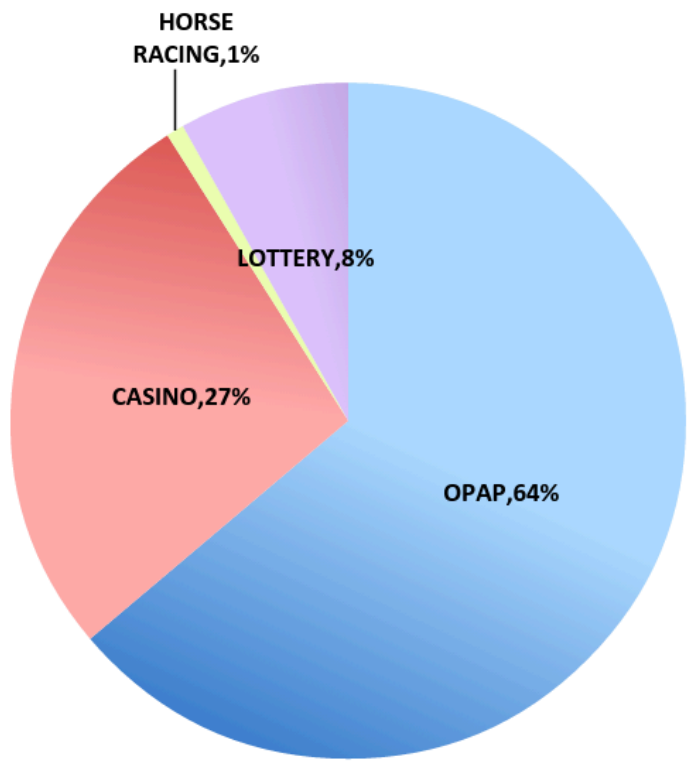
THE GAMES MARKET IN GREECE A POST ELECTION UPDATE

S. TRAVLOS

JUNE 2015

THE GAMING MARKET IN 2014



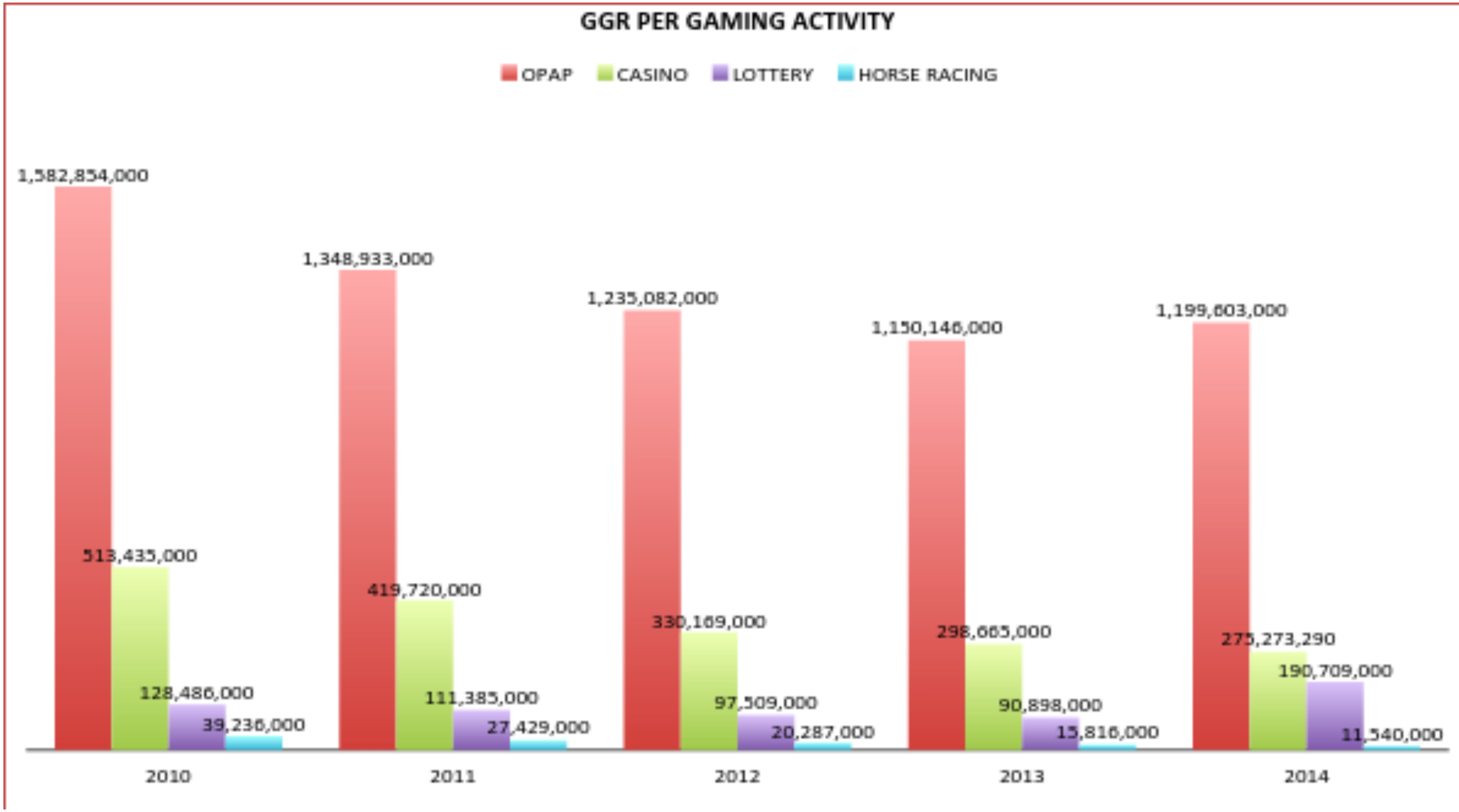
MARKET SEGMENT	TURNOVER
OPAP	3,759,712,676
CASINO	1,599,943,054
HORSE RACING	50,013,613
LOTTERY	479,574,260
TOTAL	5,889,243,603

