



**REGULATION FOR INNOVATION  
RE-THINKING CONVENTIONAL WISDOM**

ANNUAL REPORT

**2015**

“ Innovation distinguishes  
between a leader and a follower ”

Steve Jobs

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## EXECUTIVE CHAIRMAN'S STATEMENT

I am pleased to present this 2015 report and financial statements of the Malta Gaming Authority (MGA).

During the year under review, the gaming sector in Malta continued to grow, in both land-based and remote gaming segments and with it, its contribution to the Maltese economy. According to the latest NSO statistics for 2015, the sector (directly) contributed 8% of Malta's Gross Value Added. We are proud of this growth and at the outset I would like to thank all those who made it happen - the operators, all the service providers and consumers who continued to invest and show trust in Malta, our markets, reputation and regulatory ethos.

For the MGA, as the single governing body for the regulation of gaming in Malta, 2015 has not been without its peaks and troughs. It was intensive and rewarding on many fronts and testing in others. The incidents of July 2015 concerning the European arrest warrants issued by the Italian authorities for six individuals involved in Malta-based companies and licensees, tested our agility and responsiveness to take the necessary actions in order to protect the integrity of Malta's financial and gaming systems from the alleged criminal actions, jurisdictional reputation, and above all, the public interest. These incidents were an eye-opener for us but also strengthened our resolve and commitment to continue with our plans to enhance our checks and controls, and supervision at both pre- and post-licensing stages; and the general overhaul of our regulatory regime.

Apart from the satisfactory running of the operation, namely: licensing, monitoring and enforcement, the year was characterised by a number of key policy initiatives which are all converging towards our repositioning strategy that is well underway. The aim of the three-year strategy launched in early 2014 is two-fold: the first being the sustainability of the industry base in the face of challenges emanating from outside Malta; and the second being to harness the growth of a sector through diversification of markets and products

made possible by innovative technologies and emerging markets. Our increased focus on quality, innovation, fairness, consumer protection, proportionality and consistency run through the building blocks of both the organisation, its processes and the policy initiatives being taken or being considered as part of this underlying strategy.

In 2015 the MGA continued with its fully inclusive and transparent approach in the review and design of policy and administrative initiatives. We maintained an open dialogue with all stakeholders, whether national or international, consumers, regulators, operators, service providers in adjacent industries, and all in between. We have also consulted publicly on policy issues such as the Enhanced Automated Reporting Platform (EARP) for both land-based and remote-based operations, guidelines on 'Digital games of skill with prize', consultation on 'Key Official Fit and Proper requirements' and guidelines on 'Technical Infrastructure hosting Gaming and Control Systems - Remote Gaming'.

The MGA aims to progressively respond and deliver on the many requests made, concerns raised and feedback received to formal and informal consultations over the months. We are committed to address the challenges brought about by the ever-changing industry structure, increased pressure on costs and the myriad of innovative products and customer channels. On their part, customers have a duty to play responsibly but also, have a right to timely support, assistance, clear information and dispute resolution mechanisms when necessary. This has fed into the conceptualisation and drafting of our proposals to government for the new legislative framework.

Indeed, the overhaul of the regulatory framework is mission critical to the successful implementation of Malta's gaming repositioning strategy (2014-2017) to render Malta as a centre of excellence of global relevance in the future. It is a massive project and has been given due overarching priority during 2015. A section in this annual report adds detail to the underlying concepts and the various individual projects which all converge to this important milestone. Suffice to say that Malta's second generation of gaming regulation remains founded in the key objectives of prevention of crime and fraud, fairness of games, consumer protection and protection

of minors and other vulnerable consumers without compromise. However the legislative structure and regulatory approaches proposed for adoption in 2016 and implemented shortly thereafter are innovative in the gaming field, although widely used in other policy areas.

“ The complexity of the industry structure and the evolving technology which propels it forward, in both land-based and remote, compelled us to propose one coherent governing regime which is principles-based, focusing on regulatory performance and outcomes rather than a total reliance on prescriptive and ex-ante mechanisms. ”

The phased roll-out of the new gaming regulatory regime, starting with the Bill for a new 'Gaming Act' in the coming months will consolidate all gaming-related primary legislation under one enabling instrument, widening the scope of gaming activities falling under the remit of the Authority. This will allow us to harness and foster a sector that is not dependent on type of games but inclusive of all types of games and new technologies of today, and as they may develop over time, while subjecting them to the same and consistent policy objectives.





Both our upgrading of the MGA's operations and the repositioning strategy require significant resources. To this effect, the MGA continued to invest heavily in its organisational and operational infrastructure so that it can handle with efficacy and effectiveness future challenges, but most importantly, a larger gaming sector with a wider regulatory scope. A key milestone in 2015 was the move to our new offices at SmartCity which were officially inaugurated on 16 February 2016. This project goes back almost two years when back then, we started looking for larger and more modern premises. We had three objectives in mind: 1) to have a professional and cutting edge set-up which reflects the size and dynamism of the industry we regulate, 2) to have sufficient space and resources to cater for the long term and 3) to make a statement to the industry about the MGA and Government's belief and commitment towards this industry. We left no stone unturned to make sure that this investment was money well-spent and most importantly would see us through the next 15 to 20 years.

This investment however cannot be viewed on its own. It falls squarely within a series of other investments and initiatives we have undertaken and will continue to drive in the context of our long term strategy to future proof and reform such an important economic sector. By investment, I mean, capacity building, human resources, information systems and technology, policy reviews and most importantly, legislative changes which I am convinced will take our industry to the next level. The investment we are making in information systems, for example, will help

us serve the industry better and improve the quality of our decision-making processes. The next generation legislation, which we plan to present to Parliament, will once again make Malta a role model for others to follow.

Regulatory innovation is key to retain Malta's global leadership and standing as a world class regulator. Our vision and everything that we do is based on that. We have made good progress but it is not enough. The challenges which the industry is facing in Europe and the rest of the world require out of the box thinking and new approaches so that our ecosystem which has been carefully built over the last 12 years, remains sustainable in the long term. We need to be agile, efficient and to ensure efficacy in our regulatory processes.

There is yet more to come in 2016 as we close projects that are related to the risk-based implementation of the 4th Anti-Money Laundering Directive (which for the first time at EU level captures all gaming activities under its scope of application) and for the purpose of which we have commissioned a sector-specific detailed National Risk Assessment.

“ We are proud to be building on values of better governance, internal governance at the organisation level and external of the whole sector, which is a cornerstone of integrity and quality. ”

We are positioning ourselves to harness innovation, whether these are innovative technologies or the application of regulatory approaches. It is by living these values (and others) in all that we do that the MGA seeks to attain the sustainability and growth of the sector which we strategically aim for. The industry in general is becoming increasingly intelligent, interconnected, global and complex and doing the traditional thing is myopic and can be suicidal in this industry.

The increasingly intelligent, tech-savvy, higher value-seeking consumer is by far the most influential driving force behind both the exponential growth in the range of gaming products and channels of distribution. The latter is propelled by fast-paced technological developments, and the quest by governments and regulators to keep abreast with effective regulation. The MGA cannot and would not seek to stifle that growth, but we do intend to continue endeavouring to harness it and channel it to Malta's regulated system.

I can assure you that the pace of change in this industry has left us breathless. On the other hand, it has consolidated our resolve to drive change and place this industry on a new platform of growth and innovation.

In conclusion, I wish to say a big thank you to all my team at the MGA for their unrelenting efforts in making 2015 a successful year. But I also would like to equally thank all the industry stakeholders for the support afforded to us throughout this period of change. This support enabled us to reach new heights and also motivates us to do better.

**JOSEPH CUSCHIERI**  
FIA, CPA, MBA (Henley, UK), CIMA Adv. Dip MA  
Executive Chairman



# MGA'S MISSION, VISION & VALUES

THE MGA'S MISSION IS TO ENSURE A HIGH LEVEL OF INTEGRITY, EFFICIENCY, CONSUMER PROTECTION AND VALUE IN ALL GAMING PRODUCTS AND SERVICES ACROSS ALL CHANNELS OF SUPPLY

TO MAKE MALTA THE **DESTINATION** OF CHOICE FOR THE **INTERNATIONAL GAMING** SECTOR

TO RENDER **MALTA'S GAMING REGULATORY** FRAMEWORK RESPONSIVE TO **EVOLVING** MARKET NEEDS

TO DELIVER YEAR ON YEAR **SUSTAINABLE GROWTH** WITHIN A ROBUST FRAMEWORK THAT MANAGES **INNOVATION** AND EMBRACES **TECHNOLOGICAL ADVANCES**

TO EXPLORE **POTENTIAL OPTIONS AND INITIATIVES** FOR **GROWTH** LEVERAGING **EXISTING ASSETS & CAPABILITIES**

THE AUTHORITY'S EMPLOYEES EMBRACE THIS VISION THROUGH A CORE SET OF VALUES

**INTEGRITY | TRANSPARENCY | RESPECT**

WHICH ENABLE THE AUTHORITY TO OPERATE AS **ONE MGA**



# 3

## BOARD MEMBERS

The primary responsibility of the Board is to oversee the strategic development of the Malta Gaming Authority (MGA) and ensure the set policies and strategic objectives are attained. The Board is also responsible for overall policy development and risk management. The members of the non-executive Board were appointed by the Minister for the Economy, Investment and Small Business (MEIB) for a maximum period of three years, and presently the Board is composed of the Executive Chairman, Deputy Chairman, three Members and a Board Secretary.

The Board is composed of:



**MR. JOSEPH CUSCHIERI**  
EXECUTIVE CHAIRMAN

**DR. CHRIS CILIA**  
DEPUTY CHAIRMAN

**MR. CAESAR GRECH**  
BOARD MEMBER

**DR. JULIANA SCERRI FERRANTE**  
BOARD MEMBER

**MS. RUTH TRAPANI GALEA FERIOL**  
BOARD MEMBER

**DR. MATTHEW BONDIN**  
BOARD SECRETARY

# 4

## EXECUTIVE MANAGEMENT COMMITTEE

The Executive Management Committee, which is chaired by the Executive Chairman, is composed of the Authority's Senior Leadership Team and is responsible for the day-to-day management of the MGA, the implementation of its strategic plan, programmes, policies and the execution of its mandate.

The team is made up of (from left to right):

**RACHEL MIFSUD BONNICI**  
Chief Officer - Compliance

**DOMINIC MICALLEF**  
Chief Officer - Enforcement

**PAUL FENECH**  
Chief Officer - Information Systems

**HELGA PIZZUTO**  
Chief Officer - Business and Programme Development

**PATRICK CARUANA**  
Chief Officer - Finance

**CHRISTOPHER FORMOSA**  
Head - Human Resources

**HEATHCLIFF FARRUGIA**  
Chief Officer - Authorisations

**EDWINA LICARI**  
Chief Officer - Legal and EU/International Affairs



# KEY FUNCTIONS AND RESPONSIBILITIES

## COMPLIANCE

### COMPLIANCE

- Compliance auditing and follow-ups with licensees
- Assurance and review of reports
- Ensure adherence to licence conditions (follow-up and review)
- Investigations and reporting
- Liaison of site inspections and enforcement actions with the Enforcement Directorate

### REGULATORY SUPERVISION

- Player protection
- Review of games and control systems (including policies, also applicable to third party providers)
- Prevention of money laundering
- Regulatory financial analysis
- Monitoring of player funds
- Supervision of regulatory performance

## ENFORCEMENT

### FIELD OPERATIONS

- Inspections in casinos, gaming parlours and other licensed gaming establishments
- Gaming device inspections
- Overseeing the national lottery draws
- Investigations related to illegal gaming activities in conjunction with the Malta Police Force

### ENFORCEMENT

- Enforcement action to ensure compliance with licence conditions and regulatory obligations
- Due diligence procedures (criminal probity check)
- Liaison with local and international law enforcement agencies e.g. Financial Intelligence Analysis Unit, Attorney General, Interpol, Police, etc.
- Participation in the Task Force on Match Fixing (and related policy development and review)

### ANTI-MONEY LAUNDERING (AML)

- Single point of contact for AML procedures, both locally and internationally
- Review of licensee AML procedures and controls
- AML policy development and review

## INFORMATION SYSTEMS

### ICT INFRASTRUCTURE AND SERVICES

- IT administration
- Systems maintenance and ongoing development
- Technology and infrastructure planning

### INFORMATION SYSTEMS AND IT

- IT security
- New projects and project implementation
- CRM systems
- Management information systems

### INFORMATION MANAGEMENT

- Research, statistics and information management
- Industry performance reporting
- Surveys and questionnaires
- Document management

### REGISTRY

- Registry and archives

## BUSINESS AND PROGRAMME DEVELOPMENT

- Leading the strategic and business planning processes of the Authority
- Development and implementation of a programme management structure in order to support the Authority in the effective and cost efficient execution of projects and programmes
- Maintenance of the Authority's risk register and risk management process including follow-ups from the internal audit function and audit committee
- Oversight of projects and programmes
- Performance management of the Authority and KPIs
- Assisting the Chairman of the Authority in stakeholder management
- Internal and External Communications / Public relations, events organisation, media relations
- Social media and online channels

## FINANCE

### REVENUE ASSURANCE AND TAX COMPLIANCE

- Timely collection and follow-up on gaming taxes due, licence fees and other administrative fees charged to licensees
- Gaming tax compliance and enforcement
- Gaming tax audits
- Review of licensee gaming tax submissions

### FINANCE OPERATIONS

- Corporate finance
- Treasury
- Financial planning and control
- Financial accounting
- Management accounts and reporting
- Procurement
- Audit
- Liaison with NAO, IAID and Audit Committee

### ADMINISTRATION

- Property management and upkeep
- Car fleet and office equipment
- Reception and office administration
- Health and safety
- Security

## HUMAN RESOURCES

- Recruitment
- Succession planning
- Talent management
- Training and development
- Employee and industrial relations
- Performance management
- Employee Engagement
- Team building
- Personnel data management

## AUTHORISATIONS

### LICENSING AND RENEWALS

- Licensee relationship management
- Management and processing of new applications (Remote and Land-Based)
- Renewal of licences

- Processing of surrender, termination or expiration of licences
- Approval of share transfers, licence transfers, intermediaries, shared conducts

### AUTHORISATIONS

- Management of the MGA's "Fit and Proper" process
- Gaming employee applications
- HQP applications
- Updating of policies and procedures, application forms, fact sheets, guidelines

### PLAYER SUPPORT UNIT

- Player complaints
- Dispute resolution

## LEGAL AND EU/ INTERNATIONAL AFFAIRS

### LEGAL AFFAIRS

- Review and drafting of contracts (internal and external)
- Provision of legal advice to the Authority
- Handling of Court cases
- Liaison with Attorney General's office
- Review of legislation and liaison with Ministries and Departments
- Legal analysis and research

### EU/INTERNATIONAL AFFAIRS

- Preparation of briefing notes and position papers
- Bilateral relationships – Memorandums of Understanding (MOU) and Letters of Intent (LOI), with other regulators and entities
- Liaison with Gaming Representative Bodies e.g. Malta Remote Gaming Council (MRGC), Chamber of Commerce, Enterprise and Industry, the European Gaming and Betting Association (EGBA), Remote Gambling Association (RGA)
- Comparative assessments and research on EU and international developments
- Participation in international fora e.g. Expert Group on Gambling Services (EGGS), Gaming Regulators European Forum (GREF), International Association of Gaming Advisors (IAGA), International Association of Gaming Regulators (IAGR)



# CORPORATE GOVERNANCE

Good corporate governance is essential for the sound functioning of the Authority ensuring that it operates effectively and with integrity. To this end the Authority is supported by internal audit and risk management functions.

The Authority also continued to strengthen its structures by establishing the Business and Programme Development Directorate with the responsibility for strategy development, performance measurement and risk management in order to provide the necessary oversight of these functions in support of a strong governance system.

In addition, in 2015 the Regulatory Directorate was split into two Directorates, one responsible for Authorisations and the other for Compliance. This will provide increased focus on the separate regulatory functions and the necessary checks and balances.

Policies, procedures and processes are documented and reviewed regularly and form an integral part of the governance system. During 2015 a major review of the processes and procedures related to the supervisory functions was undertaken as part of a drive to maintain and continually improve upon the efficacy of these functions in the light of constantly changing gaming operations.

## INTERNAL AUDIT

The Internal Audit function reports to the Board of Directors and provides assurance and advice in an independent and objective manner on the way the MGA is operating and achieving its objectives. The overall intention is to ensure good corporate governance, effective risk management and adequate control processes.

## AUDIT COMMITTEE

The Audit Committee oversees the management of the audit function. The Committee supports and assists the MGA's Board of Directors and is authorised to conduct investigations into any matters falling within the scope of its responsibility. During 2015, the Audit Committee was composed of the following members:

**CHAIRPERSON: CHRIS CILIA**

**MEMBER: RUTH TRAPANI GALEA FERIOL**

**MEMBER: RENATO VELLA**

**MEMBER: STEPHEN XUEREB**

**AUDIT COMMITTEE SECRETARY: JAMES GRECH**

*(Stephen Muscat was a member of the Committee between the 1st of March 2015 and 30th of April 2015)*

In addition to the above members a representative of the external auditors participates during the Committee's meetings. During 2015, the Audit Committee held a total of nine meetings, during which the Committee analysed and discussed a number of audit reports prepared by the Internal Auditor. The Committee also analysed and discussed the interim and final statutory financial audit reports presented by the Authority's external auditors. The Committee's recommendations are followed up accordingly with Management via the Internal Auditor and the Authority's Risk Manager. This corporate structure ensures that the Authority has an operating model with the right control measures in place.

## RISK MANAGEMENT

The MGA's Risk Management Framework is now a well-established process adopted to ensure that the Authority understands, evaluates and mitigates potential risks. This comprehensive framework has the objective of actively identifying risks and taking mitigation measures to the extent considered as appropriate to balance risk and opportunities.

The Authority's risk management and control system are adapted to the risk appetite framework set by the Board of Directors. The Board is responsible for setting and updating the risk appetite, monitoring the Authority's risk taking process and ensuring consistency between both of them.

Risk is being identified and managed at work stream level with each directorate contributing to an aggregated risk register that, as a minimum, incorporates priority risks. The identified risks are reviewed on a bi-monthly basis by the respective Chief Officers with the Risk Manager to ensure that context has not changed, actions are still adequate, risk ownership is still appropriate and that mitigation processes or actions are being adhered to. The risk register has been developed in accordance with international best practices and is reviewed by the Management Committee on a quarterly basis. An ongoing training programme targeting the whole organisation has been developed in support of ensuring that awareness and understanding of risk and appropriate mitigation measures permeate the organisation.

Throughout 2015 the Risk Management function also conducted a number of ad-hoc reviews associated with dormant accounts; unclaimed winnings, and the use of promotional tickets in the land-based sector, amongst others.

The Authority is also sensitive to the external risks posed to the sector and in late 2015 identified the need to undertake a sector-specific assessment of Malta's risks as an international gaming jurisdiction.





# 2015: RE-THINKING CONVENTIONAL APPROACHES

In 2015, the MGA placed particular emphasis on its fundamental regulatory ethos with a view to preserving and strengthening Malta's jurisdictional position as Europe's top regulator.

“ The Authority aims to be the best in class and the most innovative regulator, offering proactive and effective supervision of licences, maximising opportunities in existing markets and proactively looking for growth opportunities while ensuring proper protection of players ”

During 2015 the MGA continued to focus on seven key areas:

- **INNOVATION**
- **QUALITY**
- **GROWTH**
- **VALUE**
- **KNOWLEDGE**
- **CONSUMER PROTECTION**
- **COST EFFICIENCIES**

## 1. INNOVATION: A GAME CHANGER

Notwithstanding the success as a jurisdiction in attracting operators and in economic contribution terms, which is evident in the numbers, the ever-changing technological and regulatory environment faced by Malta's industry base, the increased sophistication of the gaming consumer, and the evolving structure and convergence of the supply chain between the two, has compelled government and the MGA towards the end of 2013 to take a fresh and comprehensive look at the regulatory framework that govern the Maltese gaming sector.

New regulatory models and approaches are seen as crucial if Malta wants to retain its leadership position and enhance its reputation as a world class regulator, irrespective of product and supply channel. To this end the MGA is taking an innovative outlook to regulation to ensure that it has a regulatory framework that is robust, while flexible enough to support the early adoption of new technology as well as introduction of new gaming models, with a view to maintaining and enhancing the effectiveness of its regulatory oversight while at the same time facilitating industry growth and evolution.

### A NEW LEGISLATIVE FRAMEWORK

A lot of effort and focus was dedicated to this master project during 2015 and will spill over into 2016. In addition to updating the 12-year old framework covering remote gaming, the objective of this legal overhaul is to innovate and excel in the regulation of gaming both land-based and online, based on the MGA's years of solid gaming regulatory experience, while also taking into consideration the various technological, political and legislative developments.

The new framework will be characterised by its neutrality and simplified legislative design to allow for further industry development in the future; by coherence to allow for convergence of segments (land-based and remote) and simplification of processes; and by a strengthened governance structure and regulatory mechanisms that will ensure high levels of accountability, clarity and transparency in the Authority's decisions, operations and processes.

The roll-out of the draft legislation foreseen in 2016 will start with a new draft 'Gaming Act' that will consolidate all primary gaming legislation under one primary Act of Parliament, bringing in the much-needed legislative coherence for all of the gaming sectors.

The proposed Act shall also aim to widen the scope of governance of gaming falling under the competence of the MGA to include all forms of gaming, from skill games to games of chance and all in between, and including all multi-channels of distribution. Importantly, the new legislation will provide for the adoption of different regulatory approaches, (from prescriptive to risk-based, ex-ante and ex-post controls; hard and soft legal instruments) solidly implanted in and guided by a set of explicit principles and policy objectives that will provide the responsible Minister and the Authority with the necessary latitude and powers to govern/regulate gaming activities according to the risk presented by the same activities, business models and persons conducting them.

