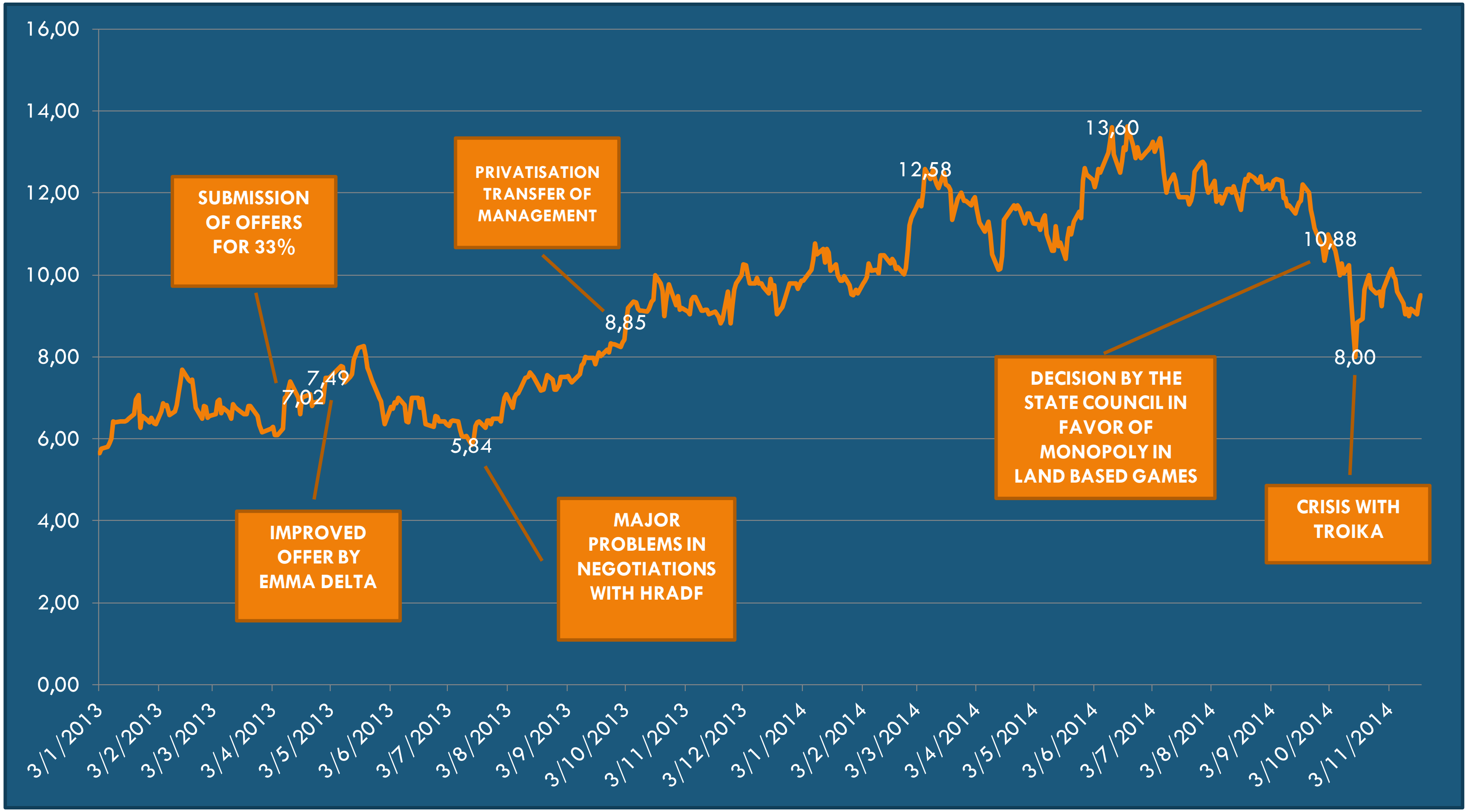
THE GAMES MARKET REGULATORY ENVIRONMENT AND THE IMPACT OF POLITICAL DEVELOPMENTS

