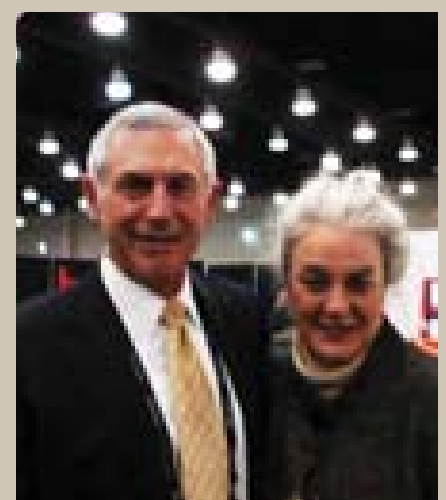
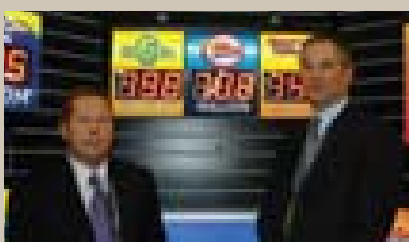
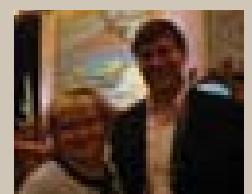
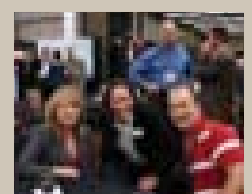
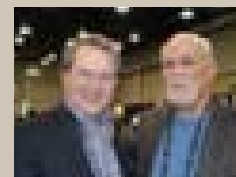
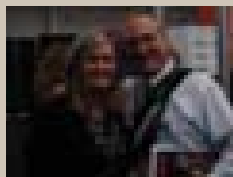
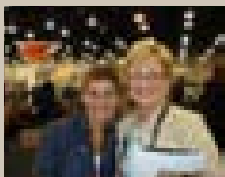
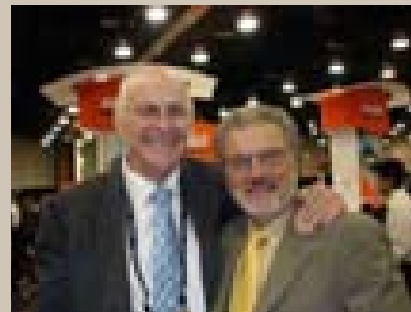
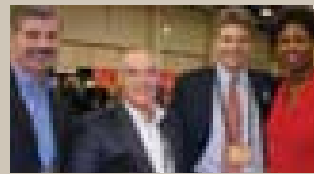
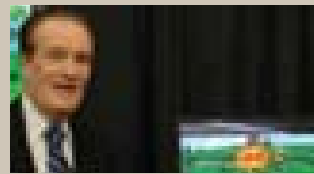
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L-R Laura Sharp Brackett, Tom Shaheen, Rebecca Hargrove, Kip Sharp

The Sharon Sharp Award recognizes and honors the lottery which achieved the highest percentage increase in net funds contributed to its beneficiary. Ultimately, this is what we're all in this business to accomplish...maximizing the funds contributed to lottery beneficiaries.

This award is being named in honor of a person who is no longer with us but who has done as much as anyone to help this industry be the best that it can be. As a former director of the Illinois and California lotteries, Sharon Sharp embraced the true mission of lottery with an enthusiasm that always reminded everyone of just how privileged we are to be a part of this industry.

Congratulations to Tom Shaheen and the North Carolina Lottery for its impressive accomplishment of increasing net funds to education by 18.9%. That's amazing and sets the bar pretty high for recipients of the Sharp award for Good Causes! ♦

year because people were no longer thinking so much about luxury cars and global travel and other items of indulgence. The main thing is that we stay connected with the national psyche. You don't want to push images that are just not reflective of where people are at mentally. There is an emotional and psychological pulse that we want to always stay connected to.

Does your internet strategy include "bridge" products to smooth the transition?

T. McLeay: One that we've created ourselves is a low-cost new game we call Bullseye. You pick a six digit number and the closer you are to the number that we draw, the more you win. We have tried to keep the game play as simple as possible. The kicker is the draw. We've created a really engaging online draw experience online for this new game. It's the first time we've launched a game where we're not trying to communicate the results on the television or through traditional media. If you want to see the draw, you've got to go on-line, and when you go online you enter your own number to have a read individualized experience. The online draw shows a quirky character who jumps off a building and flies across a city to a giant bullseye, and based on what the winning number was, he'll splat against the wall at the distance from the bullseye that correlates to how close you come to winning the prize. We've designed this game play to appeal to for younger adults, particularly the demographic of 25-39 year old males, which is different to our traditional lottery games. We know these people spend a lot of time online so we are trying to reach out in ways that might get their attention. You can buy the tickets online or in the retail store and view the results that evening. It's a low-cost game and it's a unique and funny draw and we hope it will attract new players to the lottery.