OPAP SA completely dominates the market as it has taken over both the National Lottery (for a period of 12 years) and the Horse Racing Organisation.

A DECLINING MARKET WITH SIGNS OF RECOVERY IN 2014

GGR	2010	2011	2012	2013	2014
OPAP	1,582,854,000	1,348,933,000	1,235,082,000	1,150,146,000	1,199,603,000
CASINO	513,435,000	419,720,000	330,169,000	298,665,000	275,273,290
LOTTERY	128,486,000	111,385,000	97,509,000	90,898,000	190,709,000
HORSE RACING	39,236,000	27,429,000	20,287,000	15,816,000	11,540,000
TOTAL	2,264,011,000	1,907,467,000	1,683,047,000	1,555,525,000	1,677,125,290

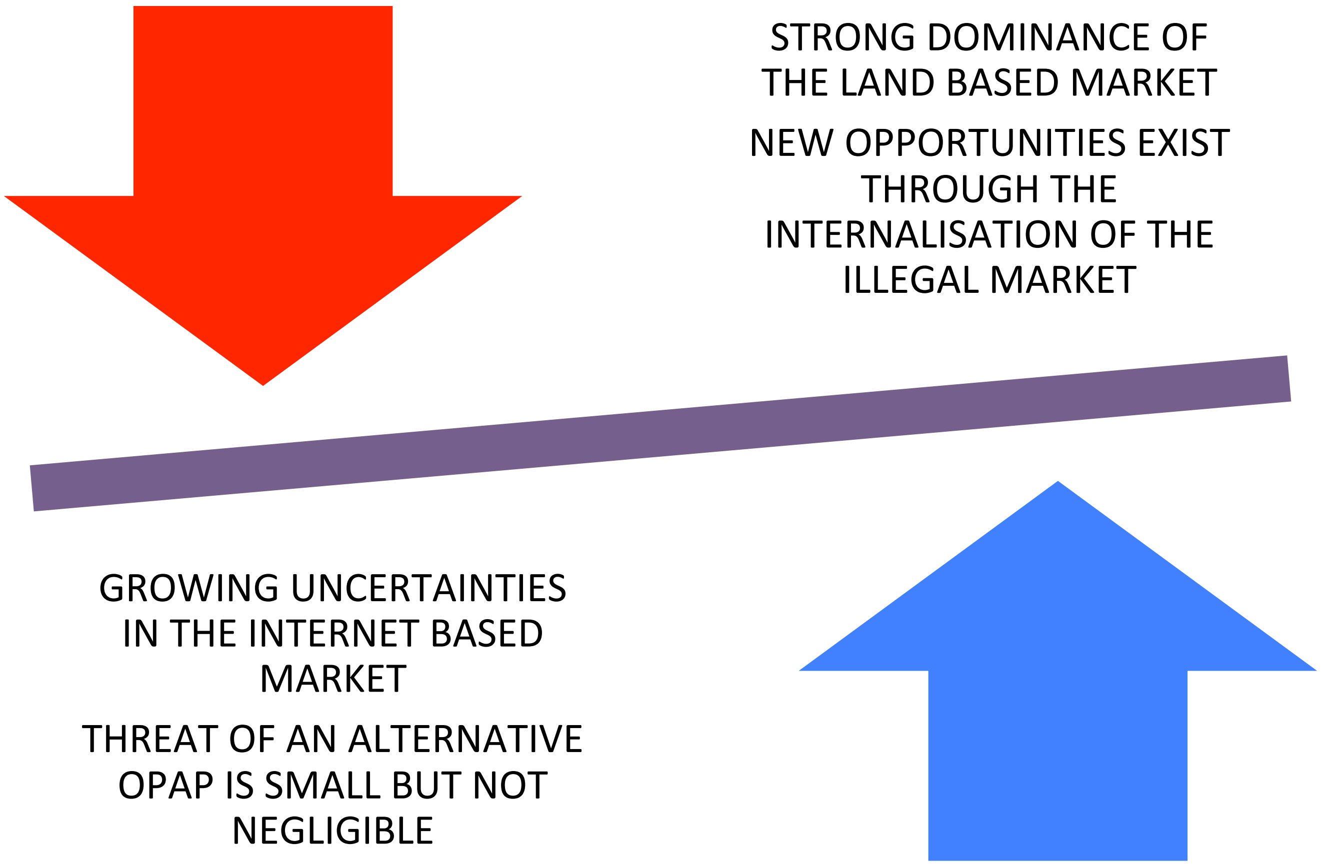
BUT THE CRISIS HAS TAKEN A HEAVY TOLL



THE POLITICAL CONTEXT

- The new government had a different approach regarding the organisation of the market and the role of the state in it.
- They have opposed the full privatisation of OPAP and promised to reconsider when in power.