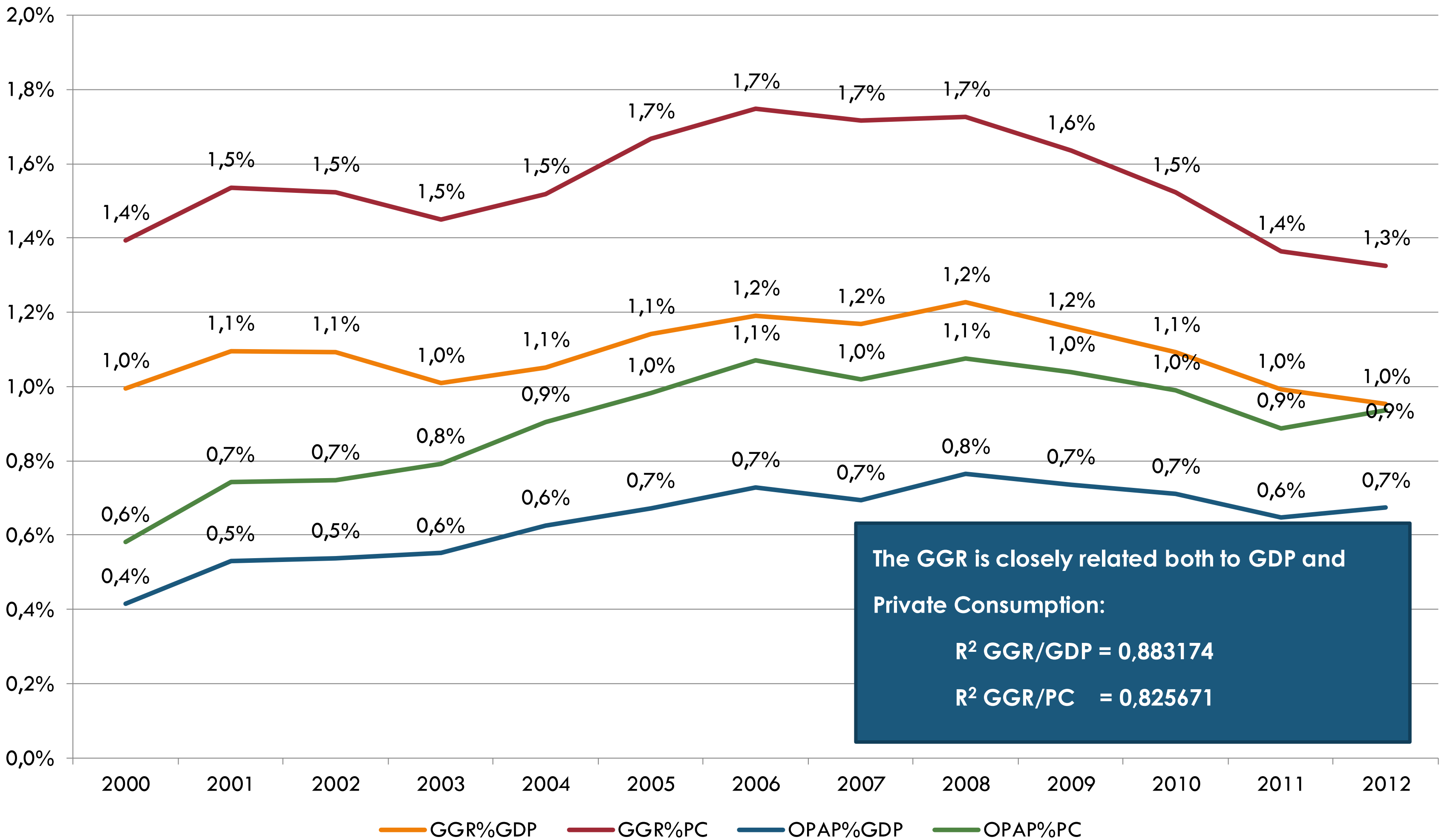
S. TRAVLOS NOVEMBER 2014

THE GAME MARKET: SOME FACTS

OPAP SHARE PRICE MOVEMENTS



GREEK GAMING MARKET:SOME HISTORICAL DATA

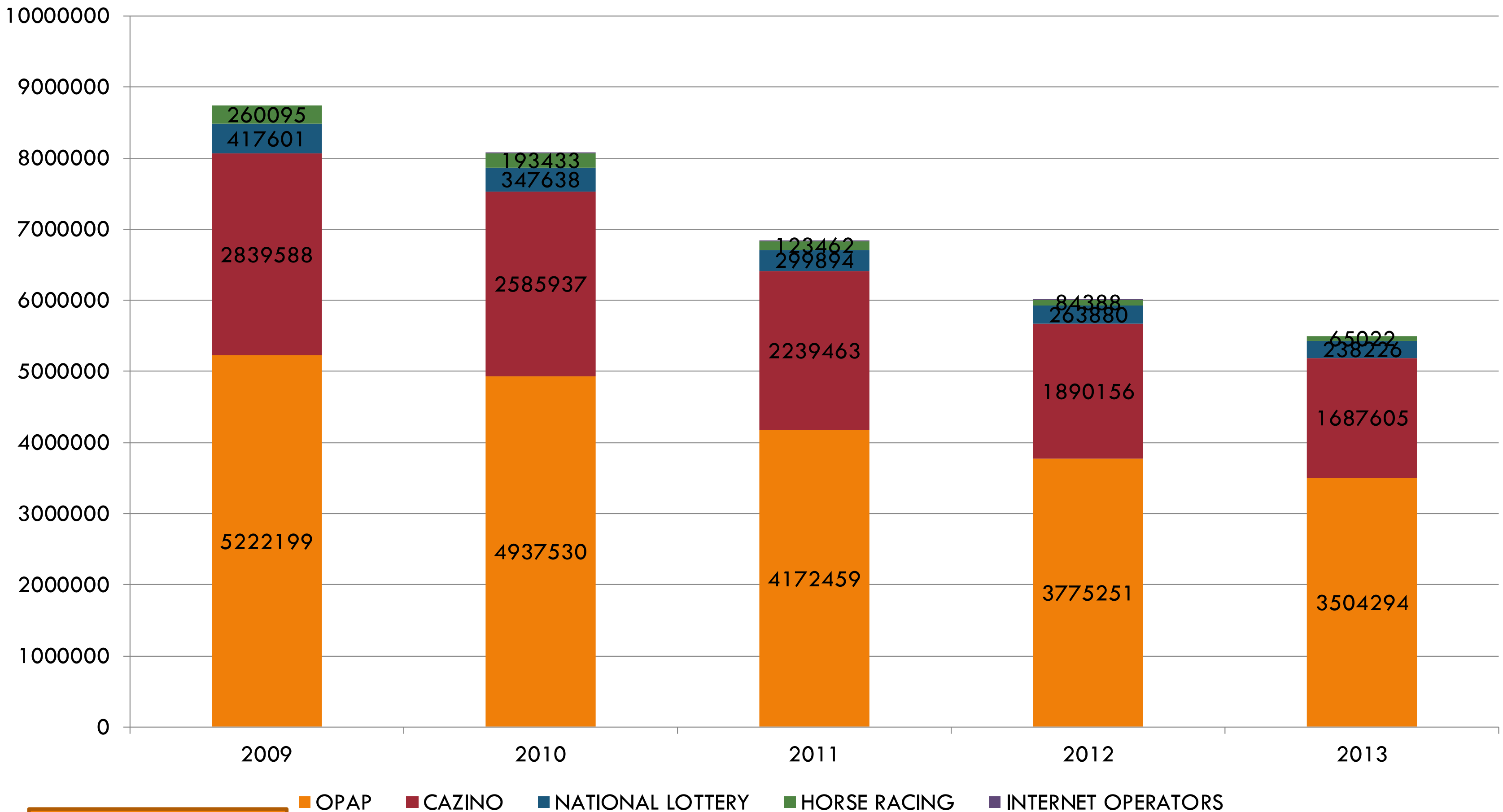


The GGR is closely related both to GDP and Private Consumption:

R^2 GGR/GDP = 0,883174

R^2 GGR/PC = 0,825671

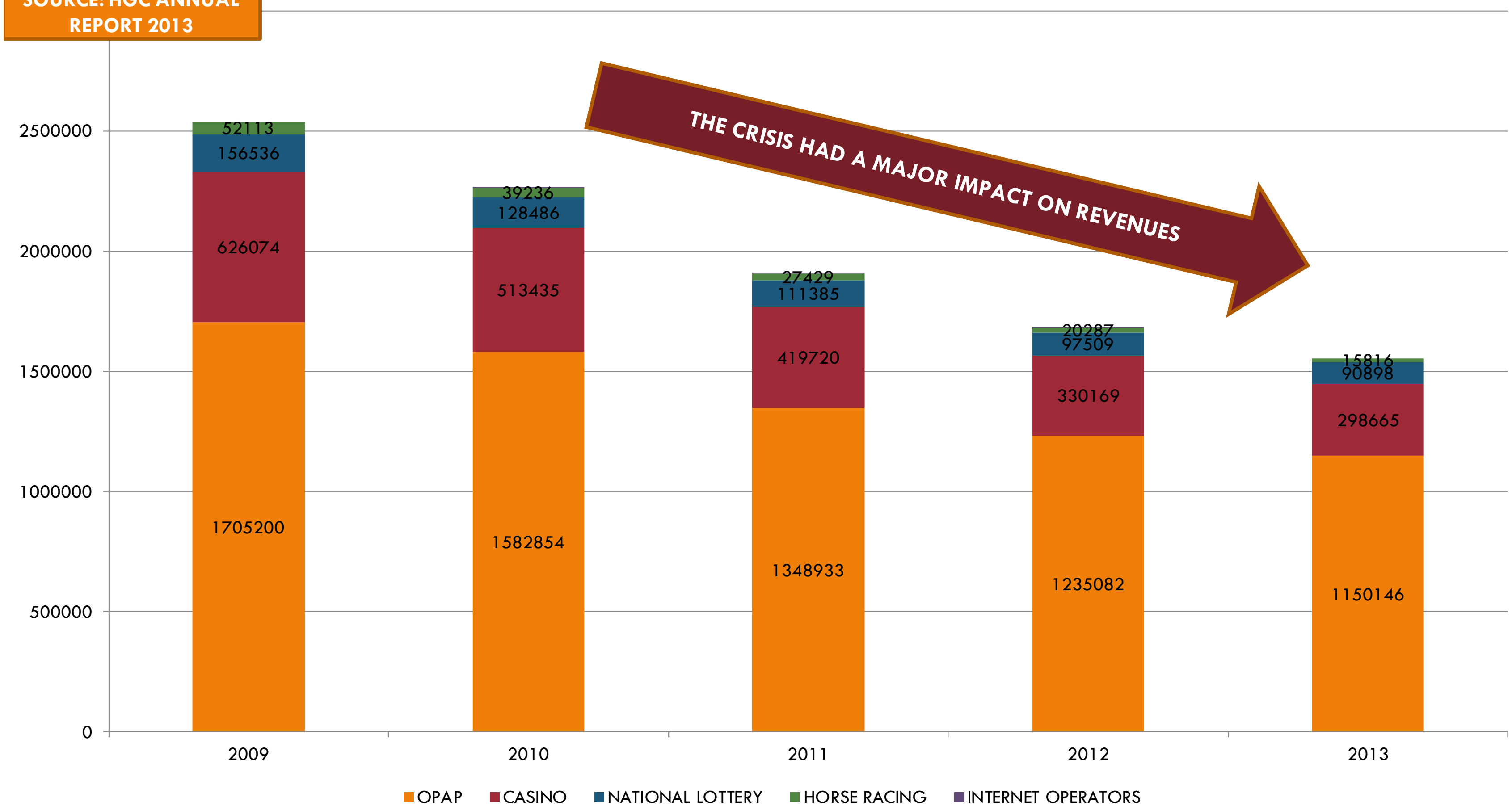
TOTAL GAMBLING TURNOVER



SOURCE: HGC ANNUAL REPORT 2013

GROSS GAMING REVENUE

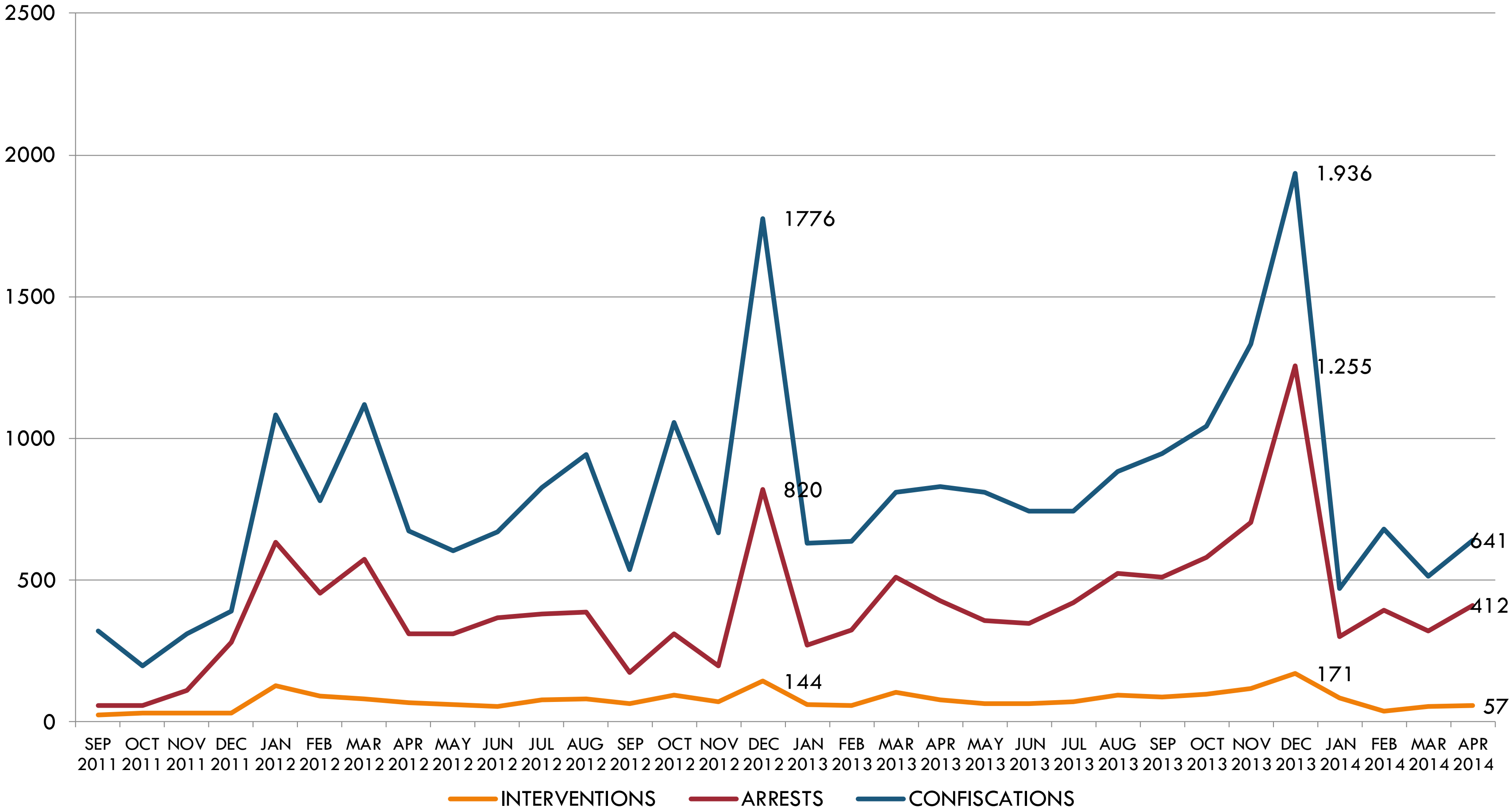
SOURCE: HGC ANNUAL REPORT 2013



MARKET STRUCTURE: OPAP DOMINATING THE LEGAL SEGMENT

CONTROLLED BY OPAP DIRECTLY OR THROUGH CONCESSIONS

THE ILLEGAL LAND BASED MARKET IS VERY ACTIVE



HUGE POTENTIAL OF THE ILLEGAL INTERNET MARKET

- The total number of blacklisted internet based operators was at the last count 438.
- The estimated GGR from illegal internet games was 200-250 mil. Euro in 2012.
- About 400 thousands Greeks have been actively playing in illegal games.
- Penalties for the unlicensed operators are heavy and the banks involved in the transfer of fees to these operators also face stiff penalties.

GDP IS RECOVERING GGR MAY FOLLOW

- It is unclear whether the recovery will be a linear process. Much depends on the reaction of the management.
- Structural breaks in consumption behavior occur after severe crises. The market environment is changing.
- The introduction of new lines of activity may lead to a jump in GGR over the medium term (2/3 years) and then decline.
- The experience from Italy is that online gambling lost the appeal that had at the beginning. Innovation is needed to restore it.

