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Government lotteries are moving into the Internet Gaming space in a number of interesting ways. Perhaps surprisingly, this discussion returns again and again to how government lotteries are positioned far better than anyone else to be the leader in this category.

Public Gaming: *INTRALOT Group develops a wide range of gaming products that all exist as part of brand INTRALOT. Why create a new brand called INTRALOT Interactive?*

George Zenzefilis: INTRALOT's success is built on a very unique proposition that addresses the entire breadth and depth of the needs of the lotteries' worldwide:

Excellence in both products and services across all market verticals, combined with the proven ability to deliver through local deployments and partnering relationships across all continents, INTRALOT has successfully managed to become the one-stop-shop for the modern lottery.

INTRALOT Interactive has been created by the need to take this successful model and transform it for the Interactive gaming space. While the core values are common, as is our innovation focus, the new organization will allow us to rapidly assimilate all of INTRALOT's existing new media and interactive assets, together with best-of-breed partnerships in the areas of content and marketing in order to create the same one-stop-shop concept.

Governments around the world, are actively looking now in regulating the Industry within their national boundaries, creating rules and regulations is a good and healthy step towards building the foundation that will enable the industry to really take off and grow. The approach that many are taking is to create rules that enable private operators to co-exist with traditional lotteries. These private operators are required to comply with terms and conditions that qualify them to be licensed to offer a new range of games with the Internet, and possibly with the mobile and television.

What is the most successful model of such a co-existence of private operators with traditional lotteries? Are lotteries well placed in this new environment?

G. Zenzefilis: A notable example of such a progress is Italy. The Italian model is a landmark case for the gaming industry in Europe. Italy's regulatory initiatives laid the foundation

for operators to move forward and now there is significant growth and the creation of brand new markets. It's not just growth in revenues, which has been certainly impressive, and revealed the dynamics of regulating the industry, especially when the initial offering was a subset (e.g tournament poker as the first step) of the full spectrum. There are new players and new markets that have great upside potential.

Now there's France, Spain, Denmark, and others who will be moving quickly in the same direction, creating the regulatory frameworks that will serve as the foundation for growth. The interesting thing is that lotteries are in the best position to move into this space and become the dominant operator in the internet and interactive gaming space. Lotteries' widespread and established retail networks give them a formidable advantage with a POS presence that nobody comes close to matching. Their understanding of problem gaming and the tools they have built to support responsible gaming give them a great advantage because regulators will require that all operators meet a high standard in that area. And the value of a trusted brand in the gaming industry will be even greater in the Internet and mobile space. Private operators are playing catch-up with lotteries in these and on so many competitive fronts.

We are excited about the potential for lotteries to dominate this space because our business has been built on the promise of helping lotteries and regulated operators optimize their potential in every way they can. Now we are extending that focus to the Internet space with the INTRALOT Interactive.

Does it seem like we are tiptoeing towards a resolution between the European Union Commission demand for opening up the markets and the lottery's desire to preserve their monopoly or at least some stability in the gaming markets? It looks like the Italian and French models may be beacons for what the future will be.

G. Zenzefilis: I think Italy has been a bal-

anced attempt between opening up the markets to more than one service provider and maintaining stability in the marketplace. There needs to be a regulatory framework that supports a marketplace that is both stable and dynamic, able to grow, innovate and evolve, and accomplish this without getting out of equilibrium. Responsible gaming standards must be upheld, taxes must be collected, and a fair competitive environment be maintained. Competition is a healthy driver for operators to continually improve and for products and games to get better, but only if all competitors are held to the same standards and are set under the same taxation framework. We will all learn from the experience in Italy, but clearly things are moving in a good direction.

A controversy has emerged over the issue of whether the member-state should have the right to require the operator to locate its transaction-processing servers in the jurisdiction where the player resides. The remote operators insist that is not a reasonable demand, that they should not be required to locate servers in each country where they operate.

G. Zenzefilis: There is indeed debate over this issue. The answer involves both public policy and technological issues. From a technological/operational point of view, you do not need to have all infrastructure based in the consumption country. Processes related to auditing and safeguarding the transactions, or integrating to local authorities could certainly be efficiently implemented in a number of ways. Even so, we support that the national legislation always has to be respected. The member-state may have perfectly legitimate concerns that cause them to require servers to be located in their country. As long as regulatory requirements like this are applied equally to all operators and the EU Commission does not rule that they are restrictive of trade and commerce, then this can prove to be the base of a healthy competition in the country.

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Each country has its own cultural traditions and sets of societal and political considerations and has the right to manage and regulate the gambling industry in ways that are consistent with the needs of its citizens. Those needs may differ from country to country. The important thing is that whatever the regulatory framework requires, that those requirements be applied fairly and equally to allow all operators to compete on a level playing field.