The Act and the subsidiary legislation that will follow once the legislative process is finalised, aim to abolish duplication of regulatory and administrative requirements that have already been met and validated, offer simplification and faster time to market of new products for existent, compliant operators.

There are a number of salient features of this second generation of gaming regulation for Malta, which when approved by Parliament (envisaged 2016) will allow for the 'development' of the gaming sector, notably the remote gaming sector, but also other forms of gaming.

In support of this legislative overhaul a number of consultations have been issued to allow all stakeholders to voice their opinion in relation to the changes the MGA intends to propose in 2016. The consultation papers on Enhanced Automated Reporting Platforms are meant to scope the nature of compliance mechanisms moving forward, whereas the consultation on Key Official Fitness and Propriety requirements, in tandem with the new Fit and Proper Guidelines, shows a move towards entrusting more key persons with responsibility for the various important functions of the licensee. Other industry consultations that will feed into this major initiative are envisaged for 2016, such as that concerning Outsourcing in remote gaming.

The changes will also take into account the increasing convergence between land-based and online operations. The Player Protection Blueprint, which is central to the MGA's vision for the future of regulation of the sector, is at the core of the draft legislation which aims to ensure that players and the general public are adequately safeguarded, while not compromising the necessary flexibility for operators to thrive. A risk-based approach is key to the envisaged legislation, hence the position which the Authority issued with respect to digital games of skill. The aim is to streamline the legal framework on various levels, ensuring the necessary latitude for modern operational setups and allowing for further development and innovation to future proof the Maltese jurisdiction in this highly dynamic sphere.

Salient features within the set proposals:

- A simplified licensing system that shall seek to eliminate the game centric licensing system categorised under various classes under the online regime and an attempt to merge the whole spectrum of licensing within the various regimes thereby making the process more streamlined and faster for operators to introduce new games and services under their respective licences. The latter processes falling under a system of approval;
- There will be focus on technical specifications which should be objective-based rather than prescriptive as much as possible thereby allowing a measure of flexibility for operators to introduce new systems without falling foul of the objectives enshrined in the regulatory framework. The latter challenge would be to enhance clarity for operators and reflect such an approach within the post-licensing audits and other compliance checks;
- There shall be direct recognition of gaming software providers as well as other B2B segments that currently do not fall under the specific Class 4 category;
- Simplified reporting and online interaction with the Authority;
- Alternative Dispute Mechanism Process for licensees;
- An appeals process in case of disagreement with MGA administrative decisions;
- Revamp of current obligations shifting towards an ex-post approach;
- Revamp of enforcement provisions;
- Widening of powers to regulate more effectively.

The new legislation will be a game changer for Malta and we are taking into account lessons learnt and developments in related sectors both locally and on an international scale. Malta wants to ensure that players have the necessary environment to play responsibly and to this effect the MGA shall be investing in player-centric mechanisms and data analytics in order to achieve an evidence-based approach to the way the Authority regulates. Gaming operators should fit comfortably in any given framework so as to maximise compliance and operate successfully. The MGA wants to focus on B2B platforms so as to widen the customer base internationally by incentivising and working more closely with other jurisdictions. This will enable such platforms to flourish and eventually grow the Malta-based gaming ecosystem.

The terms to implement the above shall not be aimed to destabilise current operations and the Authority shall ensure that operators shall have adequate time and information to transit into the new regime with least bureaucracy and utmost transparency.

## NEW GUIDELINES AND REGULATIONS

### TECHNICAL INFRASTRUCTURES

During 2015, following a public consultation, the MGA issued a set of guidelines on technical infrastructure for Remote Gaming licensees. These guidelines are addressed to operators, licensees, service providers and stakeholders and outline the MGA's objectives, when evaluating an applicant's or licensee's technical set-up. The goal is to provide the necessary flexibility for operators to exploit the benefits of technology, including cloud solutions, while ensuring adequate supervision over an operator's gaming and control systems as well as safeguarding the players and the MGA's regulatory interests. This approach will enable the MGA to have timely access to all the regulatory data allowing it to conduct its supervisory functions, including the possibility to carry out inspections, audits and ad-hoc investigations in a timely and comprehensive manner.

### FIT AND PROPER ASSESSMENT

The MGA is cognisant that different roles and functions within a gaming operation, as a regulated activity, require different responsibilities and as a result issued a set of guidelines for the "fit and proper" assessments for all applicants and/or licensees. These guidelines provide indicative criteria to be adopted in conducting a "fit and proper" assessment among which are the following: honesty, integrity and reputation; competence and capability; and sound financial standing.

Such an assessment provides a degree of assurance to the MGA that the applicants are willing and capable to fulfil their obligations under the legal framework in force. The latter principle also underpins the obligations prescribed by law to ensure that gaming is conducted honestly, fairly and free from any crime in the best interests of all stakeholders and customers.

### CRUISE CASINO REGULATIONS

During 2015, the Cruise Casino Regulations entered into force with the aim of regulating casino operations on board cruise ships, which are either berthed in Malta, Gozo or within Maltese territorial waters.

## 2. QUALITY: A SUPERVISORY APPROACH

The primary objective of the MGA is to fulfil its functions at law in an effective and efficient manner. The Authority has throughout 2015 continued to invest in its supervisory structures and processes with the objective of having streamlined processes that reduce the administrative burden as much as possible, without compromising the value and quality of the Maltese Licence and the regulatory regime.

### STRENGTHENING REGULATORY OVERSIGHT

At the top of the MGA's agenda was the need to continue to enhance the efficacy of its supervisory role both at the onboarding stage of new licensees and throughout the licence duration.

The regulatory oversight function was strengthened through the setting up of a Supervisory Council with the responsibility for the integrity, consistency and development of the Authority's regulatory performance. In addition the Regulatory Directorate was split into two Directorates: one responsible for Authorisations and the other for Compliance. The structural change strengthened both functions and introduced a level of checks and balances.

The Supervisory Council was set up by the Board in July 2015 and serves as a forum for the members of the regulatory directorates of the MGA to discuss, decide and provide recommendations on complex and sensitive regulatory issues, the development of the regulatory functions, strategic and risk-based regulation, as well as the implementation of best practices. The Council also acts as an advisory committee to the MGA's Executive Committee and the Board on regulatory issues.

The Council is composed of the Chief Officers and senior management responsible for the Authorisations, Compliance and Enforcement functions and is chaired by the Chief Officer - Legal and EU/International Affairs. Since its establishment, the Council has convened at least once a month. Matters that were discussed included the development and implementation of initiatives by the respective directorates covering amongst others the assessment of fit and properness of individuals of regulated entities, as well as the licensing process and procedures for the issuing of administrative fines. Discussions were held on the priority areas of the relevant directorates based on risk, and the Supervisory Council kept close oversight on the major investigations conducted by the MGA, considered all developments and decided on the way forward. In conjunction with the internal audit function of the MGA, the Supervisory Council also analysed and considered updates or changes to certain internal regulatory processes. The Council also discussed, considered and provided direction on numerous complex and technical regulatory issues.

## AUTHORISATIONS

While all gaming operators, whether land-based or remote, licensed with the MGA have always been subjected to an extensive onboarding process, it is the Authority's objective not only to comply with minimum regulatory standards, but to build an effective licensee onboarding and monitoring process. Over the past year the Authority has embarked on an extensive review of its onboarding process with the aim of ensuring the management of strategic risk as well as the continued growth of the sector.

The Directorate is now turning its attention to streamlining the licensing process with a view to ensuring non-duplication of processes and requirements.

In 2015, the Authorisations Directorate received an average of seven new remote gaming applications per month, and issued 88 new licences. In December 2015, the MGA issued a licence for a new land-based casino to operate in Malta, Casino Malta, taking the number of land-based casinos from three to four. During this period the Directorate also issued a number of authorisations to cover changes to the regulated land-based activities and issued approvals for employee engagement in both the land and remote gaming sectors.

## COMPLIANCE

The Authority's Compliance function has the objective of ensuring that the applicable obligations under the law and the relevant licence conditions are adhered to and to this end a comprehensive programme of monitoring, auditing as well as investigations is in place.

During 2015, the Authority reviewed its policies and procedures with respect to both remote and land-based gaming operations, with the ultimate goal of keeping up with developments in the industry and safeguarding the MGA's objectives. Particular focus was placed on monitoring the adherence to player protection obligations, the safeguarding of player funds, and the review of policies and procedures implemented by licensees particularly with regard to the prevention of money laundering. The Compliance Directorate also undertook a number of physical audits which were carried out by specialised personnel depending on the nature of the audit. Investigations were also carried out on reported or identified gaming operations considered suspicious or that were in breach of the applicable laws, regulations and directives. The Compliance function is further strengthened with live traffic monitoring, data extractions and data analysis as well as onsite visits at hosting locations making sure no tampering has occurred with the approved infrastructure.

Throughout the years, it has been the MGA's key objective to continue to improve compliance by leveraging technology to drive further benefits to the industry, in particular the operators. It is crucial that the MGA is equipped with the tools to effectively monitor compliance and enhance reporting. This includes access to data to perform analytics, the ability to process information quickly and the elimination of cumbersome and inefficient manual processes.

During the year, much work has been undertaken in order to choose the best platform and eventually implement an automated reporting system.

## EFFECTIVE ENFORCEMENT

The Enforcement Directorate focuses on three main functions: Enforcement, Anti-Money Laundering procedures and Field Operations. The team is responsible for any enforcement action to ensure operators' compliance with licence conditions and regulatory obligations, due diligence procedures in order to check for criminal probity, investigations as well as administrative sanctions.

In undertaking enforcement action the Authority liaises as necessary with the Malta Police Force and international law enforcement agencies, in connection with criminal investigations and prosecution of offences under the relevant gaming legislation.

## PREVENTION OF MONEY LAUNDERING AND FUNDING OF TERRORISM REGULATIONS

The Enforcement Directorate acts as Supervisory Authority for AML in respect of Casinos and coordinates with the Financial Intelligence Analysis Unit (FIAU) in respect of Money Laundering and Financing of Terrorism across all the gaming sector.

During 2015, the Authority contributed to the development of the 'Sectoral Implementing Procedures Part 2 for Casinos', issued by the FIAU in September 2015, and commenced discussions with FIAU and stakeholders on the implementation of the 4th AML Directive. In addition, the Authority launched a comprehensive review of the relevant internal policies and procedures. To ramp up its efforts in the prevention of this type of activity, the Authority will in 2016 be setting up a dedicated unit focusing solely on AML.

## MATCH FIXING

The MGA became a member of the national Anti-Corruption and Transparency Experts' Task Force which was set up in 2015. Through this Task Force, the Authority aims at actively assisting all stakeholders in fighting sports manipulation.

In addition, the Authority has also over the past year co-operated with international bodies and has reported suspicious activity on both local and international games.

## INCREASE IN LAND-BASED INSPECTIONS

The inspectorate team carries out inspections in casinos, gaming parlours and other licensed gaming establishments, including bingo halls, non-profit tombola and remote gaming infrastructure operating from a land-based area. In addition, the team oversees the national lottery draws as well as conducts investigations related to illegal gaming activities in conjunction with the Malta Police Force.

During the year under review, the team was actively involved in the preparation of the launch of the new casino, Casino Malta. The team will be further strengthened to be able to increase its number of inspections.

Inspections	2014	2015
Casinos	5,572	5,973
Commercial Bingos	829	639
Non-profit Tombola	130	226
Maltco - Lotto Booths	128	315
Otto Draw	368	97*
Malta Super 5	51	50
Maltco Lotto/Grand Lottery	104	105
Gaming Parlours	183	655
Court Duties	19	11
Duties Paid Lotteries	25	29
<b>Total</b>	<b>7,409</b>	<b>8,100</b>

TABLE 1: NUMBER OF INSPECTIONS IN 2015  
\*The Otto Draw used to be drawn every day until April 2015

## INSPECTIONS FOR ILLEGAL GAMBLING

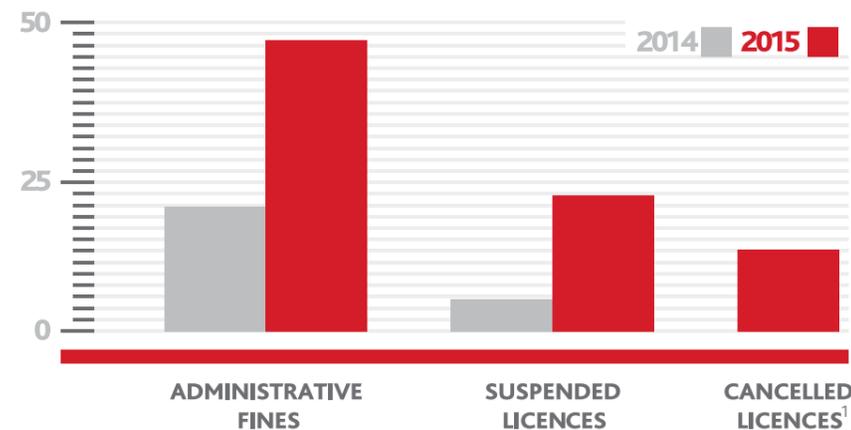
During 2015, the inspectorate team in collaboration with the Police Force carried out 15 inspections related to illegal gambling machines and internet gambling in various bars and clubs, out of which 12 were in breach of the law.

Apart from the above mentioned inspections, the Authority undertook 11 inspections related to illegal bingos and these operations were effectively stopped.

## REMOTE GAMING SECTOR SANCTIONS AND MEASURES

The directorate issued 47 administrative fines, suspended 22 licences and cancelled 13 licences due to regulatory breaches by the respective remote gaming operators.

Court action was also taken against an online gaming operator for non-payment of licence fees and taxes. This was a result of active collaboration between the Authority's Enforcement Directorate and the Police. As a result it paid all the dues to the Authority and was fined by the Court.



GRAPH 1: NUMBER OF ENFORCEMENT ACTIONS

<sup>1</sup>In 2014 the MGA did not have any Cancelled Licences

### 3. GROWTH: THE INTERNATIONAL DIMENSION

The MGA has always placed great emphasis on the importance of maintaining strong relations within the EU and international sphere.

The Maltese gaming industry is a base of global relevance and the Authority closely follows developments both in the industry and in the regulatory sphere. It directly participates in EU and other International fora.

#### SALIENT DEVELOPMENTS AT EU LEVEL

During 2015, the MGA participated in a number of events organised within the EU, the Council of Europe as well as by various other bodies and organisations. The MGA also took the initiative to organise a number of bilateral meetings where the subjects of improved cooperation and better regulatory approaches were high on the agenda.

##### Cooperation Arrangement/Expert Group on Gambling Services

The Expert Group on Gambling Services (EGGS), which the MGA has always attended, continued to play a very important part in the formulation of policy for the gaming industry throughout 2015. The most significant milestone of this group last year was the finalisation of the Cooperation Arrangement which the MGA, together with another 19 regulators, signed on the 27th November 2015.

This achievement symbolises the will of EU gaming regulators to collaborate on a multilateral and voluntary basis to establish a sound regulatory framework for the industry. The arrangement lays out a framework for cooperation among the Member States which they may choose to follow in order to collaborate in a vast range of areas such as licensing and supervision, exchange of best practices, knowledge sharing and other matters of common interest.

The MGA has already put in place a structure to implement this Arrangement as efficiently as possible and looks forward to better and stronger collaboration with other jurisdictions, insofar as is permitted by its regulatory framework. Within this structure, the MGA has also stepped up its efforts for stronger bilateral relations with other jurisdictions and hopes to establish more formal relationships by the end of 2016.

At the end of 2015, the European Commission was successful in renewing its three-year mandate to continue hosting the expert group, following discussion among Member States which affirmed that there was a lot to gain from these quarterly meetings. The main topic to dominate 2016 is the objective to achieve a minimum standard for technical and non-technical requirements imposed by regulators. The Expert Group will also continue to discuss the important themes of consumer protection and the prevention of

match-fixing within the framework of the 2012 Commission Communication, which the Commission has confirmed will continue to be the guiding strategy for policy development on gambling within the European Union.

##### 4th Anti-Money Laundering Directive

Following the publication of the 4th Anti-Money Laundering Directive in May 2015, the MGA was prompt to kick-start the process of implementation. This initially entailed a series of coordination meetings with the Financial Intelligence Analysis Unit (FIAU) to formulate an action plan for the transposition of the new obligations, which will be extended to all forms of gaming, including remote, once the Directive comes into force. During 2016, consultation with the industry will be carried out in order to ascertain the most adequate methods of implementation. In addition, the Authority will also be conducting a National Risk Assessment of the gaming sector, in order to ensure proportionate and risk-based measures are conducted. The MGA is committed to work closely with all stakeholders to safeguard the integrity and repute of the industry.

##### Digital Single Market

The achievement of a Digital Single Market is a priority for the newly constituted Commission. While the subject of gaming has been excluded from its scope, it can still have an indirect impact on the gaming sector and the MGA closely follows all discussions to ensure that if gaming is indeed affected, the interests of the industry are properly safeguarded.

#### MATCH FIXING

The national Anti-Corruption and Transparency Experts' Task Force was set up in 2015, following a nation-wide decision to strengthen the effectiveness of the structures dealing with corruption in sports. This Task Force inter alia aims to tackle the issue of match-fixing by increasing educational awareness and ensuring that national legislation takes into account the recent developments on sports corruption, which has become an ever more complex phenomenon on a global scale. Amongst other measures, the Task Force is considering an exercise to ensure the implementation of stricter rules and systems to suppress fraud and manipulation in sports. This includes harsher criminal penalties and the possible establishment of a national platform to act as an intelligence and coordination hub for all relevant information amongst all stakeholders in the fight against this type of crime.

These measures are also envisaged in the Council of Europe Convention on the Manipulation of Sports Competitions, whose objectives are supported by both the MGA and Malta as a jurisdiction.

It is worth underscoring that the only reason Malta has not become party to this Convention is due to the definition of 'illegal sports betting', which goes beyond its scope and does not contribute to the fight against match-fixing. Malta also followed and participated in the ongoing European level discussions in this regard. MGA members also participated in three match-fixing fora organised during 2015 and plans to take up a number of new initiatives with this objective in mind over the next year.

##### Expert Group on Match Fixing

In addition to the national Anti-Corruption and Transparency Experts' Task Force, the MGA is a member of the European Expert Group of Match-Fixing. The Authority attended both meetings of the Group, which focused mainly on the work which needs to be done for the Member States to improve their systems for the prevention, detection and sanctioning of this phenomenon. This group will draft a report of its work and submit it to the Sports Working Party in 2016.

#### THE GAMINGMALTA FOUNDATION

In line with the MGA's vision to focus on its core regulatory functions and other strategic action areas, a decision was taken to set up a foundation to promote Malta as a gaming jurisdiction of choice in existent and new emerging markets. March 2015 saw the creation of the GamingMalta Foundation, a non-profit organisation launched by its founding members, the Government of Malta and the MGA. The Foundation aims at promoting Malta, both locally and internationally, as the leading jurisdiction, both a centre of excellence in the gaming industry, as well as at developing access to new markets, both geographically and in terms of product markets.

The GamingMalta Foundation is an autonomous entity and will be the promotional arm for the gaming industry tasked with attracting new companies to use Malta as the place of establishment for their activities. Its remit will also be to liaise with the relevant authorities to improve Malta's attractiveness as a jurisdiction.

### 4. VALUE: REGULATORY KNOWLEDGE

The Authority is intent on continuing to engage with stakeholders and on capitalising on its years of regulatory experience from developments in technology and changes in consumer behaviour. The global gaming sector is constantly changing.

“ Staying ahead of the game will strengthen Malta's competitive edge beyond the business model applied today and ensures that the country will continue to offer value to the industry. ”

In order to stay ahead of the game, the MGA needs to have an open channel of communication with key stakeholders. This ensures that stakeholders can provide feedback to the Authority's policy initiatives and planned regulatory measures, exchange valuable market information and interact as an industry for the benefit of all.

#### PUBLIC CONSULTATIONS

Consultation with key stakeholders and users on issues that are industry-relevant and that have a potential impact on operators is of utmost importance for the MGA. The objective is to involve all potentially impacted stakeholders in the consultation process to obtain valuable information on their views and concerns on MGA-proposed initiatives, as well as to better engage the industry on developing the sector. The ultimate aim is to introduce new gaming policy areas to further strengthen the Maltese licence as well as to ensure effectiveness of the MGA as a gaming regulator.

The MGA issued four thematic public consultations in 2015:

##### Proposed Cloud Solutions for the Remote Gaming Industry

The Authority has acknowledged the advantages and opportunities that cloud solutions provide to the remote gaming industry, such as significant reduction in infrastructural and operational costs, better management and allocation of IT resources, as well as increased flexibility and scalability of operations.

During the last quarter of 2015 the Authority published a consultation concerning cloud solutions in remote gaming. The feedback received during this consultation was taken into consideration in the drawing up of a guidance document titled 'Guidelines on Technical Infrastructure hosting Gaming and Control Systems - Remote Gaming' which was published in December 2015.

### Digital Games of Skill with Prize

Over the years, a number of concerns were raised as a direct result of the lack of specific regulations governing commercially offered digital games of skill with prize via distance communication. Other legislation, such as consumer legislation, does address and regulate certain elements related to the offering of these games, but the MGA felt specific regulation or guidelines on this form of gaming may be required.

As a result, a public consultation document was published aimed at obtaining feedback in respect of the possible creation of a regulated market for this sector. Following the public consultation and assessment of the feedback, the MGA published its position in December 2015 clarifying its stand with regard to the several different types of games available on the market that may include an element of skill. The position published in this paper will be reflected in the new regulatory framework.

### Revision of the Key Official fitness and propriety requirements as a means to achieve enhanced compliance capability of remote gaming licensees

While honesty and integrity remain an integral and essential part of the MGA's assessment of the Key Official (KO), a person's capabilities to fulfil its role competently and effectively are also key considerations. Sound knowledge of KO obligations at law and in practice, the ability to supervise the compliance of remote gaming licensees and demonstrating a general understanding of the remote gaming operation and its specific challenges, are crucial.

