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# EUROPEAN VLT LOTTERY REPORT

European lottery organizations operating video lottery terminals (VLTs) reported strong sales in calendar 2008, with double digit increases in net machine income on a year-to-year basis in the Czech Republic (SAZKA a.s.) and Romania (Loteria Romana).

Total VLT net machine income topped \$3.5 billion in the 10 European lottery organizations reporting calendar 2008 revenues for *La Fleur's 2009 World Lottery Almanac*.

VLTs are operated by lotteries in Czech Republic, Iceland, Italy, Macedonia, Moldova, Norway, Romania, Sweden and Switzerland. In Denmark, Dansk Automatspil, a subsidiary of Danske Spil, operates a slot variant. The European VLT scene is significantly different than operations in North America.

"Unlike the United States, where gaming machines are typically located in large, gaming-centric venues, most gaming machines in Europe are located in smaller, distributed environments that may exist for a retail, entertainment or gaming purpose. The machines that populate these environments are often Amusement With Prize (AWP) machines, which are less technically sophisticated than a VLT, and are not often connected to central control systems," said Ryan Reddy, director

## European Lotteries' 2008 vs. 2007 Net

Lottery	2008 VLT Net Income (local)	2007 VLT Net Income (local)	% Change
SAZKA <sup>1</sup>	854.2	678.3	26%
Dansk Spil	2,198.1	2,434.4	-10%
Univ. Iceland	3,300.0	3,420.0	-4%
L. Moldovei	18.5	28.3	-34%
L. Romana	578.2	525.9	10%
Svenska Spel	2,011.0	1,932.2	4%
L. Romande	107.1	99.4	8%

<sup>1</sup> Gross revenues

Source: La Fleur's 2009 World Lottery Almanac

of market development, Spielo. "From a regulatory perspective, the legal framework is often established at the state or country level, but day-to-day management is usually conducted by distributors, associations or operators, rather than by lotteries or state organizations."

Norway represents the newest European country to commence VLT operations in 2008.

The Norwegian government entrusted the exclusive operation of VLTs to Norsk Tipping in order to "clean up" the market. The lottery's job was to replace the existing slot machines with less aggressive VLTs, control underage gambling and limit the risk of gambling addiction.

After initially being shut down as a result of legal challenges, Norsk Tipping's VLT operations were re-

started in August 2008. The lottery is contracting with Ace Interactive for its server-based gaming system.

"The debate and negative press we've gotten over the last couple of years has more or less silenced," said Geir Skar, product manager, MULTIX, Norsk Tipping. "The media and the gaming addiction communities have now seen our products, and they've more or less embraced it as far less harmful than previously."

## CONTINENTAL EXPANSION

While traditional lottery products have reached a maturation stage in many European lottery jurisdictions, except where the operators have embraced Internet wagering, VLTs in the form of server-based gaming offers the potential to "grow" the market.

"There are some European jurisdictions that have recognized this trend and are currently thinking about the introduction of such new revenue channels, like Poland and for sure Italy," said Michael Koch, CEO, ACE Interactive. "Other already existing video lottery jurisdictions in Europe are working very hard in revamping of their existing proprietary VLT operations into a state-of-the art responsible network like Denmark. A third trend we see is the falling apart of borders between previously well separated

## European Lotteries' VLT Revenues (1999-2008)

(in millions-local currency)

	CURR	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
SAZKA, a.s.	CZK						3.57	21.32	121.4	192.9	
% increase								497%	470%	59%	
Dansk Spil	DKK			146.5	929.6	1,492.4	1,783.20	1,991.20	2,191.1	2,434.4	2,198.1
% increase					535%	61%	19%	12%	10%	11%	-10%
Univ. of Iceland	IKR	980.0	960.0	1,200.0	1,235.0	1,520.0	1,865.0	2,700.0	2,840.0	3,420.0	3,300.0
% increase			-2%	25%	3%	23%	23%	45%	5%	20%	-4%
Loteria Moldvei	Lei					0.4	7.2	15.1	22.1	28.3	18.5
% increase							1708%	109%	46%	28%	-34%
Loteria Romana	ROL <sup>1</sup>					416.9	1,228.6	195.8	362.4	525.9	578.2
% increase								-84%	85%	45%	10%
Svenska Spel	Skr				1,797.1	1,951.7	2,003.7	1,848.0	1,822.2	1,932.2	2,011.0
% increase						9%	3%	-8%	-1%	6%	4%
Loterie Romande	SFr.	19.8	55.2	81.1	76.9	90.0	97.0	99.0	95.9	99.4	107.1
% increase			179%	47%	-5%	17%	8%	2%	-3%	4%	8%