- They have appointed a new board in the Gaming Commission. One of the members of the board used to be a high level manager of OPAP before the full privatisation and the transfer of management to the EMMA DELTA group. The new board has not yet given any indication of its policy direction.

CHANGING CONSIDERATIONS FOR OPAP



RISKS AND OPPORTUNITIES FOR OPAP

OPPORTUNITIES

The rolling out of VLTs coincides with a sliding real estate market hence OPAP can tap prime locations at a very low cost.

Internalisation of the illegal market presents a major new opportunity.

Market dominance and control of alternative games improves management's potential for reducing the impact of cannibalisation of games.

The internet based monopoly under threat as the government insists in tendering out new licenses to operators in order to raise additional funds.

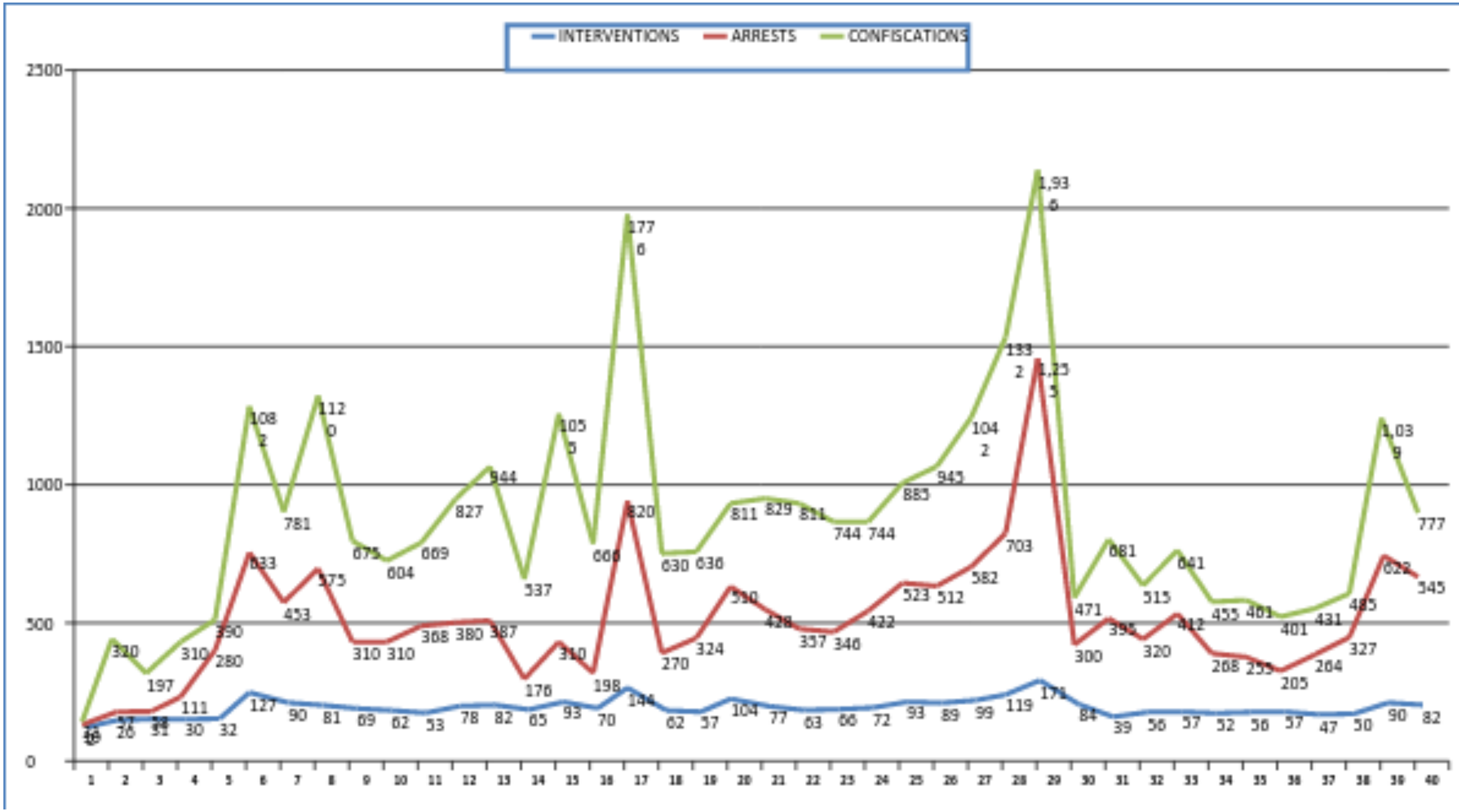
The INTRALOT lobby seems to have recovered under the new government and is potentially seeking to establish a new competing organisation to OPAP.

