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PGRI Introduction: Gaming models and management structures vary widely in Latin America. INTRALOT has extensive experience in these markets, serving as operator in some jurisdictions and commercial partner in others. I asked Nikos Nikolakopoulos to help us understand how the lottery and gaming business works in South and Central America.

Paul Jason, Public Gaming: There is a wide variety of gaming models, regulatory frameworks in South America. Could you give us a brief overview of the different kinds of regulatory and owner/manager models that exist in South America?

Nikos Nikolakopoulos: INTRALOT's experience from all over the world has taught us that the most effective gaming models are supported by regulatory frameworks that offer transparency, accountability and stability, and operate without unexpected changes or other surprises. It is important for the regulatory model to provide all the necessary information to the public and also the investors, control the operators on their obligations, such as payment to the winners, have mechanisms to prevent addictions to gambling and in general provide a social responsible framework, helping in parallel the investor to maximize the investment subject to the above conditions.

Gaming regulatory frameworks and models in Latin American countries vary significantly. Currently we mainly see three gaming models in Latin America that range from strictly state-controlled to more autonomous and flexible.

In some countries, Argentina as an example, the lotteries are owned by the country/

state. The latter are responsible for the lotteries' operation having cooperation with vendors in areas, such as technological expertise.

On the other hand, in other countries, like Brazil, there is one federal lottery, which operates country wide, where each state has the ability to operate its own lottery. In some cases (like the state of Minas Gerais) an operator is selected to perform most of the tasks (technology, marketing, sales, etc.) and the State Lottery controls.

Finally, in other countries, like Peru, the market is open, and lottery operators are able, through specific processes to apply and acquire licenses to establish lottery operations.

INTRALOT has the resources and capability to adapt to this diversity, to help its clients accomplish their goals as a commercial supplier and as the full-service operator. Who are your clients in South America and how do their needs differ?

N. Nikolakopoulos: INTRALOT has established a strong presence in Latin America, currently operating in Argentina, Brazil, Peru, Jamaica, Dominican Republic and Suriname. In Argentina INTRALOT through its subsidiary Tecnoaccion is the technology provider in 11 states. Our operations in the country are empowered by our production facilities based in Argentina, where we produce technology (terminals, mobile terminals, etc). In Brazil after the signature of our contract with Loteria

Mineira we launched a very promising operation in a very challenging jurisdiction. Brazilian States are starting to launch their own lotteries and we are closely monitoring these developments, so as to seize any opportunities that might meet our strategic plans in the country. In Brazil, we cover the country's need for entertaining gaming, such as FAST KENO.

In Peru we are lottery operator and we have managed to become the market leader offering a variety of exciting games and numerous entertainment experiences to the Peruvian people. INTRALOT entered Peru in 2003 realizing the great potential of the country. Recently, INTRALOT has become the first company in Peru to receive a license to use its iGEM Gaming System by the Directorate General of Casino Games and Slot Machines of the Ministry of Tourism. Moreover, we have enriched our gaming portfolio, introducing sports betting 'Te Apuesto'. In Peru, INTRALOT also manages La Tinka, Gana Diario, Ganagol, Kabala, Rapitinkas, Rapi-gana, Super 3 and El Reventon.

In Jamaica we have invested in Supreme Ventures Limited acquiring a strategic stake of the company. As the dominant lottery company in Jamaica, SVL has developed an extended network of 1,000 Points of Sale currently owning a large portfolio of lottery games that includes Cash Pot, Lotto, Pick 2, Pick 3, Dollaz, Lucky5 and Winquick (Instant

Win). SVL also operates VLT gaming lounges and holds a license for Fixed Odds Betting. In Jamaica our future plans entail the continuous enhancement of Fixed-Odds Betting and the revitalization of casino business through monitoring systems & expansion of VLTs.

In the other countries of Latin America, we have contracts to offer our technological expertise to private operators.

How do the macro-economic conditions, gaming and consumer cultures, and general gaming markets differ among countries in South America? Is there a wide diversity of discretionary income, maturity of gaming market, regulatory framework, etc.?

N. Nikolakopoulos: There is indeed a big diversity of the regulatory frameworks and the macroeconomic conditions that create the uniqueness of each country in the region. However, this is not the case just in Latin America. INTRALOT before entering a new country carefully examines all the parameters, legal, economic, cultural, habitual: the population per country, the existing regulatory framework, the GDP per capita, as the gaming spending is usually in strong correlation with per capita GDP. We also study gaming and consumer cultures, etc, so as to develop and offer products and services that will meet the particular needs of each jurisdiction.