<sup>1</sup> Currency converted from ROL (2003) to RON (2004)/1 RON=10,000 ROL

# Discover Your True Gaming Potential



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ACE Interactive™ was founded in 2003 to develop and market the next generation of video gaming systems. ACE Interactive's TruServ™ solution provides for true server-based gaming for operators who demand flexibility, content, security and social responsibility. ACE Interactive is part of Aristocrat Technologies, one of the world's most successful gaming companies.

gaming channels to become more and more blurry by adoption of the same technology. In Czech Republic or Slovakia, for example, where does one draw the line between a VLT and a slot machine and an arcade game? Very difficult indeed. This is something that we see will impact the supplier's approach to markets as such as it will impact the competitiveness of the already very well-established lottery brands in these respective markets."

In addition, governments in many European markets want to "clean up" the unregulated operation of gray machines, also known as AWP devices.

"In many countries, such as Italy, Spain, Germany, and the United Kingdom, a detailed and comprehensive regulatory framework exists for electronic gaming machines, which ensures competition, proper tax collection, and a fair play experience for players," said Reddy. "However, there are many jurisdictions where you see the presence of what we refer to as 'gray machines,' which are typically gaming machines that are legal due to unrelated or outdated regulations. These machines frequently generate significant revenue for local interests, and have achieved a level of popularity among local players. Often, though, minimal or no taxes are collected from these machines, there is no central control system in place to monitor security disruptions or abuses, they have not been certified to ensure a fair return to players, and no steps have been taken to inform players about responsible gaming practices."

Reddy feels that these jurisdictions would benefit significantly from the introduction of a properly regulated VLT program. "A VLT program can replace gray machines with secure VLTs, offering players the best available games that have been validated for fairness," added Reddy. "They can also provide venue owners with a comparable or better source of revenue than the gray machines, and become a significant source of revenue to support sports, education or general jurisdictional needs. The best programs, such as Sweden's

VLT program, are under the lottery's management and oversight, and use a central control system that allows the lottery to monitor and control each machine from a central location."

Italy is a key VLT market to watch. The Amministrazione Autonoma dei Monopoli di Stato (AAMS) is currently drafting legislation for Comma 6B machines (or VLTs). The AAMS is the regulatory arm of the Ministry of Finance responsible for regulating betting games in Italy.

Currently, 350,000 Comma 6 and 6a machines are installed in Italy. There are 10 authorized VLT operators.

The legislation's introduction is anticipated in 2009-2010. "Comma 6B machines will provide for server-based gaming products and will therefore reduce many of the currently existing

limitations with regard to issues such as central monitoring, proper taxation, money laundering and underage gaming," said Koch. "With a population of 60 million, the Italian gaming market is one of the top three gaming markets in Europe and represents a significant growth potential for the total gaming market."

ACE Interactive is partnering with COGETECH, one of the leading gaming operators in Italy.

#### NEW VLT DEVELOPMENTS

Since August 26, Norsk Tipping has been running a limited pilot in Hamar. In November, the lottery expanded the pilot. Full VLT rollout commenced in early calendar 2009. The accumulated cashbox for 2009 (through mid-March) is approximately NOK 5 million.

There are currently 700 machines in the market. Approximately 100 additional VLTs are installed every week. The lottery projects 1,600 VLTs will be installed by June 2009. Weekly net income is averaging NOK 1.5 million (approximately U.S. \$210,000).

"We expect this to increase once we have launched more relevant games to the players (first batch of five more games expected before summer)," said Skar.

VLTs are spread throughout Norway, with a total of 300 venues. The convenience stores which operate the VLTs are mainly recruited through existing contracts/agreements.

"The kiosks are recruited from Norsk Tipping's existing retailers. More than 90% of the retailers have a chain/franchise relation. We are recruiting directly from the chain and the existing retailers," said Skar.

VLTs even serve as retailers since players in Norway are able to buy their traditional lottery products as well on the VLTs.