Isn't there something about the younger generation that prefers to not be marketed to, that prefers to think that they are too individualistic to be classified as part of a demographic segment? This demographic segment likes to create its own communication network in the form of viral marketing. Do you expect or deliberately plan for this with your Bullseye draw?

T. McLeay: Definitely. Except we're not so bright yet to be able to launch a game without some sort of mass marketing to support it. So we'll kick off with a campaign to build that critical awareness.

The internet has laid the groundwork for a social networking culture that will be an increasingly important component to marketing the product. But it's much more than that. The internet will drive major changes in the games themselves. Our view is that we are already encountering a fork in the road. Products that lotteries develop for online in the longer term, i.e. internet gaming, will be very different than the ones that we offer our retail network. Bullseye is a hybrid, in that you can buy through both channels.

I think there's a vast difference to the way that people under the age of 35 live their lives and the way they think, their affinity with technology and electronic media and the new forms of social networking that the internet has spawned – all these things are resulting in a player whose interest is unlikely to coincide with those of their elders. They've grown up in an age where the concept of passively watching balls roll out of a barrel as a form of entertainment is not enough for them and no, they won't grow into it. So we will need to engage this next generation with a whole new playing experience.

A lottery is all about the thrill of the experience. If we deliver

that thrill, the players will come. We need to create a different playing experience to thrill the next generation of players.

But it's not about re-purposing the traditional games for a new channel, the internet?

T. McLeay: Correct. I think the lottery industry faces some real challenges if they just try to migrate the traditional products over to the Internet. That may be what we do in the beginning, but we need to plan on inventing completely new games and playing experience for the next generation of players. Think about it. Everything has a life cycle. Products all have life cycles and when they start to mature and decline, you have to invent new ones to take their place. All businesses have to create new products to replace the old. It's time for us to do that. We need to invent a type of game product.

You make it sound somewhat urgent. What about the "Long Tail" of the traditional core lottery player?

T. McLeay: This is a massively long tail that will continue to be the driver of the lottery business and is the reason why I am quite confident that everything will evolve in a timely fashion. In fact, when people ask me what am I going to do about getting the attention of younger people, I tell them that I don't have to worry about that as much as staying connected to the mature but still incredibly robust traditional player market. The people we hire now in marketing, and as product managers, are from this younger generation and their creativity is already percolating up. I can see the strategic direction for game development and it will be based on a completely different playing experience that will appeal to the generation that grew up on video games, Facebook, and instant messaging. But while all our new hires are tuned into that, we also need to retain our focus on serving the segment that will continue to dwarf the size of the millennial generation for at least the next 20 years.

It's a fascinating period we find ourselves in right now. I think years from now we'll look back and think of this as the age of clunkiness. We're smart enough to invent and develop a whole lot of technologies that have the potential to have a profound impact on the way we all do things. But we aren't smart enough to integrate them in a way that enables widespread application. Actually, though, I think we are getting close to the end of this age of clunkiness and that migration to the next generation of everything is going to accelerate in the next two years.

We can't wait to visit New Zealand. You've got an amazing conference planned for APLA '09. What will the focus of the conference be?

As the world works to pull through more challenging economic times, the challenge we face is to ensure that our businesses remain successful and at the forefront of our industry. This is reflected in the theme of our conference which is "New Horizons – Asia Pacific Lotteries Responding to a Changing World."

This conference will provide valuable insights on how to meet this challenge. There are three strands to this conference:

New Challenges: the changed economic environment brings challenges for the lottery industry, our customers, products and our leadership. Our experts share their thinking about the current situa-

...continued on page 24



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Going back to the attitudes of the players, of the consumers. You talked about how they change when moving from a prosperous period to a tighter economy. How about between the generations?

T. McLeay: An obvious one is that the notion of security and removing uncertainty from our lives is giving way to an attitude that basically assumes everything always turns out alright and life isn't about removing uncertainty. Younger people enjoy the unpredictability of life and don't think of it as being a bad thing. In fact, the orderliness and predictability that the older generation worked hard to create has become a regimen that is not always appealing to young people. To some extent they yearn for happenstance and think of uncertainty as holding the possibility for good things instead of bad things. I'm seeing some very clever ideas on relating this impulse to game concepts. We can easily do this with our marketing right now by just introducing the thrill of the unexpected, the thrill of the possibility as a break from the routine of life.

Proposition: We're in the second half of the

recessionary cycle which means that it is the ideal time to invest in growth, anticipating the return of consumer confidence, etc. Agree? Disagree?

