



## 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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tion and its challenges for lottery executives.

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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 whether 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. ♦

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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

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regulated and government licensed world. I2 will operate as 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. ♦