



Lotteries & Gaming Authority
Annual Report 2009



Lotteries & Gaming Authority

-
- 02** Chairman's Statement
 - 04** CEO's Report
 - 08** Our Structure
 - 12** Staying One Step Ahead
 - 14** When Land Based meets Cyber Space
 - 15** Our Seal of Quality
 - 20** Responsible Regulation
 - 22** Malta, a Milestone of Effective Regulation in Europe and Beyond



Mr Nick Xuereb
CHAIRMAN

CHAIRMAN's STATEMENT

Against a backdrop of a major international recession in 2009, activity in the gaming industry was high and the results of our organisation, particularly in the remote gaming sector have continued to show year on year growth.

Results

During 2009, gaming tax collected and paid to the Government of Malta amounted to €41.9M (2008 - €37.9M), an increase of 10.4%. In addition, revenue from regulatory activity amounted to €1.9M (2008 - €1.7M), bringing the total revenue to the organisation to €43.8M (2008 - €39.7M). In a year that has been described as the worst world recession since the 1930s, a 10% growth was a major achievement for our organisation and although the growth levels will slow down, the pace in 2010 is expected to continue, particularly in view of the FIFA World Cup 2010. Licensing activity was again very high as applications to operate under the Malta Remote Gaming Regulations continued to be submitted. In 2009, a total of 121 applications were received, bringing the total of active licences at the end of 2009 to 330. In terms of land based gaming, the activity was relatively stable. Industry analysts place the Lotteries and Gaming Authority (LGA) as one of the most important gaming regulators in the EU, whilst without any doubt the LGA is the regulator with the most experience in this sector within the EU.

Review of the organisation

One of the first decisions of this board in late 2008 was to carry out a detailed business process and tax review, with the main objective being to enhance our regulatory function. This exercise was carried out and completed in 2009. It is not my objective in this report to outline in detail the outcome

of this process, but several quick wins were implemented immediately, with a number of others which are in the process of being fully implemented. It was however clear from the outset that the basic structure of the organisation had to be challenged and restructured.

In early 2009, the board appointed a new CEO, Reuben Portanier to head the executive arm of the organisation. Together with our CEO, we embarked on a project to enhance our organisation and as you will see throughout this annual report, a new organisational structure was announced in late 2009 that fits the regulatory role we endeavour to achieve.

As the LGA expanded we outgrew our old premises and with the foresight of further growth in mind, new premises was identified and evaluated. We have now moved to offices which fit far more the organisation we represent. I would like to congratulate our team that managed to complete this major project in a record timeframe and to the highest possible level. Our activity in the licensing arm of the Authority was very high. Applications for remote gaming licences continued to be received and a total of 184 new licenses were issued in 2009. There has been an increase in focus in our monitoring function and a number of licences have been investigated, including instances that required cancellation of licences and investigations together with the Police Force when non-compliance required such action.

The land based gaming sector was also considerably active. During 2009, enforcement was carried out in the land based gaming devices sector as several gaming shop outlets operated without a gaming licence. In the meantime, the LGA was engaged as one of the technical advisors to the legislator in developing a framework for the regulation and licensing of land based gaming devices, whereby a proposal to regulate the gaming devices and amusement machines sector was approved by Government for onward Parliamentary discussion and approval. The Minister of Finance presented a Bill in the House of Parliament to introduce a regulatory framework for this sector, with changes to the Lotteries and Other Games Act approved by Parliament in December 2009.

On the international front, our executive arm continues to actively participate in various EU fora on the future of the gaming industry. Our belief continues to be that prohibition will only lead to gaming going underground whilst protectionist models fail to give players or customers the best value for their money – this is applicable in most if not all industries. On the other hand, responsible gaming ensures that gaming can be open to the market, whilst ensuring players are protected through various measures.

The next steps

We have a number of challenges in our land based gaming regime. Firstly, once the new regulations for gaming devices and amusement machines are published and put into force, this will require an enhancement of our organisation and the need to prepare our organisation to regulate this new sector. The expiry of the Dragonara Casino concession agreement in 2010 also placed organisational pressures in order to see a smooth transition to the new concession agreement. In addition, preparations for the groundwork needed in anticipation of the expiration of the national lottery licence was and shall be an added pressure point, which I am confident shall be addressed in a professional manner.

On the remote gaming sector, we will continue to advise government on the evolution of the industry and the developments taking place in other jurisdictions. We will continue to listen to the industry and review developments against our current thinking. This is an ongoing process and various proposals have been made to Government to continue to enhance the regulatory framework of Malta.

The LGA is now the veteran regulator in the EU and we would like to continue to build on the strong reputation that we have built over the past six years since our inception. We will also strive to assist other regulators achieve 'a fast track experience' based on our past experiences which we believe is essential for a united Europe that provides ample safety for the consumer.

Mr Reuben Portanier

CHIEF EXECUTIVE OFFICER

CEO's REPORT

Without any doubt, 2009 was a challenging year for both the industry and the Authority in different ways. Globally, the financial crisis was still prevailing in many industries, whilst debates on the gaming regulatory models to be adopted across Europe gained a certain momentum, whilst on the local scene, the regulatory approach to be applied on the 'street market gaming sector' saw a wide and constructive debate insofar as to how to regulate this market segment whilst emphasizing on the concept of responsible gaming.

I took the executive seat with an aim at strengthening even further the structures and processes of the Authority. Strengthening the Authority was greatly facilitated with the 'can do' mentality of the LGA, which worked relentlessly at improving the regulatory systems, whilst at the same time spearheading the various business process improvement initiatives which the Authority embarked on in 2009.

On the international scene, the world economy was finding the routes available to move out of the financial crisis and rebuild investor and consumer confidence. Various economists were of the opinion that the gaming sector was resilient to such a crisis as the industry (especially on the remote gaming side) was still registering growth. The truth of the matter was that the gaming industry was still impacted by the economic conditions, as the growth curve was not as steep as in the previous years, whilst, as was the case in all other sectors, access to finance for further investment was not easily available. On the land based side, performance was also affected by a decrease in tourist attendance as a result of the financial crisis. Notwithstanding the international conditions precipitated by the global financial crises, the resilience of the Maltese economy proved itself once more. Again, the increased monitoring mechanisms implemented by the Lotteries and Gaming Authority

drastically diluted the negative impacts on the performance of Maltese licensees. Such an economic resilience and the stepped up monitoring of operators' financial performance was important from a gaming regulatory point of view as the protection of player funds was predominantly ascertained with only a handful of operators facing real difficulties.