T. McLeay: I don't know, which in effect means that I can't agree with that statement. I would like to think that we are well-positioned for the bounce-back. But to put it bluntly, we like to be prepared for the worst and have been quite rigorous in economizing where we can. We've adopted a conservative approach to our budget and warned our stakeholders that we may not deliver the profit that they've always seen. We have been committed to doing everything proactively, not waiting until we are forced by circumstances to cut back. So we did a preemptive restructuring, looking for ways to reduce our costs. We began this restructuring last year even though we expected the ongoing revenues and profits to grow. And they did. Our financial year which ended in June was massively bigger than any previous year. So even though it may be true that we are in the second half of the cycle, our focus on keeping costs down, and efficiencies up, is in fact greater than ever.

Focusing on cost reduction has revealed opportunities to improve your business operations. And this is would be a good thing regardless of macro-economic circumstances.

T. McLeay: Exactly. For instance, we found some of the key providers to our business, particularly media organizations, are really struggling in this environment. That's enabled us to get some very good deals. We spend quite a lot less on advertising but end up advertising more. The mind-

set that finds these opportunities is one which is intent on reducing costs. So from our point of view, you don't ever want to allow positive expectations to diminish the intensity and focus of improving bottom-line profits and the funds we can contribute to communities and good causes.

By keeping the intensity on when the economy and your own financial performance is good enables you to weather the more difficult times.

T. McLeay: As Wayne Gretzky said, it's not about where the puck is, it's where it's going that matters. Of course, it is very difficult for people to understand why in the midst of our best year ever that we would be reducing payroll and actually incurring some job losses. The answer is that I would much rather be in a position to outpace people in an environment where we were able to support them more fully and the hiring climate is not negative like it is in a recessionary environment. I frankly think we are positioned just fine for the economic upswing. But my priority has been to minimize the downside risk in unpredictable times like these.

Your most recent fiscal year was quite the amazing increase in sales...16%. And what are some of the things that you did to achieve that?

T. McLeay: Basically focused on incremental improvement. Somebody at a company meeting said, "That is such a boring name. Can you guys not do better than that?" I said we're too busy executing to work on a better name for it. Just trying to go from Good to Great in every single area of the business. ♦

Constantinos Antonopoulos Interview ...continued from page 14

rights and responsibilities are when it comes to internet gaming. So anything that contributes to clarifying that is a good thing for everyone.

INTRALOT's position is clearly defined. We operate only in the government-licensed world and have been consistent with this principle throughout our 17 years of operation in the gaming industry.

Are there mechanisms, legal and/or technical that prevent the operator based in Gibraltar to take bets from residents of Portugal or Germany over the internet?

C. Antonopoulos: There are both technical and administrative mechanisms that operate to prevent the ".com" remote operators from taking bets in a regulated jurisdiction. On the one

hand, there is the example of Italy and Turkey, where the government restricts access to prohibited ISP addresses, and also utilizing the social security number based registration process. Various other countries, such as France, seem ready to follow this example. Another mechanism is the one presently used by the U.S. They block the transactions from being processed by the merchant banks and financial institutions. They have actually confiscated funds as a means of enforcement, so that acts as a powerful deterrent. Germany may end up using the U.S. method of enforcement. The answer is that there are ways to control and regulate the internet gaming industry, and also to verify age and location of the players, and they do work quite effectively.

How will this affect INTRALOT directly? Is

I², Intralot Interactive, a division of INTRALOT SA, or a separate company altogether? What are the synergies between I² and the divisions that support all other aspects of lottery games?

C. Antonopoulos: I² is the new subsidiary of our Group that will capitalize all INTRALOT's assets concerning online Gaming. The strategy of the newly established company is to focus both on providing its pioneering technology to Lotteries and State Organizations worldwide and on seeking licensing opportunities for operating in the new liberalized gaming environment. Interactive gaming is a whole new area that opens great potential for our industry since it creates a wide new market. I² will definitely pursue opportunities that are within the framework of the

...continued on page 29



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peoples' experience as possible. This gave us a solid foundation and framework to go to the next step which was focus groups. We conducted focus groups with over 80 people participating. We presented the games to them in a variety of ways to isolate the most relevant drivers of behavior. For instance, we did a simulated spend in the beginning without telling them much about the game. Then we educated them on the various components of the games and did another spend after they had a chance to "play" the games. That revealed the importance of building that education right into the initial marketing message. You might think that's obvious, but it's not enough to know that an educated player is more likely to buy. You need a much more precise measurement than that to truly inform your marketing and promotion strategy. Core lottery players who enjoy playing similar games already will play without necessarily understanding the details of the game, knowing that they'll get even more of a kick out of it when they do figure it out completely. For these players we put more weight on their responses to the changes we considered making with the game. For example, traditionally, we avoided offering annuitized prizes for our high price point games. This was the result of responses we received in focus groups that were conducted in previous years. Given the changes in the economy and also other variables in their environments, their willingness to accept annuitized prizes changed. They were much more willing to accept these types of prizes at this point in time if more prizes were included in the pool for them to win. With casino players, we found that the second spend in the above example increased exponentially. The fact that it increased did not surprise us. The fact that it increased as dramatically as it did, more than doubling, did. It's that kind of insight that can really focus our game design and marketing strategies.

