



Lotteries & Gaming Authority
Annual Report 2010





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CHAIRMAN'S STATEMENT

I am pleased to present the annual report of the Lotteries and Gaming Authority (LGA) for 2010. Our focus in 2010 was "Gearing up for change". The organisation was enhanced in various ways to deal with the necessary improvements to make our authority a stronger regulator of the Gaming industry.

I have endeavoured to maintain the terms of reference on my appointment - Malta needs to continue to be a "jurisdiction of repute, which promotes excellence by ensuring the legal and fair regulation of the gaming industry". Our strategy continues to be built around this objective.

The financial results of the Authority continued to register growth. Total tax and licence fees collected amounted to €48 million, an increase of 11% over 2009. This result was an important indicator of how effective our regulatory approach was, whilst was also significant as such growth was still registered notwithstanding the difficult prevailing international economic climate,

or indirectly in all the regulated gaming sectors, clearly indicating the important contribution gaming has in terms of employment opportunities.

The land-based sector was stable. The main event worth noting is the change in management in one of the casinos in mid-2010, a process which was closely monitored by the LGA and went through a

from the industry and proposals were made to government to enhance the regulations. This included proposals to start licensing games of skill with prize, amongst others. In addition, changes were proposed to Government to consider regulating casino games on cruise ships and aircrafts. Several other concepts continue to be evaluated and may trigger further enhancements to our regulations in the near future.

We have actively been involved in several EU fora on gaming attending several European Council working party meetings. We have also invested in upholding the principles on Malta's position and at the same time we continue to advise government on these developments.

Unfortunately the regulatory approach (or proposed models) across the EEA remain divergent, fuelling legal uncertainty on cross border service offerings, with an array of cases being referred to the European Court of Justice. This also saw the LGA's legal team involved in such preliminary hearings assisting Government in keeping the Court informed on Malta's strict regulatory approach.

Clearly our focus in 2010 was enhancing the organisation to meet the challenges in 2011. In order to meet this, a number of important slots needed to be filled in our organisation to achieve the milestones set. This included several key appointments, including that of Chief Strategy Officer and that of Director for Corporate Services. In addition, my board continues to be conscious of the corporate governance responsibilities of our roles. In this respect in September 2010 we appointed an internal auditor who is directly responsible to the board. Our newly setup internal audit function ensures we match our principles, ergo being a jurisdiction of repute and ensuring we have one weight and one measure across the board.

63 NEW LICENCES were issued, bringing the total number of live licences at the end of 2010 to 388

coupled with the ongoing debate and developments on the divergent regulatory models proposed across Europe. The surplus for the year, after deducting all expenses amounted to €46.2 million, an increase of €4.8 million over 2009.

During 2010, a total of 119 new applications were received and a net increase of 63 new licences were issued, bringing the total number of live licences at the end of 2010 to 388, represented by 262 operators. During the same period 33 licences were terminated, suspended or cancelled. Employment in the sector continues to grow and we estimate that a total of around 9,000 people work directly

very smooth handover.

As a policy advisor to government, the LGA continued to listen to the industry and understand the direction the industry was taking in order to propose enhancements to our legislation. In late 2009, amendments were proposed to the House of Parliament and approved unanimously which paved the way for the government to publish regulations in the street gaming industry. These regulations were issued, with a view to licensing in mid 2011.

In the remote gaming sector, several ideas were developed based on the feedback

Year 2011 is surely going to be another year of fulfilling CHALLENGES

Late in 2010 the strategic direction for 2011/2 was presented and discussed with my board. We approved the Strategic plan for 2011/2 in December 2010. The plan built on our mission statement and based on the following strategic objectives:

1. To keep abreast with the developments taking place in the EU and Internationally;
2. To expand and diversify the regulatory approach on target markets and sectors by looking ahead into alternative and upcoming technologies, new games and services;
3. To ensure that the "Malta" label is ubiquitous and harmonious with legal and fair regulation;
4. To keep a vigilant eye on land-based gaming with the premise of ensuring a sustainable industry which is fair and responsible;
5. To ensure government gaming tax revenues are effectively collected;
6. To fine tune the internal mechanics of the LGA into a proactive Authority with a serious yet business friendly outlook in order to regulate operators which are serious and who fully subscribe to the principle of responsible gaming; and
7. To continue promoting the notion of gaming as a form of entertainment and thus departing from the concept of 'gambling' which is attributed to social problems and vice.

Hence, the Executive was given very clear direction for 2011 to implement the strategy and with a total of 85 strategic actions; the objective is to implement this plan over a two year period. The organisation will be enhanced with more quality personnel in order to achieve immediate and long term goals, whilst at the same time enhance the ongoing monitoring function of our organisation.

The year 2011 is surely going to be another year of fulfilling challenges. On the land-based sector, there will be the renewal

process for another land based casino and the national lottery licence issued in 2004 will start approaching its end of term.

The challenges in the remote gaming sector will continue, particularly at an EU level where the Green paper on the future of gaming is expected to be Issued.

I would like to thank the management and staff of the Authority for their valued contribution in 2010. Without their initiative and commitment we would not continue to achieve these results. In the meantime, I am looking forward to an ambitious 2011.



Mr Nick Xuereb
CHAIRMAN

A handwritten signature in black ink, appearing to read 'Nick Xuereb', written in a cursive style.

