

2013
2014

THE YEAR OF TRANSFORMATION

transformation literally means going
beyond your form

WAYNE DYER

CONTENTS

4	The Years Ahead <i>Chairman's Statement</i> <i>Board Members</i> <i>Executive Committee</i> <i>Corporate Governance</i>	39	Facing the Future with Optimism
21	A Year of Change <i>Human Resources: Rightsizing, Training and Support</i> <i>A more effective and efficient Regulatory, Monitoring and Compliance Function</i> <i>Strengthening of the Enforcement Department</i> <i>Combatting of Gaming Related Match Fixing</i> <i>Complaints Logged</i>	44	Industry Performance 2014 <i>Land-Based Statistics</i> <i>Remote Gaming Statistics</i>
		79	Financial Statements 2014



THE YEARS

AHEAD

I AM PLEASED TO PRESENT THIS REPORT OF THE MALTA GAMING AUTHORITY'S ACTIVITIES FOR THE YEAR 2014.

2014 was my first full year at the helm of the MGA and it is indeed my pleasure to report that the gaming industry in Malta has had another successful year.

CHAIRMAN'S STATEMENT

Global and European demand for remote gaming products and services is still on a healthy growth trajectory across markets and product ranges. In fact, global gaming revenues climbed to more than €398 billion in 2014 and is expected to increase by 1% in 2015 to €402 billion. Most notable is the increase in mobile services whereby the trend in gaming and betting is becoming increasingly mobile due to the huge technological advancements in mobile hardware and networks. Malta has enjoyed its fair share of growth and diversification particularly in the land-based sector. The land-based sector is also consolidating with distinct consumer segmentation and a more marginal growth thus valorising and re-enforcing Government policy for the segment and the overarching consumer protection objective for the whole gaming sector.

The year has been a very intensive one for the MGA as we embarked on a wide-ranging transformation process of Malta's jurisdictional positioning and the Authority within the European and global gaming sphere. Internally, we are reviewing and restructuring the organisation and all our internal processes to become more agile and proactive in the way we carry out our business. Our stakeholders may not have felt and experienced the result of all the work undertaken internally, which is still ongoing and therefore it is opportune for me to dedicate my first statement to the MGA's transformative vision and the strategic thrusts and logic being pursued to implement it. The report itself deals with other salient developments during the year under review. At the end of this report, the first industry performance report is being published which the MGA will start publishing biannually.

OUR VISION

In spite of the success registered over the years in terms of economic contribution of this vibrant industry to the Maltese economy, which has been sustained in 2014, it was very obvious at the outset of my tenure that what got us here will not take us there. Our objectives are more long-term and are far more intrinsic and ambitious than purely economic contribution and growth.

Our jurisdictional position and regulatory ethos needed to be revamped to reflect the new realities and challenges for the gaming industry. The reason for this is two-fold:

- 1** While the industry is pushing the boundaries in terms of technology, marketing and product diversification to service new consumer trends, the regulatory environment has continued to evolve along territorial lines, both in Europe and beyond. The resultant progressive increase in restrictions and burdens (compliance and financial) on the operations of our industry base (which has traditionally depended on access to markets on the basis of the Maltese licence) is no longer applicable. This requires a new way of thinking and an innovative approach to regulation which is more in line with the complexities and environment foreseen in the next decade.
- 2** The second reason is internal and is intrinsically linked to the first, in that as an organisation, the MGA must be scaled up to meet, and exceed, the performance standards expected from us by Government policy, our peers, the industry and most importantly, consumers in order to overcome the challenges of the future and achieve a regulatory performance level that is superior to other jurisdictions but yet business-friendly and evidence-based in order to facilitate effective compliance and reduce burdens on the industry.



THE YEAR HAS BEEN A VERY INTENSIVE ONE FOR THE MGA AS WE EMBARKED ON A WIDE-RANGING TRANSFORMATION PROCESS.