A public consultation was issued with the aim of understanding the industry's perspective on the subject. It touched upon several areas, including the introduction of minimum professional qualification / certification requirements, the required professional experience and the introduction of a requirement for Continuous Professional Development (CPD), including the possible content and length of CPD. The feedback received was assessed and is being taken into consideration during the drafting of new legislation, which the MGA is currently working on.

### Enhanced Automated Reporting Platform

The Authority has sought to capitalise on opportunities presented by technological changes in order to facilitate and simplify the operators' compliance efforts primarily with respect to reporting requirements.

The Authority drew up and publicly consulted on an approach outline for the implementation of an Automated Reporting Platform for both land-based and the remote gaming sectors.

Two consultation documents were issued in 2015, one for the land-based and one for the remote gaming sector. Prior to the actual consultation, the Authority undertook a Cost Benefit Analysis and conducted various pre-consultation workshops with the industry. The valuable feedback received was considered when drafting the public consultation documents and the responses received were evaluated by the MGA and formulated into a position paper.

## FOSTERING A CLOSE RELATIONSHIP WITH THE INDUSTRY

The industry and importance of the operators in Malta are a top priority for the MGA. During 2015, the Authority invested in the strengthening of its relationship with the industry by participating in a number of events and communicating relevant changes affecting the different players in the market.

International exposure is also of considerable importance, and the MGA participated in various local and international conferences and events. It is foreseen that in 2016 the GamingMalta Foundation will be taking a more active role in events of promotional nature.

### THE ANNUAL ICE GAMING EXPO 2015 HELD IN LONDON, UK

### THE 6TH FORUM ON US ONLINE GAMING ORGANISED BY C5 IN NEW YORK CITY, USA

### THE ANNUAL MEETING OF GREF IN VILNIUS, LITHUANIA

### THE 34TH INTERNATIONAL GAMING SUMMIT IN VANCOUVER, CANADA ORGANISED BY THE INTERNATIONAL ASSOCIATION OF GAMING ADVISORS (IAGA)

### THE INTERNATIONAL ASSOCIATION OF GAMING REGULATORS (IAGR) CONFERENCE IN LIMA, PERU

### THE SUMMIT OF IGAMING IN ST. JULIAN'S, MALTA (SIGMA) 2015

### THE ANNUAL EIG (EXCELLENCE IN IGAMING) GAMING EXPO 2015 IN BERLIN, GERMANY

### BREAKFAST MEETING ORGANISED BY THE MALTA BUSINESS WEEKLY ST. JULIAN'S, MALTA

### THE EY MALTA CONFERENCE ST. JULIAN'S, MALTA

### THE GOOGLE SEMINAR IN VALLETTA, MALTA

### THE COMMONWEALTH BUSINESS FORUM AS PART OF CHOGM 2015 MALTA

### THE MALTA IGAMING SEMINAR (MIGS) 2015 ST. GEORGE'S BAY, MALTA



## THE ESTABLISHMENT OF WORKING GROUP ON OUTSOURCING

As the remote gaming industry continues to develop, grow and venture into new markets, it is increasingly relying on outsourcing. Notwithstanding the fact that the MGA has long accepted this practice and intends to continue upholding it, the MGA deemed that further knowledge and insight on the subject matter was necessary. The ultimate objective was to develop a concept paper, in conjunction with the gaming industry, for which a Joint Working Group was set up in 2015 with members representing the widest possible spectrum of the industry. The aim was to introduce the concept as well as the perspective of the MGA on outsourcing in remote gaming – which would then feed into the new legislation being drafted by the Authority. The Joint Working Group was set up and includes members from the MGA and members representing the remote gaming industry.

This working document was drawn up and captures the key issues and risks and sets out the principles that can serve as benchmarks. Such principles would offer specific and focused guidance and be applicable across the remote gaming industry, irrespective of product or licence classification, as it stands today and as it is envisaged to evolve in the coming years. This document will also identify what could be considered as 'critical' in both functions/activities per se and interfaces between in-house functions and outsourced functions/activities/services. It is envisaged that the policy proposal will be concluded during the first half of 2016 and it will be issued for wider consultation with stakeholders.

## INDUSTRY STATISTICS

The Research Unit within the MGA is responsible for collating information and data on market activity with the ultimate aim of providing valuable input to the Authority in support of well-informed decisions that are backed up by statistical data.

The MGA collates information about both land-based and remote gaming activities. Data is obtained through monthly reports submitted by the operators to the Authority as well as from available internal data. Additional remote gaming data is obtained through a bi-annual questionnaire issued to the industry. This questionnaire was revised in 2015 with the aim of extending and standardising the data collection.

The data collected forms the basis of the interim and annual Market Overview reports being published by the Authority. These reports are intended to provide stakeholders with an overview of the regulated market activity.

## DIALOGUE WITH STAKEHOLDERS

The Authority considers having on-going dialogue with stakeholders as essential input to better regulate the sector and carry out its functions. Throughout 2015 exchanges were held with a wide spectrum of stakeholders, including licensed operators, industry representative groups, namely the Malta Remote Gaming Council and the Remote Gaming Business Section within the Malta Chamber of Commerce, Enterprise and Industry, Government entities and service providers.

## 5. KNOWLEDGE: THE PEOPLE AGENDA

Talent is seen as critical for the transformation of the MGA into an organisation geared towards the delivery of its strategic objectives and goals. The MGA continuously invests in its people in order to acquire cutting-edge knowledge, competencies and necessary skills to take the regulator forward. A key activity is addressing any gaps in the right level of talent required by each department.

### TOP QUALITY HUMAN CAPITAL

During 2015, the Authority continued to further strengthen its employee base. Given the organisational restructuring of 2014 and continuous right-sizing, it was necessary that the Authority increases its workforce to carry out its functions in the most efficient and effective way and to reach the next level of excellence.

The total number of employees increased by 28% during 2015, reaching a headcount of 140 by the end of the year. This includes student workers and contracted employees.

Increases were primarily aimed at strengthening the supervisory functions in support of the Authority's goal of being a regulator of an ever-growing industry base. Functions related with the overall operations of the Authority were also strengthened.

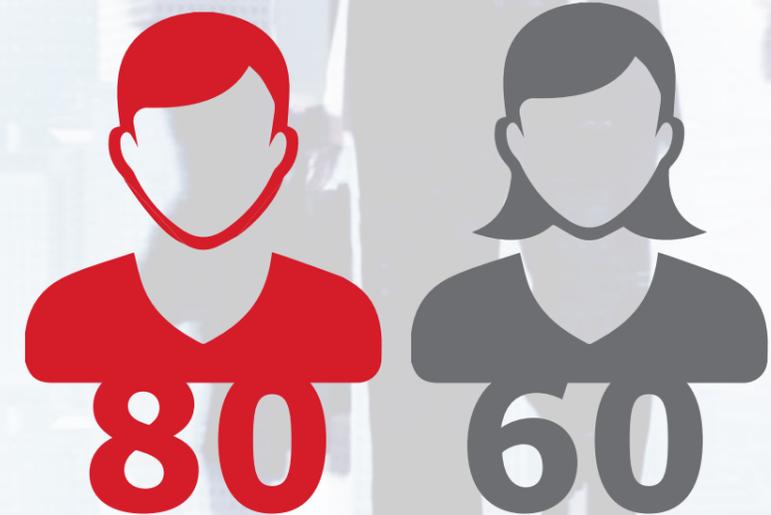
Of the new recruits, 18 were women and 13 were men. Female workforce now account for 43% of the Authority's total workforce.

In terms of age distribution of employees, the highest percentage of employees lies within the 31 to 40 age bracket, which is equivalent to 40% of the total employee base. This is followed by the 21 to 30 age bracket and the 41 to 50 age bracket, resulting in 36% and 14% respectively.

The Authority has a highly-skilled workforce and is committed towards continual development of its staff. During 2015 the number of employees in possession of a diploma or degree amounted to 55% of the total workforce resulting in an increase of 53% in highly skilled personnel when compared to 2014.

### TRAINING UNDERTAKEN THROUGHOUT 2015

During 2015, the HR team has coordinated a number of training courses and seminars through both local and international specialised service providers. Training covered both thematic topics and general skills and competency development. A particular focus during 2015 was given to AML and Know Your Customer (KYC) best practices and latest developments in the area of anti-bribery, corruption and information security.



	2014	2015
Diploma	12	35
Degree	29	43

## 6. CONSUMER PROTECTION: EMBRACING DIGITAL CHANNELS

Player support and consumer protection are at the core of the MGA's regulatory function. Although each MGA licensee is bound to offer player support to its customers, the MGA's internal player support department offers further assistance to resolve issues that may arise between players and operators. Utilising new communication channels, the Authority aims to build the appropriate capacity to manage and maintain a modern player support system.

### MGA SUPPORT FOR PLAYERS

During 2015, the MGA was the first regulator to offer direct contact with players through the launch of a chat channel. The chat channel is operated Monday to Friday and is used primarily by players to check the status of their complaints, since the formal complaint procedure is received through email and an online form.

During 2015, the Player Support Unit has serviced a total of 1,083 chat interactions.

In 2015 the Unit upgraded from a paper-based system to an IT system resulting in a more efficient handling of complaints. This included the launch of an online system for record-keeping of cases, including subsequent email communications with players and licensees.

## 7. COST EFFICIENCIES: PRODUCING SUSTAINABLE CHANGE

The MGA is committed to long-term sustainability maximising the benefits from its not inconsiderable investment over the past months, both in terms of time and resources. To this end, the Authority has embarked on the implementation of a number of technology-supported systems in order to facilitate processes, enhance the quality of its interface with licensees, increase security and optimise the use of time, resources and costs.

### DEVELOPING A STATE OF THE ART CRM SYSTEM

In 2015 the Authority partnered with Microsoft in order to design, develop and manage the implementation of a Customer Relationship Management (CRM) Microsoft Dynamic System. Furthermore, the Malta Information Technology Agency (MITA) was chosen as its hosting partner. This project is set to revolutionise the Authority's communication channels, increase visibility and transparency and enable existing and new licensees to securely manage their interaction with the MGA via an automated online system.

A detailed project scoping was completed with implementation planned to start in early 2016.

The solution is based on a Microsoft ecosystem, with MS SQL and ADX Studio as the database management and portal solutions respectively.

### STRENGTHENING THE MGA REVENUE ASSURANCE FUNCTION

In order to continue strengthening its financial operations, in 2015, the MGA reinforced its budgetary control framework and implemented an annual budgetary process. Changes included the introduction of a cost centre framework and the preparation of regular management accounts.

In addition, a revenue assurance function was set up to ensure the accuracy and completeness of revenue generated by the MGA licensees in terms of fees and taxes. This unit adopts a risk-based approach such that licensees with higher tax leakage risk are subjected to additional review and audit.

## CREATION OF A DIRECTORATE FOR BUSINESS AND PROGRAMME DEVELOPMENT

The Authority's strategic direction and the operational actions that have been kick-started over the past months require oversight and co-ordination to ensure that the extensive project work and change programme that is being undertaken, can be delivered in a timely and cost-effective manner.

In October 2015, the Directorate for Business and Programme Development was officially set up with the aim of overseeing amongst others the overall organisational performance, with a particular focus on programme management, project oversight and the establishment and monitoring of Key Performance Indicators (KPIs).

By the end of 2015, all projects which were being handled at Directorate level were captured under the programme management function so that opportunities for coordination and efficiency in resource utilisation could be achieved.

The Directorate is also responsible for the risk management function of the MGA. An appropriate assessment of internal risks as well as risks presented by licensed operations supports the Authority in targeting its efforts, both operationally and at a supervisory level, where they leave value. These will continue to further support an efficient and effective operation.



# A NEW CHAPTER FOR THE MALTA GAMING AUTHORITY

## A NEW CORPORATE IDENTITY

2015 saw the first results of the Authority's corporate transformation on many fronts, a transformation that reflects the vision and strategic goals that were set in 2014. The investment made reflects Malta's recognition of and commitment to the continued successful growth of the sector; a sector that has over the years established Malta as Europe's leading gaming jurisdiction, attracting some of the world's biggest operators both in online gaming and also to its land-based operations.

Cementing Malta's status as the jurisdiction of choice, in January 2015, the Authority completely refreshed its corporate image. In essence, the new corporate identity seeks to signal a new vision for the industry, with elements representing the Authority's heritage and past successes. The rebranding exercise reflects the Authority's mission and values and the sector's position within the national agenda. The rebranding also led to a change in the name from 'The Lotteries and Gaming Authority' to 'Malta Gaming Authority'.



## NEW OFFICES IN SMARTCITY MALTA

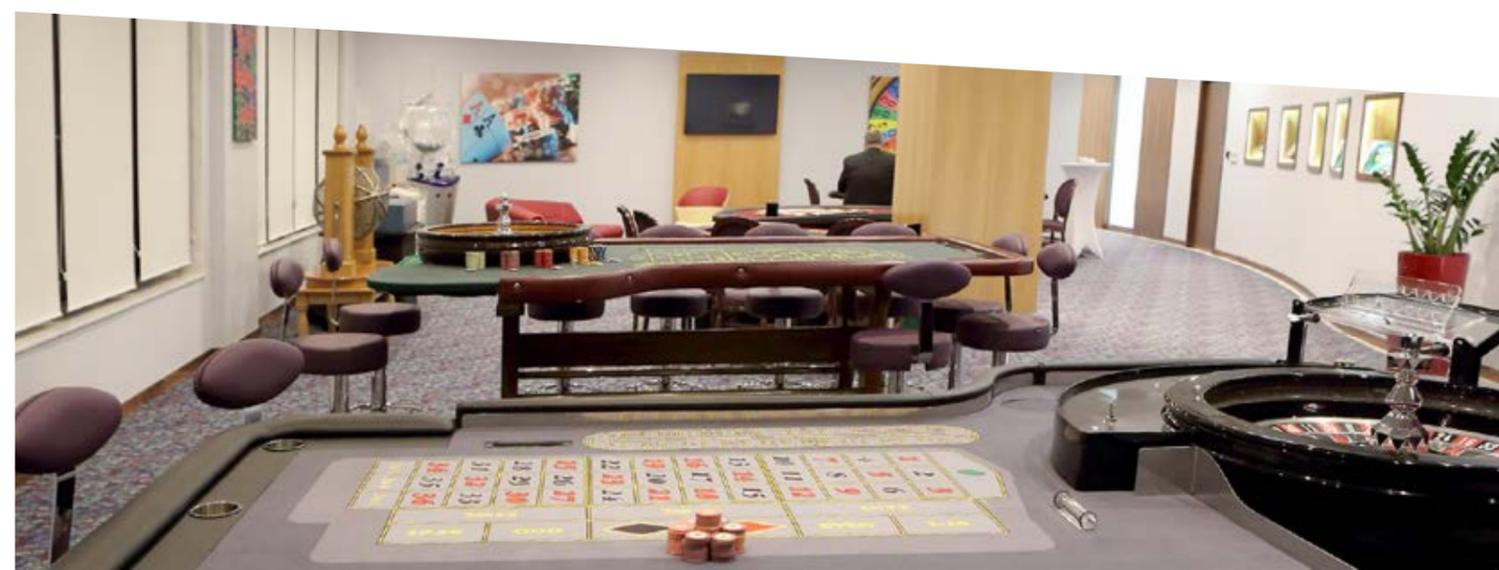
Relocating to SmartCity Malta was a strategic choice. As a visible manifestation of Malta's push to transform itself into an innovative and tech-savvy island, SmartCity Malta has evolved into an ICT/digital entertainment hub. It provided the answer to the MGA's desire to create a professional and cutting-edge working environment, reflecting the size and dynamism of the industry that the Authority regulates, while offering sufficient space and resources to support the long-term vision of the MGA.

The MGA's decision to move was taken in 2014 and the whole project was undertaken in 18 months with the move into the new premises in SmartCity taking place in November 2015.

The new offices are better suited to the Authority's operating needs, providing both state-of-the-art facilities and a comfortable working environment supported by the latest technology.

The new offices are split into four wings spread on two floors, where various departments are grouped together, according to their nature and size.

The new offices also have better conferencing facilities as well as an auditorium equipped with the latest technology, providing MGA with the opportunity to host events on site. The offices also house a Museum that displays some of the older equipment highlighting the gaming sector's history.



# 8

## KEY OUTCOMES FOR 2016

- PRESENTATION OF NEW LEGISLATIVE FRAMEWORK TO CABINET
- ESTABLISHMENT OF THE TECHNICAL REQUIREMENTS OF THE ENHANCED AUTOMATED REPORTING SYSTEM
- PUBLISHING OF THE POKER TOURNAMENT REGULATIONS
- FINALISATION OF THE CUSTOMER RELATIONSHIP MANAGEMENT SYSTEM
- STUDY ON THE SOCIAL IMPACT OF GAMING IN MALTA
- FINALISATION OF THE NATIONAL RISK ASSESSMENT
- ESTABLISHMENT OF THE NEW AML AND LICENSEE ONBOARDING PROCEDURES
- IMPLEMENTATION OF THE 4TH ANTI-MONEY LAUNDERING DIRECTIVE

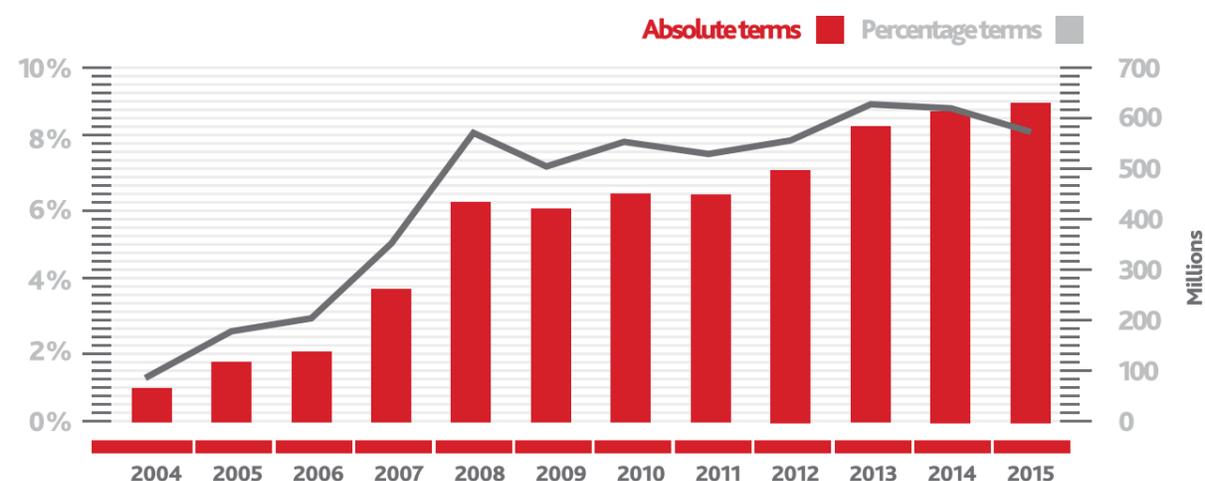




# MARKET OVERVIEW

## JAN – DEC 2015

Malta was the first EU Member State to regulate the remote gaming market in 2004 and has since then established itself as a significant gaming hub with global relevance. During the 2004-2015 period the gambling and betting industry grew by more than 200%. Its contribution to the national Gross Value Added<sup>3</sup> (GVA) increased considerably and estimates<sup>4</sup> indicate that, at the end of 2015, the gaming sector constituted around 79% of the GVA generated by the Arts and Entertainment sector. When considering the economy as a whole, in 2015 the gambling and betting sector contributed more than 8% of the total GVA. This suggests that the gaming sector has been and still is one of the key drivers for economic growth.



GRAPH 2: CONTRIBUTION TO THE GVA BY THE GAMBLING AND BETTING ACTIVITIES (2004-2015)<sup>4</sup>

In absolute terms the contribution of the gambling and betting activities' sector to the national GVA has increased over time. However the contribution to the economy in percentage terms has not seen the same growth levels. This is attributable to the fact that in recent years the economy as a whole has grown at a higher rate than the growth in the gambling and betting activities sector.

Global estimates<sup>5</sup> indicated that the Gross Gaming Revenue (GGR) in 2015, for both land based and remote gaming activities, would experience only a marginal increase over the 2014 levels, though projections for 2016 indicate that the sector will pick up and experience a healthier growth rate. When considering just the performance of the local land-based market, it could be noted that this continued to grow in 2015, with the total GGR for the land-based gaming sector activities reaching a level of €78 million, equivalent to a 3% growth over the 2014 figures.

The number of remote gaming licences has grown significantly over the years reaching a total number of 490 at the end of 2015. The major increases can be attributable to Class 4 and Class 1, which increased by 17% and 8% respectively, when compared to 2014. Overall, the number of licences increased by 37%, when compared to the levels in 2010. It could be noted that during the past 12 months the MGA licensed operators registered a total of 29 million new customer accounts. This indicated the level of activity within one year in the Maltese licensed remote gaming market.