Currently, JOKERDRYSS BLING BLING is Norsk Tipping's number one ranked game. The second ranked game is SWING, a traditional lucky wheel game.

"Almost all games planned for 2009 will be supplied by ACE, either



**ACE INTERACTIVE  
MULTIX VLT**

from their own library of games or from contracted third parties (such as Aristocrat)," said Skar.

There are many games being developed and considered for the Norwegian market. "We are looking to introduce a wide range of games, catering to different customer segments and preferences," said Skar. "All games must be submitted to the Norwegian Gaming Board for game rules compliance and responsible gaming assessment. All games must finally be approved by the Ministry of Culture."

Norsk Tipping's VLT program is receiving a lot of attention from lotteries worldwide.

"I believe many are interested in the technical approach and the responsible gaming philosophy of Norsk Tipping," said Skar. "The fact that we have mandatory use of the player card allows us to effectively eliminate underage play, and allows us to offer efficient responsible gaming tools such as personal loss limits, personal time limits and personal player breaks, even permanent exclusion from the VLTs. For lotteries offering VLTs these are central challenges that are difficult to deal with without secure identification."

Skar added that he believes many other lotteries question the Norwegian government's approach of imposing maximum loss limits on players.

"Many argue that the only way to effectively regulate the market is by allowing players to regulate themselves (by giving the players informed choices). They argue that it's not the government's job to interfere with how people spend their money (on legal products)," said Skar. "Another way of seeing this is that governments have a responsibility to protect vulnerable groups, and should only expose people to limited losses. You could also argue that the Norwegian government is only comfortable taking up to NOK 2,200 from players engaging in a potentially harmful activity."

In addition to the new VLT startup in Norway, brief profiles of existing VLT operations follow below:

In the Czech Republic, SAZKA

increased its VLT revenues by 26% to 854.2 million CZK in calendar 2008 from 678.3 million CZK in calendar 2007.

Lottery officials attribute the spike in revenues to "better games." The lottery is operating 1,100 Starport VLTs manufactured by Cyberview Technologies (a sole source contract).

(In July 2008, IGT completed the acquisition of Cyberview. In addition, IGT executed a license agreement with Cyberview that provided IGT access to certain Cyberview patents and technology not included in the asset purchase.)

"All VLTs are connected to the central system," said Martin Valasek, product manager, Starport gaming system, SAZKA. "We are able to check all transactions online and in the past. And all information is available for our government online too."

In calendar 2009, SAZKA plans to install about 300 to 400 new VLTs. Given the current global economic woes, Valasek predicted that "yes, our turnover stagnates" in calendar 2009.

He also projected a ceiling for growth for VLT growth in the Czech Republic "because our government prepares new restrictions for our market."

SAZKA began its live pilot operation of 12 VLTs from Cyberview Technology in October 2003.

In Iceland, VLTs are operated by the University of Iceland Lottery. In calendar 2008, the lottery's net machine income totaled 3.3 billion kroner, a 4% decline over 3.42 billion kroner in 2007.

The decline in revenues is the result of "the economical changes, negative discussions and news about the economy all year 2008 and then the crisis," said Robert Sverrisson, VLT product manager, University of Iceland Lottery.

Currently, the lottery operates 470 VLTs in Iceland. IGT is the sole manufacturer providing VLTs in the market.

There are no plans to expand the VLT network in calendar 2009, "but

there are constant changes in the number of locations where we have machines installed. Some new might come in and others go out," said Sverrisson.

The three most popular IGT machines are Cleopatra 2, Pharaoh's Fortune and Russian Treasure.

In Romania, Intralot S.A. provides the VLT system to Loteria Romania. The lottery's VLT net machine income totaled 578 million RON million in 2008, up 10% from 525.9 million RON in calendar 2007. At maturity, the approximate VLT network could reach 10,000 POS.

In Switzerland, a version of VLTs—called Tactilo—is operated by Loterie Romande. GTECH is the vendor. Tactilo has been part of the lottery's



**SPIELO VLT**

product mix since 1995. As opposed to the conventional VLT system, Loterie Romande's system requires a centralized prize structure.

In calendar 2008, Tactilo's net machine income totaled 107.1 million CHF, an 8% increase.