CEO'S REPORT

Consolidation. Regulating Responsibly. Keeping abreast with industry and technological developments. Resiliency. These were the key factors which in a nutshell characterised 2010.

The Lotteries and Gaming Authority kept on steadily moving forward with its programme of works and regulatory responsibilities within the context of not losing sight of what was happening at an international and national level, whilst focusing on those key elements which required particular attention in order to continue regulating gaming responsibly.



Resilient Malta – A Backdrop for 2010?

In tune with the economic mood, 2010 had its regulatory, economic and industry challenges, which put to the test the resiliency of the Maltese economy as a whole, the gaming industry and the operations of the Lotteries and Gaming Authority (LGA). Regulating the gaming industry during such a challenging period, whilst in parallel moving forward in strengthening even further the structures and processes of the Authority was challenging and interesting.

In 2010, the international economic scenario had not yet stabilised. Economies were subject to economic and financial stress tests, whilst at the same time, various countries introduced or were planning to introduce gaming legislation – with a particular focus on remote gaming.

Malta continued sailing through such challenging conditions, whilst maintaining its aim of reaching the port of destination as its main objective, not only specifically for the Maltese gaming industry, but for

the whole Maltese economy in general. The resilience of the Maltese economy and that of the gaming industry was definitely put to the test, with Malta being one of the few economies in 2010 to register stability and encouraging economic results. A clear independent certificate of Malta's resiliency was reported by Moody's, where in its report on the Maltese economy, the agency stated that,

"Malta's A1 government ratings reflect the country's high economic resiliency and its very high financial robustness...the country's primary challenge is to maintain economic competitiveness over the longer term, building on and securing its success in attracting investment in fields such as remote gaming, financial services, call centres and pharmaceuticals".

The gaming industry continued to face difficulties in 'access to finance' for investment purposes, thus seeing a drive towards mergers which up to a couple of years ago were considered to be science fiction. Notwithstanding the international economic conditions, the resilience of the Maltese economy proved itself. The increased monitoring mechanisms implemented by the LGA, drastically diluted the negative impacts on the performance of Maltese licensees. The stepped up monitoring of operator's financial performance was key from a gaming regulatory perspective as the protection of player funds was predominantly ascertained with only a handful of operators facing real difficulties. Overall, the industry still registered an interesting growth.

Across all the sectors regulated by the LGA, including both terrestrial and remote gaming, the amount of gaming duty collected (excluding licence and other fees) in 2010 increased by 10% over 2009 to reach €46.7 million.

The 'Gaming Debate' across Europe and beyond, continued to be interesting,

exciting and at times controversial, with a number of countries introducing or notifying new gaming legislation, whilst discussions on the gaming regulatory models to be adopted across Europe gained a certain momentum. On the local scene, the regulatory approach to be applied to the 'street market gaming sector' saw a wide and constructive debate insofar as to how to regulate this market segment whilst emphasising on the concept of responsible gaming.

The 2010 Annual Report gives an overall account of the various evolutionary processes that the LGA embarked upon in 2010 with the aim of maximising its regulatory role, venturing into new regulatory niches within the gaming industry, both online and land-based, as well as providing advice to Government in developing new regulated sectors. Together, all of these aims contributed towards regulating effectively and continuously promoting a three pronged responsible gaming approach – for the players, for the operators and for society.

Keeping up the Momentum of Continuous Improvement

Our ethos is that of 'continuous improvement'. Such an ethos pushes the Authority to continue seeing how to do things better and to be aware that we are regulating an industry which continuously evolves both in direction and magnitude.

As the LGA continued focusing on a continuous *process* of improvements, in 2010 the Authority worked on various initiatives in the background so as to continue positioning itself to continue keeping abreast with the developments hitting the various clusters of the gaming industry, whilst collaborating with the various stakeholders on the path for continued effective regulation that resists the test of time.

For this purpose, the Authority felt that it needed to carry out a 360 degree stock take and assess whether it needed to implement a strategic rethink. This induced the Authority to develop its 2011-2012 Strategic Business Plan and refreshed its mission statement to be in synch with all the sectors regulated by the LGA.

“To promote excellence by ensuring the legal and fair regulation of the gaming industry”

The above refreshed Mission Statement is targeted as being gaming sector neutral, determining the LGA's local and international standing, whilst acting as a continuation of the internal vision of the organisation. The LGA's mission is supported through its ethos based on the following three cardinal pillars:

- “1. That gaming is fair and transparent to the players;
2. Preventing crime, corruption and money laundering; and
3. Protecting minor and vulnerable players.”

In 2010, the LGA's forward looking efforts and objectives were articulated in its Strategic Business Plan for 2011-2012, which determined key objectives that the Authority needs to accomplish as part of its regulatory remit, whilst it also spells out the programme of works for the same period in improving processes and systems which would continue to support LGA's obligations and *raison d'être*. The identified programme of works also include a roll-over or continuation of improvement initiatives that the LGA started off in 2010 including but not limited to:

- The development of an online system for self-barring of players;
- enhancements to the LGA's Remote Gaming Monitoring System;
- the preparatory work required for the 2011 implementation of a streamlined, yet more stringent licensing process in all areas, including remote gaming, the street market and amusement machines;

Such programmes were also complemented by the consolidation of initiatives stemming from 2009 including:

- The *players' rights and responsibilities charter*, an EU first in this regard,
- the improved licence application process, which resulted in significant

improvement in turnaround time, notwithstanding that the number of applications in 2010 surpassed the 100 mark,

- a risk based licence renewal process which was introduced in November 2009, which saw 13 remote gaming operators having their licence renewed, and
- consolidation of a more comprehensive post licensing approach.