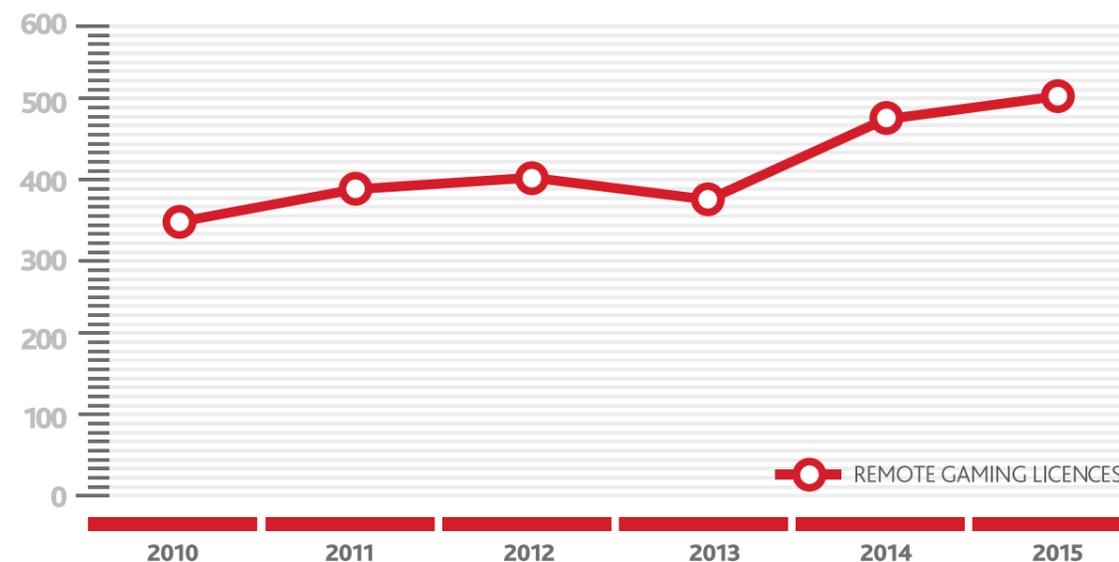
Land-Based	2014	2015	Change
	€	€	%
Total Players' Spend	315,341,802	333,079,147	6%
Total Players' Winnings	239,280,341	255,014,842	7%
<b>GGR</b>	<b>76,061,460</b>	<b>78,064,305</b>	<b>3%</b>

TABLE 2: GROSS GAMING REVENUE - LAND-BASED ACTIVITIES

Data indicates that the total amount spent and won in 2015 in all land-based outlets in Malta has increased when compared to 2014 by 6% and 7% respectively. This includes amounts played and won in casinos, gaming parlours, commercial bingo halls as well as Maltco Lotteries Limited's points of sales. These amounts include expenditure by both Maltese nationals and foreign nationals living in Malta as well as tourists.

During 2015, the number of licensed gaming premises in Malta increased marginally, with a new entrant in the casino segment, namely Casino Malta, which was licensed and opened during the last quarter of the year; four new gaming parlours which added 70 gaming devices to the total on the market; and 21 new lotto booths to reach a total of 246 that constitute Maltco Lotteries Limited's network of sales outlets. The total number of commercial bingo halls remained unchanged, at four, during 2015.

With regard to remote gaming, the total number of licences reached 490 held by 269 companies as at the end of 2015. The main increases were registered in Class 4 and Class 1 categories, which grew by 17% and 8% respectively, when compared to 2014.



GRAPH 3: NUMBER OF REMOTE GAMING LICENCES (2010-2015)

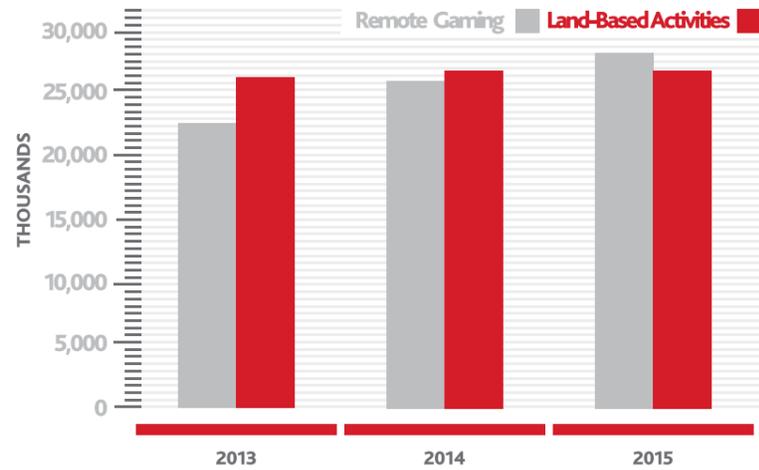
<sup>3</sup> Gross Value Added measures the additional values of goods and services produced in an area, industry or sector of an economy. This is equivalent to the total value of all goods and services produced less the value of goods and services used for intermediate consumption in their production.

<sup>4</sup> National Statistics Office Data

<sup>5</sup> <http://www.statista.com>; <http://h2gc.com/> (accessed in May 2016);

## GAMING TAX

The Authority is responsible for collecting the gaming tax from both remote and land-based operations licensed by the MGA. The total gaming tax payable by all licensed gaming operators for 2015 stood at €55.2 million. Since 2013, the total gaming tax payable registered a year-on-year increase with the remote gaming sector increasing by a cumulative 13.5% over the period.



GRAPH 4: GAMING TAX COLLECTED (2013-2015)

Overall, the performance of the sector, which continues to experience a year-on-year growth on all fronts, in spite of the challenges in its operating environment, illustrates this market's and Malta's potential for further growth. The Authority is acutely cognisant of this and continues to invest and take a leading role in raising the regulatory bar through the adoption of policies and initiatives that are innovative, evidence-based and business-friendly.

## PREFACE

1. These statistics relate to the gaming industry in Malta and have been collated by the Malta Gaming Authority (MGA). The sources are:

- mandatory regulatory returns to be submitted by all licensed operators
- information provided by operators through specific questionnaires and correspondence with the MGA

2. Unless otherwise stated, figures are representative of the position as at the end of December 2015.

3. The data contained in this review covers the Maltese land-based gaming (casinos, gaming parlours, commercial bingo, national lottery, betting and the suite numbers games provided by Maltco) and remote gaming regulated by the MGA.

4. As for the research study, companies were asked to answer a set of questions for the Maltese licensed activity only. The response rate was around 79%, resulting in 95% confidence interval of the sample collected, with a margin of error of +/- 3.24%. The remaining missing data has been estimated by the Authority to provide a clear picture of the gaming industry.

One of the main aims of this research study is to acquire an accurate snapshot of the activity being generated by all the companies that are licensed by the MGA. Hence, several imputation methodologies and weighting techniques were adopted to 'fill in' the missing data. In order to ensure better data representation, companies were divided into two groups. The first group represented

those companies with Class 1, Class 2 or Class 3 licences, and the second group represented those companies that have Class 4 activity licence only. Replies for these two groups of companies were analysed differently as most of the Industry Performance questions are not applicable to the same extent.

After performing data collection, data cleaning was undertaken to ensure consistency of results. In case of doubt, operators were contacted again to clarify their responses. After clarifying all queries, an imputation technique was applied to impute for the missing data and thereafter questions were analysed thoroughly one by one. After obtaining the initial results, weighting techniques were applied to ensure that the results represented the whole population. Results were analysed in a way to obtain the total values amongst all Maltese licensed activity.

Where possible, the MGA has provided comparable data which is consistent with the rest of this data in this publication.

5. The terminology used in this document is explained under Definitions.
6. Totals and percentages are calculated from unrounded figures.
7. The statistical figures reported for 2014 have been revised to reflect any changes reported after the publication of the Malta Gaming Authority Annual Report 2014.

# REMOTE GAMING STATISTICS

Malta has provided for the licensing of remote betting activities since 2000 through the Public Lotto Ordinance. In May 2004, after the promulgation of the Lotteries and other Games Act (Cap. 438), Malta became the first EU Member State to enact a comprehensive, sector-specific, remote gaming legislation for both betting and gambling. The Regulations (S.L. 438.04) divided the remote gaming licensable activities into four classes depending on the games and services offered by the operator.

The regulatory environment in Europe has completely changed over the last decade, with those few member states that have not yet specifically regulated and provided for licensing of remote gaming; aiming to do so in the next few years. These changes together with the technological advances of the industry, the emergence of new markets and the wide suite of new gaming products and channels have changed the structure of the Malta-based industry. Malta's relevance and value to the remote gaming operators established in Malta and licensed by the MGA have also changed. The jurisdiction's cost-effective regulatory framework and mechanisms and availability of a sophisticated eco-system that supports the industry have featured highly in further attracting key global operators to establish and operate in Malta during 2015. On the other hand, more stringent regulatory controls have resulted in the cessation of operations of a number of operators.

The MGA's transformational process embarked upon in 2014 and the new regulatory framework that will provide for the governance of a wider, more complex sector, that is expected to be launched in 2016, will continue to add value and integrity to the Maltese jurisdiction in the global remote gaming sphere with innovative approaches and evidence-based mechanisms to position Malta for a more dynamic future.

## 1. NUMBER OF LICENCES AND COMPANIES IN MALTA

### Number of licences issued, closed and suspended licences

When compared with 2014, the number of remote gaming licences grew by 4%. In 2015, the MGA issued a total of 88 new remote gaming licences, cancelled 13 licences due to the MGA's enforcement actions and suspended another 22 licences. In the case of the latter, nine licences were suspended over suspected links with Calabrian Mafia.

### Number of companies

In 2015, the number of remote gaming companies holding MGA licences decreased from 283 (2014) to 269 (2015). This decrease is attributable to a number of factors but mainly results from a number of mergers and acquisitions and voluntary and involuntary termination of licences.

Number of Companies	2014	2015	% change
Total	283	269	-5%

TABLE 3: REMOTE GAMING - NUMBER OF COMPANIES

## 2. DISTRIBUTION OF LICENCES BY CLASS TYPE<sup>6</sup>

At the end of December 2015, the total number of MGA active licences stood at 490, representing an increase of 4% over the corresponding period in 2014. These licences are distributed between four different licences' classes as presented below.

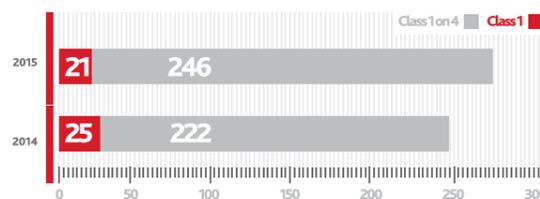
Distribution of licences by class type	2014	2015	% change
Class 1	25	21	-16%
Class 1 on 4	222	246	11%
Class 2	91	88	-3%
Class 2 on 4	9	12	33%
Class 3	37	31	-16%
Class 3 on 4	32	30	-6%
Class 4	53	62	17%
<b>Total</b>	<b>469</b>	<b>490</b>	<b>4%</b>

TABLE 4: DISTRIBUTION OF LICENCES BY CLASS TYPE

### Class 1 licences<sup>7</sup>

The Class 1 group of licences (including Class 1 and Class 1 on 4) continued to represent the highest share of total remote gaming licences in issue and accounted for 54% of the total licence base, 1% more than in the previous year (4% - Class 1, 50% - Class 1 on 4).

The number of Class 1 licences (including Class 1 on 4) increased by 20 licences, or an increase of 8% over 2014.



GRAPH 5: REMOTE GAMING - CLASS 1 LICENCES

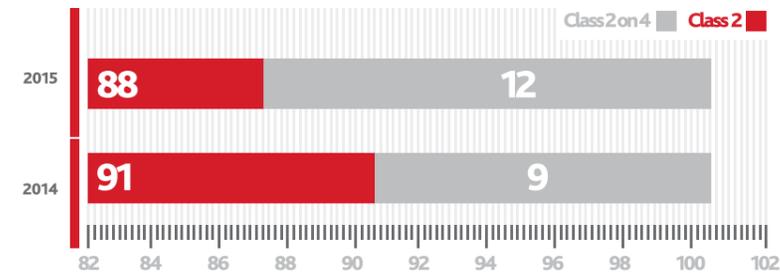
Class 1 and Class 1 on 4	2014	2015	% change
Class 1	25	21	-16%
Class 1 on 4	222	246	11%

TABLE 5: REMOTE GAMING - CLASS 1 LICENCES

### Class 2 licences<sup>8</sup>

The total number of Class 2 group of licences (including Class 2 and Class 2 on 4) as at the end of 2015 stood at 100, the same level registered in 2014.

The number of Class 2 only has decreased from 91 to 88, while the number of Class 2 on 4 increased by three licences (from 9 to 12).



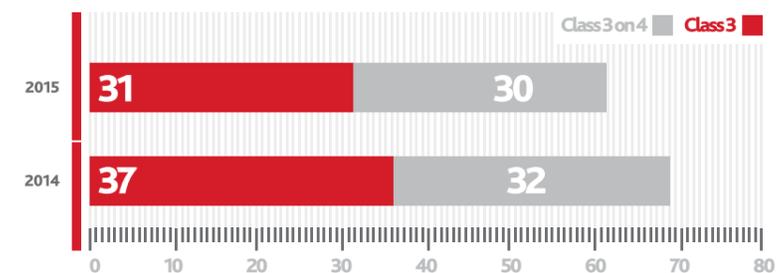
GRAPH 6: REMOTE GAMING - CLASS 2 LICENCES

Class 2 and Class 2 on 4	2014	2015	% change
Class 2	91	88	-3%
Class 2 on 4	9	12	33%

TABLE 6: REMOTE GAMING - CLASS 2 LICENCES

### Class 3 licences<sup>9</sup>

During the period under review, the number of Class 3 licences (including Class 3 on 4) decreased by 12% (from 69 to 61).



GRAPH 7: REMOTE GAMING - CLASS 3 LICENCES

Class 3 and Class 3 on 4	2014	2015	% change
Class 3	37	31	-16%
Class 3 on 4	32	30	-6%

TABLE 7: REMOTE GAMING - CLASS 3 LICENCES

<sup>6</sup>Number of licences is a snapshot as of the end of year.

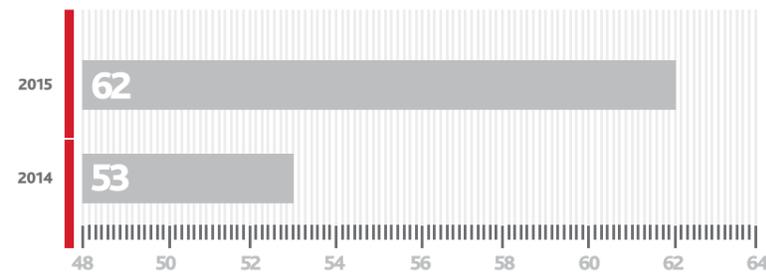
<sup>7</sup>Class 1 – a remote gaming licence whereby the operators manage their own risk on repetitive games. It is also possible to have a Class 1 on 4 whereby the Class 1 licensee operates its games on the software and in certain cases through the equipment of a Class 4 licensee. Examples of Class 1 licences would include casino-type games and online lotteries.

<sup>8</sup>Class 2 – a remote betting licence whereby operators manage their own risk on events based on a matchbook. It is possible to have a Class 2 on 4 licence whereby the Class 2 licensee operates its games on the software and in certain cases through the equipment of a Class 4 licensee. An example of a Class 2 licence would include fixed-odds betting.

<sup>9</sup>Class 3 – a licence to promote and/or abet remote gaming in or from Malta. It is also possible to have a Class 3 on 4 licence whereby the Class 3 licensee operates its games on the software and in certain cases through the equipment of a Class 4 licensee. An example of a Class 3 licence would include poker networks, peer-to-peer (P2P) gaming and game portals.

### Class 4 licences<sup>10</sup>

The Class 4 group of licences increased by 17% when compared to the previous year, from 53 to 62.



GRAPH 8: REMOTE GAMING - CLASS 4 LICENCES

Class 4	2014	2015	% change
Total	53	62	17%

TABLE 8: REMOTE GAMING - CLASS 4 LICENCES

### 3. REMOTE GAMING: GAMING TAX

The amount of tax payable by remote gaming companies licensed by the MGA depends on the type of licence they hold<sup>11</sup> and revenues, where applicable. In 2015, a total of €28.2 million was due in gaming tax from the remote gaming operators, representing an increase of 9% when compared to the previous year.

Remote Gaming Tax	2013	2014	2015
	€	€	€
Class 1	1,529,772	1,682,140	1,543,280
Class 1 on 4	1,648,602	2,700,085	3,432,202
Class 2	11,646,997	13,251,208	13,217,847
Class 2 on 4	503,351	1,516,214	2,828,098
Class 3	1,839,810	1,688,901	1,572,252
Class 3 on 4	2,590,461	2,231,586	2,287,890
Class 4 <sup>12</sup>	2,726,238	2,765,611	3,301,430
<b>Total</b>	<b>22,485,231</b>	<b>25,835,745</b>	<b>28,182,999</b>

TABLE 9: REMOTE GAMING - GAMING TAX (2013 -2015)

### 4. CUSTOMER ACCOUNTS

During the 12-month period, the MGA's licensees registered a total of 29 million new registrations, of which 53% were registered during the first six months, while the remaining 47% during the second part of the year.

As at the end of 2015, there were a total of 22.6 million active customer accounts<sup>13</sup> within the remote gaming market regulated by the MGA. In addition, the MGA's licensed companies reported 16 million dormant accounts<sup>14</sup> and 6.9 million accounts were suspended<sup>15</sup>.

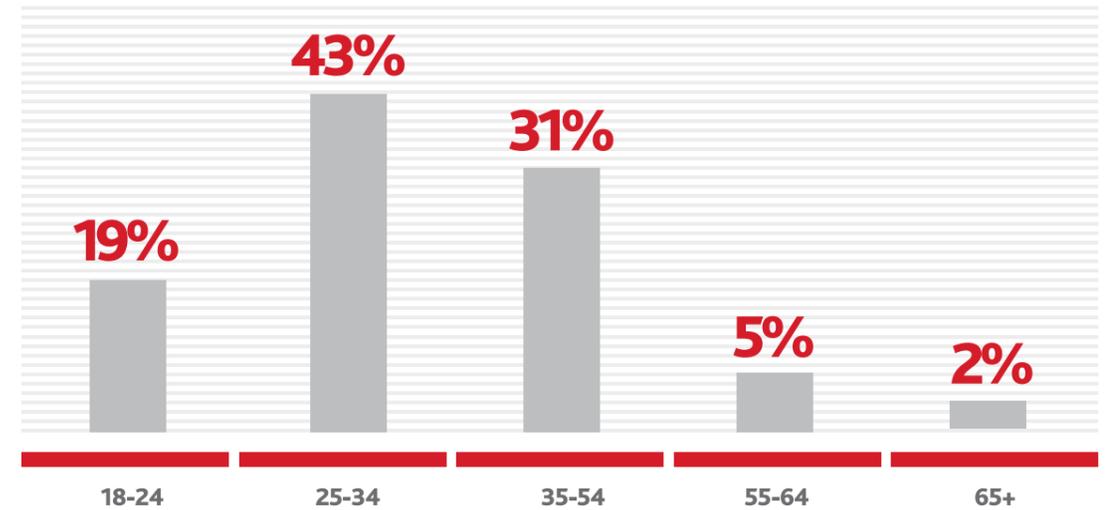
Customer Accounts	2015
New Registrations	29,051,329
Active Customer Accounts	22,647,155
Suspended Customer Accounts	6,917,198

TABLE 10: REMOTE GAMING - NUMBER OF CUSTOMER ACCOUNTS<sup>16</sup>

## 5. DEMOGRAPHICS OF THE REMOTE GAMING PLAYERS

### Age Group

In 2015, 43% of the customers playing on websites operating under the MGA licences were in the 25 to 34 year age bracket, while 31% were aged between 35 and 54. In addition, 19% of customers were aged between 18 and 24 years and 5% were in the 55 and 64 age bracket. The remaining 2% of customers were 65 years or older. In 2015, there were more players between the ages of 18 and 34, than over the age of 35.



GRAPH 9: REMOTE GAMING PLAYERS - AGE GROUP DISTRIBUTION

### Gender

As at the end of 2015, the vast majority of the customers were male, constituting 77% of the total number of players. The remaining 23% were female.



GRAPH 10: REMOTE GAMING - GENDER DISTRIBUTION OF REMOTE GAMING PLAYERS

<sup>10</sup> Class 4 – a licence to host and manage remote gaming operators, excluding the licensee itself, whereby software vendors provide management and hosting facilities on their platform. In essence, this is a business to business (B2B) gaming licence.  
<sup>11</sup> Tax due by the remote gaming operators is specified in the Fourth Schedule of the Remote Gaming Regulations (S.L. 438.04) issued under the Lotteries and Other Games Act (Cap. 438 of the Laws of Malta).  
<sup>12</sup> Class 4s category includes tax paid by European Economic Area (EEA) operators working on Class 4.  
<sup>13</sup> Those accounts on which customers played at least once during the year 2015.  
<sup>14</sup> The accounts on which there has been no transaction recorded for a period of 30 (thirty) consecutive months after the last financial activity,  
<sup>15</sup> The accounts that have been suspended for any reason by the MGA's licensed company during the reporting periods.  
<sup>16</sup> Customers can have an account with more than one operator. Therefore, the data refers to the number of accounts rather than to the individuals holding those accounts.

## 6. SELF-EXCLUSION OF CUSTOMERS

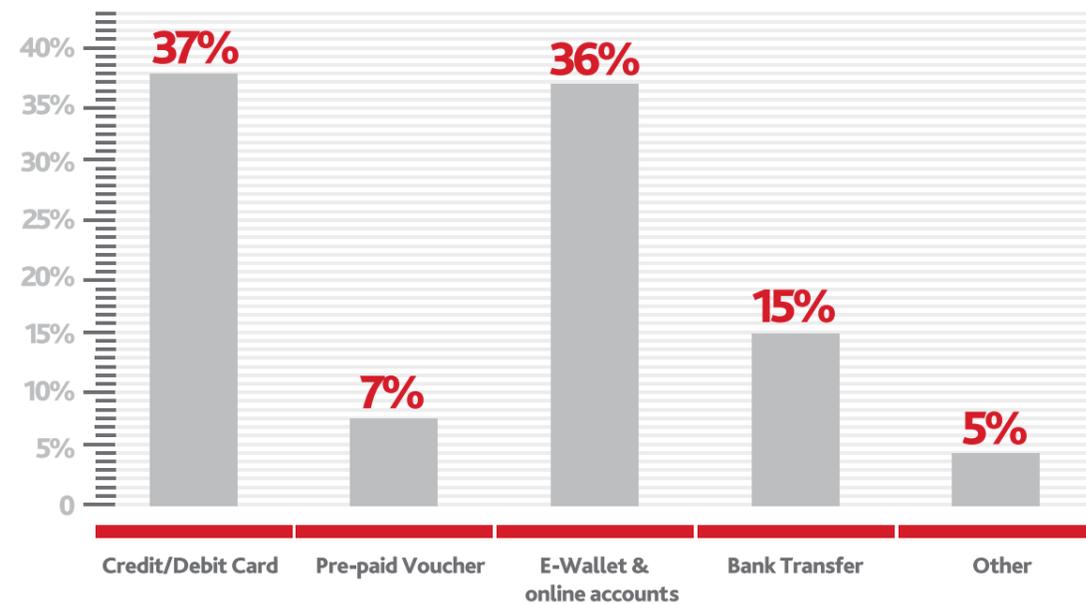
The remote gaming companies operating under the MGA licence are required to provide self-exclusion facilities to their players. Self-exclusion means that the customer accounts will remain closed for a minimum period of six months, and will not be reactivated by the player or the operator under any circumstance during the exclusion period. During 2015, the total number of self-exclusion requests for the gaming websites licensed by MGA amounted to almost half a million.