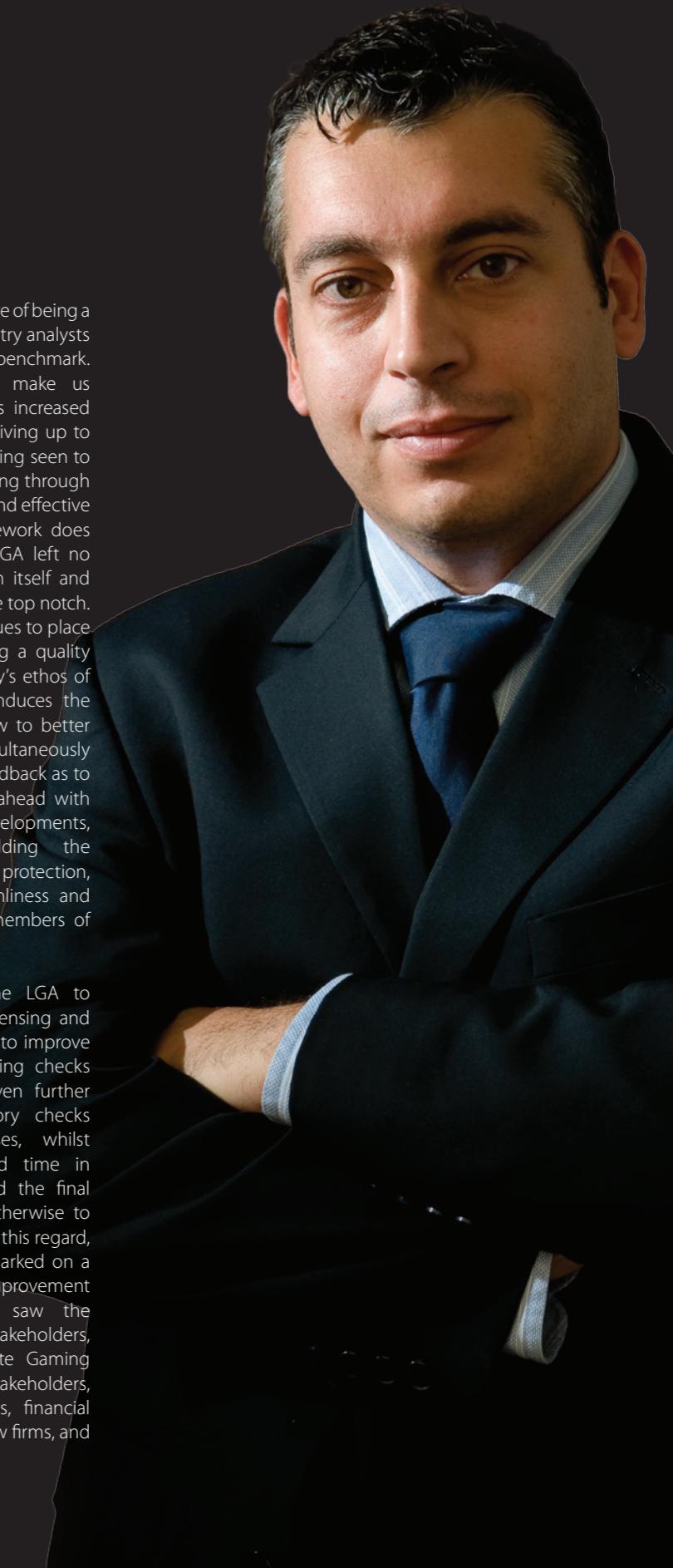
Within the Authority, 2009 brought considerable and important changes, with new concepts forming part of a structured plan to improve and build on acquired strengths, fill in the gaps and eradicate weaknesses. This Annual Report also gives a brief account of the various evolutionary processes that the LGA embarked upon in 2009 with the aim of maximising its regulatory role, venturing into new regulatory niches within the gaming industry, both online and land-based, as well as providing advice to Government in developing new licensing sectors - all with the primary aim of regulating effectively and continuously promoting a three-pronged responsible gaming approach - for the players, for the operators and for the regulator.

An Ethos of Continuous Improvement

The LGA is no newcomer to the gaming regulatory environment - both from a land based and remote gaming perspectives. Across the years, the

Authority acquired the repute of being a serious regulator, with industry analysts positioning the LGA as a benchmark. Such positive comments make us proud, whilst it also places increased responsibility insofar as to living up to such high expectations. Being seen to be a quality regulator working through an extremely well devised and effective regulatory legislative framework does not come for free. The LGA left no stone unturned to position itself and the regulated industry, to be top notch. The LGA placed and continues to place all its efforts in maintaining a quality seal, however, the Authority's ethos of '*continuous improvement*' induces the LGA to look into ways how to better perform its role whilst simultaneously capturing the industry's feedback as to how to continue moving ahead with times and with new developments, whilst religiously upholding the cardinal principles of player protection, game fairness, game cleanliness and protection of vulnerable members of society.

Such an ethos drove the LGA to thoroughly look into its licensing and regulatory processes, so as to improve even further its pre-licensing checks and controls, augment even further its post-licensing regulatory checks and monitoring processes, whilst improving the turnaround time in application processing and the final ruling of compliance or otherwise to obtain a gaming licence. In this regard, in April 2009 the LGA embarked on a comprehensive process improvement programme which also saw the feedback from various stakeholders, such as the Malta Remote Gaming Council and other industry stakeholders, including service providers, financial institutions, audit and review firms, and legal practitioners.



LGA collected **€43 MILLION**
in terms of licence fees, gaming taxes and other proceeds of which

€41 MILLION
were passed on to Government

CEO's REPORT

We believe that our 'ethos' of continuous improvement was fundamental in introducing changes which were 'silently' implemented in order not to create too many shocks at one time, resulting in an incremental and phased process improvement which saw the implementation of:

- a *Players' Charter*, an EU first in this regard;
- an improved licence application process, which resulted in an improvement in turnaround time of 27%, whilst in parallel still managing to improve further checks and the screening processes;
- a risk based licence renewal process which was introduced in November 2009,
- a risk based process for licensees applying for a further licence where certain duplicate submissions which did not add value to compliance checks were eliminated; and
- an even more comprehensive post-licensing approach, where the LGA more than doubled its 'operator checks' as part of the licensee continuous compliance assurance routines.

