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PGRI Introduction: The markets, gaming cultures, and political structures vary widely throughout Latin America. Not surprisingly, so too do the regulatory and taxation models. A model being adopted with more frequency throughout the world is to license the operation of the government lottery to a commercial company. INTRALOT SA is one of the major global suppliers of terminal systems, sports-books, and other gaming products and services to government gaming operators. As its wholly owned subsidiary, INTRALOT de Peru is a licensed commercial operator of lottery, sports-betting, and other games in Peru. Vangelis Apostolakopoulos discusses the huge potential for the industry in Latin America, and the ability of INTRALOT de Peru to contribute to this industry that supports Good Causes – or “Beneficiencias” in Peru.

Paul Jason, Public Gaming: *Could you explain the “stakeholder” structure of INTRALOT de Peru?*

Vangelis Apostolakopoulos: The Peruvian constitution of 1993 guarantees open market conditions in any business segment, including lottery. The Lottery Operations are governed by the government law #21921 established in 1977 whereby: Lotteries can be established by any Non-profit organizations (Beneficiencias) under the control of the state institution of INABIF. There are more than 100 Beneficiencias throughout Peru. Lottery operations could also be established by private operators in partnership with a Beneficiencia.

The games and their payout structures are established by each lottery committee within the scope of every contract signed between operators and their Beneficiencias. Intralot in Peru currently has agreements with the Beneficiencias of the Cities of Huancayo and Jaen. The lottery brands all belong to Intralot, and the contracts with the two Beneficiencias are renewable every 3 years.

How much autonomy does INTRALOT

de Peru have to launch new games, decide how the games can be promoted, and how to distribute the games? Are there strict government oversight committees that makes those decisions? And who defines the mission and financial objectives of INTRALOT de Peru (the government, INTRALOT, or a combination of the two?)?

New games are launched in cooperation with the Beneficiencias that we are working with. Decisions about what games to launch, the payout rates, game rules, and prize structures are made by the established lottery committees with each Beneficiencia. Intralot de Peru defines the appropriate channels and overall retail strategies to secure optimal success for the business and the sale of the products.

Describe the types of games that INTRALOT de Peru offers.

V. Apostolakopoulos: Intralot offers a variety of Lottery and Sports betting games. In the lottery category we currently offer traditional numerical lotto type games (Tinka, Kabala, Gana Diario), Digit games (Super 3 and Fechaza), interactive games and, last but not least, Instants. In the category of sports betting, we offer the traditional Toto game and FOB. However, we are completing the development of new fast-action games such as Kino and Monitor / Virtual games, which will be launched within the next couple months.

What percentage of the revenue comes from lotto draw games, what percentage from Instants, and what from sports-betting?

V. Apostolakopoulos: The numerical games represent the majority of our business. Sports Betting is very promising, and Instants now represent slightly less than 10%.

What games, or game category, do you expect to have the highest growth potential over the next two years?

V. Apostolakopoulos: We expect that Sports Betting will increase its share significantly, when players get more educated, since it is a skill game and the market matures gradually. The Instants market should also increase. The current penetration level of Instants is very low and we are introducing new games that we expect to appeal to

the consumer and drive sales.

Are you introducing any significant new game changes or new game categories over the next two years?

V. Apostolakopoulos: Yes. We are about to introduce Kino and other games through Multi-media visual content for the first time to the Peruvian Consumers. And we are planning to make changes to our Lotto games to make them more attractive to the players. In addition, we are currently exploring the possibility of introducing Racing for Lotteries by offering a number of virtual races.

What is the ratio of retailers to consumers in Peru? How are they compensated (commission rate, etc.)?

V. Apostolakopoulos: The retail market is still very much based on the small businesses which number more than 230,000. The so-called modern retail channel (malls and supermarkets) is growing rapidly and in 2011 has a penetration of around 30-32%. That is still one of the lowest in the region. The retailers are compensated for their sales via a commission scheme over the sales. The average commission rate that they receive is around 10-12%.

Is increasing the number of land-based retailers an important business objective? If so, what is INTRALOT de Peru doing to accomplish that?