Jean-Luc Moner-Banet, general director of Loterie Romande, credits the increase to a single reason: "Loterie Romande has reached in 2008 the number of 350 points of sale; that to say, 700 electronic lottery distributors. This total will not be exceeded because it's the maximum points of sale allowed by our regulator."

The pace of growth for Tactilo's revenues has slowed over the last five years "mainly due to the policy of the fight against excessive gambling placed on Tactilo," said Moner-Banet. "Loterie Romande does not intend to increase its Tactilo revenues."

In Sweden, VLTs have been operational since 1996. Svenska Spel has realized double digit increases in annual VLT revenues for multiple years.

"The Swedish market has developed in a steady, even pace," said Marie Avander, head of VLT sales, Svenska Spel. "Over the past five years, we've only had one dip in revenues, following the ban of smoking in restaurants (implemented 1st of June 2005). Revenues dropped 11% and it took almost 18 months to obtain the same revenues again."

In calendar 2008, Svenska Spel's

VLT net machine income increased 4% to 2 billion SEK from 1.9 billion SEK.

"Today we are more focused on and involved in developing new games particularly suitable for a Swedish market," said Avander. "We have also replaced a large quantity of VLT machines. The new machines are esthetically more appealing, with flat screens, better graphics and processors."

Svenska Spel is projecting a 2% increase in 2009 revenues. "Any effects will probably start to show in the coming three to six months. But we believe that the economic distress will have a low impact on revenues."

There is definitely a ceiling for growth for VLT revenues. "Svenska Spel could most likely increase revenues quite a bit if we wanted to," said Avander. "We don't do any advertising for our VLTs today since we strive not to maximize revenues but rather to optimize them and find a good balance between the fun of playing and to increase awareness and minimize gambling problems. Our next objective will be to implement optional tools for gambling responsibility such as personalized limits (PlayScan)."

In Sweden, Spielo provides all the VLTs for Svenska Spel. There are approximately 6,700 VLTs operational in Sweden. By the end of this year, 5,500 of those VLTs will be WinWave™ or WinWave Vu™ terminals.

This year SPIELO will also deploy its industry-leading video central sys-


tem, INTELLIGENT™, in Sweden.

"Gradually, we will implement Winwaves on all our restaurants and the pace of upgrading is about 1,000 to 1,500 VLTs annually," said Avander. "The most popular games are The Wild Life, Bullfroggin', Diamond Daze and Spin Time."

As for what types of graphics and games for VLTs are on the horizon for consumers in Sweden, Avander said "more social games (dual play) and tournaments. We also see the potential for games other than poker and reel games. This will be important to obtain and may slightly increase the player base in the future."

## CONCLUSION

The long term prospects for growth in the European video lottery industry look favorable.

"The world financial crisis appears generally to not have such an impact on the lottery industry, however . . . the duration of this depression will eventually impact lottery operators and thus create a need for generating additional income for the state and good causes," said ACE Interactive's Koch. "This can sometimes be a state's need to raise funds for the state's budget and sometimes simply the need of funding state-governed events of high awareness, like the Olympic Games or Soccer European Championships which obviously are major burdens for any economy." 

## PROFILE: NORWEIGAN LOTTERY VLT PLAYER

The gender of the VLT player is overwhelmingly male (80%), according to Norsk Tipping research.

In terms of age, the largest segment (42%) is age 31-50 years, followed by age 18-30 years (30%), age 51-65 years (22%) and 66+ years (6%).

In February 2009, Norsk Tipping had a unique customer base of approximately 10,400 active VLT players. The breakdown is as follows:

- ❑ 3.3% reached their monthly loss limit (NOK 2,200.)
- ❑ 1.4% set personal limits lower

than the government global limit

- ❑ 6.3% took some form of player break (one day, one week or one month)

- ❑ 13.3% of players were winners.

The average player lost 320 kroner in February

- ❑ Average RTP for seven games was 89.7%

- ❑ Average bet was NOK 7.4

Norwegian regulations do not permit a VLT loyalty program, although "one-to-one communication is allowed (customer approval required),"

said Geir Skar, product manager, MULTIX, Norsk Tipping. "No traditional advertising or commercials will be allowed."

As to novel VLT games, "we are looking to introduce a wide range of games, catering to different customer segments and preferences. All games must be submitted to the Norwegian Gaming Board for game rules compliance and responsible gaming assessment. All games must finally be approved by the Ministry of Culture," said Skar. 