However, an improved process framework can only be sustained in the long-term if the LGA has a structure that can support such a process framework. The LGA re-aligned its structure in order to implement, maintain and improve its operations, whilst also ensuring that the Authority further equips its supporting and strategic functions, its licensee focused role, and its player support role, whilst stepping up even further its enforcement complement.

Consequently, in December 2009, the Board approved a re-aligned structure that clearly distinguishes between corporate affairs, regulatory compliance and enforcement, whilst augmenting the approved capacity requirements both through further internal resources and outsourced professional organisations.¹

The process improvement programme will continue to be phased in all throughout 2010 and the first quarter of 2011, whilst the full implementation of the approved structure shall have all its pistons working at full capacity by the third quarter of 2010, whereby the Authority shall increase its staff complement in the areas of regulatory compliance, gaming intelligence and strategy, legal and EU affairs and enforcement.

Walk the talk!

Malta's outlook towards having an independent regulatory body with its functions, remit and responsibilities prescribed from a specific Act of Parliament, was and is, to truly have a regulatory body, which role does not stop a licensing operators but which is all encompassing - *in order to ensure that the fundamental principles and reasons for regulating the gaming industry are performed effectively and efficiently*.

Therefore, apart from having legal obligations insofar as its functions, the Authority has its commitments towards the players, the vulnerable members of society, and the licensed operators. As such, these commitments mean that it is not enough to have a robust legal framework and have the presence of an authority.

The commitment is actually performing all that is required from a regulatory point of view to ensure legal compliance, that gaming is free from crime, that responsible gaming measures are in place and implemented even by licensees, and that where enforcement is necessary, this is done expeditiously. 2009 continued to see the year on year growth in focus on these fields, whereby the Authority not only reached record levels of licensees, but also saw a considerable increase in inspections, operator checks, administrative actions and enforcement. Such commitments are fundamental from a social perspective, but are also pivotal in maintaining the quality value of our gaming jurisdiction and gaming licence.

Such a committed approach is also key when collaborating with other regulatory bodies and supranational institutions as the presentation of what the Maltese gaming jurisdiction is all about, is performed with the confidence that the gaming regulatory model adopted by Malta (which has the gaming sectors operated by private enterprise) is in full adherence to the principles of regulating responsibly, ensuring public order and ensuring that other key legal requirements insofar as data protection, anti-money laundering, electronic commerce, financial services and consumer protection are all upheld.

2009 Results at a Glance

In 2009, the LGA collected €43 million in terms of licence fees, gaming taxes and other proceeds of which €41.9 million were passed on to Government. This resulted in an increase of €3.9 million as compared to 2008. €0.8 million were specifically collected from the National Lottery (on behalf of Government) as unclaimed prizes channelled towards

the Good Causes Fund. The Authority's expenditure for 2009 closed at €2.4 million, which is an increase of €0.3 million over 2008.

The number of land-based gaming licenses remained stable at 10 licences, whilst the number of remote gaming licenses reached 330 by the end of December 2009, notwithstanding those 8 remote gaming licenses which were terminated during the same year. During 2009, the Authority received 1 application for a Bingo Hall Licence, 1 application for the renewal of a Casino Licence, and 121 applications for Remote Gaming Licenses (2008:148). In 2009, a total of 8 applications for remote gaming licenses did not qualify for a licence.