It seems, then, that we've got two different player profiles with two different play styles and preferences.

M. Eichhorn: Definitely. Actually, it's more than two. Completely apart from the casino player profile, the kinds of stakes we're talking about with a \$30 price-point are quite different than a \$2, or \$3 or \$5 game. I think it is because the industry is trending towards the higher price point

games that multiple new player profiles are evolving so quickly. It's attracting a completely different type of player with different motivations and we need to factor these differences into our marketing and strategic planning.

It would seem that some of these different sets of buying motivations would be in conflict with each other. Doesn't that create a challenge from a branding and marketing point of view?

Yes, but not one that is impossible to deal with. You just need to give your players a choice, letting them define themselves and decide for themselves who they want to be. We should never underestimate the power in giving our players a choice. We need to provide them with the products and promotions that meet their needs. This requires a wide variety of products and promotions if we are going to successfully meet the different needs of all our customers. The fact that attributes that appeal to one group do not appeal to another is okay. It's all about giving the players the choice about what kinds of games they want to play. Yes, it does require a broader variety of products, building of parallel marketing and even distributional strategies, and being creative in other ways. This will impact the concept of branding in ways that we haven't exactly figured out, but the challenge of evolving the brand to stay consistent and relevant to your customer is much bigger than having parallel marketing strategies. This too goes back to the proliferation of variety and choice that the customer is becoming so comfortable with. The brand needs to broaden its appeal for a more diverse audience and at the same time sharpen its focus for each narrow target audience. Let's just say it's an interesting challenge!

The consumer is being offered a wider variety of options to choose from. When the lottery player tries out some of the games enjoyed by the casino player, perhaps even visiting a casino since they are so easily accessible now, shouldn't we expect that core lottery player to adopt some of the behavior and motivations of the casino player?

M. Eichhorn: I think there's definitely a convergence there. The \$30 game is only one example of that. I think that the proliferation of VIP clubs and games for fun, which we consider to be bridge products, are all examples of how players will redefine who they are and what they want.

We'll need to be quick to recognize these changes early on so that we continue to always have the right products in place. I think you're going to be seeing much more of a convergence with the casino player and the lottery player as we move forward.

I'm expecting it to work both ways, though. Casino players are used to focusing on odds of winning. But why wouldn't they also be responsive to the traditional 'hope and dream' of winning a large jackpot for a relatively small wager? And just because they don't initially seem to be responsive to the more complicated products designed to retain the interest of long-time lottery players, that doesn't mean they might not learn to enjoy those just like any other player that is new to lottery. And as lottery players become bombarded with more and more promotions hyping the higher payout percentages in the casino gaming space, why should we think they are immune to thinking about the odds of winning along with the size of the jackpot?

Gets confusing!

M. Eichhorn: A little. But keep in mind that none of this will happen overnight. In fact, it would be a big mistake to get ahead of the curve and change too abruptly. We have a huge customer base who's perception of us, and who's playing experience, is based on the traditional components and value propositions. We need to respect that. Obviously, we can't do anything to jeopardize our relationship with those core players.

But fortunately, we don't have to choose between one or another. We can create the variety of products that enables the customer to choose. And we need to approach the whole issue of evolving our brands, product designs, marketing messaging, and everything else from a long-term point of view. In the end, the driver really needs to be preservation of the profit structure that the entire business currently resides on while preparing for this convergence that we're talking about. The migration of player styles and preferences will require new products to be in place when they're ready for them, and the bridge products that will smooth the transition. While it's true we have a crawl, walk, run approach, I would also say we should be prepared for the evolutionary process to accelerate.

You've been innovating on the retailer

end of the business too.

M. Eichhorn: Yes. A very important part of our agenda is to create “win-win” situations for all of the stakeholders in the process including all of our business partners. Just as we have focused on creating “win-win” situations with our vendor partners through innovative proposed organizational structures, we also believe in fostering innovation with our retail partners. The more rewards our business partners earn through working with us, the more willing they are to share in the controlled risks that are needed to be taken in order to develop the innovations that are necessary to bring us to the next level of success. For our retail partners, we implemented a new ordering system that allows us to manage inventory in a more customized fashion. As we customize our service to meet their needs and reach their objectives, it maximizes profits for both of us. What this new ordering system allows us to do is to thoroughly analyze each business partner’s location and determine what sells best in that particular store. This enables us to send them the products that are most likely to perform well. We also applied this more customized analysis to our merchandising efforts which will help them become more successful. In the past, our inventory management decisions were predominantly based on aggregate statewide sales data. Now, with our Precision Order Process (POP) system we are able to customize the product mix, optimize the number of bins in each store and provide the right merchandising choices that will showcase our products in the best way possible for each location.