The internal and strategic transformation processes underway are admittedly ambitious and all the team is in synch with our goal of re-positioning Malta as the jurisdiction of choice with the MGA as the thought leader in gaming regulation. Our focus in the coming years shall be on regulatory efficacy, consumer protection and integrity. The latter will be the hallmarks associated with Malta.

Benjamin Franklin (one of the founding fathers of the United States) once stated that those who fail to plan, plan to fail. In our book, planning is bringing the future into the present so that we can do something about it now. I am sure there could be arguments to the effect that the development and implementation of a detailed strategic plan for a regulatory Authority such as the MGA may be impractical or unnecessary simply because of the evolving and unpredictable nature of today's environment and the gaming sector in particular. While we can all generally agree that today's global financial economy is dynamic and rapidly changing, it is precisely these reasons that compel us to invest in our organisational success through the development of a well-thought-out strategic plan and organisational structure. It is for this reason that we set out to plan for the next three years and establish the critical thrusts underpinning the Authority's goals. The execution of an ambitious strategy required a complete organisational overhaul including the strengthening of corporate governance, programme management, capacity building and investments in office and ICT infrastructure.

As a regulatory Authority with wide-ranging governance functions of both the industry and consumers in Malta and beyond, we are encouraged by the early results in 2014.

These were pursuant to a number of quick wins we sought to implement where possible and in line with the strategic direction adopted for the longer term; and the numerous projects launched.

We are also encouraged by the positive and constructive responses received to the new culture that has been instilled both within the organisation and in our continuous dialogue with stakeholders, notably in improved customer relations, both in Malta and abroad. The MGA's policy and strategic decisions shall continue to be preceded by formal and informal consultations in order to take into account the stakeholders' input and be in a better position to assess, a priori, the impact of our proposals as was the case in 2014 with, for example, the launch of consultations on Digital Games of Skill with Prize and Cloud Solutions for Remote Gaming. In this way, we will ensure that the quality of our decision-making is improved. In 2015, we shall be publishing consultation documents on the implementation of a central monitoring system and new requirements for Key Officials, amongst others. We shall also be publishing position papers on social gaming and crypto currencies.

At the supra-national level and notably at EU level, the MGA often represents or provides expert support to Government in gaming-related fora. The year 2014 was a busy one also on this front with many gaming-related dossiers and activities in this critical area of our work. MGA's remit, however, spans multiple levels and our main effort was dedicated to developing more active and co-operative bilateral relations with other gaming regulatory authorities. Our efforts augur well for the future and the attainment of our objectives in this area: namely, that of sharing best practices, technical standards and the promotion of alignment of regulatory requirements in order to reduce duplication of regulatory controls as much as possible.

OUR MAIN EFFORT IS DEDICATED AT DEVELOPING MORE ACTIVE AND CO-OPERATIVE BILATERAL RELATIONS WITH OTHER GAMING REGULATORY AUTHORITIES.

All this work and other projects that are outlined in the report should feed in well into the MGA's major project, that is, to present proposals to Government for the overhaul of the regulatory and legal regime, and therefore, to scope the alignment necessary by Malta. The redesigning of the regulatory framework and its eventual adaption and implementation of, is indeed the prime catalyst in our strategic repositioning of Malta as a pre-eminent gaming jurisdiction, complemented by the fresh organisational culture which is being embedded in our everyday operations. Our aim is to deliver effective regulation of sustainable and responsible gaming with progressive multi-jurisdictional value and relevance.



OUTLOOK FOR 2015 AND BEYOND

While 2014 was a hectic and intense year on many fronts, the pace is not expected to slow down in 2015.

The two major projects expected to materialise towards the end of 2015 are indeed major milestones in the transformation underway, namely that of establishing the Gaming Academy and the launch for consultation on two major policies: one concerning an evidence-based and innovative consumer protection policy for gaming and later, the general policy to be reflected in the draft primary Act which will integrate, update and strategically extend the scope and mechanisms of gaming regulation in Malta.