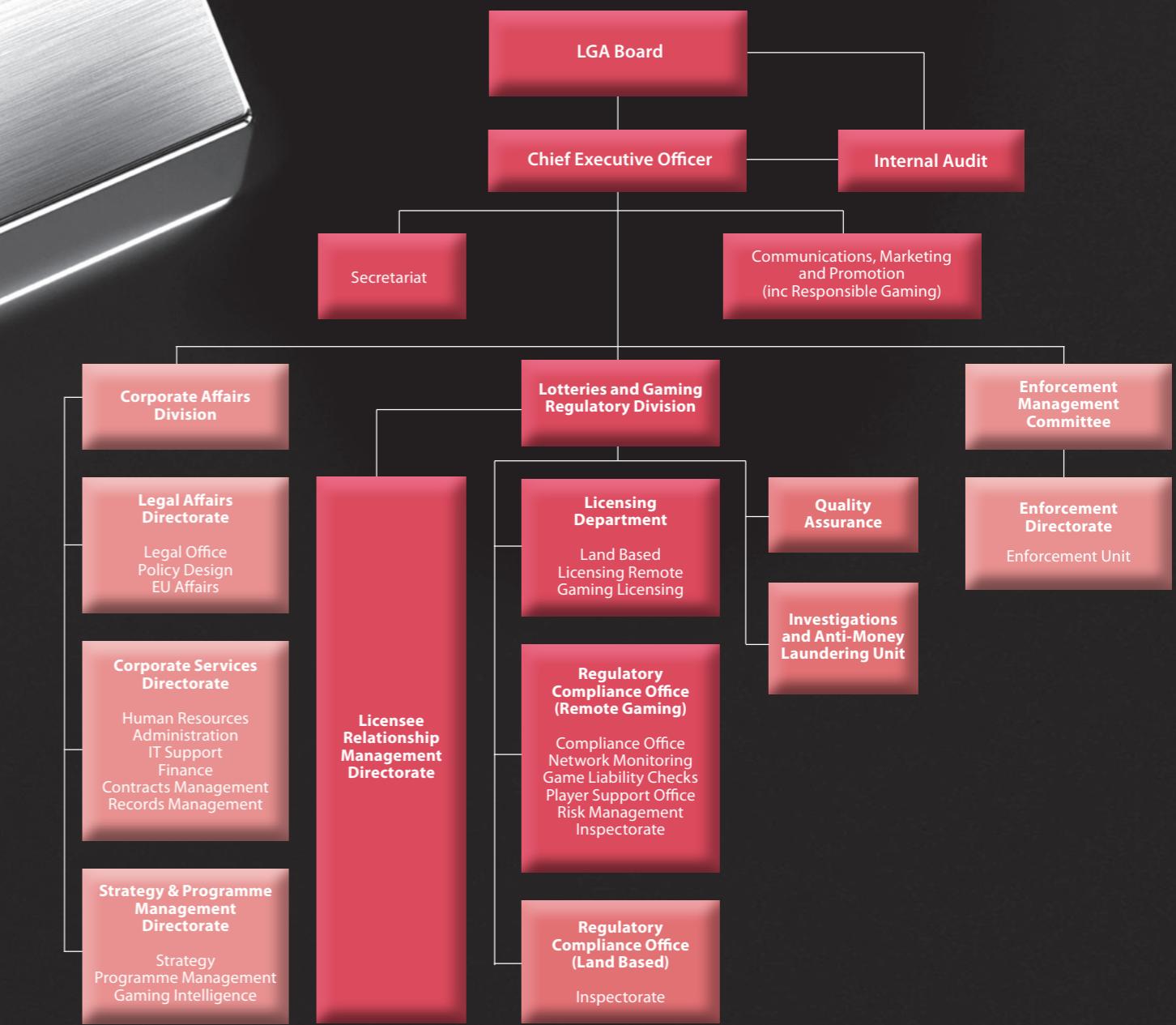
Looking Ahead

The Authority shall be working on a number of strategic thrusts in 2010 and 2011, which shall be supported through the establishment of a Strategy and Programme Management Office, the augmenting of the Legal Affairs Directorate with an enhanced focus on legislative proposals and a wider resource base on EU and International Affairs, and the functioning of a Licensee Relationship Management Unit, where the latter shall act as the main interface between the Authority and Licence Holders.



LGA's underlying philosophy is
QUALITY
not Quantity

LGA'S STRUCTURE



OUR STRUCTURE

Throughout the sectors in which Malta regulates economic activities, even those which have a social dimension, Malta puts into practice that an independent structure - at arm's length from Government - should be present in order to regulate effectively, using the concept of effective corporate Governance.

As per all other sectors, the gaming sector is regulated through an independent structure which effectively oversees that all the principles why gaming should be regulated are in fact safeguarded. To this effect, in 2004 the Lotteries and Gaming Authority was established whereby the Board of Authority members hold the role of a corporate governance nature and is responsible for advising on the strategic development of regulating the industry to the Government. The LGA board is made up of a chairman and four board members all of whom are non-executive

Chairman

Mr Nick Xuereb

Board Members

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

Secretary to Board

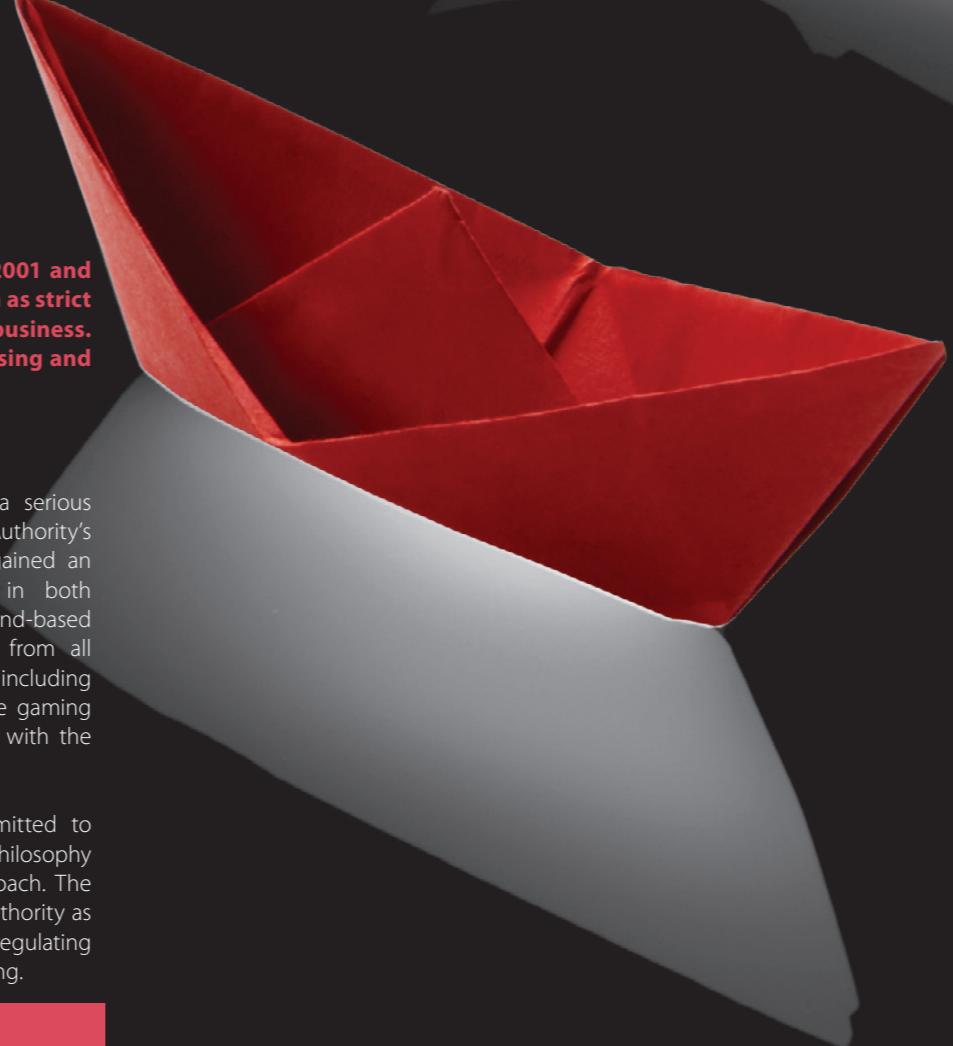
Dr Natasha Galea Sciberras

Programme Management Department within the Corporate Affairs Directorate. The Lotteries and Gaming Regulatory Division joins together the various pre and post licensing functions. This shall be headed by a Chief Regulatory Officer who shall be appointed in 2010. The division should also see the functions of quality assurance and the Licensee Relationship Management Directorate. The third pillar in this revamped structure is the Enforcement Directorate which includes the Enforcement Unit headed by the Enforcement Management Committee.