We also rolled out fun and exciting ticket release parties with our retailers for the \$30 game. We deliberately chose retail locations where a high probability of casino player traffic existed. We chose OTBs, as well as gas stations and convenient stores that were close in proximity to our casinos. It was a fun experience for the Lottery and our retail partners, and I believe it went a long way in creating a partnership in terms of risk and reward for everyone. We both have a stake in a successful product launch.

Are you talking about customizing the inventory management plans for each store? How many retailers are there?

M. Eichhorn: We have approximately

7,500 retailers, but we don’t necessarily have 7,500 different optimization plans. What we do have are the tools to let us analyze it in as detailed a level as we want. If we were able to implement each individual customized plan immediately, then we would do so. It will take us quite a bit of time to get to the level of customization that we ultimately would like to achieve. We can analyze all components of performance, right down to the individual games at each individual store. Instead of relying on statewide performance to dictate the product mix for each store, we can now see which games are selling well in each location and adjust the mix of games accordingly. The automated part of the system, POP, is integral in the implementation of this process redesign initiative. It’s a pretty sophisticated system that was developed in conjunction with our gaming system provider, GTECH. This overall process redesign has definitely helped us to increase our sales especially as it was used with initiatives such as our \$30 game launch.

The thought of customizing the inventory management of 7,500 retail locations can be overwhelming, but if you break it down into a systematic process, it can actually be done quite effectively. For instance, even though you can drill down to as much detail as you want, the way to start the process is to identify segments of your retail base that have a lot in common and build a marketing plan for that segment. Then you can subdivide as time and resources allow.

Let’s consider how we used it for our \$30 game. We wanted to get it into as many stores as possible where the probability of selling it was very high. In 75% of those retail locations, this meant eliminating a bin from the mix in order to make room for this new game. Instead of just looking at the weakest performing game on a state-wide basis and pulling it, it is now easier to identify the lowest ranking game at each price point in each store and pull the least profitable game in that specific location. In this example you have, in effect, customized the inventory management for 7,500 different locations.

In your promotion of the \$30 game, you emphasize the odds of winning as opposed to the size of the jackpot.

M. Eichhorn: Yes, it is all part of the idea of training our players. Training the players in all kinds of different ways is an

important part of our long-term strategy. It can seem an uphill battle at times, but it’s imperative if you want to grow the business. When put into a long-term context, it’s not so difficult. One of those ways is to get the players to think more about the odds of winning instead of the size of the jackpots. We started using this line of messaging with some of our older games. The \$5 bingo is a little bit of a different scale than the \$30 game, but it exemplifies the idea of stating the odds in a different way that is meaningful to our players. We started stating the odds of winning prizes of \$1,000 or more. With the \$30 game, we really stressed the incredible odds, 1 in 180,000 of winning between \$1 million and \$3 million. In comparison to our other instant games, this is quite impressive. Another tool we used along this same line is our POS pieces and digital advertising. We state the odds in a different way and compare the overall odds of 1 in 2.46 on this \$30 game to the odds of getting snake eyes when they play craps and the odds of getting a royal flush when playing poker. This was very effective at creating a context that the casino players could relate to.

Repetition used deliberately can also be effective in training our players. Instead of introducing a brand new idea or component with a critical product launch, it makes sense to introduce it numerous times first on smaller scale products to allow players to become accustomed to the new idea or component.

Another example of training players is getting them accustomed to longer-life games. In order to create the larger prize pools, which are necessary to sell the higher price point games, you have to have longer print runs. We started introducing longer print runs with our \$2, \$5, and \$10 games in anticipation of launching a \$20 game and, eventually, a \$30 game.

Training our players was integral in reaching one of our goals, which has been to move our players up the price point ladder. We trained our players slowly, taking a very systematic approach over the past five years. Over this time period we’ve increased our average spend from \$1.86 to \$3.13, which is a pretty large increase. Without training our players to accept critical components necessary to create high price point games, we would not have realized the successes we have experienced with our initiatives. ♦

ply for the concession (technological and infrastructural capacity needs to be proved and an additional performance bond is required equal to €1,5 million); the requirement of the incorporation of a joint stock company with legal headquarter in Italy is no longer requested and it is necessary to be a joint stock company incorporated and based in one of the countries of European Economic Area-EEA; the Central System could be based in one of the countries of the EEA and not necessarily in Italy. Community law also delegates the requirement to the Italian Regulator to put in place specific measures aimed at the protection of the players in terms of auto-exclusion from the game and age verification; etc.

The third act is the so called "anti-crisis decree" which contains rules for concessions for gaming machines (VLT) and for the opening of a tender to multiple operators for the concession of instant lotteries.

Are the Italian government and law enforcement agencies successful at forcing all operators to comply with the rules and regulations? Are remote internet operators who are not licensed successfully blocked from the Italian people or are they able to get around the barriers?

V. Fagone: The challenge posed by illegal operators in Italy is an important one that is at the heart of the concessionaires' and AAMS' concern.