From an organisational capacity point of view the LGA continued strengthening its skill base and expertise, in the fields of EU Affairs, Legal Affairs, Regulatory Compliance and Relationship Management, with such an infusion of skills and expertise being fundamental in taking forward the vast array of improvement projects embarked upon by the Authority.

Our Commitments

The LGA's, functions, remit, responsibilities, and commitments which are prescribed from a specific Act of Parliament (Cap 438 The Lotteries and Other Games Act) determining the LGA as an independent regulatory body does not stop at simply licensing operators. The LGA is not a licensing body, but is a fully fledged, all-encompassing regulatory body which ensures that the fundamental principles and reasons for regulating the gaming industry are performed effectively and efficiently.

The Lotteries and Other Games Act spells out the legal obligations of the LGA, however, the Authority has commitments that are far more outreaching.

Our commitments towards players is manifested through various functions which the LGA has introduced as part of its institutional fabric, such as the running of a player support channel, the publication of the players' rights and responsibilities charter, the vetting of operators' terms and conditions, and the assurance of various responsible gaming functions within the licensed games, such as reality checks, self limits, and time limits amongst others.

Our commitments towards the vulnerable members of society, including minors, is also taken very seriously, whereby the thorough mechanism of checks in both the pre-licensing stages and the

post licensing stages verifications are carried out to ensure that the licensees' player registration and Know-Your-Client processes are effective, together with the inclusion of self barring facilities. Player registration and self barring systems were also extended to the street market sector, which in 2011 will see the full integration of a unified self barring register for the casino, bingo hall and street market sectors.

Our commitments towards promoting and supporting the value of cultural activities as an alternative to gaming saw the LGA supporting a number of art and musical events in 2010, whilst our commitment towards enticing academic research performed by university students in all the fields of gaming saw the first Industry-to-Academia student award being organised in September 2010 in collaboration with the University of Malta and the Gaming Sector.

Our commitments however will not only stop here. In 2011 the LGA will be launching a fresh concept of responsible gaming, whilst Government's concept of establishing a responsible gaming trust, which will complement the Good Causes Fund, will see the full support of the LGA in bringing such a trust to fruition.

We firmly believe that such commitments are fundamental from a social perspective, whilst these enforce our approach towards responsible regulation, even within a social dimension

Moving Forward

The 2011-2012 Strategic Business Plan shall be the Authority's blueprint to follow and implement. This will entail that the LGA shall be working on a number of strategic thrusts which will see the Authority continue to remain active in the field of EU Affairs, will see the coming into force of the Gaming Devices Regulations and Amusement Machines Regulations, will see the potential regulation of gaming areas broadened further, whilst the Authority shall continue moving forward with its programme of works of setting even stronger ties with other regulators.

Mr Reuben Portanier
CHIEF EXECUTIVE OFFICER



WHO WE ARE

The LGA was established by virtue of the enactment of the Lotteries and Other Games Act, 2001, whereby a Board of Authority members hold the role of a corporate governance nature and is responsible for advising the Government on the strategic development of regulating the industry.



LGA Board:

Standing Left to Right

*Mr Jesmond Pace
Dr Roberta Fenech Gauci
Dr Pauline Debono
Dr Stanley Portelli*

Sitting Left to Right

*Mr Nick Xuereb
Dr Natasha Galea Sciberras*

The LGA board is made up of a non-executive chairman and four board members. For Corporate Governance purposes, the LGA board has an Internal Audit function reporting directly to the board, which carries out process, operational, financial and internal control audits and reviews in accordance with a stipulated Audit Plan.

Chairman

Mr Nick Xuereb

Board Members

- Dr Pauline Debono
- Dr Roberta Fenech Gauci
- Mr Jesmond Pace
- Dr Stanley Portelli

Secretary to the Board

Dr Natasha Galea Sciberras

The regulatory functions of the LGA are administered through the Executive arm of the Authority which is headed by the Chief Executive Officer and an Executive Management Committee. The Executive is composed of three main divisions,



namely (i) the Regulatory Division, which incorporates all the regulatory functions ranging from pre-licensing to post licensing compliance checks, monitoring and investigations, (ii) an Enforcement Management function, which assesses, coordinates and determines any enforcement action required, and (iii) the Corporate Affairs Division which is a

support function to the other divisions, including Legal and European Affairs, Corporate Strategy and Corporate Services.

The LGA regulates the Gaming Industry by virtue of two Acts of Parliament, namely the Gaming Act 1998, which specifically addresses the regulations of casinos, and

the Lotteries and Other Games Act 2001, which includes all other forms of gaming, including, remote gaming, commercial bingo halls, gaming devices, amusement machines and the National Lottery.