V. Apostolakopoulos: Intralot de Peru has its own strong retail network comprised of 1000 POS and in parallel is also operating another 1000 POS through retail agents. Making the products more accessible to the consumer is critical to long-term success. So we are increasing the number of POS's. But we are adding retailers selectively. Just as important as increasing the number of retailers is the goal of improving the efficiency and return on investment from existing POS's. We really want to focus on developing highly dedicated and productive retailers.

When did you first start to sell products online?

V. Apostolakopoulos: We have been testing the online market since late 2008. However, it wasn't until early 2010 that we introduced our new portal and e-commerce platform that has enabled us to promote and sell our games online.

If there are multiple operators, how do you avoid the syndrome of increasing prize-payout percentage to maintain or increase market share, and the coincident margin erosion that results?

V. Apostolakopoulos: Over the past five years, four lottery operators entered and then exited the Peru market. The extensive retail network and the strong consumer brand awareness of Intralot products proved to be very big obstacles for them to overcome. Since 2003, Intralot has been dedicated to building the market and establishing the retail networks, trademarks, brands, and products that will meet and exceed the expectations of the consumers, the Beneficiarios, and all our stakeholders. More importantly, we are always focused on continual improvement. We want to continuously improve the quality of our retail network, the products, and to maintain the high standards of customer service. Our success strategy is to constantly innovate and offer new games which reinforce Intralot's strong presence in the market. The Peruvian lottery market is not big enough to support multiple operators. Insofar as Intralot de Peru serves the market in this fashion, and with continuous investments, it is difficult for any other operator to establish a viable operation in this market.

In my interview with Mr. Nikolakopoulos (Intralot's director of LatAm operations) a few months ago, he said "games that have appeal in many parts of the world are not necessarily popular in Latin America." How do consumer preferences in the Peru market differ from other parts of the world?

V. Apostolakopoulos: Consumer preferences differ widely throughout Latin America. There are many different markets with many different play styles and gaming cultures. For example, the Chilean market is a jackpot driven market; in Argentina and Colombia it is driven by the digit games such as Quinela; in Ecuador the instant games have a good share of the lottery market. In Peru, there are around 700 casinos / gaming arcades, so the Peruvian consumer is very much used to the games and play styles found in those venues, like slot machines. The Peruvian consumers are not as accustomed to lottery and sports-betting games. These segments are still in the development phase. However, at this stage,

the existing lottery market appears to be a jackpot-driven market. Intralot de Peru is developing a broader consumer base by introducing new games that appeal to a wide variety of play styles and preferences.

What is the sales trend-line for online internet sales?

V. Apostolakopoulos: The online channel is becoming more and more important, all over the world. Sales are increasing and we know the trend-line is positive for internet distribution of all products, including lottery games. However, at this point, the percentage of sales that are transacted over the internet remains very low. There is a potential to grow further, but based on current trends and market data about consumer habits and penetration of the Internet, we project that online sales will represent a low single digit percentage for the next couple of years.

What is the growth trend for the mobile smart-phone channel?

V. Apostolakopoulos: This channel is not yet developed in Peru. We are selling our products through the traditional SMS system, but the volumes are indeed very small. Nevertheless, we believe that there is potential in this channel and therefore we are in the developmental phase of creating the necessary tools to make the products available to the consumers on their smart-phones in the near future.

Your website <http://www.intralot.com.pe> includes a variety of social media initiatives. That must mean that the Peruvian consumer is adopting these social media and e-commerce technologies?

V. Apostolakopoulos: Yes. We have been using YouTube, Twitter and Facebook. Facebook has proven to be an especially successful platform for interacting with our consumers. Of the social media platforms in Peru, Facebook has an 82% penetration and is estimated to have around 8 million users. It also is estimated to be on around 10 million computers with internet access. However, the e-commerce is not yet developed as it is estimated that only around 2.5% to 3% of the internet users have actually purchased something online.

Does Peru have an effective means of enforcing laws against unlicensed internet gaming operators?

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V. Apostolakopoulos: Illegal internet gambling or internet distribution of lottery products is not a significant problem in Peru right now. However, the Peruvian government is currently looking into the development of a legal and regulatory framework to block the internet gaming operators which do not get properly licensed, pay taxes, and meet the local requirements.