Self-Excluded Clients	Total
January 2015 - June 2015	230,429
January 2015 - December 2015	483,983

TABLE 11: REMOTE GAMING - SELF-EXCLUSION

## 7. METHOD OF PAYMENT

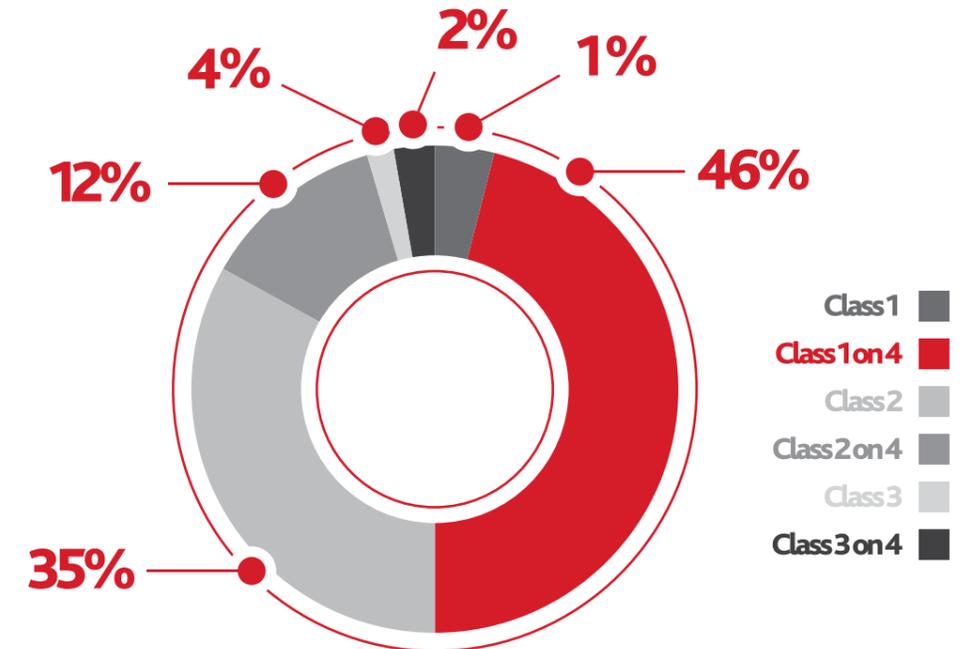
During the year under review, the MGA licensed industry reported that the most popular methods of payment were credit/debit card and e-wallet and online accounts, constituting 37% and 36% of all the payment methods respectively. Out of all payments, 15% were made through bank transfers, while 7% through pre-paid vouchers. Nearly 5% of all payments were made by 'other' type of payments, out of which around 43% were attributable to mobile payment methods.



GRAPH 11: REMOTE GAMING - METHOD OF PAYMENT

## 8. GROSS GAMING REVENUE DISTRIBUTION<sup>17</sup>

It is estimated that during 2015, 46% of the GGR generated by the MGA remote gaming licensees, was generated through Class 1 on 4 activity. The GGR generated by Class 2 operators, offering different types of betting, constituted 35% of the total GGR for the remote sector, while Class 2 on 4 generated 12%. Class 3 operations accounted for 4% of the GGR for this sector. The remaining 3% was generated by Class 1 and Class 3 on 4 activities.



GRAPH 12: REMOTE GAMING - GGR DISTRIBUTION

A more detailed breakdown of GGR for Class 1, Class 2 and Class 3 can be seen below:

### Class 1 / Class 1 on 4

Amongst the MGA licensed industry base, the highest number of companies hold a Class 1 / Class 1 on 4 licence<sup>18</sup>. As noted earlier, the revenue generated by these licence holders constituted 47% of the total GGR for the remote gaming sector, in 2015.

During the period under review, 61% of the GGR for Class 1 / Class 1 on 4 licences was generated by slot games, followed by 'other' games<sup>19</sup> (23%) and table games (16%).



GRAPH 13: REMOTE GAMING - GGR - CLASS 1 DISTRIBUTION

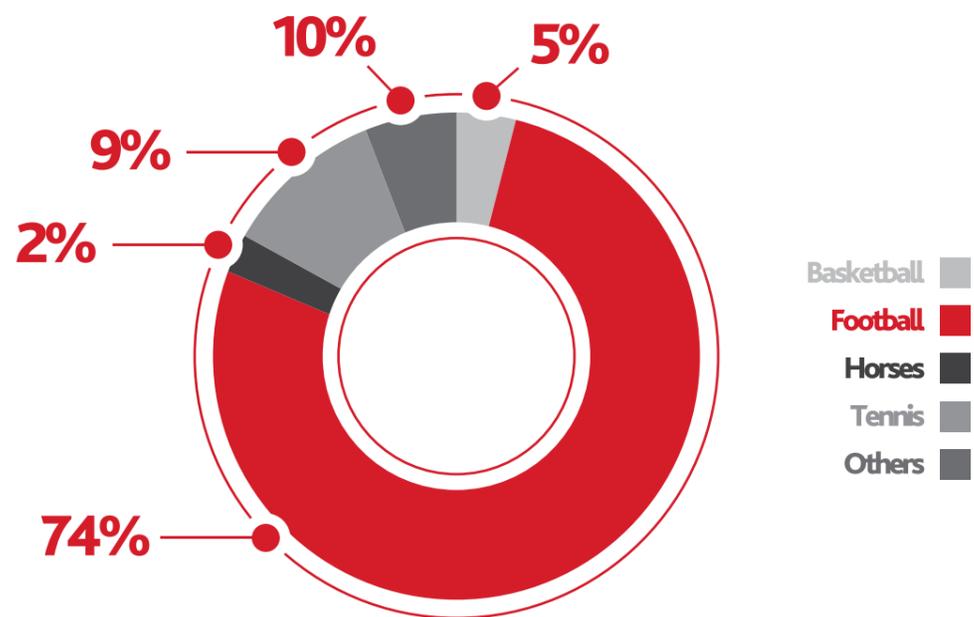
<sup>17</sup> The business model of Class 4 operation is different from Classes 1, 2 and 3. Consequently, it is not possible to compute the GGR since Class 4 operators do not deal with any aspects of game or players' winnings, but offer platform services to other operators (B2B).

<sup>18</sup> Distribution of licences by class type can be seen in Table 4 of the Remote Gaming Section.

<sup>19</sup> Operators were not asked to provide the breakdown of what constitutes "other" games.

### Class 2 / Class 2 on 4

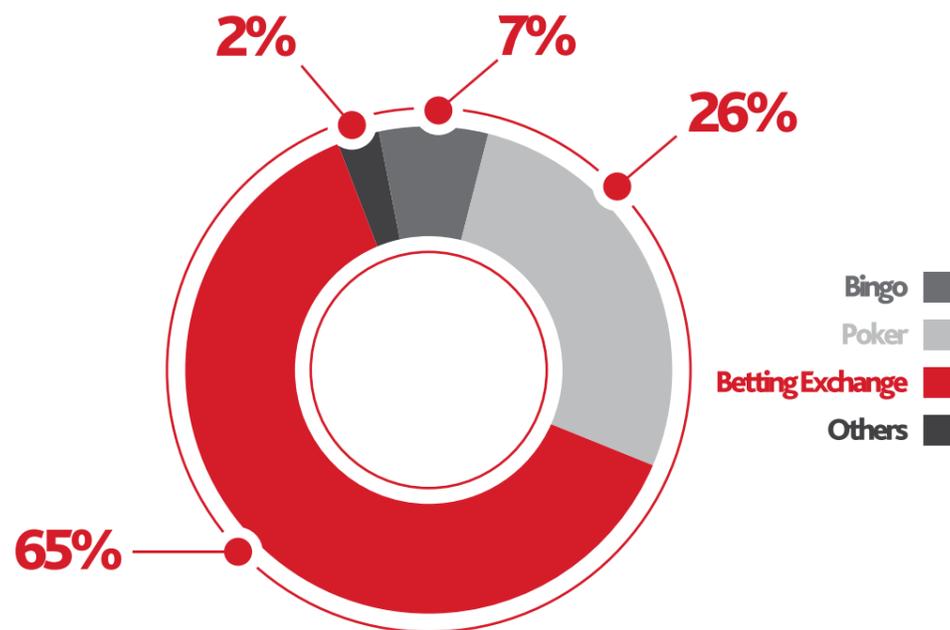
The revenue generated through Class 2 / Class 2 on 4 activity accounted for 47% of the total GGR of the remote gaming sector regulated by the MGA. In 2015, 74% of the GGR for Class 2 / Class 2 on 4 was generated through bets on football. Betting on tennis constituted 9% of the GGR, while betting on basketball stood at 5%. The remaining 12% of GGR was generated through betting on horses, cricket, motor sports, golf and others.



GRAPH 14: REMOTE GAMING - GGR - CLASS 2 DISTRIBUTION

### Class 3 / Class 3 on 4

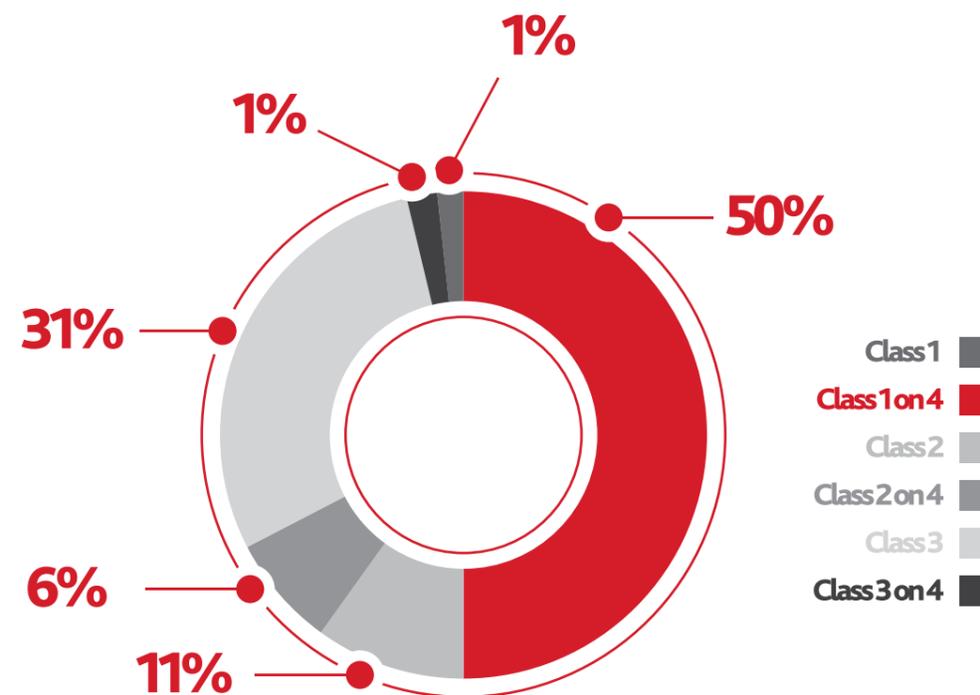
During the period between January and December 2015, 65% of the GGR of all Class 3 licensees (including Class 3 on 4) was generated through betting exchanges. This was followed by poker (26%), bingo (7%) and other games (2%).



GRAPH 15: REMOTE GAMING - GGR - CLASS 3 DISTRIBUTION

## 9. TURNOVER DISTRIBUTION

During 2015, the turnover of Class 1 on 4 accounted for 50% of the total turnover generated by the remote gaming industry licensed by MGA. 31% of total turnover was generated by Class 3 operators while 11% by Class 2 licensees. The remaining 8% was generated by the following: Class 2 on 4 (6%), Class 1 (1%) and Class 3 on 4 (1%).



GRAPH 16: REMOTE GAMING - TURNOVER DISTRIBUTION

A more detailed breakdown of turnover for Class 1, Class 2 and Class 3 is presented below.

### Class 1 / Class 1 on 4

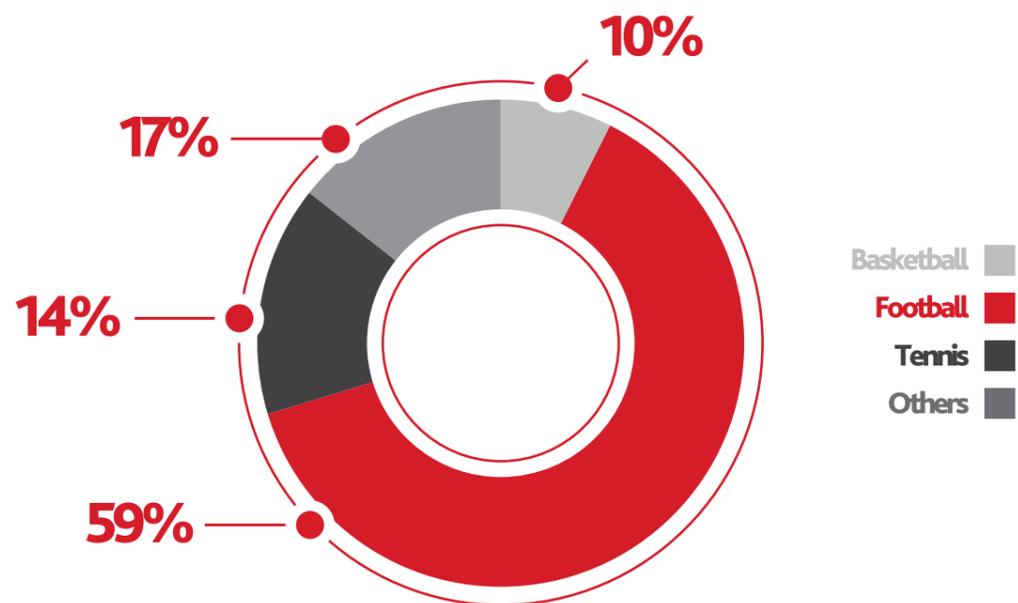
In 2015, more than half of turnover for Class 1 and Class 1 on 4 was generated by slot games (53%), followed by table games (22%). The remaining 25% was generated by 'other' games.



GRAPH 17: REMOTE GAMING - TURNOVER - CLASS 1 DISTRIBUTION

**Class 2 / Class 2 on 4**

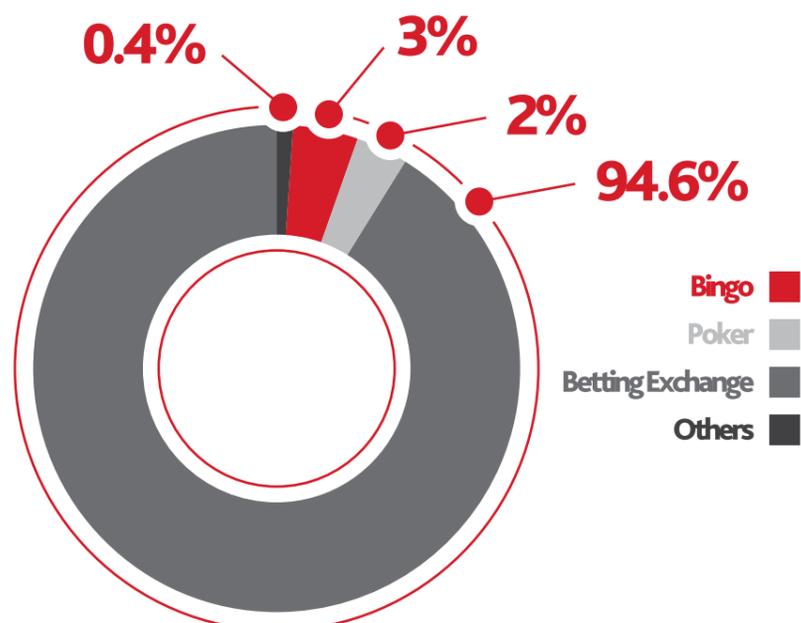
The majority of the turnover for Class 2 / Class 2 on 4 licences was generated by bets on football (59%), followed by tennis (14%). Betting activities on basketball constituted around 10% of the total turnover for Class 2s. The remaining 17% was generated by betting on horses, cricket, motor sports, golf and others.



GRAPH 18: REMOTE GAMING - TURNOVER - CLASS 2 DISTRIBUTION

**Class 3 / Class 3 on 4**

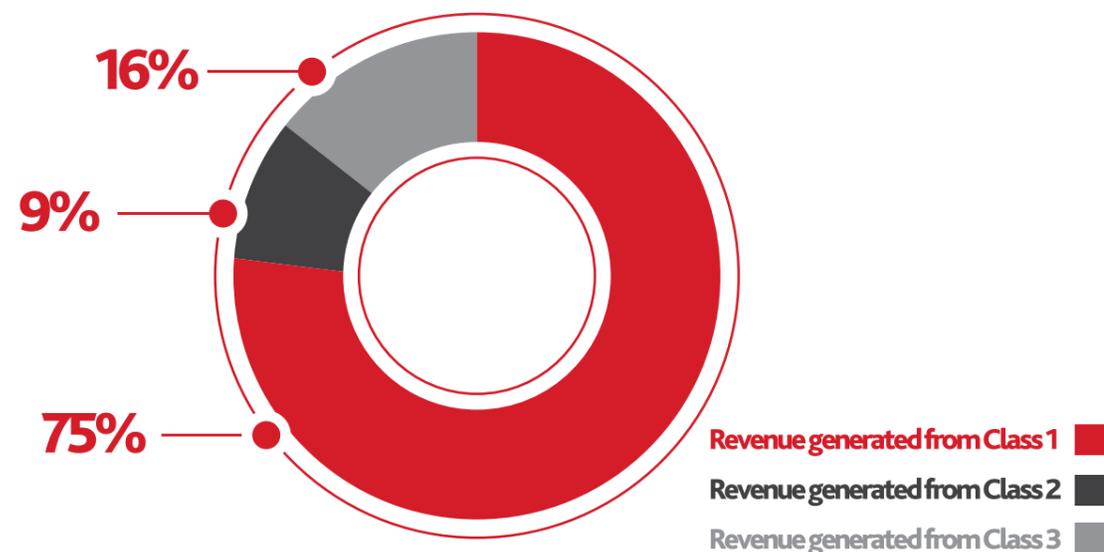
In 2015, almost 95% of the turnover of Class 3 / Class 3 on 4 operators was generated through betting exchanges. An additional 2% was generated by poker, and the remaining 3% by bingo. The amount of turnover generated by 'other' games constituted 0.4% of the entire turnover.



GRAPH 19: REMOTE GAMING - TURNOVER - CLASS 3 DISTRIBUTION

**10. REVENUE - CLASS 4**

During the period January to December 2015, it has been estimated that 75% of the revenue of Class 4 operators<sup>20</sup>, as licensed and regulated by the MGA, is generated from Class 1 activities. The remaining 25% of the total revenue is generated from Class 3s (16%) and Class 2s (9%).



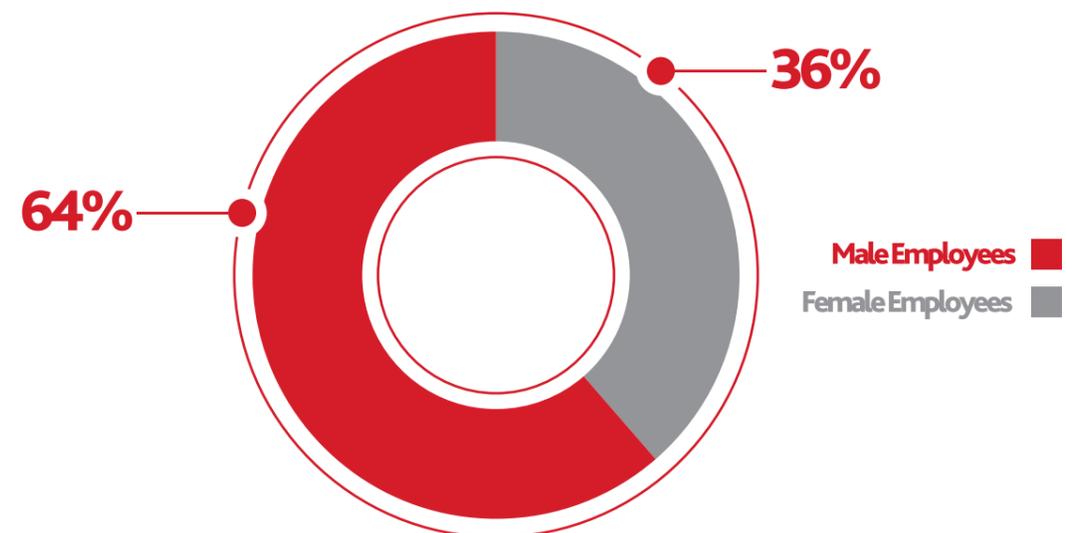
GRAPH 20: REVENUE - CLASS 4

**11. REMOTE GAMING EMPLOYMENT**

In the following section, all the gaming classes were considered, including Class 4 operations. As at 31st of December 2015, the total number of full-time equivalent (direct) remote gaming employees<sup>21</sup> increased by 18% when compared with the period ending 30 June 2015.