THE STRATEGIC WAY FORWARD

The general market condition of 2010 has not gone unnoticed at the LGA. The prolonging and difficult economic situation globally and the ever existent threat of double dips in European economies left a sour aftertaste in terms of investment across the continent. It has ebbed into profits and placed considerable difficulties in enterprises in obtaining financing for future investments. The latter, was also an issue for gaming operators who in the absence of sources of funds, embarked on various mergers in order to continue moving forward. On the legal-regulatory front, outlook of a number of member states into the models to be adopted for market regulation and the recent spate of cases in front of the European Court of Justice kept the industry wondering whether there is any clear way forward in how the industry will be regulated across Europe. Whether the EU harmonises or not, is yet to be seen though surely remote gaming legislation has dominated the LGA's agenda for the past year and continues to affect the way the LGA shapes its policy and strategic approach.

With a view of long term regulatory sustainability, the LGA dug deep into its raison d'être, into its policy objectives and its structures, with an outlook to keep a lead on the market. This did not come easy. The challenging economic times together with the variable and widely differing regulatory environments in Europe ensured the LGA had more than a mountain to climb. In this regard, 2010 was a year for planning some assertive changes to take place in 2011 and 2012. The recruitment of key personnel, the re-alignment of organisational structures as well as the introduction of substantial administrative tools were just the start of the spadework needed to drive the equation of resiliency, whilst keeping in mind the principles of stability and efficiency.

Thus, the core strategic philosophy aimed at in 2010 was the realigning of internal structures to implement, maintain and improve its operations. Only through the implementation of this philosophy could the LGA look at Malta in a wider

context. This is how the LGA ensures that the national package offers the correct regulatory environment to allow Maltese Licensed operations to outperform stakeholder expectations, whilst ensuring at all times the cardinal principles of player protection and responsible gaming.

Key differences were immediately felt across the industry. By the end of 2010 the Authority had equipped itself with the necessary complement supporting its strategic functions, licensee-focused roles, player support structures as well as stepping up even further its enforcement. Seen together the strategic changes will play an essential role in ensuring the LGA's ultimate target in keeping the gaming sector effectively regulated, whilst consolidating into an even more mature, serious and reputable jurisdiction. This is a key characteristic of the Maltese Regulatory environment, which induced operators of repute to choose Malta.

The 2011-2012 strategy was directed to ensure the LGA and in turn Malta, is not only the best regulatory jurisdiction, but a location where the country as a whole offers the correct parameters to allow consumers to have confidence in entertaining themselves with Maltese Licensees.

Strategically, the LGA embarked on an ambitious programme of works that involves that:

1. The LGA keeps abreast of the technological and business developments of the gaming industry as a whole, and by always being in sync with the developments in regulation, markets and emerging technologies. The applied ethos is that 'We will not – ever – be happy with what we have, but rather seek constant improvement and growth';
2. The LGA ensures its licence is synonymous with legal and fair regulation, keeping a vigilant eye



- on the industry through improved internal mechanics; and
3. Ensuring players are always protected, and any suspicion of abuse is dealt with swiftly, efficiently and objectively.

These points are essential to our re-engineered mission statement: **'To promote excellence by ensuring the legal and fair regulation of the gaming industry'**. Progress on the above strategic thrusts was substantial, notwithstanding that the LGA had to place substantial efforts to uphold the values and regulatory approach governed by its mission statement in its advisory role to Government in connection with all the developments occurring across the EEA. This twin drive strongly impacted the modus operandi as well as the strategic outlook of the LGA in 2010.

The strategic principles of the Authority have been once more modelled to proactively live up to the times, rather than react to it. The new strategic principles are truly based on the fundamental consideration that proactive approaches are key to continue being regarded as a well respected jurisdiction, with efforts being placed in planning and implementing further programmes in ensuring that Malta is synonymous to safe and responsible gaming not only in Malta, but across Europe. Apart from regulating the remote gaming sector, the LGA also has the important remit of effectively regulating the land based sector - a sector which the LGA will continue to address with dedication to ensure the principles of safe and responsible gaming in all the sectors it regulates are maintained and improved upon.

The drive to make the 'Malta' label harmonious with legal and fair regulation.

Legislation must be credible and enforceable, without stifling users who are in good faith, but ensuring that cyber-crime continues to be fought proactively. 2010 saw the LGA strive to make the regulation of the gaming industry - and the related services - a key strength of Malta's economic environment. The former statement imposes a tightrope walk for the LGA.

On one side the EU does not yet have a general policy directing the way how the gaming market should evolve, and as such

there are different regulatory approaches amongst Member States.

On the other end of the rope, the LGA continues pursuing further its remit, which sees that gaming in or from Malta needs to be thoroughly and continuously regulated in the public interest. Balancing the act involved the LGA into:

- a. Continue ensuring that regulation does not stifle investment, which is transparent and fully assessed in order to prevent money laundering;
- b. retaining a reputation as a tightly controlled jurisdiction thus positioning the Malta Licence as a seal of quality;
- c. continuously scan for new 'gaming models' to ensure that all forms of gaming or gaming offered through new mediums are addressed; and
- d. flying the flag of legal and fair regulation, thus being an example-setter for others to replicate, in part or in full.

Malta is not new to this mindset. Being a small island with no natural resources other than its intellectual capital, Malta has built an intrinsic predisposition into always achieving workable balances, positively and constructively reacting to market dynamics with dedication and focus.

