

PRIVATIZATION OF OPAP: UNFINISHED BUSINESS IN REGULATORY FRAMEWORK CREATES MORE UNCERTAINTY

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REGULATORY ENVIRONMENT

- ▶ The regulatory framework is not yet clearly defined as new legislation is continuously produced on various issues and legal challenges persist.
- ▶ The main regulatory challenges for OPAP are:
 - ▶ **The forthcoming decision from the State Council on the monopoly position.**
 - ▶ **The Regulator (Games Committee) is not yet fully functioning and the basic regulatory documents not yet published.**
 - ▶ **The 3 member special committee has been established to oversee OPAP has not yet produced a clear pattern of decisions. The regulation of internet based games over the next two years in a manner compatible with EU legislation.**
 - ▶ **The regulation of the internet based betting is still pending.**

THE EUROPEAN COURT OF JUSTICE RULING

- ▶ The ECJ was to evaluate three different aspects of Greek law, namely:
 - ▶ The compatibility of the position that OPAP holds in the Greek market with Community law,
 - ▶ The probability of granting a transition period in case of an incompatibility of national legislation to Community law and,
 - ▶ The limits in the power of the Member States in cases that do not allow for a transition period.
- ▶ The ECJ has ruled broadly in favor of OPAP:
 - ▶ Regarding the first issue, the Court held that it is for the national courts to determine whether the monopoly of a Member State is compatible with the requirements of the law of the ECJ (ie consistency, proportionality and non-discrimination).
 - ▶ A Member State which seeks to ensure a particularly high level of protection may be validly held, as the Court in its case law, that only the grant of exclusive rights to a single organization that is subject to strict control by the public authorities allow these authorities to put under control the risks inherent in the gaming sector and pursue the objective which is to prevent urging consumers to be subjected to extremely high costs associated with gambling and combating addiction by them in a sufficiently effective manner (see judgment of 30 June 2011, C-212/08, Zeturf, not yet published in the ECR, paragraph 41).
 - ▶ Finally, in paragraph 46, the Court held that the refusal to grant a transitional period in case of incompatibility of national legislation with Articles 43 EC and 49 EC do not necessarily imply an obligation for the Member State to liberalize the market for gaming if the State believes that such a release is not compatible with the level of consumer protection and the social order in which the State seeks to ensure.

The European Lotteries has taken a positive for OPAP view on the judgment while the European Gaming and Betting Association claimed that the ECJ decision opens the door to the European Commission to take action against Member States that do not conform with European legislation.

EUROPEAN COURT DECISION HAS INCREASED UNCERTAINTY WITHOUT RESOLVING ANY ISSUE

On the positive side

- ▶ The possibility of a monopoly not challenged in principle if it is used for the protection of consumers.
- ▶ National justice system will decide on the issue of legality of the monopoly in its present form.

On the negative side

- ▶ The ECJ raises certain issues on the legality of the monopoly that betting companies will try to exploit.
- ▶ The State Council will take several months to decide on the issue and thus uncertainty will linger on.

Possible voluntary curtailment in commercial and marketing activity of OPAP might undermine its attractiveness.

THE REGULATORY COMMITTEE ON GAMES

- ▶ The Regulatory Committee on Games established by law 4002/2011 (A180) amended by law 4021/2011 (A218) amended by law 4038/2012 (A14) is an independent regulator.
- ▶ The Regulator has been inadequately staffed and has not produced the full range of regulations required to regulate the market.
- ▶ The Minister of Finance was obliged (on the 5th of December) to postpone the transfer of powers to the Committee until 13/8/2013.

A 3 MEMBER COMMITTEE APPOINTED TO OVERSEE OPAP

- ▶ **Since October 2012 a 3 member Committee has been appointed to oversee OPAP.**
- ▶ **The committee will be present in all Board meetings deciding on:**
 - New games,
 - Contracts with agents
 - Marketing and communication issues.
- ▶ **The appointed Committee consists of:**
 - ▶ E. Giannakopoulos, lawyer Chairman of the Regulatory Committee on Games
 - ▶ D. Filippopoulos, lawyer
 - ▶ K. Magoulas, Professor National Technical University