Relocating to New Premises

Over the past years the Lotteries and Gaming Authority experienced significant growth in the number of licensees. This has led to an increase in the number of employees working at the LGA. As a result of this, the LGA outgrew its offices in Ta' Xbiex and the need to relocate to bigger premises was ever increasing. By the end of the year, the LGA had a staff complement of 48, whilst, through outsourcing it has an extended network which adds to the capacity of the LGA. Following a public call, mid way through 2009, the LGA Board chose the best fit proposal to house the Authority's operations and selected new premises in the central part of Malta. The new LGA premises in Mrieħel were launched in December 2009.





330 remote gaming licenses,
8% INCREASE from 2008

STAYING ONE STEP AHEAD

Since the inception of the Lotteries and Gaming Authority in 2001 and its formal launch in 2004, the LGA has steadily built a reputation as strict yet ideal gaming jurisdiction with a highly-regulated gaming business. The LGA is the single regulatory body responsible for the licensing and supervision of all lotteries and gaming in Malta.

The Lotteries and Gaming Authority falls directly under the Ministry of Finance and is the guardian of the Lotteries and Other Games Act, 2001 and the Gaming Act, 1998.

Over the past years the gaming industry in Malta has experienced extraordinary growth in all the gaming sectors most noticeably in remote gaming. The LGA continued to consolidate its position as a responsible regulator and have mustered the highest standards of rigorous licensing, monitoring and player protection.

The key success factor for Malta's land based and remote gaming industry is due to its strong regulatory framework and Malta's vast expertise in the industry. The Lotteries and Other Games Act is a comprehensive legislative instrument that regulates all gaming activities, with the exception of land-based casinos, where the latter are regulated by the Gaming Act, 1998.

The main Act empowers the Authority to provide the necessary tools to implement effective regulation. Undoubtedly regulation is imperative to protect both players and the operators alike.

The LGA's objective is to ensure that Malta is a serious jurisdiction, one of high quality and repute. By offering robust active regulation the Authority ensures the continuing high reputation of Malta, continues to licence operators and games which are fair and free from crime and enforces compliance with

the licensees at all times.

The LGA's ethos of being a serious regulator coupled with the Authority's excellent track record has gained an increased consumer trust in both Maltese players who play land-based gaming as well as players from all regions across the globe, including Malta, who play with remote gaming companies that are licensed with the LGA.

Evermore the LGA is committed to promote a player-centric philosophy and responsible gaming approach. The latter is considered by the Authority as one of the major pillars in regulating land-based and remote gaming.

Our objectives are:

- To ensure that Malta is a serious jurisdiction and one of repute;
- To continuously ensure that Malta remains to be a high quality jurisdiction;
- To regulate diligently and with vigour the lotteries and gaming sector in and from Malta;
- To license operators and games which are fair and free from crime;
- To enforce compliance with the licensees at all times;
- To promote a player-centric philosophy and responsible gaming.

Where do we go from here?

In order to keep ahead of this dynamic industry, in 2009 the LGA embarked on a

number of initiatives to continue steering ahead. One such initiative related to the first wave of licence renewals of the remote gaming licenses, whereby a licence renewal procedure was formally adopted, thus seeing the first licensed remote gaming operators apply for the renewal of their licenses. Given the existing level of active licenses, the next five years will not only see the Authority processing new applications, but will also have its workload increase drastically in order to ensure that all licensees approaching the end of their licence term have their renewals processed efficiently, however maintaining the strict parameters each licensee needs to abide to in order to enjoy from another licence term of five years.

On the legislative side, the Authority, in its capacity (as contemplated by the Lotteries and Other Games Act) as advisor to the legislator is and will continue to advise the legislator on any revisions and/or additions required to the legal framework in order to ensure that the regulatory framework remains current with industry developments, whilst continuing strengthening the player centric approach of the Maltese jurisdiction. In this context, in 2009 the LGA assisted the legislator in addressing the regulatory approach of the street market, whereby in 2009 Government presented amendments to the Lotteries and Other Games Act (LOGA) to Parliament, with Parliament approving the changes to the LOGA in December 2009, thus laying the foundations for regulating Gaming Devices and Amusement Machines.

Malta traditionally looked at Gaming as being a form of entertainment. However in order to ensure the promotion of the principle that gaming should entertain and nothing else, Malta recognised that this could only be achieved through

effectively regulating the gaming sectors.

'Effectively' in this context means continuously seeking to improve the regulatory mechanisms and approach in order to ensure that the key pillars of player protection, protection of the vulnerable, game fairness, and clean gaming are always upheld in any gaming sector which is regulated through the Lotteries and Gaming Authority. With the advent of the virtual space, Malta capitalised on its decades of regulatory experience using the criterion of Responsible Gaming, and reflected this in its approach in regulating remote gaming. Malta was the first to regulate remote gaming in the EU, continuing to regulate responsibly whilst embracing the fundamental EU Treaty Principles. In this context, the last quarter in 2009 saw the LGA be at the forefront in Europe in supporting the 'player centric' approach through the design of a Players' Rights and Obligations Charter for publication in 2010.

2010 and beyond

The Lotteries and Gaming Authority will continue keeping itself abreast of the market developments, adopting a holistic approach, both in terms of its understanding of the use technology in gaming, and in strengthening its collaborations with other national entities and supranational organisations. As always, each year poses its specific challenges, and 2010 will be no different. Across the years the Authority managed to successfully address its challenges, as it is part of its institutional fabric to face challenges and address them – this forward looking mentality shall prevail for the future, with the objective of closing yet another year in 2010 reporting that the challenges were once again successfully addressed.

WHEN LAND BASED MEETS CYBER SPACE

The LGA regulates casino gaming, commercial bingo games, the national lottery and other lotteries, sports betting and remote gaming. The Authority regulates these operations and collects gaming tax from the licensees on behalf of the Government.

Permits for non-profit games are issued by the Authority on behalf of the Department of Public Lotto.

Notwithstanding the international economic crisis as a backdrop in 2009, the lotteries and gaming sector in Malta, in general continued to experience growth in remote gaming, whilst the national lottery games maintained their momentum. However marginal decreases were registered in the sector of commercial bingo games and land based casinos.

During 2009, the lotteries and gaming sector (both land based and remote) generated the direct employment of 5,053 employees who worked directly with licensed operators. When compared to the number of persons directly employed in the sector during 2008, it can be noted that there was an annual increase of 123. The year ended with €43.4 million generated from the lotteries and gaming sector. This is attributed to gaming duty, application fees, licence fees and other administrative income. This is an increase of €3.4 million from the income generated in 2008.