In 2015, Gaming Malta will have taken over completely the promotional initiatives of Malta as a gaming jurisdiction previously handled by the MGA. Furthermore, the MGA with its full staff complement, expected to be in the region of 150, would have settled into its new offices at SmartCity in Kalkara by the third quarter. The MGA's move to SmartCity Malta will not only mean a change to bigger and better offices. It will mean a new way of doing business to serve the wider stakeholder groups with more efficacy using the latest information technologies.

WE WILL CONTINUE WITH THE OPEN AND FRANK DIALOGUE PROCESS WITH OUR STAKEHOLDERS AS THESE CHANGES ARE IMPLEMENTED...

We will continue with the open and frank dialogue process with our stakeholders as these changes are implemented and, in particular, with the changes that will be required in regulatory processes. The industry is expected to have a yet more challenging year as more states adopt and implement their national regulatory requirements, thus putting more pressure and focus on cost of operations and compliance. The MGA and the whole supporting and sophisticated ecosystem that exists in Malta will continue to adapt and strive for its pole position.

The MGA's new corporate branding launched in January 2015 is all about these substantive changes. The past has been successful for Malta and the MGA, but the future is in the making as we endeavour to make it better. Though daunting at times, the future of gaming in Malta sets to be exciting and rewarding for those who like us, believe in good, effective and evidence-based regulatory compliance, coupled with the multitude of benefits that Malta offers to those who make it their natural home.

On a final note, may I take this opportunity to thank all the stakeholders in the industry for their support and belief in the changes we are implementing. Without the support of our employees and stakeholders, life as a regulator would be much more difficult.



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

BOARD MEMBERS

The MGA Board is composed of a Chairman and four members who are appointed by the Minister for the Economy, Investment and Small Business (MEIB) for a maximum period of three years. The Board is primarily responsible to oversee the strategic development of the Authority and ensure that the policy and strategic objectives set out by the Authority are achieved. The Board is also responsible for policy development and overall risk management. Prior to the re-branding process establishing the MGA, the Authority was called the Lotteries and Gaming Authority (LGA). The Board also liaises with the Government whenever the Authority is consulted on matters of policy. During 2014, the Board of the Malta Gaming Authority (MGA) was composed as follows:



MR JOSEPH CUSCHIERI
Executive Chairman



DR CHRIS CILIA
Deputy Chairman



DR RACHEL TUA
Board Member



MR CAESAR GRECH
Board Member



MS RUTH TRAPANI GALEA FERIOL
Board Member



DR MATTHEW BONDIN
Board Secretary

**THE EXECUTIVE
MANAGEMENT
COMMITTEE**



EXECUTIVE COMMITTEE

The Executive Management Committee is composed of the heads of the MGA's six directorates, namely:

FINANCE:

Responsible for the various functions falling under the remit of the Finance unit, including financial accounting, financial planning and control, treasury, management reporting and revenue assurance.

INFORMATION:

Responsible for the overall knowledge and strategic information management of the Authority, with focus on ICT technologies, Research, Business Intelligence, Economic Analysis and Risk Management.

INVESTIGATIONS AND ENFORCEMENT:

Responsible for both remote and land-based gaming operations; also responsible for overlooking the due diligence process and the Anti-Money Laundering procedures.

LEGAL:

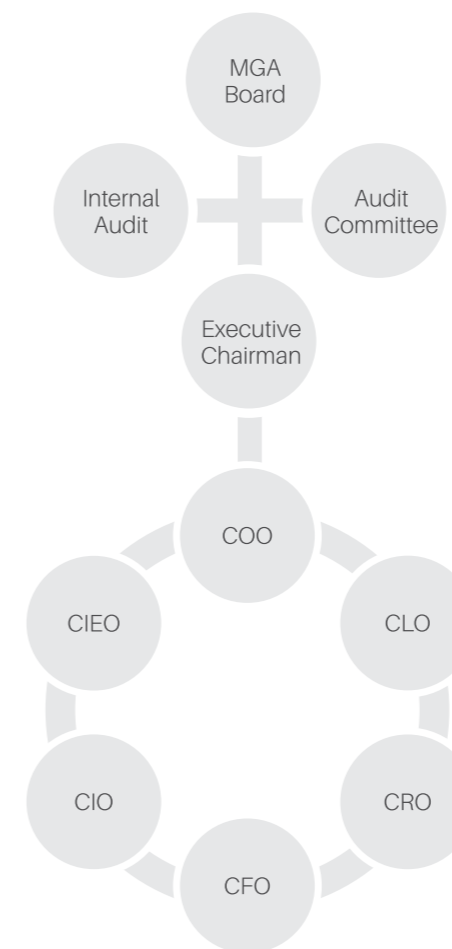
Responsible for providing regulatory and corporate legal support, covering the whole spectrum of gaming and betting-related activities (both online and land-based), together with international and European gaming-related regulatory and legal advice.

OPERATIONS:

Responsible for the overall operational efficiency of the Authority, with specific focus on Human Resources, Public Relations and Marketing, Digital Channels and Player Support.

REGULATORY:

Responsible for the licensing and compliance functions of the MGA. Also responsible for the relationship between licenced operators and the Authority.



The Executive Management Committee of the Malta Gaming Authority chaired by the Executive Chairman, together with:

- 1 **Mr Heathcliff Farrugia**, Chief Operating Officer (COO)
- 2 **Dr Edwina Licari**, Chief Legal Officer (CLO)
- 3 **Dr Rachel Desira**, Chief Regulatory Officer (CRO)
- 4 **Mr Adrian Muscat**, Acting Chief Financial Officer (CFO)
- 5 **Ing. Paul Fenech**, Chief Information Officer (CIO)
- 6 **Dr Dominic Micallef**, Chief Investigations and Enforcement Officer (CIEO)

CORPORATE GOVERNANCE



THE MGA BELIEVES IN A STRONG CORPORATE GOVERNANCE CULTURE WHICH ENSURES THAT THE DISTRIBUTION OF RIGHTS AND RESPONSIBILITIES AMONG THE DIFFERENT PARTICIPANTS IN THE AUTHORITY IS FAIR, COVERING THE RULES AND PROCEDURES FOR MAKING DECISIONS WITH INTEGRITY.

With this in mind, the MGA has taken significant steps and invested resources to strengthen and support those organisational elements which ensure that such objectives are achieved, namely the Internal Audit function, the Audit Committee and the Risk Management functions.

INTERNAL AUDIT FUNCTION

The mission of the Internal Audit function within the MGA is to provide internal assurance and advice in an independent and objective manner, designed to add value and improve the MGA's operations. The function aims to assist the MGA accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of its risk management, control, and governance measures and processes.

During 2014, the Internal Audit advisory role took a very active and primary role in the various projects undertaken by the MGA. Moreover, a number of other assurance projects as identified in the Internal Audit plan were also undertaken and recommendations approved by the Audit Committee to be executed by Management.

INTERNAL AUDIT OBJECTIVES

In accordance with the Internal Audit charter approved by the Audit Committee in the beginning of 2014, the primary objective of the Internal Audit function is to evaluate and determine whether governance, risk management and control processes are adequate and functioning, with a view to ensure that:

- risks are appropriately identified and managed,
- interaction with governance groups occurs as necessary,
- significant financial and operational information is accurate, reliable and timely,
- employees' actions comply with applicable requirements,
- resources are acquired economically, used efficiently and adequately protected,
- information assets are properly managed and adequately protected,
- programmes, plans and objectives are achieved,
- quality and continuous improvement are fostered in control processes,
- significant regulatory issues are recognised and addressed.