With a decree issued in 2007, rules for the removal of gambling offers without concession were established in Italy. The system is quite effective and a very large number of illegal websites were blocked by AAMS in cooperation with the Postal Police. The Regulator communicates to the ISPs the list of unauthorized operators and the timing for the blocking of their websites. The list is available on the Regulator's official website. The ISPs are obliged to inform the Regulator of illegal activities and all the information for identifying the illegal operator. According to a survey published recently by the Italian Regulator, the outcome of these activities is very positive: From 500 blocked Illegal website in 2006 to 1500 at the end of 2008. The problem is not related to the unauthorized gambling operators but to the unauthorized operators which attack the Italian market with physical points of sale.

How do you think all this is likely to evolve?

V. Fagone: Considering the risks linked to gambling and the need for a strict regulatory regime to be able to control and limit these risks, the central question is whether the current situation warrants for a European regulatory framework and to what extent.

This has been the central theme to the debates at EU level, in the European Parliament but also within the EU Council. What has already become clear is that a prohibition of online gambling is neither feasible nor acceptable.

As said earlier, EU member States have the right to impose restrictions in the area of gambling if these restrictions are dictated by public order and consumer protection objectives and concerns and if they are proportionate and non-discriminatory, as foreseen in the EU Treaties and in jurisprudence. Gambling policy and regulation should therefore remain essentially national. However, given the cross-border nature of online gambling, we think that there is a need of a European chapeau in order to give certainty to the national rules. Issues such as enforcement measures, fight against unauthorized operators, consumer protection etc. require a transnational approach.

Italy licenses more than one operator in most gaming categories, don't they? How does it work in instant scratch-offs and lotto? What are Lottomatica's market shares in the different gaming categories?

V. Fagone: Yes, all games in Italy are operated in a multi-concession regime except lotteries.

Lottomatica Group is the sole concessionaire for Lotto Game since 1993.

Also for Instant scratch-offs (Gratta e Vinci), the system adopted by the Italian Government is of a sole concessionaire. The current concessionaire is Consortium Lotterie Nazionali which Lottomatica is part of.

Lottomatica Group, considering all its subsidiaries, operates in beyond 50 countries. The greater part of the operating activity is carried out in Italy and the United States. As far as the activity of operator of games Lottomatica represents the main operator in Italy in terms of sales with a mar-

ket share of 49%-50% (to be checked) considering the entire Italian gaming market.

Is there anything that you would like to communicate about Lottomatica, your strategies in Italy and/or Europe in general, new initiatives that have proven to be especially successful, etc?

V. Fagone: We are very proud to announce that Lottomatica is the first Italian operator to receive certification of compliance with the responsible gaming standards established by the European Lotteries Association.

As well as Lottomatica, other international operators to have participated in this first certification process which was carried out by a third party – Deloitte – and verified the company's commitment to creating and developing a programme to protect players and to promoting a model for responsible gaming in compliance with European Lotteries Association standards. The Lottomatica programme touches on various areas. Firstly, the company commissioned a research project to understand the phenomenon of problem gaming. Having formed an "identikit" of at-risk players, the research outlined a number of areas in which action could be taken to educate people on responsible gaming.

At the same time, Lottomatica began working alongside organisations that operate in the area of responsible gaming, and launched a series of actions to educate the sales network and its employees on the issue, providing them with an information kit on Responsible Gaming in order to shape the behaviour of those employees that come into contact with players. In accordance with the standards laid down by the European Lotteries Association, Lottomatica has introduced a programme to monitor eventual risk factors before the launch of a new product. Finally, as regards guarantees of a safe gaming platform, Lottomatica now offers users of the www.lottomatica.it and www.totosi.it games websites the chance to create personal profiles to avoid excessive game playing, using self-assessment parameters and parameters to limit or prevent their game play. ♦

regulated and government licensed world. I² will operate as a both a B2B and a B2C company. We have always been a trusted partner for the Lotteries and a legitimate operator that has respected and served the Government's will and interests. INTRALOT's strategy has always been country-based and this style of market development perfectly fits our strategy. We are happy to live and operate in a regulated environment.

Tell us more about what I² does.

C. Antonopoulos: INTRALOT Interactive has developed an Integrated Platform that brings together a unique Player Management System together with a wide portfolio of games, across all segments of the e-Gaming Industry. We provide best of class Technology & Services to our Customers. These manage Customer Acquisition & Retention processes as well as all other operational and technical issues. As you know, the internet gaming industry poses a new and different set of regulatory issues. Europe is pioneering the process of figuring out how to regulate this industry, how to balance the interests of each member state with the goal of maintaining fee and open markets. Italy and France are notable examples, where we have established our brand and provide the full suite of electronic Services & Games to the end consumer. We are also following and supporting the efforts of our Lottery clients, in the Internet space, providing all the necessary infrastructure and services as a B2B trusted partner.