Going through the Sectors

The National Lottery

The National Lottery was set up as a government monopoly in 1934 and was privatised in 2004. During the same year, Maltco Lotteries Ltd was awarded a licence to operate the National Lottery

games. The licence is valid for seven years.

During 2009, Maltco operated Super 5, Lotto, Scratchers Instant Tickets, U*Bet (fixed-odds betting), Quick Keno and Bingo 75 (ex Tiritombla). During 2009, the number of employees working with the national lottery increased by 23 to the direct employment of 1,040 people. The gaming duty generated from the National Lottery amounted to €11.96 million by the end of the year. This constitutes an annual increase of 8%.

Land Based Casinos
As at the end of 2009, four land based casinos held a licence issued by the LGA. The Casinos are located in Bugibba, Vittoriosa and two in St. Julian's. Although casinos are licensed by the LGA, under the Gaming Act, 1998, the licence is conditional to a concession which can only be granted by the Government.

During the year the casino sector generated the direct employment of 835 licensed gaming employees. This figure excludes employees which are not involved in gaming activities, such as cleaners and catering staff. A marginal decrease in the number of licensed gaming employees was registered mainly due to a decrease in customers (mainly being tourists).

By the end of the year the amount of gaming duty generated from land based casinos amounted to €9,595,440,

a drop of 5% from the previous year. The main reason for this decline may be attributed to the domino effect that the international financial crisis left on global tourism levels.

Commercial Bingo Games

At present there are five licensed commercial bingo halls in Bugibba, Paola, Sliema, St Julian's and Valletta.

The gaming duty collected from commercial bingo games in 2009 was €642,220, a 13.7% decrease from the previous year.

Remote Gaming

The remote gaming industry is still experiencing year on year growth. In the past three years the number of licensees grew to a net amount from 200 to 330 licenses, held by over 250 operators. This equates to an increase of 8% when compared to the number of licenses in 2008.

The LGA with its rigorous regulation allowed the remote gaming industry to continuously evolve, whilst ensuring that mechanisms for player protection are augmented. This is indicative of the growth as remote gaming is increasingly using delivery channels other than the internet as technology evolves. Maltese regulations are technology neutral and thus can cater for such delivery channels. 2009 in fact saw a considerable number of licensees complementing their internet based offering with mobile services. The technological evolution in the mobile industry with more powerful mobile networks and the market invasion of powerful smart phones saw the technological readiness for mobile gaming, thus enticing gaming operators seeking approvals from the LGA to introduce mobile based services. It is anticipated that in 2010 and 2011

the mobile delivery channel will become a key channel in the delivery of m-games, which will instigate yet another evolution in the gaming industry and present further challenges from a regulatory perspective, which the LGA is exponentially increasing its competence base in readiness for this 'big bang'.

Looking into the gaming duty collected in 2009, the year ended with an increase of a significant 22% over 2008.

2009 continued to offer more employment opportunities in the remote gaming sector for both Maltese and other nationals whereby by the end of the year the number of people working directly in the industry either as directors, executives, and/or gaming employees went up to 3,178, which is an increase of 44% from what was registered in the previous year.

Our Seal of Quality

Obtaining a licence from the LGA is not easy. The licensing process is determined by fundamental principles that govern our regulatory approach. An applicant must indeed go through a very rigorous application process in order to satisfy the requirements. The Authority's underlying objective is that of Quality, not Quantity. The LGA ensures that through its regulation the players are protected, the vulnerable players are not exploited and gaming is free from criminal activities.

In essence, through the licensing process, the LGA ensures that the operators are fit and proper to conduct gaming operations. It ensures that operators are strong from a business and financial position in sustaining gaming operations and that gaming operators are technically capable of conducting and managing gaming operations.



AN INCREASE OF 65%

in remote gaming licensees in the past three years

In the case of remote gaming, the LGA is considered to be a veteran regulator. This is attributed to the fact that Malta was the first EU County to regulate remote gaming, whilst the quality objective, which is reflected throughout the Remote Gaming Regulations positions the Maltese remote gaming licence as a privilege not a right. This instigates a high level of 'self regulation' on operators as they cannot afford to lose such a privilege.

With the Authority's vast experience in regulating the industry, coupled with the asset of having a thorough and strong regulatory framework, positioned the Maltese licence as being regarded by the industry stakeholders and the players as a seal of high quality. It is through the Authority's commitment to capitalise on the lessons learnt and its regulatory experiences, which the LGA has managed to strengthen and excel in its regulatory approach.