Is there a point at which the additional costs incurred to meet regulatory requirements become burdensome and disproportionate to the benefits that they provide?

G. Zenzefilis: I suppose, but this is the direction the industry and operators are going anyway. Markets are being subdivided by region, demographic groups, player profile etc. IT infrastructures are evolving to support the increased demands of this decentralized and more highly segmented model. The idea that you have one big data center supporting a homogenous mass-market is long gone. The progressive operators are already moving towards far more sophisticated and robust IT infrastructures to support their own operational systems and marketing objectives.

This migration to decentralized and highly segmented markets is not an easy one. This is one aspect of the migration from the .com model towards a .country model, where local customization is prevailing over a unified cross border product & services model.

Lottery operators would seem to be ideally positioned to migrate to this decentralized and segmented model.

G. Zenzefilis: Absolutely. Lotteries have efficient and lean operational models that generate significant revenue with a large customer base. And their retail network already delivers the easily accessible POS that the customer now expects. They are in a great position to take the leadership role in the gaming industry that is emerging. Think about how dramatically the combination of internet gaming and multiple operators will have on this industry. The lotteries have a tremendous upside potential to leverage their powerful brand recognition and distribution to attract new player groups, implement new products, and develop new markets with new media channels like Internet and mobile. Lottery organizations may feel threatened by the need to compete. But I think it

will soon be apparent that lotteries will win in this new competitive gaming environment.

Will IP blocking be an effective means of controlling and regulating Internet Gaming?

G. Zenzefilis: There are various technologies for regulating and controlling Internet gaming. IP blocking is one. Another method is for merchant banks to refuse to process fund transfers related to Internet gaming. Another method is to apply controls on the player registration level. Documentation proving the age and residence of the player can be required at the time of registration. There are different options, both procedural and technological, that enable enforcement of Internet gaming regulations. Frankly, I do not think it will be a difficult issue. Italy is demonstrating that these tools do work to effectively prohibited unlicensed operators from doing business in Italy. The governments are responsible to decide if and how they will protect their market and their country's interests.

Can you tell us about some more specific initiatives and objectives for INTRALOT Interactive?

G. Zenzefilis: We have been very active in



to there.

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delivering the next generation of gaming technology, for the e-Gaming space, by growing organically but also through selective partnerships, such as the most recently announced of CyberArts. We place significant emphasis on key issues, focused on the ability of our customers to have a Customer Centric approach, that incorporates a multiplicity of internally developed or externally developed gaming content. The terms of “flexibility” and “brandability” are key design parameters, used to represent respectively our ability to differentiate the products and services, in the local market, in short go-to-market time scales, and our ability to support multiple-brand business models.

In terms of our markets, we are continuing to focus on our existing regulated operations, such as in Italy, and enhancing our product offering, as new possibilities will come along. We are certainly focused on new regulatory initiatives, such as the long-awaited, France opportunity.

Most importantly we support our Lottery Customers and our own Land Based operations, towards the exciting journey which lies ahead and will shape the eGaming industry as regulations take place.

The ownership and management structures are

evolving in various ways. It is even possible that Camelot Group may be purchased by a national lottery. The Danish national lottery (Danske Spil) is now partnering with its former arch-enemy competitor (Party Gaming) to get more control of the internet market in Denmark. Or maybe they'll expand beyond the borders of Denmark? These are quite interesting circumstances, aren't they?

G. Zenzefilis: They are. Our view is that business success and long lasting Customer relationships are based on clear terms and conditions, and this principle is guiding our partnership decisions. The industry has been long debating about the “duality” of being at the same time a B2C and a B2B provider. Our view is that there needs to be a clear separation line between these models and certainly that their coexistence, within an organization, may create more issues than benefits.

The industry is expected to experience strong consolidation, which is already evident. This will create organizations that are larger in size and possibly more focused on the key business models (B2B and/or B2C). Certainly lotteries will play a role in this process, and we will experience partnerships at a project level (providing gaming services within a specific territory) but also equally

well at a corporate transaction level.

It looks like government lotteries are accelerating their movement into the Internet space.

G. Zenzefilis: They definitely are. Part of the obstruction has always been on the legal and political front. As the EU Commission clarifies its expectations of the member-states, and as US states feel the need for revenues and perceive the opportunity in Internet gaming, I think lotteries will all see the opportunity and need to be where their current (and certainly future) customer is and implement the games that their players want to play.

The exciting thing for lotteries is that the internet gaming space is becoming a national market and that is suits the lottery model best. Certainly competition will be present and in some cases, the lotteries may find themselves competing with technologically advanced organizations. However the “brand strength” and most important the element of “trust” that is inherent in the very nature of their structures, is a significant head start, which if combined with flexible technology (that will allow dynamic local customizations) and effective business process, can prove a key ingredient of success. ♦