Any comments on how this ECJ Portugal ruling impacts INTRALOT's strategies?

C. Antonopoulos: Contemplating on the overall impact on the gaming sector, I would say that the recent success of the controlled opening of the Italian market has stimulated the interest of various countries to proceed with a model of controlled deregulation of their markets. Tech-

nology, processes, and service innovation converge to give rise to new business models that will respect the taxation policies of each nation-state as well as the advertising and responsible gaming practices that are desired for each market. INTRALOT's strategy is to build the technologies and products that will support the implementation of internet gaming initiatives based on these new policies and regulatory structures.

Congratulations for your success in the US market. How has the procurement process changed in the US? Is there more flexibility afforded the bidders to pitch their big-picture solutions and creative strategic ideas?

C. Antonopoulos: Thank you, Paul. We are very pleased with the results that INTRALOT USA and Tom Little's team have achieved in the US market. We now have 11 contracts in the States and we are the only non-American company that managed to enter this very demanding and protected market. We think that there is great potential in the US market, not only due to its size and its diversity, but also because of the high standard of living. US lotteries are in a great place to take full advantage of this potential. And we are dedicated to helping them achieve the best results possible.

And yes to your question about procurement. The procurement processes have evolved to make room for more innovative approaches and solution-focused proposals, which is indeed INTRALOT's competitive advantage in this field. We feel that this is very good for the industry and will result in superior performance and results.

Your adventures in Victoria make for interesting reading. It seems to me that the government made the decision to allow a second operator to provide competition but that there were (and remain?) strong interest groups that never really intended to give the

second operator a chance to compete fairly.

C. Antonopoulos: We have been through an adventure in Australia that illustrates how and why Governments should be extremely careful when deciding how to change regulations. When the terms do not assure competitive fairness and equivalence between the different operators, the results will not be good for the government. And it discourages additional operators from participating. The result is less competition and, therefore, diminished benefits for the Governments. I think that INTRALOT is the only international player in the industry that could come out of this situation intact. But, my concern is that such incidents are bad for our industry as a whole.

It is likely that more and more countries will be opening up their markets in the coming years. There are tremendous benefits to the government and the consumer to opening up the markets in this way. The issues facing Australia will be faced by everyone who opens up their markets to multiple operators. It is vital that regulatory changes be implemented in ways that are consistent with the principles of free market competition in order to avoid the inefficiencies and disequilibrium that result when there is an uneven playing field. Europe is in the process of finding its way right now, and I think we have reason to be very hopeful that the regulatory structures will support an efficient and fair marketplace that protects the integrity of the industry, protects the public, and continues to maximize funding for good causes.

Privatizations and the markets liberalization need tremendous amounts of money. Financial sponsors try to understand the rules of our industry. Convincing them to invest in our sector is a challenge both for us and our Associations (World and regional). Otherwise, both privatizations and the opening of various markets are doomed to fail. ♦

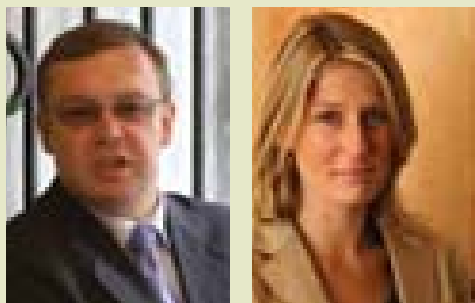
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thoughts are very creative but unfortunately they are not only very unclear as to their meaning but also in blunt contradiction with European law.

The answer the ECJ formulated to the question referred by the Portuguese judge leaves no room for interpretation. It is clear the Court wanted to deliver a breakthrough ruling on the principal issue of mutual recognition in the gambling sector, as it didn't even refer the matter back to the national judge for interpretation in this specific case. The Court ruled itself that a Member State is as such entitled to prohibit the provision of online gambling services within its territory by an operator established in another

Member State. This leaves no room for a proportionality assessment by the national judge as the ruling of the ECJ is unconditional. So a breakthrough ruling in the gambling sector it was, but unfortunate for those companies who had put their money and business strategy on another outcome.

Today it is clear that the EU follows on Internet gambling a route which is comparable to the route taken by the USA. States have the competence to regulate this matter but only within the boundaries of their own territory. Several EU states are now considering taking criminal court actions against those remote gambling operators who would continue to violate their laws. ♦



Philippe Vlaemminck & Annick Hubert

Confirms Power of the EU Member States to Control and Regulate their Online Gambling Markets

On September 8, the European Court of Justice has finally delivered its long awaited judgment in the *Liga Portuguesa de Futebol Profissional* case. The ruling is a clear victory for the EU Member States and the European State Lotteries, as the European Court of Justice has clearly recognised the right of the EU Member States to regulate and control their national online gambling markets and therefore the application of the principle of mutual recognition in the gambling sector was explicitly denied.