It is a clear example of this where, the Maltese Government is already the European leader (European Commission:2010) in the field with the provision of administrative services on line (e-Government). The correct incentives are in place for the citizens and businesses to use electronic services, thus cutting down on waiting time and enhancing proximity of all the stakeholders.

The LGA has in 2010 engaged in emulating this success with an internal target of creating a stronger proximity with both the gaming consumers and the operators. Doing so required more interaction with the market (both players and operators) and consolidate it. Retaining and consolidating is now a matter of harmonising our processes and ensure that the correct control mechanisms are in place to effectively ensure fair regulation on both the operator and player's sides.

For this reason in 2010 the LGA kicked off a 'proximity programme' with a view to have faster and closer interaction with the stakeholders. 2010 saw the LGA consider the introduction an

online system for the submission of information related to an application. By the end of the year the Authority was in a position to determine the requirements for check-listing an application into granular components thus having the essential ingredients necessary to allow applicants to review at what stage their application is. The internal mechanics of the LGA will be fine tuned to see this process come to final fruition within the LGA 2011-2012 programme of works. In December 2010, the LGA kicked off the process of designing an online 'players self exclusion system', which should see its implementation towards the third quarter of 2011, whilst a number of online submission forms, including an online player submission form' were designed in readiness for inclusion in a dedicated portal for responsible gaming that will be launched towards the second half of 2011.

'To promote excellence by ensuring the legal and FAIR REGULATION of the gaming industry'

The prevention of money laundering is of key importance to the LGA, which is not only addressed through its regulatory processes in order to ensure that the necessary safeguards are in place to prevent money laundering through gaming, but also sees the LGA collaborate extensively with the Financial Intelligence Analysis Unit (FIAU). Such a collaboration is also governed through a long-standing cooperation agreement between both organisations. 2010 saw the collaborative approach move in full swing, with various workshops held with the FIAU with a view to embrace the gaming industry even further in providing valuable inputs for FIAU's process in bringing to the fore more implementation procedures in connection with the prevention of money laundering.

OVERCOMING THE CHALLENGES WITH SUCCESS

Since 2004, Malta has been publicly stating that the only way to effectively control gaming is by regulating it, effectively and responsibly. The LGA was tasked with the challenging role of regulating such a sector, in the public interest. Ever since, the LGA grew both in magnitude and scope in order to regulate this sector responsibly.



The Maltese jurisdiction has always looked at maintaining itself as a serious, reputable and stable jurisdiction. In this context, the Authority organised itself and its approach to be player centric with its the main guiding principles being that of protecting minors and vulnerable persons, keep gaming free from crime and money-laundering and see that games are provided in a fair and transparent way to customers. Nevertheless, as in every other economic activity, in order to achieve the best for the customer, it is quintessential to have the right environment for the service provider to offer the best product possible for the customer. The Maltese Remote Gaming Regulations embody all

of this. Whith the main objective being protection of customers, the regulations simultaneously fair and attractive to the operators. The technology and game neutrality of the regulations coupled with the robustness of the entire framework attracted quality operators towards Malta. In 2010 the Authority proposed a new strategy on the regulation of both land-based as well as remote gaming in Malta. In relation to the former sector, 2010 will be always associated with the Gaming Devices Regulations and the Amusement Machines Regulations being proposed to, and accepted by Parliament.

The two sets of Regulations were then sent to the European Commission and

have successfully passed the required notification procedures, better known as the TRIS process. The Regulation will then be implemented in 2011.

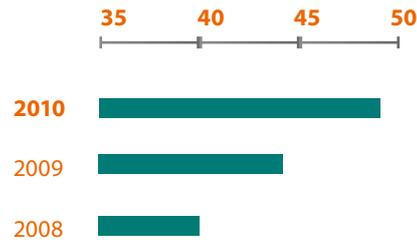
However, the Gaming Devices Regulations and the Amusement Machine Regulations were not the only development in the land-based sector. The historic Dragonara Casino was taken over by a new licensee, following an open competitive tendering process for the granting of a concession by Government.

In terms of remote gaming, the Authority proposed a set of amendments to regulations clarifying and streamlining the fees and taxation structure.

ATTENDANCE IN LOCAL CASINOS IN THOUSANDS



TOTAL REVENUE GENERATED IN ALL SECTORS IN MILLIONS (EURO)



Furthermore, the Authority placed clearer guidelines as to how operators licensed within the EEA could host their equipment in Malta without requiring a licence, as well as operators licensed in Malta to locate their equipment in any EEA or other approved jurisdiction. Platform operators had the process of them hosting EEA licence holders clarified further thus seeing more Maltese Business to Business licence holders being in a position to host operators from other EEA member states on their platform - as long as they are in possession of a licence from such jurisdiction. The Authority also announced radical changes in the licensing process, thus streamlining and making the process more transparent and efficient.

The Main Regulated Sectors at a Glance

The National Lottery

The National Lottery was set up as a State-run monopoly in 1934 and was privatised in 2004, with the award of National Lottery Licence to Maltco Lotteries Ltd. Through this licence, the licence holder offered the following games; the Super 5, Lotto, Keno, Bingo, Scratch Tickets, and fixed-odds betting. In 2010, national lottery games were sold through a network of private national lottery resellers. In total, employment generated through the national lottery amounted to 1,073 people. The gaming duty generated from the National Lottery amounted to €12.9 million, which resulted in an increase of 7.7% over 2009. The amount of funds transferred to the Good Causes Fund from the unclaimed prizes amounted to €657,072.