In Latin America, we find countries with significant income and per capita gaming spending, such as Argentina and Jamaica and others where the market is developing and we are helping to build it, as we have done in Peru. Moreover, there are cases among the countries of the region that do not have the critical mass to attract a sustainable investment. Typically these countries are those which have small populations and additionally have a low spending capacity (low GDP per capita). Moreover, regions with pure telecommunications infrastructure represent a challenge for suppliers and subsequent investments.

An important factor that everyone should understand when doing business in this region is that every country in Latin America cannot be treated the same way. There is not a "one size fits all" approach, as there are clear differences and segmentation in the countries of the region.

As far as gaming is concerned, one thing we learned from our operation in the area is that games that have appeal in many parts of the world, are not necessarily popular in Latin America. So, before launching a new product we have to take into consideration the special characteristics of every country in order to determine the applicability of the game.

A general 'rule' in Latin America countries is that the simplicity of the games is important, since simple games are more popular. Scratch games are not so popular in Latin America, compared to the US or other European countries, but there is a lot of room for their development. Sports betting represents an example of a game that has targeted appeal as it is a skill game (in the sense that there should be knowledge of the player) and complicated. Latin American players, being great sports fans, are getting more and more acquainted with betting.

Therefore, information and prior research is very important. General characteristics serve as guidance but adaptation to the local reality is essential. Every strategy and design should be adapted to the specific market needs and demands.

I am wondering if the land-based communications networks are less developed than in North America and Europe and whether that means that South America is migrating more to a wireless/satellite infrastructure? How relevant or important is the technological and communications infrastructure to how you do business there?

N. Nikolakopoulos: Telecommunication networks in Latin America are in a development phase. In telecoms, even though there is a strong progress in the infrastructure in the region, there are still parts of this area where technologies, like GPRS or ADSL cannot be applicable for an acceptable standard of operation. This is why many times a combination of telecommunication solutions (usage of different types of technology or cooperation with more than one vendor) is necessary to produce in spite of the much higher cost. We should never forget that telecommunications and lottery are currently tightly connected and there is a correlation between the telecommunications penetration growth and the growth of Lotteries. The increasing penetration of telecommunications can provide an opportunity for the expansion of lottery operations.

Distribution: I would guess that the percentage of the population that is clamoring for Internet gaming is smaller in South America than in the more mature economies of North America and Europe. What is the projection for I-gaming in South America? Is that market totally about land-based retail, with less i-gaming potential in the short-term?

N. Nikolakopoulos: i-Gaming is the most promising medium for growth and at the same time represents an area with less clear regulation and disputes. In Latin America there are counties where gaming through the

Internet is totally prohibited and in that sense and unless the legal framework changes, there is no room for a legitimate operator to establish its presence.

I-Gaming is an area that INTRALOT is closely monitoring worldwide and, through its subsidiary INTRALOT Interactive, seizes the opportunities that arise from the controlled opening of the market, wherever regulatory framework allows it.

Is there illegal gambling in Latin America? How can suppliers and official lotteries work together against it?

N. Nikolakopoulos: In Latin America the illegal gambling represents a multi-billion market. Illegal gambling represents a major problem that affects all stakeholders: countries, players, lotteries, vendors, society, etc. Usually it is the major source for criminal activities such as money laundering. Players are not protected, since there is no control against gambling addiction, the governments are not receiving taxation, no money is raised for good causes and that eventually discourages investment from legitimate companies as they realize they cannot have a fair competition.

Many Latin American Governments have expressed their will and taken certain measures to diminish illegal activities in their counties in order to increase their revenues. We hope that this endeavor will soon expand to the gaming sector as well.

Whether to enforce prohibition or move towards a controlled opening of the specific market is a decision for each government. There are examples worldwide where a controlled opening of the market created benefits for all parties and helped the reduction of the illegal activity. Italy is a good example of the success of a controlled opening of the market. In fact, Italy constitutes the most successful model of market liberalization, as licensed organizations such as INTRALOT, among others, developed POS networks alongside online games. The increased sales of lottery games had multiple benefits both for new players and for the Italian state. Taxation has been maximized and the most important thing from this example is that players have chosen to participate to the legal network of operators.

Another example, popular in Latin America, is the VLTs market, where governments could proceed into a controlled opening, establishing the terms and conditions of the operation and putting in place systems and mechanisms to control, such as the monitoring systems, where each machine could be connected with, in order to establish credibility, proper tax collection and player protection. ♦