INTERNAL AUDIT SCOPE

To meet its objectives, during 2014 the Internal Audit function:

- independently and impartially reviewed the MGA's functions to ensure that the most efficient, effective and economical use was made of the resources required to implement its business plan and to comply with the risk management plan and the code of conduct of the MGA,
- ensured that each directorate was adequately identifying, assessing and managing its relative business risks,
- visited directorates within the MGA at appropriate intervals and reviewed internal operating systems (including accounting and related systems) to ensure their correct operation in line with management instructions, policies and relative laws and regulations,
- reviewed the means of safeguarding the assets of the MGA and, as appropriate, verified the existence of such assets,
- reviewed the adequacy of controls during system development and implementation.

INTERNAL AUDIT RESPONSIBILITIES

During 2014, the Internal Audit function took over the following responsibilities:

- Conducted an enterprise-wide risk assessment exercise with the aim of identifying and prioritising risk areas in a comprehensive risk profile,
- On the basis of the risk assessment exercise, presented risk-based annual audit plan to the Audit Committee for discussion and approval,
- Performed internal audits in accordance with the approved audit plan,
- Reported in a timely manner to the Audit Committee on the outcomes of the Internal Audit examinations, the opinions formed, the recommendations made and the management comments,
- Regularly reported to the Audit Committee on the progress achieved against the approved audit plan, including a summary of key recommendations noted for completed audits and the relative implementation progress,
- Co-ordinated risk reviews with the risk manager and the external auditors to ensure there was adequate coverage and minimal overlap of work performed,
- Maintained an appropriate level of competence and skill,
- Periodically assessed whether the Internal Audit function's purpose, authority and responsibility as defined in the Internal Audit charter continued to be adequate to enable the accomplishments of the established Internal Audit objectives,
- Informed the Audit Committee of emerging trends and practices in internal auditing,
- Performed other *ad hoc* advisory assignments and investigations as instructed by the Executive Chairman and/or the Board or Audit Committee.

INTERNAL AUDITING STANDARDS

In carrying out its responsibilities, the Internal Audit function observed the definitions, standards and code of ethics for the professional practice of internal auditing as laid down by the Institute of Internal Auditors and as amended by it from time to time.

In fact all Internal Audit assignments in 2014 were conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

AUDIT COMMITTEE

The Audit Committee supports the MGA Board in its responsibilities relating to internal control and governance, risk management and associated assurance.

During 2014, the Audit Committee was composed of the following members:

- **Dr Chris Cilia**, Chairperson
- **Mr Mario Buttigieg**, Member
- **Mr Renato Vella**, Member
- **Ms Ruth Trapani Galea Feriol**, Member
- **Mr James Grech**, Audit Committee Secretary

Permanent guests of the committee included the MGA's Internal Auditor, a representative of the MGA's external auditors and the MGA's executive chairman. Members from the MGA's executive management team attended committee meetings as requested.

During 2014, the Audit Committee was presented with reports drawn up by the Internal Audit function in respect of its assurance engagements, reports and updates on the Internal Audit's involvement in its consultancy capacity, presentations by members of the management team on risk and control issues, reports by the external auditors on the financial statements and the management letter.

RISK MANAGEMENT

The MGA's risk and internal control framework is designed to maximise opportunities in all its activities and minimise adversity. Thus, the risk and internal control framework is designed to manage risk at a reasonable level and within the risk appetite set by the MGA Board. This framework can therefore identify and prioritise risks inherent in the Authority's strategic objectives by evaluating the likelihood of those risks, assessing the impact should they materialise and managing those risks efficiently, effectively and economically.

In 2014, the MGA undertook a review of the efficacy of the Authority to manage its risks. In this respect, this year the MGA set up a fully-fledged Risk Management policy to meet the present and future needs of the Authority, especially in light of the changed management arrangements supporting cross-functional work of the Authority and more developed work stream management arrangements.

The MGA regulates an industry that poses a substantial element of inherent risk and whilst not being completely risk-adverse, it seeks actively to put controls in place and take actions to mitigate and keep the level of risk within acceptable levels.

The risk and control framework implemented by the MGA comprises the following key elements:

THE EXECUTIVE COMMITTEE

Risk is now being identified and managed at work stream level with each directorate contributing to an aggregated risk register that, at minimum, incorporates priority risks. The risk registry is reviewed quarterly by the Executive Committee. The chief officers own and manage risks. They review risks with the risk manager on a monthly basis to ensure context, actions, risk ownership and processes.