REGULATORY FRAMEWORK

THE REGULATORY FRAMEWORK

- Regulation of the gaming market was carried out jointly by the Ministry of Finance and the Ministry of Culture through the enactment of ad hoc laws and the issuing of ministerial decisions up to 2011.
- In 2011 Law 4002/2011was enacted and as a result a coherent regulatory framework was introduced for the first time.
- As far as gambling is concerned, the Law regulates thoroughly online gambling and introduces for the first time the concept of land-based lotteries hosted on VLTs (Video Lottery Terminals), granting OPAP SA authorization for the installation and operation of 35,000 VLTs. Moreover, the Law introduces new concepts in the field of the protection of minors, such as mandatory player cards, controls of the commercial communications between gambling service providers, while it further imposes a series of administrative and penal sanctions in case of non-compliance with its provisions.
- The Law has since then been amended several times concurrently with the privatisation process and following European Court of Justice rulings and interventions by the European Commission (See Appendix).
- Since 2011 the Ministry of Finance stepped in several times and took over regulation for limited periods until the regulator created the necessary infrastructure.

HELLENIC GAMING COMMISSION - HGC

- The HGC was originally established in 2004 by virtue of Law 3229/2004 (GG Series A, No. 38), which would undertake the gaming monitoring and control tasks which at that time were carried out by various other public bodies. In the form it was originally established, the Commission never took up duties or entered operation.
- In late December 2011 the HGC members were appointed.
- In February 2012 the Commission was nominated as an independent Public Authority by Law 4038/2012 (GG Series A, No. 14) and currently operates as such.

A 3 MEMBER SUPERVISING COMMITTEE APPOINTED TO OVERSEE OPAP SA

- By decision of the HGC recommended for reasons of public interest, a three-member Supervising Committee is appointed either from its members or from outsiders, which shall attend meetings of the Board of OPAP, oversees and ensures that OPAP complies with:
  - The legislative framework governing the gambling market and with the 15. 12.2000 and 4.11.2011 contracts between OPAP SA and the Greek government,
  - The regulations of the HGC on Gaming and any decision taken pursuant to Article 54 paragraph 5 of Law 4002/2011,
  - The law on protection of personal data, as applicable,
  - Its commercial communication regarding its activities and its agents conduct so that gamblers participate through legitimate channels and to protect minors and vulnerable to exposure to gambling. Any promotion campaign should not be misleading, not to pass the message that gambling leads to enrichment and does not include individuals who seem to be aged of less than 21 years.
- Moreover, the Board of Directors of OPAP SA and the persons to whom the Board delegates powers of execution under Article 22 paragraph 3 of CL 2190/1920, as applicable, must inform the Audit Committee on proposals regarding gambling conducted under the 15.12.2000 and 4.11.2011 contracts between the State and OPAP and relating to the following:
  - The introduction of new or modifications of existing measures for marketing and conduct of gambling.
  - Contracts OPAP SA. with its agents.
  - Contracts and other decisions relating to marketing communications.

REGULATORY STRUCTURE

MINISTRY OF FINANCE

Introduces legislation and appoints the Board of the Hellenic Gaming Commission.

HELLENIC GAMING COMMISSION

Monitors and oversees the market

Issues Codes of Conduct

Appoints the OPAP SA Audit Committee

SUPERVISING COMMITTEE

Monitors: (a) the introduction of new or modifications of existing measures for marketing and conduct of gambling.

(b) Contracts OPAP SA. with its agents.

(c) Contracts and other decisions relating to marketing communications.

A CLEAR REGULATORY LANDSCAPE IN LAND BASED GAMES AND ESPECIALLY SPORT BETTING

- The new legislative framework that maintains a monopoly for OPAP SA is compatible with the requirements of EU law, by judgment of the Plenary of the Council of State (CoS) which rejected the appeals of 3 foreign companies.
- Relevant appeals submitted to the CoS by the companies argue that the Greek legislation that gave the exclusive right to OPAP to manage and organize gambling is contrary to the European Community Treaty, which guarantees freedom of establishment and freedom to provide services.
- The Plenary of the Council of State dismissed the appeal, holding that the newest legislative framework and specific laws 4002/2011, 4038/2012 and 4141/2013 which maintained the monopoly rights of OPAP SA, now set a regulatory framework that is compatible with the requirements of EU law.
- Furthermore, the decision of the Plenary decided that all recent legislation aims to combat illegal betting and criminal activity in the field of gambling, by channelling these activities to a legal and controlled environment.

A MAJOR REGULATORY MESS IN INTERNET BASED GAMES

- "The online market will be organized with permits to be granted by the State. The claim by OPAP on exclusivity in the Internet is not valid. Other arguments apply and we take them into consideration. But this is not true. We are in discussions with the management of OPAP. OPAP can claim a permit as they can claim the concession for the state lottery if they want. This is clear. We will issue permits for the web based games ...". **Mr. B. Venizelos Minister of Finance statement 2011.**

- 24 companies are operating under paragraph 12 of Article 50 of n. 4002/2011. The final authorization process for gambling via the Internet, described in Articles 45 - 50 of Law 4002/2011 (A 180) takes place after an international tender notice. To date, no such permanent licenses have been granted.
- The 24 companies continue to operate under a provisional, license.
- Some powerful interests are active in this segment and wait for full liberalization.