Persisting crisis undermines recovery.

Frictions with the agents network can undermine operations.

RISKS

THE PERSISTING ILLEGAL MARKET



THE ILLEGAL MARKET COULD BE AS LARGE AS THE LEGAL MARKET

- Some of the illegal operations are of a medium scale involving organised crime with connections to the authorities. In 2014 14 organised illegal casino have been identified and closed by the authorities.
- The total illegal internet based game turnover was estimated at 4-4.5 bn. Euro per year in 2010 while a total of 65.000 illegal VLTs of various types were in operation with a GGR of 1.3 bn. Euro(*).
- The size of the illegal market cannot be accurately estimated. The Gaming Commission is planning a new study on the subject.
- From the data on interventions and arrests we can see that over the years despite the seasonality the market remains remarkably stable.

(*) SOURCE: Gaming Commission Report for 2014.

THE VLTs ROLLING OUT

- OPAP has already received 4,000 gaming machines, and ready to sign rental contracts for about 200 stores throughout Greece. Under certain conditions operations can start until the end of June for about 100 outlets.
- The main stumbling block remains the time required to get operational permits for the individual stores from the planning authorities.
- The new tender for another 18.500 VLTs is likely to go ahead in July but the new machines will not be deployed before Q1 2016.

THE INTERNET BASED GAMES MONOPOLY

- The new government has expressed its willingness to open up the internet based market granting through a tender new 5 year licenses replacing the existing 24 temporary ones. It is not clear how the government will keep the balance with OPAP.
- According to the existing since 2000 framework agreement between the Hellenic Republic and OPAP, the company offers gambling, including sports betting, “in any convenient way”, including internet based games therefore it will be difficult to demarcate the exact segment of the market that will be open to new licenses. The new licenses will probably be offered only for online casino games and poker.
- Market sources point out that it is not certain that European authorities will accept the government's proposals for new licenses following the recent decisions of the Plenary Council of State where it was unequivocally decided that the exclusive right granted to OPAP to conduct gambling in all forms is fully compatible with European Union law.

TAX CONSIDERATIONS

- The government is looking on a number of areas for new tax revenues. A new tax on GGR cannot be ruled out but it is not likely.
- However, the government has announced its intentions to levy an extraordinary tax on profits for the largest corporations aiming to raise 1064 Mn. euro in fiscal 2015. If they follow the example set by law 3808/2009 then OPAP will be hit by a 10% tax on 2014 profits. This is a measure not generally accepted by the creditors because of its ad hoc nature but it may still go ahead.
- At this stage there is no plan for additional taxes on gamers.
- In general the government has a greater interest in pursuing an aggressive policy against illegal games in order to ensure a steady growth in tax revenues through internalisation of the market rather than imposing new taxes in the legal market.

THE OUTLOOK

- Macroeconomic uncertainties persist and weigh on the OPAP performance both in terms of country risk considerations and lower private consumption.
- There are some rebalancing trends among games but overall there is no competitive threat to OPAP.
- The possible opening up of the internet based market can present OPAP with a new environment but that is not likely to happen before the end of Q2/2016. Tendering procedures and other institutional arrangements are notoriously slow in Greece and legal complications may also further delay developments.
- The VLT deployment and the new tender for another 18.500 machines through sub contractors will further establish an unassailing position for OPAP.