The delivery of the judgment, almost a year after Advocate-general Bot has rendered its Opinion in this case, has proven to be a very challenging task for the 13 judges of the Grand Chamber. Nonetheless, the Court has managed to deliver a very clear and even concise ruling, establishing the core principles of the power of the Member States in the field of online gambling.

The Court was asked to rule upon the validity of the extension of an exclusive right for the organisation of lottery and gambling activities to an online offer, under the European free movement principles. The case concerns the Portuguese legislation which confers on Santa Casa de Misericórdia de Lisboa, a centuries-old non-profit making organisation operating under the strict control of the Portuguese Government, the exclusive right to organise and operate lotteries, lotto games and sporting bets via the Internet. The aim of this restrictive legislation is to prevent the operation of games of chance via the Internet for fraudulent or criminal purposes and to protect Portuguese consumers against gambling addiction and other gambling related risks. The Portuguese legislation in question also provided for penalties in the form of fines which may be imposed on those who organise such games in breach of this exclusive right and who advertises such games.

Bwin, a private online gaming company established in Gibraltar, and the Portuguese Professional Football League were fined 74500€ and 75000€ respectively for offering games of chance via the internet and for advertising those games within Portuguese territory. According to a sponsorship agreement between Bwin and the Portuguese Football League, Bwin logos were displayed to the sports kit worn by the players and affixed around the stadiums of the First Division clubs. The League's internet site also included references and a link allowing access to Bwin's internet site, making it possible for consumers in Portugal and other States to use the gambling services thus offered to them.

In its ruling, the European Court of Justice first confirmed its previous case law in the *Läära* and *Zenatti* cases, by stating that the mere fact that a Member State has opted for a system of protection which differs from that adopted by another Member State cannot affect the assessment of the need for, and the proportionality of, the provisions enacted to that end. Those provisions must be assessed solely by reference to the objectives pursued by the competent authorities of the Member State concerned and the degree of protection which they seek to ensure. Therefore, the Member States are free to set the objectives of their policy on betting and gambling and, where appropriate, to define in detail the level of protection sought. It must however be recalled that national legislation is appropriate for ensuring attainment of the objective pursued only if it genuinely reflects a concern to attain it in a consistent and systematic manner. The Court also refers to its previous rulings in which it already recognized that limited authorisation of games on an exclusive basis has the advantage of confining the operation of gam-

bling within controlled channels and of preventing the risk of fraud and crime in the context of such operation.

The Court extended its previous case law on the validity of an exclusive right in the gambling sector to an exclusive right system regarding the online provision of gambling services. Indeed, in the *Liga Portuguesa de Futebol Profissional* ruling, the ECJ acknowledges that the grant of exclusive rights to operate games of chance via the internet to a single operator which is subject to strict control by the public authorities may, in circumstances such as those in the proceedings, confine the operation of gambling within controlled channels against fraud on the part of operators.

The key point and most important achievement of this ruling is that the European Court of Justice has explicitly denied the application of the EU principle of mutual recognition in the gambling sector. According to the basic "mutual recognition" principle, a Member State must in principle recognise a license granted in another EU state without duplication. The Court considers that this basic principle cannot be applied to gambling services. The Court states that in the absence of harmonisation, a Member State is entitled to take the view that the mere fact that a private operator such as Bwin lawfully offers gambling services via the internet in another Member State, in which it is established and where it is in principle already subject to statutory conditions and controls, cannot be regarded as amounting to a sufficient assurance that national consumers will be protected against the risks of fraud and crime. According to the Court, in such a context difficulties are liable to be encountered by the authorities of the Member State of establishment in assessing the professional qualities and integrity of operators.

The Court also recognised that games of chance accessible via the internet involve different and more substantial risks of fraud by operators against consumers compared with the traditional markets for such games, given the lack of direct contact between customer and operator. Thereby the Court thus ruled that internet games are more dangerous than physically offered games, even when regulated and controlled by the competent authorities of the Member State of residence of the consumer.

This assessment goes very far and means the end of gambling hubs like Malta and Gibraltar. The ECJ indeed rules that the competent authorities in those jurisdictions, being the jurisdiction of establishment of the operator, cannot sufficiently guarantee the integrity and quality of operators providing their games in another Member State. Therefore, the Member State of residence of the consumer can maintain its own restrictive conditions and can legitimately prohibit access to its market for operators established abroad.

Although the legal counsels of Bwin and other companies operating from such jurisdictions have heavily criticized this ruling as being 'irrelevant' or very limited to the particular circumstances of this case, there is no doubt that they need to put an end to the abuse of the internal market committed by providing their games all over the EU without abiding by the restrictive legislation in the Member State of their consumer. Several of their legal counsels have tried to find escape routes by inventing terms like 'conditional mutual recognition' and presenting the solution for the Member States to engage in bilateral agreements. Admittedly these ...continued on page 29

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