ALL OPTIONS ARE OPEN IN WEB BASED GAMES

- OPAP claims that it poses a monopoly position in the web based games as well through the initial (2000) granting of license.
- Several attempts have been made to discontinue this transitory arrangement and reinforce the monopoly rights of OPAP SA but the European Commission has prevented such a development up to now.
- Market sources report that HGC is again lately (Nov 2014) pressuring the leadership of the Ministry of Finance to promote a new regulation in order to stop the operation of the companies that have received temporary authorization under Law 4002/2011.

TAXATION ENVIRONMENT

- According to Greek Law 4093/12 passed by Parliament on November 7, 2012, the net revenues of OPAP S.A. are taxed at the rate of 30% beginning January 1, 2013.
- The OPAP Group is bound by this tax until 2020.
- Additionally, the OPAP Group is subject to tax on its profits on the same basis as any other Greek corporation.
- Greece has also entered into negotiations with the EU Commission in order to harmonize its gaming tax environment, in view of sector liberalization.

- From April 19, 2013, the new tax rate on winning was amended as follows:
  - Winnings below euro100 are untaxed;
  - Winnings between euro100 to euro 500 are taxed at a rate of 15.0%; and
  - Winnings above euro 500 are taxed at a rate of 20.0%.
- While the tax on winnings below euro 100 has been removed, winnings above e100 are subject to higher taxes, which could reduce the size of bets placed by customers and have a negative effect on the OPAP Group's revenues.

ASSESSMENT OF THE REGULATORY FRAMEWORK

- The existence of an independent regulator since 2011 has not changed the basic parameters of the regulatory framework.
- The market perceives the regulator as an extension of the government protecting OPAP's monopoly powers and facilitating his dominance in the market.
- The later introduction of a Supervising Committee to oversee OPAP SA has not remarkably changed the landscape either.
- There are no frictions between HGC and OPAP SA but further restrictions and controls may intrude on management and create frictions in the future if the Supervising Committee takes a heavy hand approach to monitoring.
- There are remaining issues to be resolved at the regulatory level as the European Commission is taking a close look at the internet based games monopoly position of OPAP SA. The Remote Gaming Association is pursuing the issue at European level and puts pressure on the government to act by opening the market.

BUSINESS CHALLENGES OF OPAP SA

THE INTRODUCTION OF VLTs

- The initial permit has been granted at a cost to OPAP of 575 million euro. The delay was mainly due to the lengthy process of Code of Conduct approval and anticipated changes in legislation clarifying certain issues of procedure as well as giving additional incentives to OPAP.
- The experience up to now from the current management is that they are able to develop new lines of business on time provided they reach an agreement with the agents.

KEY ISSUES REMAINING TO SETTLE WITH AGENTS

- The management of OPAP has already planned to develop VLTs through the creation of approximately 700 Gaming Halls in Greece, which will host 25 game machines each.
- The management has proposed three options to the agents for their involvement in the project:
  - Through direct participation, where the agent would bear the cost of creating the Gaming Hall, OPAP would supply the VLTs and the agent will be paid 24% of the Gross Gaming Revenue .
  - The participation of an agent or agents in Consortiums to obtain a gaming hall, but in this case the participating agents would not be more than seven in each consortium.
  - Through their participation in a bond so that they act as lenders to OPAP. The bond will be at 1000 euro each with 10 year duration and a return of up to 20% depending on the VLTs performance.
- The agents propose to OPAP a completely different model of development:
  - To establish a broadly based company with agents as shareholders which will develop 150-300 gaming halls (about 3500-7000 VLTs)
  - Establish other smaller companies with the participation of agents that are unable to host independently VLTs which they will active at local level.

OPAP SA is not likely to get into a new confrontation with the agents as the management realizes that they control the sales of all other land based products. On the other hand OPAP will not hand to a third party such a large number of VLTs.