Land Based Casinos

A key development that occurred during the year, in the casino sector, was the award of a new 10 year licence for the

management of the Dragonara Casino. The amount of casino licences stood at four in 2010, namely the Dragonara Casino, the Portomaso Casino, the Casino di Venezia and the Oracle Casino. Casinos are regulated through a specific Act, namely the Gaming Act 1998. During the year, the casino sector generated the direct employment of 1,228 licensed gaming employees. The amount of casino attendances was of 714,859, an increase of 91,582 over 2009.

By the end of the year, the amount of gaming duty generated from the four casinos amounted to € 11.9 million an increase of 20% over 2009. The increase was partly attributed to the increase in tourism levels for the same year.

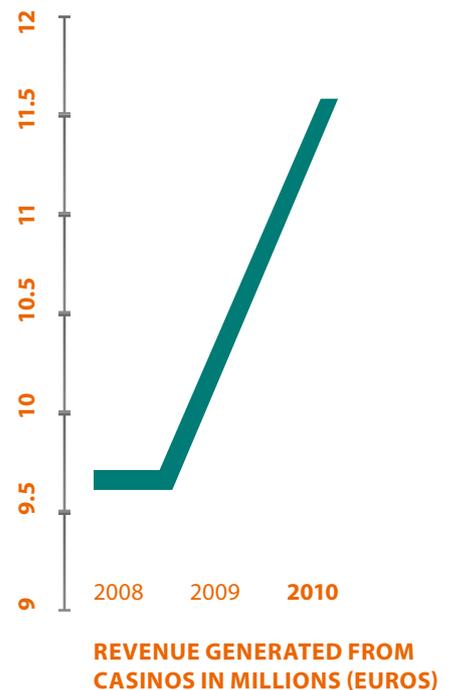
Commercial Bingo Halls

For the year 2010, the number of commercial bingo hall licences stood at five, however during the year, one commercial bingo hall in St. Julian's closed its operations, leaving the number of active licences as at end 2010 at four, with such halls located in Bugibba, Paola, Sliema and Valletta. The gaming duty collected in 2010 was €0.8 million an increase of 20% over 2009, notwithstanding the fact that there was the closure of one of the commercial bingo halls.

Remote Gaming

Notwithstanding the difficult international economic situation, in 2010, the remote gaming sector continued to experience growth. Compared to 2008, the amount of remote gaming licences grew by almost 25%, reaching 388 by the end of 2010. Such a growth was experienced notwithstanding that 33 licences were either terminated, suspended or cancelled. The gaming taxes collected from all four remote gaming classes for the period amounted to €21 million an increase of 9% over

2009 and an increase of 37% over 2008. The number of direct employment by the licensed operators reached 3,716 by the end of 2010, whilst the estimated figure of indirect employment through service providers increased further to reach the 3,000 mark. During 2010, the split of the various classes in terms of remote gaming licences was: 38% as Class 1 (including Class 1 on 4s), 18% Class 2 (including Class 2 on 4s), 34% Class 3, (including Class 3 on 4s) and 10% Class 4.





REGULATING RESPONSIBLY

Though gaming should be considered as any other form of entertainment without the risk of consequences, vulnerable persons who are exposed to gaming might be at risk of becoming victims.

For this reason the LGA thrives to remain avant-garde in its regulation and to strike the adequate balance between protecting the operators and the players alike.

Responsible Regulation captures the fundamental principles that empower the Authority's mission statement to ensure that games are delivered fairly and in a transparent manner, to ensure that gaming is kept free from crime and to protect minors and vulnerable persons. These principles are enshrined in both the land-based regulations and remote gaming regulations.

Endorsing Responsible Gaming

In 2010 responsible regulation remained high on the Authority's agenda with the kick start of an ambitious project to promote responsible gaming. The LGA started working on the development of an online system for the self-barring of players and on the creation of a responsible gaming logo that gives a clear message of 'play responsibly'. The logo intends to be featured in establishments of land based operators and on the website of remote gaming operators licensed with the LGA.

As in previous years the LGA did not shy away from its commitment to advocate for responsible gaming. The Authority continued to support its mission by promoting responsible gaming in gaming journals and other publications locally and abroad.

The Authority believes that all jurisdictions should embark in a unified approach towards responsible regulation and

in 2010 the LGA continued to voice its support towards this mission in various international fora.



Playing with a Licensed Operator

The Lotteries and Gaming Authority actively alerts the public to play with a licensed operator by a reputable jurisdiction.

Any operator licensed by the LGA is granted a seal of quality which means that the operator is abiding to the regulations set by the Authority including those to protect the players. This provides the peace of mind to the players knowing that they are playing with a serious operator and thus their rights and funds are being safeguarded.

In 2010 the LGA organised a briefing session with all the key officials of the remote gaming operators to educate them on their role and responsibilities to embark in responsible operation.