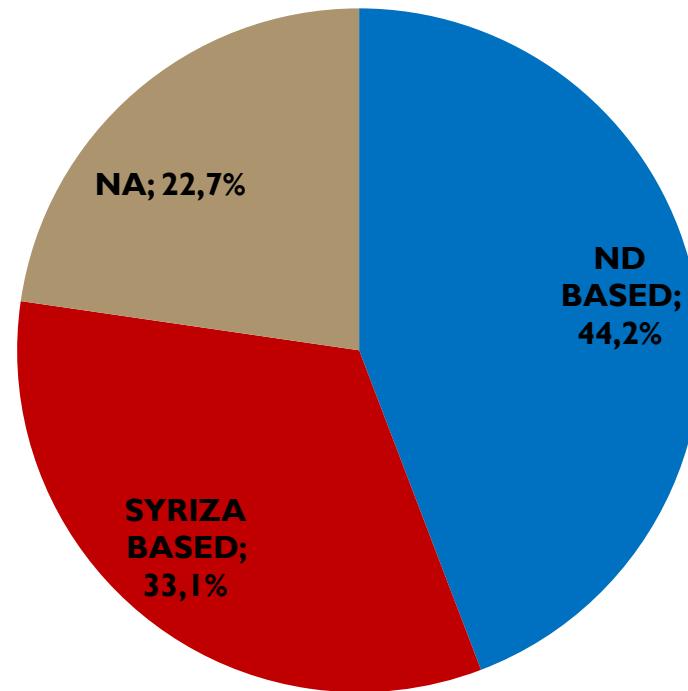
THE REGULATION OF INTERNET BASED GAMES

- ▶ A draft amendment to the Law 4002/2011 has already been submitted to the European Commission. The amendment, in addition to granting the monopoly right to OPAP for online betting, will include other measures, such as increasing the number of VLTs per site at 50, instead of 25 currently envisaged by the legislation. As for the online game, competitors of OPAP will be strictly limited to providing casino gambling type of games.
- ▶ Upon notification to the European Commission, the amendment will take effect after four months. However, potential investors in the privatization of OPAP have a clear path for what will happen in online gambling.

POLITICAL RISK LOW BUT ACCIDENTS CAN HAPPEN

- ▶ The coalition government has recovered in the polls and New Democracy is leading the main opposition party SYRIZA by a small margin.
- ▶ People support a New Democracy based government by a large margin.
- ▶ Any privatization is likely to be irreversible even if a change in government takes place in the next 2/3 years.

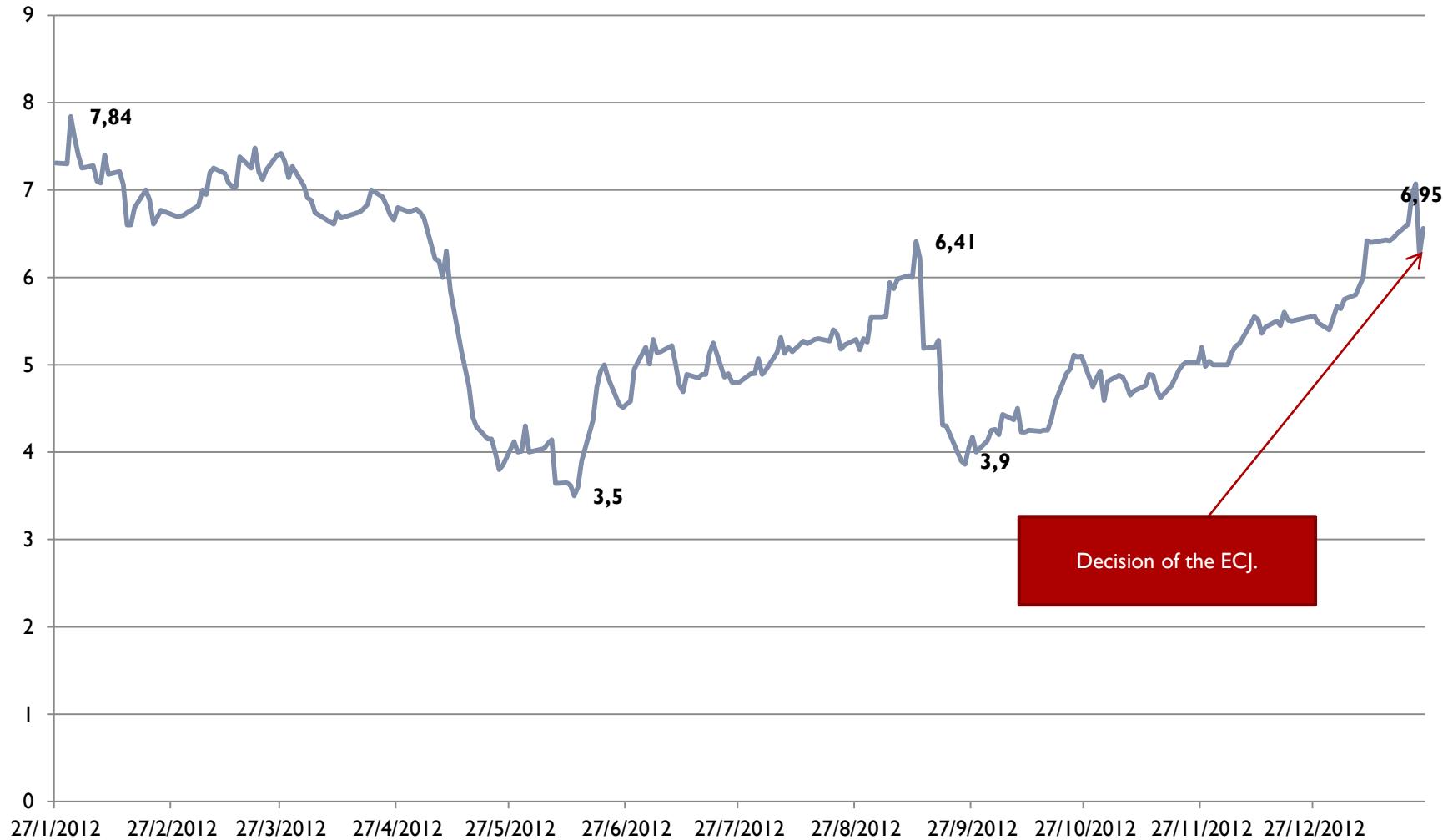
WHICH TYPE OF GOVERNMENT CAN ADDRESS THE MAJOR CHALLENGES OF THE NEXT DECADE?