ASSESMENT OF MANAGEMENT

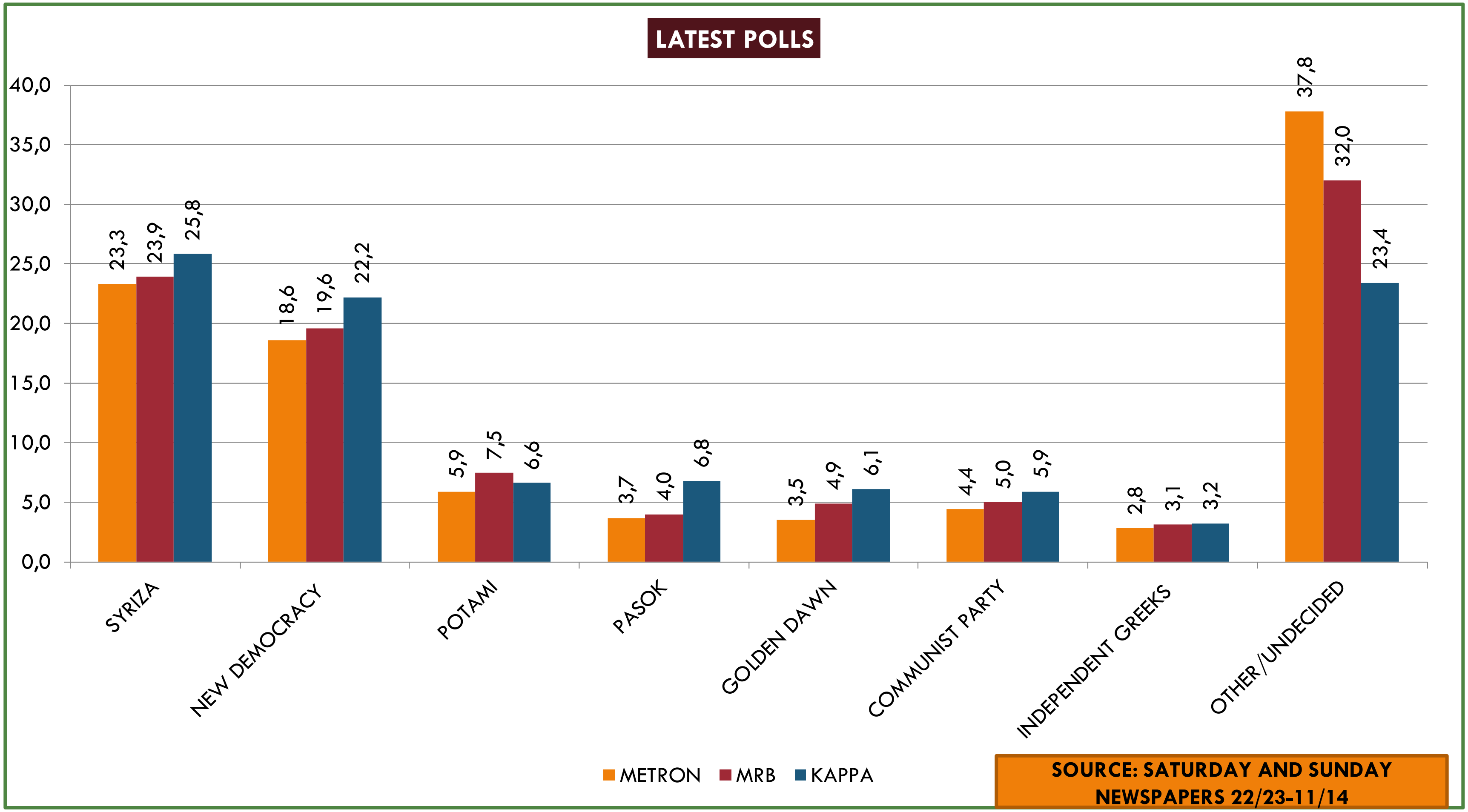
- OPAP's management since privatization is dominated by a group of Czech nationals who have replaced the previous Greek team.
- The return of the company to a normal state of affairs following a rather turbulent privatization process, cost cutting efforts and a renegotiation of contracts with suppliers has improved business prospects.
- However, the management overall is lacking specific game related skills and Greek market knowledge and hence the introduction of new games may not have the maximum impact on revenues and profits.
- In the land based systems difficulties arise from the handling of the agents network while in the web based games from market conditions and the lack of clarity of the regulatory framework.

OPAP BUSINESS OUTLOOK

- Large potential for growth feeding on the illegal market if the pressure on that segment of the market increases on the part of the state. The deployment of VLTs will also help in this direction.
- 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.
- OPAP has a considerable potential in international markets not yet fully exploited.

THE POTENTIAL IMPACT OF A SYRIZA GOVERNMENT

POLITICAL OUTLOOK: SYRIZA FIRMLY IN THE LEAD BUT TOO MANY UNDECIDED



THE TIMING OF THE ELECTIONS IS STILL UNCERTAIN

- The outcome of the elections will be determined by:
  - The on going negotiations with troika especially the arrangement about the debt.
  - The possibility of electing a new president of the Republic by the current parliament assuming that 180 MPs are willing to vote for a person of general acceptance.
  - The internal party politics in PASOK as the previous leader is seeking to take his revenge against the current leader M. B. Venizelos.
- If negotiations with troika fail to deliver a clear exit path from the current MOU arrangement the government will suffer a humiliating defeat. In this case we expect that SYRIZA will have a lead of at least 10 percentage points and will be very close to a full majority in parliament.

SYRIZA: VIEWS ON PRIVATIZATION

- "Privatization under the IMF and the memorandum was supposed to bring 50 billion to the treasury. Later on they both found that there not so many assets to be privatized by Greece so a new estimate was put forward of 22 billion. Now the goal is 14 billion and after 3-4 years of privatization, we have received only 2.9 bln. This is the program of privatization! I remind you that Greece had an annual investment level in 2008 of 30 billion. So we made a privatization program which would have terrible results and realized that there is nothing to be privatized. Why there is nothing to be privatized. Because Greece had made a world record in privatizations from 1996 to 2008 privatizing banks, ports, highways, all industries, Olympic, OTE. So comes the Memorandum and says the solution in Greece is privatization in a privatized economy. And what they found? A state energy company, a water company, a company that has a gambling game. Then they found some regional airports, because the Athens airport is already privatized, and some regional ports. So the whole program has nothing to do with reality". **G. Stathakis speech 7/10/2014**

- SYRIZA rejects privatization but refrains from condemning all privatizations. They are mainly opposed to utility privatizations on ideological and political grounds as most public sector trade unionists have migrated from PASOK to SYRIZA over the last two years.
- They will most likely accept some concessions but they oppose on ideological grounds the transfer of ownership.
- Up to now they have condemned the privatization agency HRADF as a source of scandals.
- They might review all the share purchase agreements and try to find pitfalls or reasons for cancelling.
- If they do so they run the risk of alienating all foreign investors and governments.