Furthermore, in 2010 the LGA embarked in a new project that awarded for the first time 'Malta's Best Gaming Research Award'. The LGA supported this initiative which recognises achievement in gaming research. The scope of this award is to promote concepts of responsible gaming, innovative technical ideas for gaming,

research on the commercial models adopted by gaming operators and legal, social and psychological assessments of the gaming sector.

Preventive Measures set by the LGA

- Age Limits
- Advertising Codes
- Awareness of the risks of irresponsible gaming
- Setting of Gaming Limits
- Player Protection
- Segregation of Player Funds
- Self Exclusion
- Self Test
- Setting of Financial Limits
- Warnings displayed by gaming establishments.

The National Lotteries Good Causes Fund

The scope of the National Lotteries Good Causes Fund is to help out various individuals, agencies or organisations that have a social, cultural, educational, sport, philanthropic or religious activity. This fund which is administered by a Committee under the direct responsibility of the Minister of Finance, Economy and Investment collects funds from the National Lottery Reserve Fund and the National Lotteries Good Causes Fund.

The National Lottery Reserve Fund generates its income through a percentage contributed from the amount of tax payable from the gaming activity. Whilst the Unclaimed Prizes Reserve is set up for any unclaimed prizes that have not been collected by the end of the stipulated period.

The new responsible gaming logo gives a clear message to 'Play Responsibly'

LGA'S CONTRIBUTION FOR EFFECTIVE REGULATION

The Lotteries and Gaming Authority is considered as the veteran regulator in the field of remote gaming in Europe, as Malta was the first EU Member State to regulate this sector on its accession in 2004.

The LGA also inherited a wealth of knowledge in regulating the land based sector, which prior to 2001 was regulated through the Gaming Board which responsibilities were transferred to the Authority in virtue of the enactment of the Lotteries and Other Games Act in 2001. With almost a decade of regulatory experience, the Authority developed across the years regulatory expertise that was not only confined to ensure that the Gaming Legislative Framework was being observed, but experience and skills in technology were also acquired, developed and nurtured.

The latter expertise is crucial for effective regulation of the sector, be it land based or on-line, as the gaming industry developed a significant dependency on technology in their operations and service offerings. Consequently, a mandatory criterion for effective regulation of the industry requires the regulator to also have a high level of expertise in understanding technology and its developments within the industry. The Lotteries and Gaming Authority understood this, and embraced from day one, the need to always be in synch with the continuous and fast evolutions of technology.

Through its participation in International and European fora, the Lotteries and Gaming Authority shared its experiences and knowledge that were acquired across the years with local, European and international institutions, and with the industry itself, as the philosophy of the Authority is that experiences in regulating this fast moving industry should be shared.

In 2010, the Authority was invited to address the Responsible Gaming Day held at the European Parliament, whereby the LGA's regulatory approach on the measures adopted for responsible gaming were presented. The participation within the European Council Working Groups on the Internal Market and Services, which specifically addressed remote

gaming, saw the LGA take an active role as 'national experts'. In such working groups, the LGA made numerous contributions on discussion matters such as responsible gaming measures, the need to strengthen regulator to regulator collaboration, the need to address the principle of non duplication of controls within the internal market, the importance of having non-intrusive enforcement measures, the need to fight the black market, and the need to take full and due account of the EU treaties, amongst others.

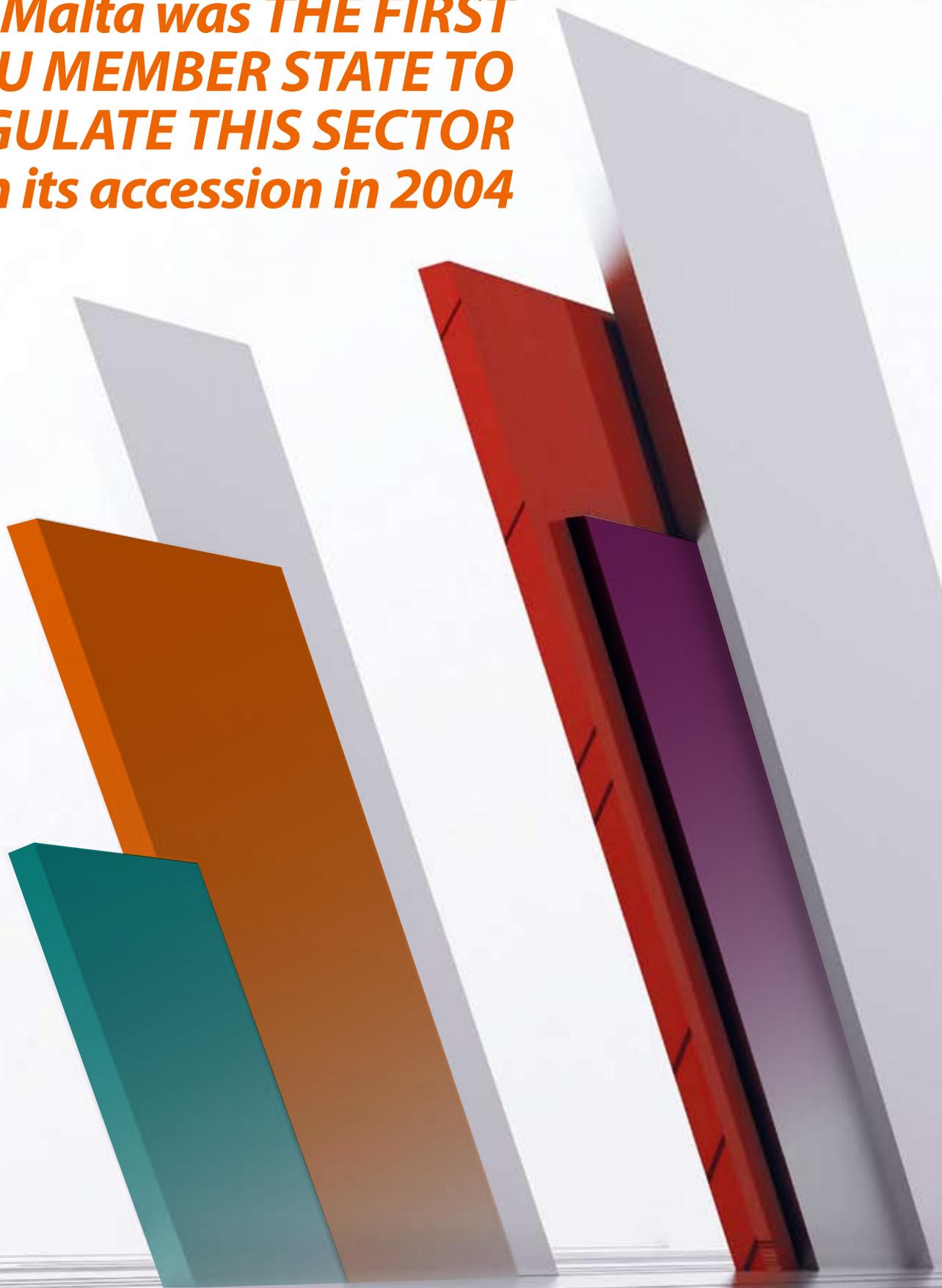
honour to host European Commission representatives who made a courtesy visit to the LGA, in order to obtain a comprehensive overview of the regulatory role, approach and measures adopted by the LGA.