The multi-jurisdictional jackpot games like Powerball and Euromillions and others have been very important sales-drivers in other markets. Do you anticipate joining in a multi-national game in the near future?

V. Apostolakopoulos: In fact, we are open to such initiatives. The consumers in other markets have responded positively to those games and we expect that the Peruvian consumer would as well. We want to meet the needs of our customers and so we would definitely consider joining a multi-national jackpot game.

What do you see as the most important

goals for the INTRALOT de Peru over the next two years?

V. Apostolakopoulos: We see ourselves as market makers, so our prime objective is to develop the market and position lottery and sports betting as consumer products with mass-market appeal. We see ourselves developing the retail network by offering exciting new venues and converting our POS into entertainment centers that engage the players in the exciting new world of interactive games. It is critical that the markets be developed with keen sensitivity to all public policy considerations, with special attention always given to ensure that responsible gaming standards and practices are always fulfilled. Intralot is also playing an important role in the local market through their social responsibility programs and we are very pleased to continue in this direction. Of course, by contributing to the development of the lottery market we are also helping the government to raise funds for the social development of the Peruvian

communities and other Good Causes. Intralot is pleased and proud to be a part of that exciting mission.

I notice that INTRALOT de Peru receives accolades for being a great place to work. How wonderful for you and all of Team INTRALOT!

V. Apostolakopoulos: In December of 2011 INTRALOT de Peru was voted among the “Best Workplaces” in Peru and was also awarded with a special Prize for being the company with the most impressive Growth Rate in the country. We were and are very encouraged by these awards to continue our efforts to have a working environment of a winning team, based on trust and respect, always focusing on offering the most exciting and interesting experiences to our players. (The “Great Place to Work” is a leading independent Institution. Its annual research is based on data from more than 10 million employees, in 45 countries representing over 5,500 organizations of varying sizes, industries and structures.) ♦

increasing growth rates every year, we continue work on the development of virtual channels of sale, such as the Internet, aiming to expand our customer base through the acquisition of new groups of players who do not usually go the land-based retailer.

Is increasing the number of land-based retailers an important business objective? If so, what is CAIXA doing to accomplish that?

F. Cleto: CAIXA, through its Vice-presidency of Service, Distribution and Business, constantly monitors the network of points of sales, with the goal of identifying locations where there is potential for opening new units. In addition, the number of transactions is monitored to identify those units that need to increase the number of terminals to better meet the needs of customers.

The multi-jurisdictional games, like Powerball and Euromillions and many others, have been very important sales-drivers. Do you anticipate joining in a multi-national game in the near future? Do you feel that

introduction of a second super-jackpot game (either national or multi-national) would produce a net win for the lottery, or do you feel that the Mega-Sena brand is so powerful that you prefer to stick with that as the only national super-jackpot game?

F. Cleto: We consider interesting the proposal for a multi-jurisdictional game and we have dedicated ourselves to study the subject in order to identify all the issues concerning to legislation, operating systems and routines involved, besides, of course, the analysis of the impacts that such a game could have on sales of Mega-Sena, our main game nowadays.

You serve on the executive committee of the World Lottery Association and as the Cibelae representative to the World Lottery Association (WLA). How is the mission of the WLA evolving?

F. Cleto: WLA plays an important role among its members by offering them access to certification in Security (SCS / WLA) and Responsible Gaming. Moreover, the

high-level seminars and conventions promoted by that association, offering relevant information on trends in the global lotteries and games and case studies of success, are inputs to the strategic decision making within the State Lotteries. The approach between WLA and CIBELAE has produced very positive results, as it enables the exchange of information and data on our lotteries members. As a member of WLA, CAIXA Lotteries have great interest in knowing more about new products and new sales channels, as this information will be useful to define new projects for the expansion of federal lotteries in Brazil.

What do you see as the most important goals for CAIXA over the next two years?

F. Cleto: Our main objective is to expand our base of players by offering products more attractive and modern, and also through launching new virtual sales channels that offer to our customers convenience, security and agility to purchase lottery products. ♦