**Employment distribution by gender**

The remote gaming industry in Malta is dominated by male employees. As at 31st of December 2015, 64% were male while the remaining 36% were female.



GRAPH 21: REMOTE GAMING - EMPLOYMENT DISTRIBUTION BY GENDER

<sup>20</sup>The revenue of Class 4 operators is a commission / royalty which is being invoiced to the gaming operators for the usage of the platform (before expenses are subtracted to determine net income).

<sup>21</sup>This number refers to employee base covered by the MGA licence as collected through the Industry Performance Return conducted by the Authority.

### Employment distribution by nationality

During the year under review, 64% of all gaming employees working in Malta were non-Maltese, while 36% were Maltese.



GRAPH 22: REMOTE GAMING - EMPLOYMENT DISTRIBUTION BY NATIONALITY

## LAND-BASED SECTOR STATISTICS

The Maltese land-based gaming sector is composed of four main activities, namely: casinos, gaming parlours, commercial bingo halls and the national lottery and other games operated by Maltco Lotteries Limited.

### CASINOS

The Authority licenses and regulates casinos as provided for by the Gaming Act (Chapter 400) and regulations subsidiary to it. As at the end of 2015, there were four licensed casinos in Malta: Dragonara Casino, Oracle Casino, 'The Casino' at Portomaso and the 'Casino Malta', which opened in the last quarter of 2015.

The first casino in Malta, the Dragonara Casino, is owned and was initially operated by the Government, but in 1999, the management and operations of the casino were conceded to a private operator for a period of 10 years. A further 10-year concession for the management and operation of the Dragonara Casino was granted to Dragonara Gaming Limited in 2010 following a competitive bid.

The second casino in Malta, Oracle Casino, has been operating since 1998 within the Dolmen Resort Complex in Qawra, in the North of Malta. Three years later, Casino di Venezia was opened in the Captain's Palace situated along the Vittoriosa Waterfront facing the harbour. The licence of the latter was suspended in 2013 by the MGA (at that time - Lotteries and Gaming Authority) for failing to adhere to stipulated conditions.

The Casino Portomaso opened in June 2006 and to date it forms an integral part of the marina development of Portomaso in St Julians.

Casino - Visits	2011	2012	2013	2014	2015
Maltese	469,995	488,021	409,016	387,951	381,608
Non-Maltese	344,404	332,797	331,651	335,541	399,450
<b>Total</b>	<b>814,399</b>	<b>820,818</b>	<b>740,667</b>	<b>723,492</b>	<b>781,058</b>

TABLE 12: LAND-BASED CASINOS - NUMBER OF VISITS - MALTESE VS. NON-MALTESE (2011-2015)

In 2015, the non-Maltese visits represented 51% of the total visits to casinos while the number of Maltese visits represented 49%.

#### Maltese visitors by month

In 2015, the number of Maltese visitors decreased by 2% when compared to 2014. The number of visits was lower in every month of 2015, with the exception of December when visits increased by 14%, attributed to the novelty of the opening of a new casino, and May, when the casino sector reported a slight increase of 1%.

In April 2015, the MGA introduced the Cruise Casino Regulations aimed at regulating casino operations on board cruise ships, which are either berthed in Malta or within its territorial waters. Up to the end of 2015, MGA has processed two new applications for casino cruise liner permits and renewed one licence.

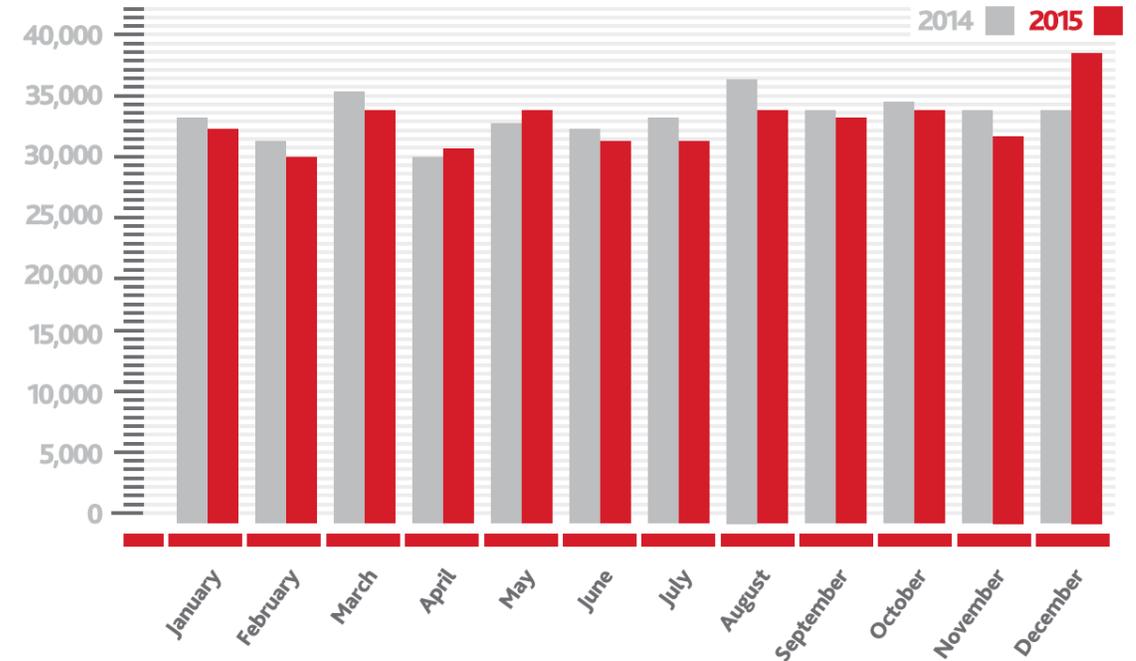
At the end of 2015, Casino Malta launched its operations and was granted a 10-year licence, following a competitive bidding process. The new casino is the largest in Malta with 2,700 square metres of space.

### 1. CASINOS' GROSS GAMING REVENUE

During the last three years, the cumulative GGR of the Maltese casino sector went up by 11%. Between 2014 and 2015 alone, an increase of 8% increase was registered. This change is attributable to the significant increase in the number of visits, notably by non-Maltese visitors. Further growth in this sector is expected following the opening of the new casino in December 2015. The highest increase in GGR terms was reported in March (+30%) due to the organisation of a poker tournament in the local casinos and in December (+16%) when the new fourth casino in Malta opened its doors.

### 2. CASINO PLAYERS' VISITS

The number of visits to Maltese casinos has increased by 8% from 2014. This growth can be attributed to an increase of 19% in non-Maltese player visits during 2015, mostly those coming to Malta to take part in the international poker tournaments organised during the year. As shown in Table 12 below, at the same time, the number of visits by Maltese nationals has decreased by 2% which continues the downward trend from 2012 level attributed to the shift of the Maltese players to the street market (gaming parlours).



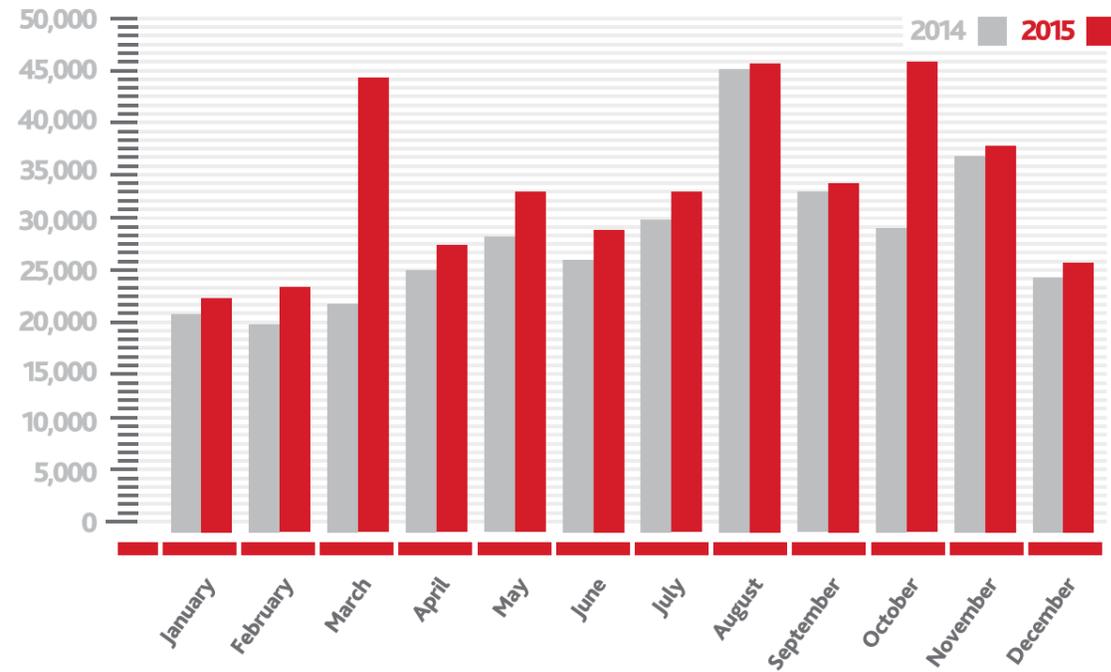
GRAPH 23: LAND-BASED CASINOS - NUMBER OF VISITS BY MONTH (MALTESE)

Casino Visits - Maltese	2013	2014	2015
January	34,671	32,043	31,269
February	31,503	30,133	29,117
March	34,165	34,646	32,719
April	33,413	29,270	29,393
May	34,706	32,160	32,546
June	35,577	31,266	30,314
July	32,803	32,274	30,117
August	35,649	35,110	32,862
September	34,776	32,988	32,676
October	34,675	33,035	32,829
November	32,515	32,397	30,688
December	34,563	32,629	37,078
<b>Total</b>	<b>409,016</b>	<b>387,951</b>	<b>381,608</b>

TABLE 13: LAND-BASED CASINOS - NUMBER OF VISITS BY MONTH - MALTESE (2013-2015)

#### Non-Maltese visitors by month

When compared with the previous year, the number of visits recorded for non-Maltese visitors has increased by 19%. The highest increases were reported in March, when the number of visits nearly doubled, and in October when casino visits increased by 59%. These changes are attributable to the high number of players attending poker tournaments during these months.



GRAPH 24: LAND-BASED CASINOS - NUMBER OF VISITS BY MONTH (NON-MALTESE)

Casino Visits - Non-Maltese	2013	2014	2015
January	22,709	20,422	22,565
February	19,060	19,029	23,042
March	22,330	21,967	43,764
April	24,453	24,515	27,735
May	25,407	26,680	32,118
June	29,333	26,334	29,470
July	28,968	30,017	32,431
August	45,386	44,787	46,061
September	35,713	32,580	33,546
October	27,504	29,134	46,455
November	27,945	36,763	37,421
December	22,843	23,313	24,842
<b>Total</b>	<b>331,651</b>	<b>335,541</b>	<b>399,450</b>

TABLE 14: LAND-BASED CASINOS - NUMBER OF VISITS BY MONTH - NON-MALTESE (2013-2015)

#### Junkets – Number of Players

The number of junket players decreased by 6% in 2015, from 594 in 2014 to 559. The highest number of players was recorded during the second and third quarters of 2015.

### 3. CASINOS: GAMING TAX

The increase in number of visits to casinos directly resulted in a higher GGR generation by the sector and in turn, to a higher amount of gaming tax payable by the sector. Total tax due by the four casinos was €13.7 million, representing an increase of 10% on the €12.5 million due in 2014.

Gaming Tax	2013	2014	2015
	€	€	€
Casinos	12,159,289	12,514,327	13,719,674

TABLE 15: LAND-BASED CASINOS - GAMING TAX (2013 -2015)

### 4. CASINOS' EMPLOYMENT

As at 31st of December 2015, the total number of full-time equivalent (direct) employees in casinos increased by 38%, when compared with the corresponding period of 2014. This increase is mostly attributed to the opening of a new casino in December 2015, Casino Malta.

#### Employment distribution by gender

It has been estimated that, as at the end of 2015, out of the total number of employees in casinos, 53% were male and 47% female.

#### Employment distribution by nationality

As at 31st of December 2015, amongst all employees working in Maltese casinos, 56% were Maltese while the remaining 44% were non-Maltese.

## GAMING PARLOURS

The MGA licenses and regulates gaming parlours as provided for by the Gaming Devices Regulations (Legal Notice 75 of 2011) and subsidiary directives. The first gaming parlours were licensed under the Regulations and became operational in 2012 after fulfilling the strict criteria and requirements.

In February 2015, the MGA amended the Locations for Gaming Parlours Directive<sup>22</sup> to bring more clarity and legal certainty to applicants and licensees, with regard to permitted location requirements of gaming parlours, and to ensure that the restrictions are proportionate and absolutely necessary, in order to safeguard and protect minors and the general public.

### 1. GAMING PARLOURS' GROSS GAMING REVENUE

In 2015, the GGR generated by licensed gaming parlours increased by approximately 3.5%, over 2014. During the last three years, the cumulative GGR generated by this sector has gone up by nearly 8% which is mainly attributable to the increase in the number of new gaming parlours, increased number of gaming devices and type of games offered within the outlets during the year under review.

### 2. APPROVED GAMING PARLOURS

As at December 2015, there were 46 approved gaming parlours spread over Malta and Gozo, representing an increase of four parlours over the corresponding period of the previous year. In 2015, one new gaming parlour was licensed for each of the following localities: Cospicua, Qormi, Fgura, San Ġwann and Paceville (St. Julian's) while one outlet was closed down in B'Bugia. The highest number of gaming parlours were located in the Northern Harbour District and Southern Harbour District (as defined in Appendix 1) having 15 and 18 approved gaming parlours respectively.

Approved Gaming Parlours	2013	2014	2015
Izibet	22	23	24
Bestplay Gaming	6	6	6
Media Games	3	5	7
Fairbet	4	5	6
Bingo	3	3	3
Silverplay	1	-	-
<b>Total</b>	<b>39</b>	<b>42</b>	<b>46</b>

TABLE 16: APPROVED GAMING PARLOURS (2013-2015)

### 3. GAMING DEVICES PER OPERATOR

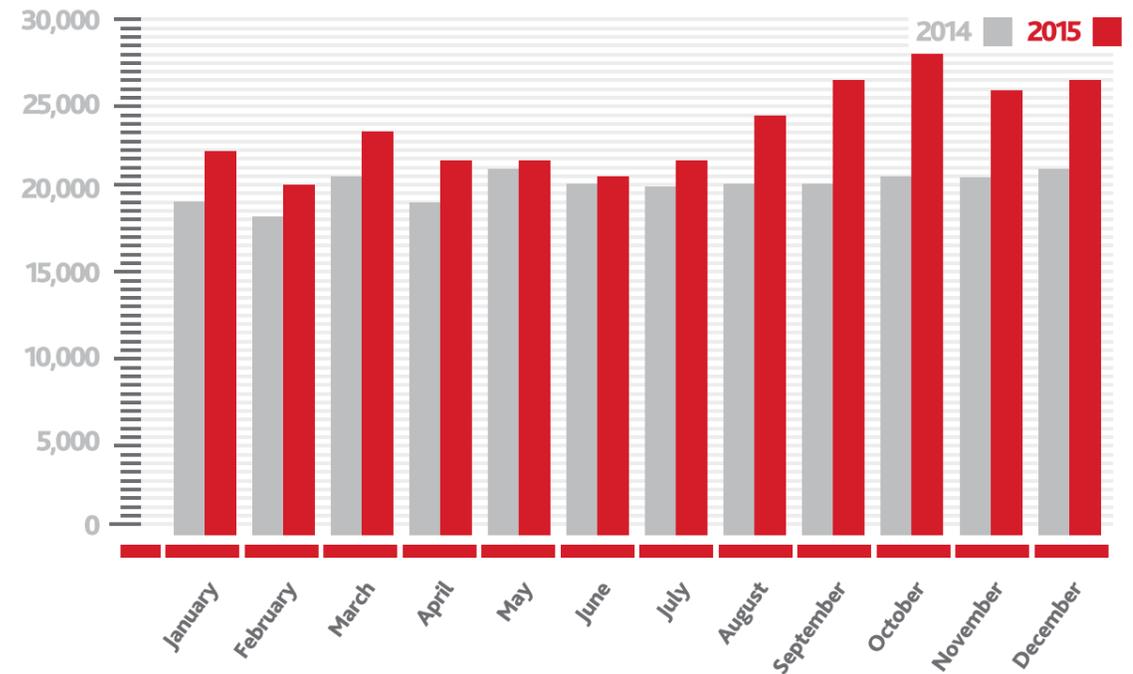
The total number of licensed gaming devices has increased by 26%, from 273 in 2014 to 343 in 2015. This increase is primarily attributable to the introduction of devices offering new games in the gaming outlets during the second quarter of the year 2015. The increase in the number of gaming devices registered in 2015 led to an average of 7.4 devices per gaming parlour. According to Regulations, there cannot be more than 10 gaming devices in each parlour.

Total Gaming Devices per Operator	2013	2014	2015
Izibet	136	150	178
Bestplay Gaming	52	41	43
Media Games	16	29	49
Fairbet	20	23	43
Bingo	30	30	30
Silverplay	5	-	-
<b>Total</b>	<b>259</b>	<b>273</b>	<b>343</b>

TABLE 17: DISTRIBUTION OF THE GAMING DEVICES PER LICENSED OPERATOR (2013-2015)

### 4. GAMING PARLOUR VISITS

During the year under review, a total of 281,590 visits to gaming parlours were registered, which represents an increase of 17% over the total number of visits in year 2014, which stood at 240,986.



GRAPH 25: GAMING PARLOURS - NUMBER OF VISITS BY MONTH

#### Number of visits by locality

For the purpose of producing regional statistics, the Maltese Islands have been divided into six districts in accordance with the system applied by Eurostat - Local Administrative Units (LAUs). The following districts were identified: the Southern Harbour District, Northern Harbour District, South Eastern District, Western District, Northern District and Gozo & Comino District (Appendix 1).

<sup>22</sup> <http://www.mga.org.mt/legislations-regulations/>

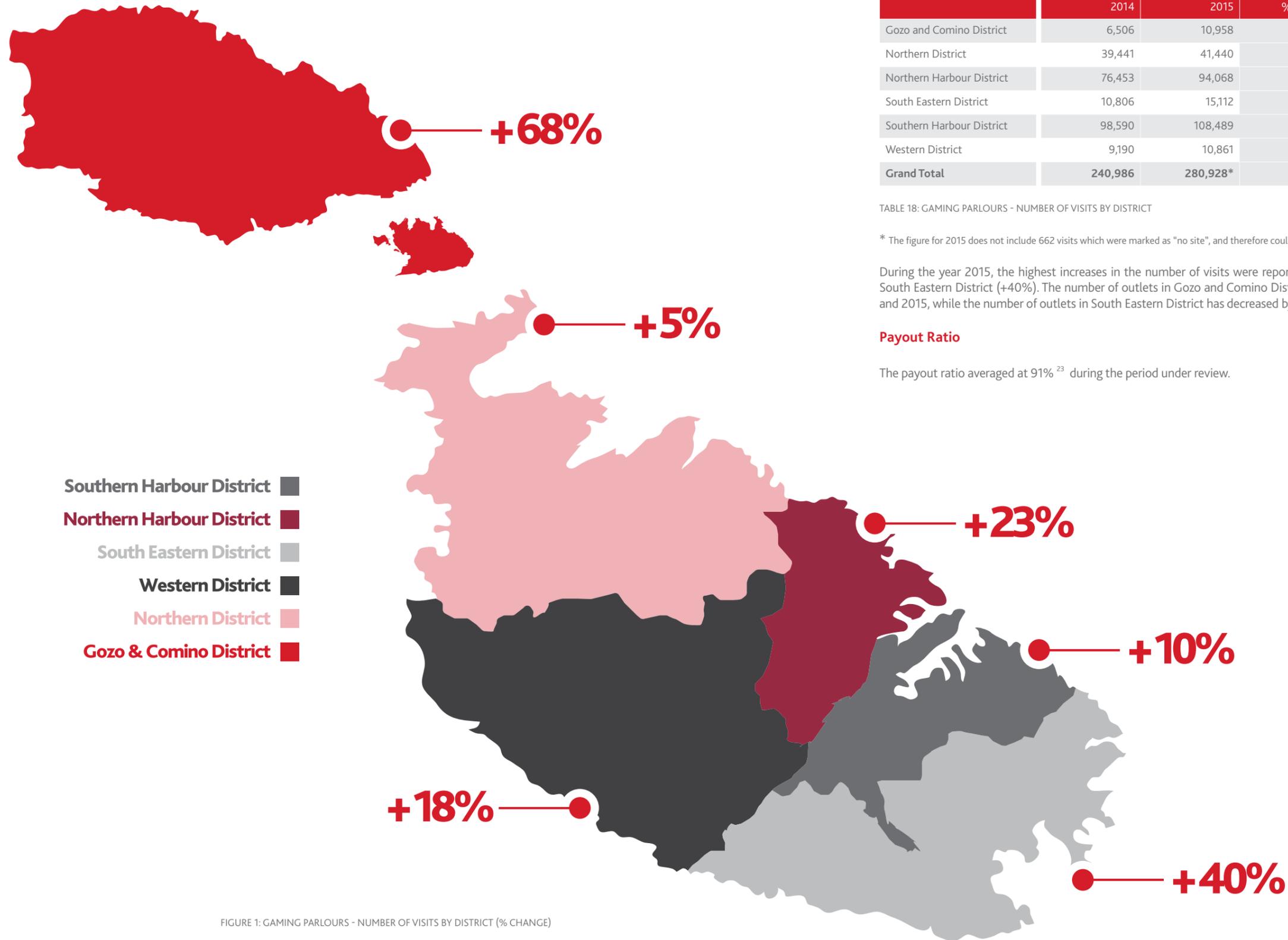


FIGURE 1: GAMING PARLOURS - NUMBER OF VISITS BY DISTRICT (% CHANGE)

	Number of Visits			Number of Outlets	
	2014	2015	% change	2014	2015
Gozo and Comino District	6,506	10,958	68%	2	2
Northern District	39,441	41,440	5%	5	5
Northern Harbour District	76,453	94,068	23%	12	15
South Eastern District	10,806	15,112	40%	5	4
Southern Harbour District	98,590	108,489	10%	16	18
Western District	9,190	10,861	18%	2	2
<b>Grand Total</b>	<b>240,986</b>	<b>280,928*</b>	<b>17%</b>	<b>42</b>	<b>46</b>

TABLE 18: GAMING PARLOURS - NUMBER OF VISITS BY DISTRICT

\* The figure for 2015 does not include 662 visits which were marked as "no site", and therefore could not be allocated to the particular district.