EXPERIENCE and SKILLS in technology were also acquired, developed and nurtured

The LGA also participated in industry specific conferences organised across Europe, with a view of sharing its regulatory approach and experiences, including participations in the International Casino Conference held in London, the World Gambling Briefing and the Malta iGaming Seminar held in Malta, the Gaming Regulators European Forum meetings, the International Association for Gaming Regulators meeting and the annual International Gaming Law Summit.

The LGA actively participates in two major annual conferences and exhibitions, namely the European iGaming Congress and Expo in Copenhagen and the ICE in London. During these two major events the LGA has the opportunity to participate in roundtable conferences as well as meet the industry's stake holders and share information about the benefits of investing in Malta with potential licensees. Moreover, in May 2010, the LGA had the

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LOOKING AHEAD

2010, saw the LGA planning its initiatives for 2011, whereby a comprehensive programme of works, involving over 85 initiatives covering:

1. Operational improvements;
2. training and development;
3. further recruitment;
4. legislative proposals;
5. responsible gaming initiatives;
6. enhancement of monitoring tools; and
7. re-design of licence application processes;
8. strengthening of the post licensing processes; and
9. the inclusion of new regulatory processes for the regulation of the street market, amongst others.

Such a vast programme of works were planned for within the LGA's 2011-2012 Strategic Business Plan, with a view of maintaining the drive for continuous improvement.

The large number of applications for remote gaming licences lodged with the Authority in the latter part of 2010 give an indication of the growing volume of work required to be concluded in the first half of 2011, whereby the Regulatory Division will be processing such applications in order to ascertain which applicants make the grade to be granted a remote gaming licence.

Moreover, 2011 will see the renewal of a number of licences first issued in the jurisdiction's start as a licensing destination. The Regulatory Division shall also be addressing additional regulatory work in connection with the coming into force of the Gaming Devices Regulations and the Amusement Machine Regulations, whilst the same Division, with the assistance of the Legal Affairs Directorate shall be processing the extensive renewal process for one of the four licensed casinos, the Casino di Venezia, which shall have its 10 year licence expire in July 2011.

2011 shall also see radical changes in the regulatory and compliance processes leading to the granting of a remote gaming licence, which shall also involve the need for the Authority to extend its network of approved external certifiers and reviewers, together with the performing all the necessary regulatory and compliance groundwork for the award of the National Lottery Licence which shall expire in July 2012.

Planning OVER 85 INITIATIVES for 2011

Responsible Gaming shall feature high on the agenda for 2011, whereby the Authority shall be launching a new Responsible Gaming Logo and a focused 'play responsibly' portal, a Responsible Gaming fund, and an online self-barring process covering all the land-based market. On a European Level, the Authority shall continue to provide technical expertise to the Government of Malta, whereby it is expected that 2011 shall require the Authority to be amongst the entities providing advice to Government in its response to the Green Paper on On-line Gambling in the Internal Markets.

It is expected that 2011 shall be a busy and eventful year for the Authority and its staff, both from a local perspective and from a European perspective. The Authority will endeavour in improving its processes, controls and checks, so as to fulfill the regulatory obligations to the fullest, whilst striving to make 2011 an even better year.



**LOTTERIES & GAMING
AUTHORITY MALTA**



Lotteries & Gaming Authority

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