SYRIZA: VIEWS ON OPAP

- SYRIZA has taken a very negative view on the privatization of OPAP in 2013 although the company was not considered as a key strategic public sector corporation.
- Since then there were in several occasions statements by SYRIZA on the issue of OPAP which however do not indicate a firm commitment to reverse privatization.
- The SYRIZA MPs are actively monitoring developments in the gaming market and intervene in various instances.

- *"It is a scandal of the first magnitude the long term 'concession' - sell out - of the state lotteries to a joint venture company. Specifically, the Privatization Fund (HRADF) accepted the bid of - only - 190 mil. Euros and decided to transfer the State Lottery for 12 years in the joint venture company comprising of OPAP, Lottomatica, Intralot and Scientific Games, when the profits of state lotteries only for 2010 amounted to 80 million euro"!* **From a parliamentary question by SYRIZA MPs 18/04/2013.**

- *Question by Journalist: The question is Mr Tsipras that SYRIZA is not agreeing to any privatization. Everything should remain in the public sphere?*

  We do not agree with the general sell out as promoted by the Samaras government. They are selling the former Elliniko airport at 80 euro per square following a systematic undermining of its value. They gave away OPAP at a degrading price. They are selling out the water and other public goods. Sorry, but this is not privatization, it is an abuse. **Interview 16/03/2014 REAL NEWS.**

POSSIBLE IMPACTS FROM POLITICAL DEVELOPMENTS

- A change in the Board of the regulator and a more hostile attitude towards the company with stricter oversight:
  - Restrict the marketing effort of OPAP SA.
  - Create a more heavy handed regulatory environment in general.
- A softer approach regarding internet based games monopoly until 2020 which may open the market early.

APPENDIX

MAJOR LEGAL ACTS ON GAMING REGULATION

LEGAL FRAMEWORK ON HELLENIC GAMING COMMISSION (1)

- Law 3051/2001 (GG Series A, No. 220):“Constitutionally established Independent Authorities”, which applies in addition to the special provisions governing the Commission.
- Law 3229/2004 (GG Series A, No. 38), Chapter C, Articles 16 through 23:“Hellenic Gaming Commission and matters relating to Casino operations”.
- Law 3634/2008 (GG Series A, No. 9), Article 23:“Amendments to Article 16 of Law3229/2004 (GG Series A, No. 38)”.
- Law 3691/2008 (GG Series A, No. 166) “Prevention and suppression of money laundering and terrorist financing and other provisions”, which nominates the HGC as the Authority responsible for monitoring the implementation of its provisions by casino enterprises, casinos on vessels under the Greek flag, enterprises, organizations and other entities organizing or providing gambling services as well as by betting agencies.
- Law 4002/2011 (GG Series A, No. 180) , Part D, Chapter H:“Regulation of the gaming market”, Articles 25 through 54.
- Law 4021/2011 (GG Series A, No. 218), Article 52:“Amendments to Law 4002/2011”.
- Law 4038/2012 (GG Series A, No. 14), Article 7:“Regulation of matters relating to the Hellenic Republic Asset Development Fund and the HGC”, paras. 10 through 26.

LEGAL FRAMEWORK ON HELLENIC GAMING COMMISSION (2)

- Law 4141/2013, (A 81), Chapter E΄ “Other stipulations on the Ministry of Finance competencies”, articles 22 up to 24, issues of administration of the HCC have been addressed as well as some changes in the legislation of the gaming market and the functioning of OPAP SA.
- Law 4182/2013 (A 185), Chapter ΙΔ “Other Acts” article 92, all the competencies of the Directorate for Overseeing Casinos of the Ministry of Tourism and the Casino Commission of law 2206/1994 (A 62) have been transferred to the Hellenic Gaming Commission.
- Law 4209/2013 (A 253) With article 106 the HGC undertakes the regulation of games played through radio television and telecommunication networks including the right to issue permits.
- Law 4223/2013 (A 287), article 34, further administrative issues are settled regarding the operations of the HGC.

SECONDARY LEGAL FRAMEWORK ON REGULATION

- Decision No. 55906/1673/21-12-2011 of the Minister of Finance (GG Series "YODD", No. 444):"Set-up of the Hellenic Gaming Commission and appointment of its members".
- Joint Decision No. 56660/1679/22-12-2011 of the Minister of Finance and the Minister of Culture and Tourism (GG Series B, No. 2910):"Certification of the Commencement of Operations of the HGC".
- HGC Decision No. 6/1/24-4-2012 (B1347), issued pursuant to para. 5 of Law4002/2011 (GG Series A, No. 180), entitled:"Organizational matters of the HGC pertaining to its financial management".
- HGC decision No. 10/3/11-6-2012 (B 2066), issued pursuant to para. 5 of Law4002/2011 (GG Series A, No. 180), entitled "Regulation of matters pertaining to the internal operation of the Hellenic Gaming Commission".