During the year 2015, the highest increases in the number of visits were reported for Gozo and Comino District (+68%) and South Eastern District (+40%). The number of outlets in Gozo and Comino District remained unchanged during the year 2014 and 2015, while the number of outlets in South Eastern District has decreased by one.

**Payout Ratio**

The payout ratio averaged at 91%<sup>23</sup> during the period under review.

<sup>23</sup>The minimum payout ratio required by Gaming Devices Regulations SL.438.07 is 85%

## 5. GAMING PARLOURS: GAMING TAX

The gaming tax due from the gaming parlour operations has increased by 7% in 2015 when compared with 2014.

Gaming Tax	2013	2014	2015
	€	€	€
Gaming Parlours	1,345,213	1,063,982	1,141,235

TABLE 19: GAMING PARLOURS - GAMING TAX (2013-2015)

## 6. GAMING PARLOURS' EMPLOYMENT

As at 31st December 2015, the total number of full-time equivalent (direct) employees in gaming parlours increased by 19% when compared with the corresponding period of 2014.

### Employment distribution by gender

At the end of 2015, most of the employees within the gaming parlour sector were male (70%).

### Employment distribution by nationality

The gaming parlour sector in Malta employed mostly Maltese nationals (96%), as estimated as at the end of 2015.

## COMMERCIAL BINGO HALLS

Commercial Bingo or Tombola, as it is known locally, is very popular in Malta and is based on the Spanish game of Bingo. The traditional game was played on the island for a number of years and has evolved to host a vast number of people in purpose-built entertainment centres.

Commercial Bingo is regulated by the MGA according to the Commercial Bingo (Tombola) Regulations of 2006. Currently, there are two licensed commercial bingo operators in Malta, operating four licensed bingo halls located at:

- Embassy Entertainment, Valletta
- Main Street, Paola
- Preluna Bingo, Sliema
- Fair Play, Qawra

### Non-Profit Tombola

Apart from commercial bingo, which requires a licence under the said Regulations, it is also possible for anyone to organise one-off tombolas where the proceeds go to non-profit causes. This activity is subject to ad-hoc approval/permit by the MGA. In the period under review, the Authority issued 2,000 such permits for non-profit tombola, 4% more than the previous year.

## 1. COMMERCIAL BINGO'S GROSS GAMING REVENUE

The GGR generated by the commercial bingo sector has decreased by 3% when compared to 2014. During the last three years, the cumulative GGR of the sector went down by 7%.

During the year under review, the highest GGR figure for the bingo sector was reported in March, which constituted 9% of the annual GGR.

Over the last three years, the lowest GGR for the commercial bingo segment was always reported during the month of July.

### Payout ratio

The average payout ratio of the bingo sector in 2015 stood at 60%<sup>24</sup>.

## 2. COMMERCIAL BINGO: GAMING TAX

The gaming tax due from the commercial bingo operations decreased by 4% when compared with 2014.

Gaming Tax	2013	2014	2015
	€	€	€
Total	655,217	625,666	600,692

TABLE 20: COMMERCIAL BINGO - GAMING TAX (2013 -2015)

## 3. COMMERCIAL BINGO EMPLOYMENT

As at 31st of December 2015, the total number of fulltime equivalent (direct) employees in commercial bingo halls increased by 8% when compared with the corresponding period of 2014.

### Employment distribution by gender

As at the end of 2015, the majority of the employees working within the commercial bingo sector were female (79%).

### Employment distribution by nationality

In 2015, the commercial bingo sector in Malta employed mostly Maltese nationals (93%).

<sup>24</sup> 60% is the minimum payout ratio established by the Commercial Tombola (Bingo) Regulations 2006 (S.L. 438.05 of the Laws of Malta), reg. 38 (1)

## MALTCO LOTTERIES LIMITED

In 2004, Maltco Lotteries Limited, a subsidiary of the INTRALOT Group, was granted a concession to operate the National Lottery and additional games for a period of 7 + 1 years. In 2012, following another competitive call for which it received two bids, the Maltese government awarded Maltco Lotteries Limited a 10-year concession and licence to operate the National Lottery and other games.

Throughout the 12 years of operation, Maltco Lotteries Limited has developed a wide portfolio of games on offer which are popular in the local market. Currently, Maltco Lotteries Limited, as regulated and monitored by the MGA, offers draw-based games (including Lotto, Super 5, Grand Lottery, Fast Bingo, Quick Keno, Bingo 75), instant tickets (Scratchers) and sport games (U\*BET Horse Betting and U\*BET Sports Betting).

### 1. PRODUCT SALE BY GAME CATEGORY

The total activity of Maltco Lotteries Limited as measured in sales across the three game categories has decreased by 5% in 2015 from 2014. The highest decrease of 7% was reported for the instant games, followed by draw-based games (-5%) and sport games (-2%).

Product sale by game category	% change 2014 vs. 2015
Draw-based games	-5%
Instant games	-7%
Sport games	-2%
<b>Total</b>	<b>-5%</b>

TABLE 21: MALTCO LOTTERIES LIMITED - PRODUCT SALE BY GAME CATEGORY

In 2015, the turnover of draw-based games constituted 74% of the total operator's sales. The sports game segment represented 24% of the total sales whilst instant games represented 2%.



GRAPH 26: MALTCO LOTTERIES LIMITED - TURNOVER BY GAME (SOURCE: MALTCO LOTTERIES LIMITED)

### 2. MALTCO: GAMING TAX

Total gaming tax payable by Maltco Lotteries Limited on sales generated during the year under review amounted to €11.6 million, representing a 8% decrease over the €12.6 million which was payable in 2014.

Gaming Tax	2013	2014	2015
	€	€	€
Total	11,957,276	12,576,035	11,534,302

TABLE 22: MALTCO LOTTERIES LIMITED - GAMING TAX (2013-2015)

In addition to the gaming tax, Maltco Lotteries Limited passes on unclaimed winnings to the National Lotteries Good Causes Fund in accordance with the conditions of the law and its concession.

Maltco's Contribution to the Good Causes Fund	2013	2014	2015
	€	€	€
Total	891,695	650,688	649,042

TABLE 23: MALTCO LOTTERIES LIMITED - CONTRIBUTION TO THE GOOD CAUSES FUND (2013-2015) (SOURCE: MALTCO LOTTERIES LIMITED)

### 3. POINTS OF SALE

Maltco Lotteries Limited offers its services through an extensive network of Lotto Booths (Points of Sale) where one can participate in games.

The operator's network currently consists of 246 retail outlets spread across the Maltese Islands. Over the last three years, the number of Lotto Booths increased by 30.

Points of Sale	2013	2014	2015
Total	216	225	246

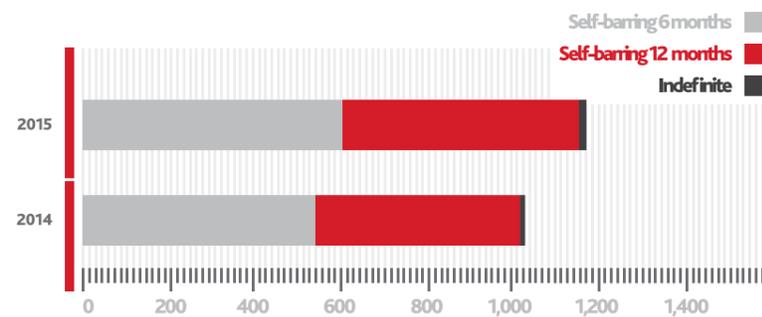
TABLE 24: MALTCO LOTTERIES LIMITED - POINT OF SALE (2013-2015) (SOURCE: MALTCO LOTTERIES LIMITED)

## RESPONSIBLE GAMING MEASURES: SELF-BARRING

The MGA's commitment to player protection includes an obligation to prevent the abuse of gambling and the proliferation of compulsive gambling. Apart from other supportive measures, one of the measures that MGA's licensees are required to provide their players with is a self-barring opportunity. It gives players the option of managing their gaming activity effectively.

As stipulated in the Self-Barring Directive of 2011, a player may request to be denied access to all licensed land-based gaming activities<sup>25</sup> for six months or one year. This helps the gambler to recover from the risk of addiction and financial losses. If players choose to bar themselves from any land-based premises, being casino, commercial bingo hall or gaming parlours, then the players are barred from all such premises for the stipulated period. The self-barring programme is confidential and once registered, players may not withdraw from the programme until such time that the period of exclusion elapses.

During 2015, 1,159 persons barred themselves from casinos, gaming parlours and bingo outlets. Out of these, 52% have barred themselves for a period of six months, while 48% for one year. During the year under review, there were some gamblers who chose to bar themselves for an indefinite period.



GRAPH 27: LAND-BASED - SELF-BARRING

Self-barring	2014 <sup>26</sup>	2015
Self-barring 6 months	532	604
Self-barring 12 months	484	552
Indefinite	1	3
<b>Total</b>	<b>1,017</b>	<b>1,159</b>

TABLE 25: LAND-BASED - SELF-BARRING

## DEFINITIONS

Gaming Tax	The tax imposed on the gross gaming revenue or turnover as stated in the regulations or the licence conditions. The applicable gaming tax and basis for computation differs by segment and class of licence.
Gross Gaming Revenue (GGR)	The amount retained by operators after payment of winnings and jackpot allocation but before the deduction of the cost of the operation. The GGR is the figure used to determine what a gaming operation earns before taxes, salaries and other expenses are paid.
Number of Visits (Casino & Gaming Parlours)	Represents the number of separate visits, rather than the number of unique customers. In cases of casino attendance, the total figure includes junket players.
Payout Ratio	The amount of money that is rewarded upon a win.
Total Spent	The total amount of money spent on gambling activities by players.
Total Players' Winnings	The total amount won by players.
Turnover	The amount accrued through the sale of the gaming product before winnings and expenses are deducted.

## APPENDICES

### Appendix 1

Statistical Regions and Districts of Malta:

Local Administrative Units (LAUs)	
Districts (LAU 1)	Locality (LAU 2)
Southern Harbour	Cospicua, Fgura, Floriana, Hal Luqa, Haż-Żabbar, Kalkara, Marsa, Paola, Santa Luċija, Senglea, Hal Tarxien, Valletta, Vittoriosa, Xghajra.
Northern Harbour	Birkirkara, Gżira, Hal Qormi, Hamrun, Msida, Pembroke, San Ġwann, Santa Venera, St Julian's, Swieqi, Ta' Xbiex, Tal-Pietà, Tas-Sliema.
South Eastern	Birżebbuġa, Gudja, Hal Għaxaq, Hal Kirkop, Hal Safi, Marsaskala, Marsaxlokk, Mqabba, Qrendi, Żejtun, Żurrieq.
Western	Had-Dingli, Hal Balzan, Hal Lija, H'Attard, Haż-Żebbuġ, Iklin, Mdina, Mtarfa, Rabat, Siġġiewi.
Northern	Għarghur, Mellieha, Mgarr, Mosta, Naxxar, St Paul's Bay.
Gozo and Comino	Fontana, Għajnsielem, Għarb, Għasri, Munxar, Nadur, Qala, San Lawrenz, Ta' Kerċem, Ta' Sannat, Victoria, Xgħra, Xewkija, Żebbuġ.

<sup>25</sup>Excluding the National Lottery operator - Maltco Lotteries Limited

<sup>26</sup>The self-barring figures for the year 2014 have been updated since last year's publication.

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# FINANCIAL STATEMENTS

## FINANCIAL REVIEW FOR THE YEAR ENDED 31 DECEMBER 2015

During the year under review, the MGA generated a total revenue of €60.9m compared to €58.4m in 2014. This represents an increase of €2.5m or a 4.3% increase year on year. Furthermore, contributions in gaming taxes made to Government in 2015 amounted to €55.8m compared to €53.2m in 2014. This represents an increase of €2.6m or a 4.9% increase year on year. It is estimated that by the end of financial year 2016, the MGA will contribute €56.7m in gaming taxes to Government which would represent an increase of €0.9m over 2015. The surplus for the year amounted to €52.3m compared to €49.5m in 2014. This represents an increase of €2.8m or 5.7% year on year. The extraordinary net increase in capital expenditure of the Authority between 2014 and 2015 amounting to €3.6m is mainly attributable to the fit out project in relation to the move to new offices at SmartCity which was completed on 16 November 2015. The project has been certified as complete in March 2016.

During 2014 and throughout 2015, the MGA continued on its broad transformation and regulatory reform programme which, amongst other things, included an organisational restructuring of its operations, strengthening compliance and enforcement, policy updates, process reengineering, and most importantly the development of its capacity which included a targeted increase in resources to cater for the organisational and industry challenges which the industry is presenting. As a result, the operating expenditure for the year amounted to €8.6m compared to €5.6m in 2014. This represents an increase of €3m over 2014, €1.4m of which is related to an increase in staff costs (as explained below) and another €0.5m as contribution to other entities.

This increase is mainly attributable to the following:

**1.** A progressive increase in headcount so that the MGA is 'right sized' to achieve the desired service levels and capacity to conduct all its functions at law and regulate effectively its portfolio of licences. It is estimated that the MGA's head count should settle in the region of 160 employees by the end of 2016. This assessment was based on a technical exercise carried out by experts, which included benchmarking with local and foreign regulatory authorities but also through the alignment of the MGA's work programme, new legislation and strategic plan with the required level of resources to deliver results.

**2.** A new three-year strategic plan envisages an innovation focused approach with a multitude of initiatives and actions all aimed at strengthening the gaming sector. The strategy is focused predominantly on innovation, integrity, quality, consumer protection, technological neutrality and the repositioning of Malta as a global jurisdiction of excellence.

**3.** Higher level of communications, business development and bilateral activities aimed at building strategic relationships with counterpart regulators. The MGA has also selectively increased its participation in conferences, international fora and gaming-related expos.

**4.** MGA's financing of two related organisations namely the Responsible Gaming Foundation (RGF) and the GamingMalta Foundation (GMF). Both organisations have specific and distinct roles from the MGA. The RGF is responsible for helping people with gambling addiction problems while the GMF is responsible for promoting Malta as an international gaming jurisdiction of excellence.

**5.** A vast amount of technical and professional engagements initiated in 2014 and continued throughout the year under review ranging from assurance services, risk management, technical studies, engagement of specialists and other relevant advisory services covering a number of key operational and strategic areas of the MGA's business. This was critical in order to chart a long term strategy, address key priorities and potential risks facing Malta as a jurisdiction and the MGA. Furthermore, the Authority needed to address short term capacity and skill gaps across its functions, including the advisory capacity to Government. This was also due to the wide ranging transformation process the MGA is going through which is still work in progress and Malta's progressive repositioning as the jurisdiction of choice within the challenging regulatory environment in the industry's main markets and potential new markets afforded by new technologies.

The same positive trend is expected for the 2016 financial year where revenues are expected to increase by 2.6% year on year reaching €62.5m. Operating expenditure is expected to reach €9.8m and stabilise more or less at that level.

## MALTA GAMING AUTHORITY Annual Financial Statements for the year ended 31 December 2015

### GENERAL INFORMATION

#### Registration

The Malta Gaming Authority (the 'Authority') was established by virtue of the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta.

#### Board Members of the Authority

Mr. Joseph Cuschieri	(Chairman)
Dr. Chris Cilia	(Deputy Chairman)
Dr. Rachel Tua	(resigned on 30 April 2015)
Mr. Caesar Grech	
Ms. Ruth Trapani Galea	
Ms. Juliana Scerri Ferrante	(appointed on 1 July 2015)

#### Chief Executive Officer

Mr. Joseph Cuschieri

#### Secretary of the Board of the Authority

Dr. Matthew Bondin

#### Head Office

Malta Gaming Authority Building  
SCM 02-03, Level 4  
SmartCity Malta  
Ricasoli SCM1001

#### Auditors

Ernst & Young Malta Limited  
Certified Public Accountants  
Regional Business Centre  
Achille Ferris Street  
Msida MSD 1751  
MALTA

## REPORT OF THE BOARD MEMBERS OF THE AUTHORITY

The Board Members of the Authority submit their annual report and the audited financial statements for the year ended 31 December 2015.

### Principal activity

The Malta Gaming Authority was established by virtue of the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta for the purposes of carrying out the functions defined in the said Act.

### Results

The total operating revenue generated by the Authority during the year amounted to EUR60,894,130 (2014: EUR58,388,232). After deducting all expenditure of EUR8,634,566 (2014: EUR8,948,005) the Authority registered a surplus for the year of EUR52,302,088 (2014: EUR49,553,560). The Authority transferred EUR55,830,907 (2014: EUR53,210,852) to the Government of Malta.

### Board Members of the Authority

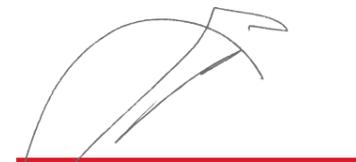
The Board Members of the Authority who served during the year under review are listed on page 65.

In accordance with Part IV, section 9 (2) of the Lotteries and Other Games Act, Cap. 438, the Chairman and other Board members of the Authority are appointed by the Minister for the Economy, Investment and Small Business for a maximum period of three years but may be reappointed on the expiration of their term of office.

### Auditors

Ernst & Young Malta Limited have expressed their willingness to continue in office and a resolution for their re-appointment will be proposed at the next meeting of the Board Members of the Authority.

The Report of the Board Members of the Authority is signed on their behalf by:



**MR. JOSEPH CUSCHIERI**  
Chairman

4 May 2016



**DR. CHRIS CILIA**  
Deputy Chairman

## INDEPENDENT AUDITOR'S REPORT TO THE BOARD MEMBERS OF THE MALTA GAMING AUTHORITY

We have audited the accompanying financial statements of the Malta Gaming Authority ('the Authority'), set on pages 68 to 82, which comprise the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Board Members' Responsibility for the Financial Statements

The Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU and the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by European Union; and
- have been properly prepared in accordance with the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta.

### Emphasis of Matter

We draw attention to Note 19 - Contingent Liabilities to the financial statements which describes the uncertainty related to claims made by the operators against the Authority. Our opinion is not qualified in respect of this matter.



This copy of the audit report has been signed by  
Shawn Falzon for and on behalf of

Ernst & Young Malta Limited  
Certified Public Accountants

4 May 2016

**MALTA GAMING AUTHORITY**

Annual Financial Statements for the year ended 31 December 2015

**STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 31 December 2015

		2015	2014
	Notes	EUR	EUR
Revenue	5	60,894,130	58,388,232
Administrative and other expenses	6	(8,634,566)	(5,648,005)
<b>Operating surplus</b>		<b>52,259,564</b>	52,740,227
Provision for claims	14	-	(3,300,000)
Finance income	8	42,524	113,333
<b>Surplus for the year</b>		<b>52,302,088</b>	49,553,560

The accounting policies and explanatory notes on pages 72 to 82 form an integral part of the financial statements.

**MALTA GAMING AUTHORITY**

Annual Financial Statements for the year ended 31 December 2015

**STATEMENT OF FINANCIAL POSITION**

as at 31 December 2015

		2014	2014
	Notes	EUR	EUR
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	3,823,975	315,735
<b>Current assets</b>			
Trade and other receivables	11	7,083,392	7,039,298
Cash at bank and in hand	15	4,756,308	9,174,582
		<b>11,839,700</b>	16,213,880
<b>TOTAL ASSETS</b>		<b>15,663,675</b>	16,529,615
<b>EQUITY AND LIABILITIES</b>			
Equity reserve	12	250,000	250,000
Reserve Fund	12	-	-
National Lottery Reserve Fund	12	-	-
		<b>250,000</b>	250,000
<b>Non-Current Liabilities</b>			
Provision for claims	14	3,300,000	3,300,000
<b>Current liabilities</b>			
Trade and other payables	13	12,113,675	12,979,615
<b>Total liabilities</b>		<b>15,413,675</b>	16,279,615
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>15,663,675</b>	16,529,615

The accounting policies and explanatory notes on pages 72 to 82 form an integral part of the financial statements.