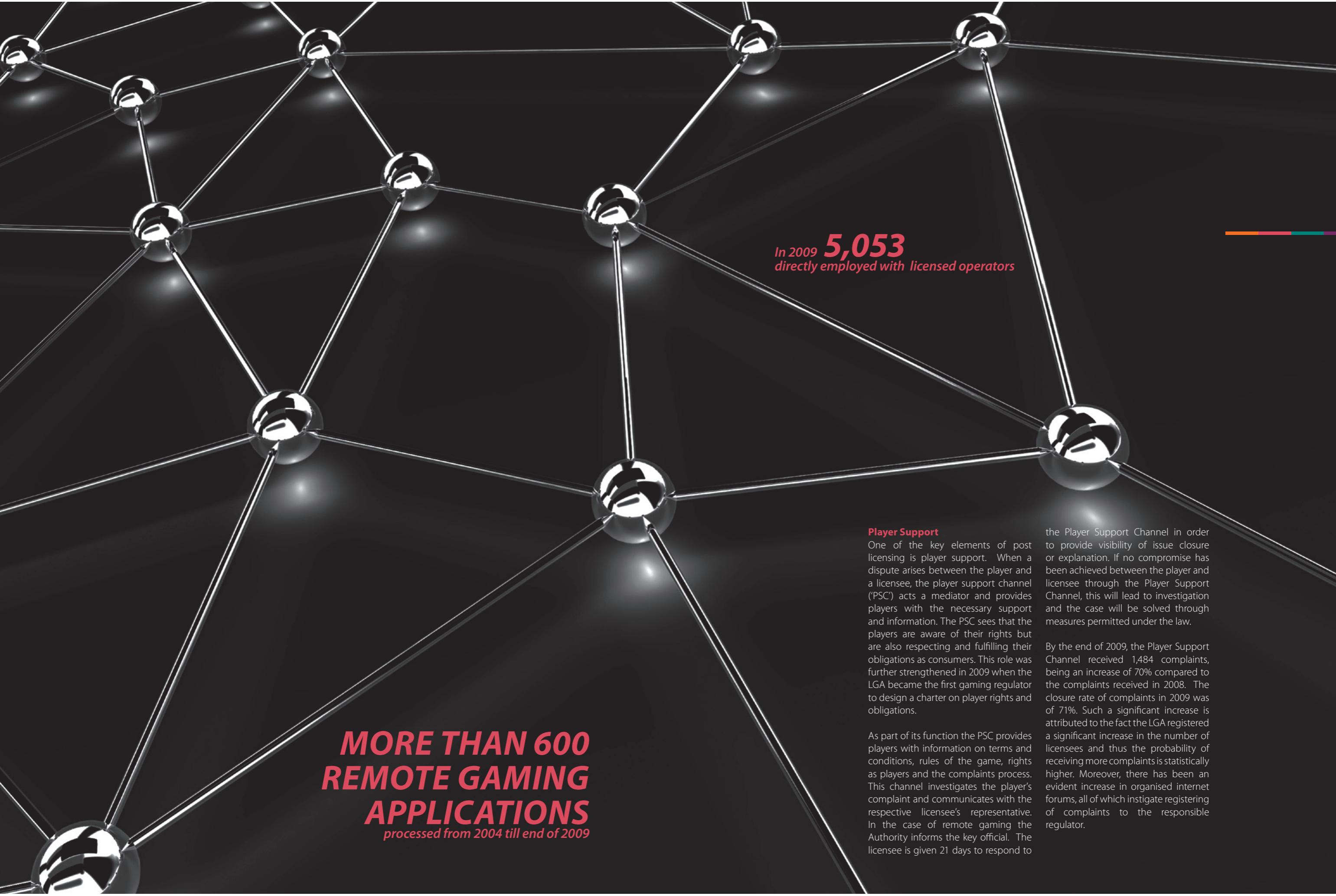
During 2009, the LGA implemented numerous changes in its licensing process to achieve a more intelligent risk based approach. This means that the LGA is now focusing even further on the high risk areas in the interest of both the players and licensed operators. In implementing the process changes and the enhanced risk based approach, the LGA felt the need to segregate the pre-licensing function from the post-licensing function in order to have a more dedicated focus on both areas. As a result, the time to obtain a ruling whether an applicant does qualify for a licence decreased, whilst the post licensing checks and controls increased exponentially, as for instance more than 80 operator checks were conducted in 2009.

Quality not Quantity!

In order for the LGA to carry out efficiently the post licensing process, the compliance department reviews several reports that are submitted by the licensees on pre-established frequencies. These include amongst others monthly players' liability reports, management accounts, financial audit reports and incident reports. Furthermore in 2009 the LGA continued increasing its physical inspections in all the areas which it regulates, including the LGA inspectors performing both routine and spot checks on data centres, operating offices and gaming floors.

Moreover, the LGA carries on-going reviews to observe if any of the operators have carried out any changes to the gaming infrastructure, core system modules and IT gaming operations, in accordance to the notified changes. The post licensing function also monitors the operators' websites to ensure that the games and rules have not been amended without the prior consent of the Authority.

The LGA through the empowerment stemming from the Lotteries and Other Games Act, 2001 has the authority to enforce warnings and administrative fines should any licensee fail from operating in accordance with the Regulations. In 2009, investigations carried out by the Authority also saw the Authority suspending or terminating over 20 licenses, whilst a number of cases (both land based and remote) were referred to the Executive Police in accordance to law.



**MORE THAN 600
REMOTE GAMING
APPLICATIONS**
processed from 2004 till end of 2009

*In 2009 **5,053**
directly employed with licensed operators*

Player Support

One of the key elements of post licensing is player support. When a dispute arises between the player and a licensee, the player support channel ('PSC') acts a mediator and provides players with the necessary support and information. The PSC sees that the players are aware of their rights but are also respecting and fulfilling their obligations as consumers. This role was further strengthened in 2009 when the LGA became the first gaming regulator to design a charter on player rights and obligations.

As part of its function the PSC provides players with information on terms and conditions, rules of the game, rights as players and the complaints process. This channel investigates the player's complaint and communicates with the respective licensee's representative. In the case of remote gaming the Authority informs the key official. The licensee is given 21 days to respond to

the Player Support Channel in order to provide visibility of issue closure or explanation. If no compromise has been achieved between the player and licensee through the Player Support Channel, this will lead to investigation and the case will be solved through measures permitted under the law.

By the end of 2009, the Player Support Channel received 1,484 complaints, being an increase of 70% compared to the complaints received in 2008. The closure rate of complaints in 2009 was of 71%. Such a significant increase is attributed to the fact the LGA registered a significant increase in the number of licensees and thus the probability of receiving more complaints is statistically higher. Moreover, there has been an evident increase in organised internet forums, all of which instigate registering of complaints to the responsible regulator.

RESPONSIBLE REGULATION

The social perspective is of outmost priority to the Authority and responsible gaming is indisputably one of, if not the most fundamental pillars in regulating gaming in and from Malta.

For most people, gaming is another form of entertainment that can be enjoyed without a harmful effect, however for some gaming can become addictive. This is why the Lotteries and Gaming Authority is committed to its mission statement to see that all games are delivered fairly and in a transparent manner, to ensure that minors and vulnerable persons are protected and to make sure that gaming is kept free from crime. Moreover, in order to channel gaming to be a form of entertainment, the regulations provide for the obligation on licence holders to implement reality checks so as to keep players aware of both time and money spent on gaming, whilst player self-limits and self-exclusion are also mechanisms promoted to protect players from moving away from gaming as a form of entertainment.

Our responsible gaming principles are equal to both land based and remote gaming whilst, these are enshrined within the respective regulations.