MAJOR INVESTORS NOT GREATLY CONCERNED WITH REGULATORY UNCERTAINTIES

- ▶ Two funds have built positions in OPAP:
 - ▶ Baupost Group close to 5%
 - ▶ Silchester International Investors 6.7%
- ▶ Several international groups active in privatization among the 7 shortlisted investors:
 - ▶ BC PARTNERS
 - ▶ TPG CAPITAL
 - ▶ THIRD POINT LLC
 - ▶ FOSUN
- ▶ Target price per share at:
 - ▶ UBS at 5.80
 - ▶ IBG at 7.90
 - ▶ Morgan Stanley at 5.50 and up to 12.00 by year end.

SHARE PRICE ON AN UPWARD TREND SINCE THE ANNOUNCEMENT OF PRIVATIZATION



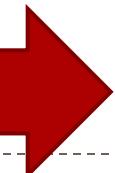
KEY ISSUES: MANAGEMENT

- ▶ Top management well qualified to run the company through to privatization.
- ▶ Management is highly capable in terms of operations but less capable on commercial marketing issues.
- ▶ However, current management constrained due to the ongoing privatization process as no clear guidelines have been given by the shareholder on key issues especially regarding the implementation of VLTs contract.

KEY ISSUES: OPERATIONS

- ▶ Company heavily relying on outsourcing technology and operations to INTRALOT (last 20 years).
- ▶ An open tender on further technology services is in difficulties as one of the two bidders has been ruled ineligible on technical grounds and his financial bid was not opened.
- ▶ If the tender process is annulled then the existing contract will be extended for up to 3 years.
- ▶ VLTs implementation stalled due to privatization process but it is running out of time as deadline approaches June 2013.
- ▶ The relation of the Company with the 5500 independent agents which are suspicious of privatization remains a delicate issue.
- ▶ Agents are independently contracted but on the same terms and account for over 90% of the sales.
- ▶ With the introduction of VLTs another 1500 to 2000 points of sales will be established.

Within 3-5 years 50% of the sales will be shifted away from the physical network.



THE OUTLOOK FOR OPAP

- ▶ The regulatory environment not yet well defined as the Regulator (Games Committee) is not yet fully functioning and the basic regulatory documents not yet published. Amendments continue to flow and regulatory uncertainty persists.
- ▶ Market has not yet settled as the state has imposed a new tax on OPAP gross profit of 30%, a 10% tax on profits for the players from the first euro and 5% on VLTs.
- ▶ A 3 member special committee has been established to oversee OPAP. The committee will be present in all Board meetings deciding on: new games, contracts with agents, marketing communication.
- ▶ Numerical games face most of the competitive intensity considering that:
 - ▶ Any growth through the traditional network of agents has to meet competition from VLTs, Lotteries (mostly Instant) as well as the own online channel
 - ▶ Market share of casinos and its stability potential is a decisive factor to determine available room to grow for numerical games
- ▶ Skill based games have a more clear road map to growth:
 - ▶ Most of the market share migration happens among betting at the traditional network of agents, the own online channel and the ability to capture unregulated business
 - ▶ Growth of regulated online channel could drive also some growth of the unregulated operators due to broader awareness of the market.
- ▶ **The most crucial factor in the development of OPAP market share is the management control by the new investor.**