The financial statements on pages 68 to 82 have been authorised for issue by the Board Members of the Authority on 4 May 2016 and were signed on their behalf by:

  
 MR. JOSEPH CUSCHIERI  
 Chairman

4 May 2016

  
 DR. CHRIS CILIA  
 Deputy Chairman

**MALTA GAMING AUTHORITY**

Annual Financial Statements for the year ended 31 December 2015

**STATEMENT OF CHANGES IN EQUITY**

for the year ended 31 December 2015

	National Lottery Reserve Fund EUR	Reserve Fund EUR	Equity reserve EUR	Total EUR
At 1 January 2015	-	-	250,000	250,000
Appropriation from statement of comprehensive income	955,899	51,346,189	-	52,302,088
Unclaimed prizes transferred in terms of section 59 of the Lotteries and Other Games Act, Cap. 438	649,042	-	-	649,042
Payments made to/or on behalf of Government in terms of sections 50 of the Lotteries and other Games Act, Cap. 438	(1,604,941)	(54,225,966)	-	(55,830,907)
Other payments from Government	-	2,879,777	-	2,879,777
<b>At 31 December 2015</b>	<b>-</b>	<b>-</b>	<b>250,000</b>	<b>250,000</b>
At 1 January 2014	-	-	250,000	250,000
Appropriation from statement of comprehensive income	968,063	48,585,497	-	49,553,560
Unclaimed prizes transferred in terms of section 54 of the Lotteries and Other Games Act, Cap. 438	972,656	-	-	972,656
Payments made to Government in terms of sections 50 and 59 of the Lotteries and Other Games Act, Cap. 438	(1,940,719)	(51,270,133)	-	(53,210,852)
Other payments from Government	-	2,684,636	-	2,684,636
<b>At 31 December 2014</b>	<b>-</b>	<b>-</b>	<b>250,000</b>	<b>250,000</b>

The accounting policies and explanatory notes on pages 72 to 82 form an integral part of the financial statements.

**MALTA GAMING AUTHORITY**

Annual Financial Statements for the year ended 31 December 2015

**STATEMENT OF CASH FLOWS**

for the year ended 31 December 2015

	Note	2015 EUR	2014 EUR
<b>Operating activities</b>			
Surplus for the year		52,302,088	49,553,560
Adjustment to reconcile surplus for the year to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment		304,418	116,644
Increase in provision for doubtful debts		337,459	255,208
(Loss)/profit on disposal of property, plant and equipment		52,421	(6,103)
Provision for claims		-	3,300,000
Finance income		(42,524)	(113,333)
Working capital adjustments:			
Increase in trade and other receivables		(398,586)	(1,639,964)
Increase in trade and other payables		2,662,942	3,199,119
<b>Net cash flows from operating activities</b>		<b>55,218,218</b>	<b>54,665,131</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(3,865,079)	(259,964)
Proceeds from disposal of property, plant and equipment		-	6,662
Interest received		59,557	103,071
<b>Net cash flows used in investing activities</b>		<b>(3,805,522)</b>	<b>(150,231)</b>
<b>Financing activities</b>			
Payments made to Government		(55,830,970)	(53,210,852)
<b>Net cash flows used in financing activities</b>		<b>(55,830,970)</b>	<b>(53,210,852)</b>
<b>Net movement in cash and cash equivalents</b>		<b>(4,418,274)</b>	<b>1,304,048</b>
<b>Cash and cash equivalents at 1 January</b>		<b>9,174,582</b>	<b>7,870,534</b>
<b>Cash and cash equivalents at 31 December</b>	15	<b>4,756,308</b>	<b>9,174,582</b>

The accounting policies and explanatory notes on pages 72 to 82 form an integral part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

The Malta Gaming Authority ('the Authority') is a Government Authority established by virtue of the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta. The principal activity of the Authority is to regulate lotteries and other gaming activities in Malta.

#### 2.1 BASIS OF PREPARATION

These financial statements have been prepared on a historical cost basis and are presented in Euro.

##### Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by EU and comply with the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta.

### 3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

#### Standards, interpretations and amendments to published standards as endorsed by the European Union effective in the current year

The accounting policies are consistent with those of the previous financial year, except for the following standards, interpretations and amendments effective as of 1 January 2015.

- IAS 19 Amendment – Employee Benefits (effective for financial years beginning on or after 1 July 2014)
- Improvements to IFRS (2010 – 2012 Cycle) (effective for financial years beginning on or after 1 July 2014)
- Improvements to IFRS (2011 – 2013 Cycle) (effective for financial years beginning on or after 1 July 2014)

The adoption of these standards, interpretations and amendments did not have a significant impact on the financial statements of the group and the company.

#### Standards, interpretations and amendments to published standards that are not yet effective

Up to the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the current reporting period and which have not been adopted early. None of these standards, interpretations and amendments is expected to have an impact on the financial position or performance of the company.

- IAS 27 (Amendments) Equity Method in Separate Financial Statements (effective for financial years beginning on or after 1 January 2016)
- IAS 16 and IAS 38 (Amendments) Clarification of Acceptable Methods of Depreciation and Amortisation (effective for financial years beginning on or after 1 January 2016)
- IFRS 11 (Amendments) Accounting for Acquisitions of Interests in Joint Operations (effective for financial years beginning on or after 1 January 2016)
- IAS 1 (Amendments) Disclosure Initiative (effective for financial years beginning on or after 1 January 2016)

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - continued

#### Standards, interpretations and amendments to published standards that are not yet effective - continued

- IAS 16 and IAS 41 (Amendments) Bearer Plants (effective for financial years beginning on or after 1 January 2016)
- Improvements to IFRS (2012 – 2014 Cycle) (effective for financial years beginning on or after 1 January 2016)

#### Standards, interpretations and amendments that are not yet endorsed by the European Union

- IFRS 9 - Financial instruments (effective for financial years beginning on or after 1 January 2018)
- IFRS 16 – Leases (effective for financial years beginning on or after 1 January 2019)
- IFRS 14 – Regulatory deferral accounts (effective for financial years beginning on or after 1 January 2016)
- IFRS 15 – Revenue from contracts with customers (effective for financial years beginning on or after 1 January 2018)
- IFRS 10, IFRS 12, and IAS 28 (Amendments) Investment Entities: Applying Consolidation Exception (effective for financial years beginning on or after 1 January 2016)
- IAS 12 – Recognition of Deferred Tax Assets on Unrealized Losses (Amendments) (effective for financial years beginning on or after 1 January 2017)

The significant accounting policies used in the preparation of these financial statements are set out below:

#### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for licenses, duties and application fees in the normal course of business. All revenue is recognised on the accrual basis. The following specific recognition criteria must also be met before revenue is recognised:

#### Licences

Revenue is recognised when the licence becomes due. It is accounted for on a straight line basis over the term of the licence.

#### Application fees

Revenue is recognised upon receiving the consideration together with a valid application form.

#### Duties

Depending on the type of licence, revenue from duties is either charged on a fixed fee basis or is based on a percentage of the regulated companies' reported revenue, up to a capped amount for remote gaming companies.

#### Interest income

Interest income is recognised as the interest accrues, unless collectability is in doubt.

#### Trade and other receivables

Trade receivables are recognised and carried at original amount due less an allowance for any uncollectible amounts. An estimate for impairment is made when collection of the full amount is no longer probable. Impaired debts are derecognised when they are assessed as uncollectible.

Amounts due from related parties are recognised and carried at cost.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - continued

#### Cash and cash equivalents

Cash in hand and at banks and term deposits which are held to maturity are carried at cost.

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash in hand and deposits at banks, net of overdrawn bank balances.

#### Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Authority.

Amounts due to related parties are carried at cost.

#### Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and/or accumulated impairment losses, if any. Depreciation is calculated to write off the cost of the property, plant and equipment on a straight line basis over their expected useful life as follows:

	%
Furniture and fittings	10
Office equipment	16.67- 25
Motor vehicles	20
Computer equipment	25
Leasehold improvements	10

Gains and losses arising on de-recognition upon disposal of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

#### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfilment is dependent on a specified asset; or
- d. there is a substantial change to the asset.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - continued

#### Leases - continued

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal of extension period for scenario b).

Finance leases, which transfer to the Authority substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the statement of comprehensive income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Authority will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

### 4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing the financial statements, the Board is required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements. These estimates are reviewed on a regular basis and if a change is needed, it is accounted in the period the change becomes known.

#### Provisions for claims and contingent liabilities

Claims have been made against the Authority by third parties. Judgement is required to determine whether these claims will require an outflow of resources and whether these could be reliably estimated. The Authority quantifies the claims based on the damages and determines the probability of the outflow based on the advice provided by the legal counsel.

Where the Authority believes that the claims would probably result in an outflow of resources and can be reliably estimated, a provision is recognised. Where there is a possible obligation, but probably there will not be an outflow of resources, no provision is recognised whilst a contingent liability is disclosed.

In the opinion of the Board, the accounting estimates, assumptions and judgements other than those mentioned above, made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised) - 'Presentation of financial statements'.

**MALTA GAMING AUTHORITY**

Annual Financial Statements for the year ended 31 December 2015

**NOTES TO THE FINANCIAL STATEMENTS - continued****5. REVENUE**

Revenue comprises the following:

	2015	2014
	EUR	EUR
Licence fees	5,217,755	5,119,198
Application fees	233,204	294,183
Other	264,269	359,096
Total Authority fees	5,715,228	5,772,477
Duties	55,178,902	52,615,755
Total revenue	60,894,130	58,388,232

Number of licences in issue at end of year:

	2015	2014
	No.	No.
Commercial Bingo Houses	4	4
Casinos	4	3
Gaming Parlours	46	42
National Lotteries	1	1
Remote online gaming licences	490	469
Total number of licences at end of year	545	519

**6. EXPENSES BY NATURE**

	2015	2014
	EUR	EUR
Auditor's remuneration	14,160	29,638
Chairman's emoluments and Board honoraria	32,710	34,910
Staff costs (note 7)	4,076,733	2,670,568
General administrative expenses	1,342,070	880,217
Professional fees	1,240,909	1,069,109
Promotional expenses	748,862	570,637
Depreciation on property, plant and equipment (note 10)	304,418	116,644
Provision for doubtful debts (note 11)	337,459	225,208
Contributions to other entities	537,245	51,074
Total administrative and other expenses (Statement I)	8,634,566	5,648,005

**MALTA GAMING AUTHORITY**

Annual Financial Statements for the year ended 31 December 2015

**NOTES TO THE FINANCIAL STATEMENTS - continued****7. EMPLOYEE INFORMATION****a. Staff costs**

The total employment costs were as follows:

	2015	2014
	EUR	EUR
Salaries	3,626,237	2,397,408
Social Security costs	244,114	157,377
Fringe benefits	129,827	98,209
	4,000,178	2,652,994
Other related costs	190,210	72,914
	4,190,388	2,725,908
Recharged salaries to Responsible Gaming Foundation	(114,355)	(55,340)
	4,076,033	2,670,568

**b. Staff numbers**

The average number of persons employed by the Authority during the year was as follows:

	2015	2014
	Number	Number
Finance	16	17
Legal affairs	5	5
Enforcement	37	25
Regulatory	18	8
Information Systems	13	6
Operations	21	11
Chairman's Office	3	2
Programme Management & Strategy	4	-
Other	20	12
Total	137	86

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 8. FINANCE INCOME

	2015 EUR	2014 EUR
Interest receivable on bank balances	42,524	113,333

### 9. TAXATION

No provision for Malta income tax has been made in these financial statements as the Authority's income is exempt from any liability to income tax

### 10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improve- ments EUR	Furniture and fittings EUR	Office equipment EUR	Motor vehicles EUR	Computer equipment EUR	Total EUR
<b>Cost</b>						
At 1 January 2014	-	235,330	163,868	123,519	393,407	916,124
Additions	-	5,732	10,867	67,830	175,535	259,964
Disposals	-	-	-	(75,448)	(839)	(76,287)
At 31 December 2014	-	241,062	174,735	115,901	568,103	1,099,801
Additions	2,862,218	661,958	32,360	-	308,543	3,865,079
Disposals	-	(244,896)	-	-	-	(244,896)
<b>At 31 December 2015</b>	<b>2,862,218</b>	<b>658,124</b>	<b>207,095</b>	<b>115,901</b>	<b>876,646</b>	<b>4,719,984</b>
<b>Depreciation</b>						
At 1 January 2014	-	146,078	146,420	104,105	346,547	743,150
Depreciation charge for the year	-	21,890	8,305	20,869	65,580	116,644
Depreciation released on disposals	-	-	-	(75,448)	(280)	(75,728)
At 31 December 2014	-	167,968	154,725	49,526	411,847	784,066
Depreciation charge for the year	127,412	53,804	9,642	20,869	92,691	304,418
Depreciation released on disposals	-	(192,475)	-	-	-	(192,475)
<b>At 31 December 2015</b>	<b>127,412</b>	<b>29,297</b>	<b>164,367</b>	<b>70,395</b>	<b>504,538</b>	<b>896,009</b>
<b>Net book value</b>						
<b>At 31 December 2015</b>	<b>2,734,806</b>	<b>628,827</b>	<b>42,728</b>	<b>45,506</b>	<b>372,108</b>	<b>3,823,975</b>
At 31 December 2014	-	73,094	20,010	66,375	156,256	315,735

The Authority has moved into new premises during November 2015. The Authority has undertaken significant improvements to these new premises. Whilst most of the improvements have been in place as at year end, the project was fully completed in the first quarter of 2016.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 11. TRADE AND OTHER RECEIVABLES

	2015 EUR	2014 EUR
Duties and licences receivable (note i)	6,695,475	6,682,507
Other receivables	34,548	97,440
Prepaid expenses	186,489	181,173
Deposits	166,880	61,145
Accrued interest	-	17,033
	<b>7,083,392</b>	<b>7,039,298</b>

i. At 31 December 2015, duties and licences receivable at nominal value of EUR988,785 (2014: EUR651,326) were impaired and fully provided for (Note 6).

#### Provision for doubtful debts

	2015 EUR	2014 EUR
Opening balance	651,326	426,118
Increase in provision for doubtful debts	337,459	225,208
Closing balance	<b>988,785</b>	<b>651,326</b>

As at the balance sheet date, the ageing analysis of duties and licences receivable is as follows:

	Total EUR	Neither past due nor impaired EUR	Past due but not impaired			
			<30 days EUR	30-60 days EUR	61-90 days EUR	>90 days EUR
2015	6,695,475	5,168,758	766,816	207,257	162,700	389,944
2014	6,682,507	4,693,683	991,746	369,841	135,123	492,114

### 12. RESERVES

- Equity reserve**  
Funds for the creation of the Reserve have been retained from the gaming taxes collected. This was transferred to Equity reserve with approval of the Ministry of Finance.
- Reserve Fund**  
The Reserve Fund represents accumulated excess of revenue over expenditure.
- National Lottery Reserve Fund**  
By virtue of section 59(1) of the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta, the National Lottery Licensee is to pay funds standing in its Unclaimed Prizes Reserve to the Authority. All funds received are to be credited to the National Lottery Reserve Fund. In accordance with section 50(6) of the same Act, all funds credited to the latter reserve shall be paid, not later than six weeks after the financial year end, to the National Lotteries Good Causes Fund held by the Treasury Department.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 13. TRADE AND OTHER PAYABLES

	2015	2014
	EUR	EUR
Amounts due to government (note i)	1,657,981	4,537,758
Unclaimed deposits (note ii)	5,206,635	3,862,340
Other payables	1,735,065	1,629,708
Accruals	612,883	566,217
Deferred income	2,901,111	2,383,592
	<b>12,113,675</b>	<b>12,979,615</b>

- i. Amounts due to government are unsecured, interest free and have no fixed date of repayment. These amounts are payable to the Government of Malta under the provisions of the Lotteries and Other Games Act, Cap. 438 of the Laws of Malta.
- ii. Balance includes unclaimed player deposits and dormant accounts from Remote Gaming operators which are passed on to the Authority by the licensee when no transactions have been recorded on players' account for more than thirty months.

### 14. PROVISION FOR CLAIMS

During 2014, players of certain gaming operators have submitted claims that they were owed the amounts of EUR3,300,000 since they have not been paid these amounts by the gaming operators. They are also keeping the Authority responsible and liable for such amounts. During 2015, claims amounting to EUR900,000 have not been pursued and from further analysis it is deemed remote that the Authority could be liable. The corresponding provision has been reversed. The Authority continues to monitor these claims following the advice from its legal counsel.

Furthermore, a case that in prior year had been disclosed as a contingent liability (note 19) was pursued during 2015 with a judicial letter filed in court. Subsequent to year end the gaming operator initiated court proceeding against the Authority claiming loss of profits from the Authority in the region of EUR800,000. The gaming operator claims that the Authority had approved the devices as amusement machines and after importation changed their category to gaming devices. The Authority with the assistance of legal counsel rebuts these claims.

Further provisions estimated at EUR100,000 have also been recognised as at 31 December 2015.

### 15. CASH AND CASH EQUIVALENTS

Cash and short-term deposits consist of cash in hand and balance with banks. Cash and cash equivalents included in the statement of cash flows reconcile to the statement of financial position amounts as follows:

	2015	2014
	EUR	EUR
Cash at bank and in hand	4,756,308	9,174,582

As at 31 December 2015 the amount of EUR1,462,738 (2014: Nil) was pledged against a letter of credit issued to third parties by a local bank. The pledge was released after year end.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 16. COMMITMENTS

The future minimum rentals payable including VAT under these operating leases as at 31 December 2015 and 31 December 2014 are as follows:

	2015	2014
	EUR	EUR
Within one year	440,920	311,724
After one year but not more than five years	1,876,225	1,859,071
More than five years	5,327,473	5,895,979
	<b>7,644,618</b>	<b>8,066,774</b>

### 17. RELATED PARTY DISCLOSURES

Related party	Year	Total transactions with related parties EUR	Amounts owed to related parties at year end EUR	Type of transaction
Government of Malta - The Treasury	2015	52,302,088	1,657,981	Surplus for the year
Government of Malta - The Treasury	2014	49,553,560	4,537,758	Surplus for the year

#### Key management personnel

The Chairman and the Board members are considered to be key management personnel. Included in 'Administrative and other expenses' (note 6) are salaries paid to the Chairman and Board members amounting to EUR32,710 (2014: EUR34,910).

### 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

At the year end, the Authority's main financial assets on the statement of financial position comprise trade and other receivables, and cash at bank and in hand. At the year end, there were no financial assets off the statement of financial position.

At the year end, the Authority's main financial liabilities on the statement of financial position consisted of amounts due to government, other payables, accruals and deferred income.

#### Contractual maturity profile of financial liabilities

The presentation of the financial assets and liabilities listed above under the current and non-current headings within the statement of financial position is intended to indicate the timing in which cash flows will arise. The maturity profile of the financial liabilities of the Authority as at year end is as disclosed in note 13.

**MALTA GAMING AUTHORITY**

Annual Financial Statements for the year ended 31 December 2015

**NOTES TO THE FINANCIAL STATEMENTS - continued****18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued****Credit risk**

The Authority trades only with licensed, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Authority's exposure to impaired debts is not significant. Carrying amounts for trade receivables are stated net of any impairment provisions, when necessary, which are prudently made against debts in respect of which management reasonably believes that recoverability is doubtful. Credit risk with respect to debts is limited due to the number of licensees comprising the Authority's debtors' base. The Authority's cash at bank is placed with quality financial institutions. The Authority has no significant concentration of credit risk.

**Liquidity risk**

Liquidity risk is the risk the Authority will not be able to meet its financial obligations as they fall due. The Authority's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal or stressed conditions, without incurring unacceptable losses or risking damage to the Authority's reputation.

**Fair values**

The carrying amounts of cash at bank and in hand, trade receivables, trade payables and accrued expenses approximated their fair values.

**Interest rate risk**

With the exception of cash and bank balances, the value of the Authority's assets and liabilities are not subject to interest-rate movements.

**19. CONTINGENT LIABILITIES**

During 2014, gaming operators have submitted claims amounting to circa EUR1,700,000 mainly in respect to overpayment of gaming taxes paid to the Authority due to wrongful classification of the games provided by the operator. The Authority is contesting these claims and continues to follow the advice of its legal counsel.

Furthermore, a request for damages estimated at EUR950,000 made by a gaming operator against the Authority during 2014 has been pursued during 2015 and a provision for claims has been made (note 14).

Another operator initiated court proceedings against the Authority claiming that the operator should have been given an 18 month notice period before the Authority issued a license to another operator. The Authority is contesting these claims and continues to follow the advice of its legal counsel. Moreover, the damages, if any, cannot be reliably estimated. Accordingly, no provision for any liability has been made in these financial statements.

Up to the date of the authorisation of these financial statements, there were no other material claims made against the Authority.

**MALTA GAMING AUTHORITY**

Supplementary Statement for the year ended 31 December 2015

**SUPPLEMENTARY STATEMENT**

Statement

Administrative and other expenses

1

## ADMINISTRATIVE AND OTHER EXPENSES

	31 December 2015		31 December 2014	
	EUR	EUR	EUR	EUR
Salaries and national insurance	4,076,733		2,670,568	
Training	123,856		75,714	
Other staff costs	35,739		19,063	
<b>Staff costs</b>		<b>4,236,328</b>		<b>2,765,345</b>
Chairman's emoluments and board honoraria	32,710		34,910	
Subcontracted services	74,849		84,945	
Telecommunications	89,933		60,827	
Water and electricity	43,005		36,557	
Rent	233,309		156,141	
Insurance and licences	9,901		19,169	
Postage, stationery and printing	73,131		45,893	
Office expenses	28,695		13,559	
Motor vehicle running expenses	77,617		47,892	
Bank charges	13,617		2,762	
Cleaning expenses	18,864		666	
Subscriptions	32,907		20,956	
Repairs and maintenance	191,444		60,280	
Business development expenses	17,550		19,783	
Overseas travelling	193,190		208,367	
Seminars and conferences	32,042		13,746	
<b>General administrative expenses</b>		<b>1,162,764</b>		<b>826,453</b>
Accountancy fees	-		20,532	
Professional fees	779,074		919,758	
Internal audit fees	119,786		55,523	
Auditors' remuneration	14,160		29,638	
Due Diligence consultancy fees	241,382		29,625	
IT consultancy fees	100,667		43,671	
<b>Professional fees</b>		<b>1,255,069</b>		<b>1,098,747</b>
<b>Promotional expenses</b>		<b>748,862</b>		<b>570,637</b>
<b>Depreciation</b>		<b>304,418</b>		<b>116,644</b>
Loss/(profit) on disposal of property, plant and equipment		52,421		(6,103)
Provision for doubtful debts		337,459		225,208
Contributions to other entities		537,245		51,074
		<b>8,634,566</b>		<b>5,648,005</b>



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