Our Responsible Gaming Objectives:

- To promote responsible playing, by keeping players aware of their limits, through mandated measures on licensees;
- To inform players of their rights and obligations;
- To advocate gaming as another form of entertainment;
- To ensure that players feel comfortable playing with an operator licensed by a reputable jurisdiction;

- To ensure players have a direct means of communication with both the Authority and the licensed operators

Preventative Measures taken by the Authority:

- Age limits
- Advertising Codes
- Information on the dangers of gambling
- No Game on Credit
- Charter of Player Rights and Obligations
- Warnings Displayed by gaming establishments
- Prevent Money Laundering
- Consumer Protection
- Information Campaigns
- Self Exclusion
- Self Test
- Segregation of Player Funds
- Setting Financial Limits

Promoting Responsible Gaming:

Throughout the years the LGA has been pro-active in promoting responsible gaming. Since 2004, the LGA booked dedicated spaces with gaming journals and other publications that gave a clear message of 'play responsibly'. The Authority highlights the importance of playing responsibly, of playing with licensed operators and to keep gaming as another form of entertainment in order to prevent players losing control of their actions. In international fora the LGA has never shied away from voicing its determination to place the importance of having a unified

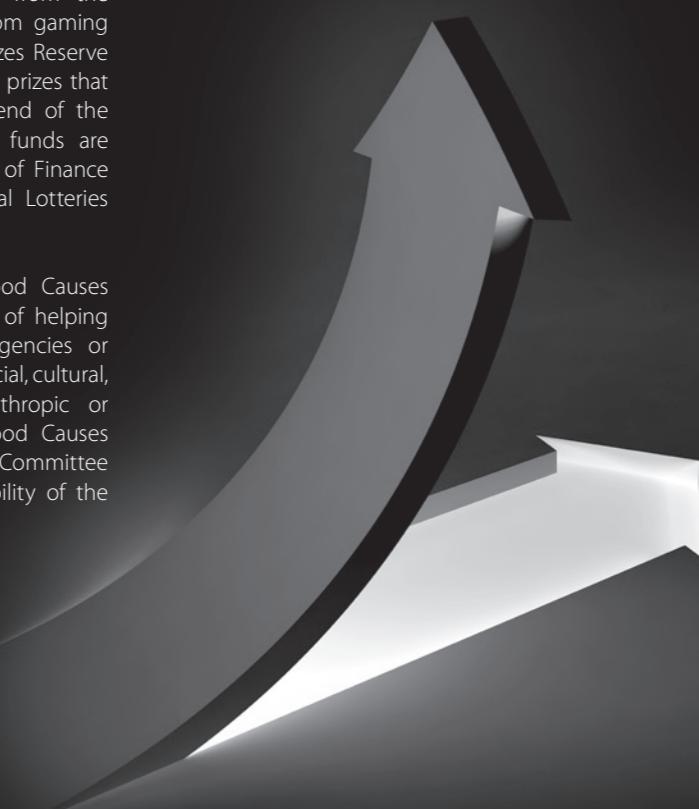
approach towards responsible gaming. Locally the Authority's commitment to fulfil its mission as advocating responsible gaming is clearly evident in the Authority's constant efforts. The LGA collaborates with international support agencies such as GamCare and local agencies to provide assistance to players. In 2009, the LGA also sponsored numerous support people from various local agencies such as Caritas and Sedqa, as well as staff from the LGA to attend responsible gaming courses.

Giving Back to Society

As in all regulated sectors the LGA collects gaming duty from the national lottery licensee on behalf of the Government. Under the Lotteries and Other Games Act, 2001 the licensee is mandated to provide contributions to the National Lottery Reserve Fund. This fund generates its income through a percentage contributed from the amount of tax payable from gaming activity. An Unclaimed Prizes Reserve is set up for any unclaimed prizes that are not collected at the end of the stipulated period. These funds are transferred to the Ministry of Finance and placed in the National Lotteries Good Causes Fund.

The National Lotteries Good Causes Fund has the main scope of helping out various individuals, agencies or organisations that have a social, cultural, educational, sport, philanthropic or religious activity. The Good Causes Fund is administered by a Committee under the direct responsibility of the Minister of Finance.

€0.8 MILLION
was collected as Unclaimed Prizes and transferred to the Good Causes Fund





MALTA, A MILESTONE OF EFFECTIVE REGULATION IN EUROPE AND BEYOND

The LGA has from its inception strived to promote and live by the concept of effective regulation. Our philosophy will always be that of ensuring consumer protection through fair gaming services and safeguarding the vulnerable members of society.

Across the years, the LGA continued investing in its skills capacity, it systems and processes in order to continue achieving this goal. The Authority also invested heavily in partnering with other competent authorities in order to strengthen this philosophy. Our rigorous approach coupled with the Maltese regulatory legal framework created a duo of essential ingredients which also took due account of the EU Treaty principles.

The LGA does not believe that its regulatory approach is a matter of intellectual property which should be retained solely by the LGA. The Authority has in the past years manifested in various ways that it is open to collaboration with other institutions and authorities to share our experiences in order to have a more effective regulatory approach not only in Malta, but across Europe and Internationally. To this effect, the LGA participated in various international fora with other regulators, sharing our experiences with whoever is interested in learning how we regulate. This is further evidenced by our philosophy of supporting other regulators build capacity to ensure harmony in procedures and control mechanisms

In 2009, the LGA continued to participate as a member, in the Gaming Regulators European Forum (GREF), and in the International Association of

Gaming Regulators (IAGR). In European the LGA accompanied the Financial Intelligence Analysis Unit Malta (FIAU) in the 8th MONEYVAL Experts' Meeting on Typologies, held in Cyprus, with the LGA and FIAU delivering themed presentations during the Internet Gaming Workshop.

The LGA, continued to actively participate in the Czech and Swedish Presidency as technical experts in the relative Working Parties. We also participated in six European conferences on on-line gaming, emphasising the importance of having a unified approach towards responsible gaming, whilst actively participating in the discussions pertaining to the future of gaming in Europe.

The LGA also participated in two annual gaming exhibitions; London's International Gaming Exhibition (IGE), amongst Europe's largest and most prestigious gaming events and European iGaming Conference and Expo which took place in Copenhagen. We found this as a great opportunity for the LGA to meet the industry's stakeholders, provide regulatory information to prospective licensees, whilst also having the opportunity to meet other national regulators. Our participation in both events enabled us to broaden our horizon and grow towards an even more successful 2010.

*The granting of a licence
**IS A REVOCABLE
PRIVILEGE,**
and no holder thereof shall be deemed to have
acquired any vested rights therein*



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