RISK MANAGER

The risk manager, in conjunction with the internal auditor, oversees that arrangements are in place for the risk management function to operate effectively within the Authority. These include the maintenance of the Authority's risk register.

AUDIT COMMITTEE

The Authority's Audit Committee is also responsible for reviewing the risk management approach. The Audit Committee also reviews internal control strategies and advises upon arrangements for risk management.

THE RISK MANAGEMENT STRATEGY

The risk management strategy outlines the objectives and policies for identifying and managing risk to the achievement of the Authority's strategic objectives and business plan. This also includes the Authority's tolerance or appetite for risk. The framework sets out management roles and responsibilities, the process for identifying and recording risk, allocating risk, allocating ownership of risk, evaluating risk, determining responses to risk and monitoring and reporting on the progress in managing risk.

RISK TOLERANCE

The Authority measures its tolerance for risk against four distinct areas: reputation, finances, legal standing, and capacity/effectiveness, each of which will have varying acceptable residual levels of risk.



A YEAR OF THE JAVIE CHANGE

INTERNAL AUDIT

The Internal Audit function ensures that the risks faced by the Authority are properly managed and controlled. Where control weaknesses are identified, these are drawn to the attention of the Audit Committee which in turn advises management to implement an appropriate response action plan.

POLICIES AND PROCEDURES

During 2014 the MGA started to put in place a standard set of policies and procedures covering all business processes across the Authority, both at corporate and operational levels. These policies are reviewed and updated regularly and are submitted to the Executive Committee and/or the MGA Board for consideration and approval as required. The appropriateness of these policies and procedures are periodically reviewed by management as part of a holistic strategy to keep these policies and procedures updated and relevant at all times.

After the relative strategic assessments were undertaken in the last quarter of 2013, it became increasingly clear that it was essential for the MGA, in its strategic direction and operations and as a jurisdiction, to embark on a transformation process in order to convert challenges into opportunities and synchronise the MGA's strategic thrusts and operations with the evolving technologies, accumulated experience and evidence, international regulatory developments and emerging markets in line with Government policy for this dynamic and economically important sector.

2014 marked the year for the MGA to define the necessary transformation, as well as to action the plan to implement it, through numerous projects on a multitude of fronts, while at the same time fulfilling its regulatory and operational functions.

Amongst the first projects undertaken was the formulation of a three-year strategic plan for the period 2015 to 2017. In parallel, the restructuring and rightsizing of the human resource capacity continued, within the scope of the objectives set by the strategic plan and this process shall continue through 2015.

Following these fundamental changes, the Authority launched a stream of projects at multiple levels aimed at the progressive attainment of MGA's clear and established strategic direction. The MGA's responsibilities, emanating from participation in EU and other international fora, together with the adoption of operational norms, standards and controls required a top tier regulatory Authority.

Some of the projects undertaken and/or launched in 2014 include:

STRATEGIC PROJECTS

The most salient project initiated in 2014 in order to attain the MGA's strategic and policy objectives is the review and total overhaul of Malta's gaming regulatory framework and implementation mechanisms led by the internal legal team and assisted by external legal, technical and policy consultants. The MGA, in its advisory role to Government on gaming policy and its implementation thereof, embarked on a total review of all gaming legislation currently in force, so as to draft proposals for Government, which aims to consolidate all legislation under a single framework that provides for a consistent, technology-neutral, evidence-based and future-looking governance of all gaming sectors in Malta. The new legislation will also provide for enhanced governance structures and extension of regulatory scope and responsibilities of the Authority. This is a huge and multi-faceted undertaking that is expected to be completed with the presentation of proposals to Government during 2015 and 2016. A number of assessments that will feed into this project were undertaken and/or launched in 2014, including:

- Exploring the possibility of regulating previously non-regulated market segments such as games of skills, digital games and social gaming,
- Impact assessment and proposals for server-based monitoring systems of land-based and remote gaming,
- Exploring the costs and benefits of cloud solutions for remote gaming and issuing of a public consultation,
- Assessment of the regulatory approach for the regulation of Digital Games with Prize and issuing of a consultation paper,
- A comparative assessment of the technical standards and requirements for all forms of gaming,
- A Regulatory and Scenario Comparative analysis for the online sector,
- Owing to the multi-dimensional nature of gaming regulation; its state by state development in recent years, and in line with its strategy there were also multiple efforts at activating existent bilateral administrative co-operation agreements; and seeking new ones; with other regulators and public entities in Malta and abroad, formally and informally, with a defined operative framework and targets.

OTHER PROJECTS OF A CORPORATE NATURE

- Preparatory work and deeds for the establishment of Gaming Malta (2015), a separate legal foundation that is tasked with the promotion of Malta as a centre of gaming excellence and the jurisdiction of choice for gaming and ancillary services,
- Commencement of works on the relocation of the Authority's premises to SmartCity, in Kalkara, planned for Summer 2015,
- Development of an IT road map for the Authority based on a rigorous business needs analysis,
- Corporate rebranding exercise and launch to represent the new vision and standing of the MGA communicated through day-to-day operations, media presence and generally enhanced more informative content,
- Developing a research and business intelligence unit in order to support decision making,
- Restructuring of the player support function at the MGA and co-founding of the Responsible Gaming Foundation in order to improve on existing player protection mechanisms and promote best practice in this area.



PROJECTS OF AN OPERATIONAL NATURE

- Complete audit of the compliance status of all licencees including: settlements of Gaming Tax (due to Government) and Fees due to the MGA, as well as player liability status of licencees,
- Restructuring of the finance department, supporting IT system and procedures,
- Reviewing and updating of the licensing and renewal processes of the MGA, with a view to streamline and simplify processes, so as to avoid duplication of requirements,
- Review of all internal processes and establishment of standard operating procedures for every unit and function,
- Assessing the possibility of streamlining the current licensing regime in order to unify the requirements of a company to obtain various Business to Consumer licences,
- Strengthening the compliance and monitoring functions to increase the efficiency and effectiveness of operations, as well as safeguarding Malta's jurisdictional reputation and ensuring that MGA's credibility is not undermined; including the introduction of random live checks and the redesign and implementation of more effective compliance audits,
- Streamlining the licensing function to increase efficiency and decrease bureaucracy. The licensing processing waiting time has been halved, from an average of 150 days to 75 days.

DEVELOPMENTS AT EU LEVEL

In spite of the fact that gaming services have long been recognised by the Court of Justice of the European Union as 'services' within the meaning of the Treaties and thus fall under the internal market freedoms concerning services, gaming policy in the EU remains an area which is not harmonised.

Gaming regulation in Europe and beyond is very granular and Governments have been seeking to ring-fence their territorial markets. While the exercise of the European freedoms of establishment and movement of land-based gaming is easily demarcated, that of remote gaming which relies on internet access, may prove more problematic to control and contain within borders. Notwithstanding, as the wave of national regulation gains momentum, the restriction of free movement of gaming services in Europe has become the norm even if some restrictions may not always be legitimate, justifiable and compliant with EU law. Since remote gaming in Europe remains one of the biggest in the world (circa 45%) and our industry is largely dependent on access to EU and other markets, directly, or through secondary licensing in other Member States, Malta and the MGA participate actively in discussions relating directly or indirectly to gaming in the EU and other fora.

EXPERT GROUP ON GAMING SERVICES

Following the publication of the Green Paper on Online Gambling in the Internal Market (COM (2011) 128 final), the European Commission launched the Communication and Action Plan "Towards a comprehensive European Framework for online gambling" (COM (2012) 596 FINAL) in 2012. In its Communication, the Commission stated that there was almost a unanimous call for policy action at EU level and the responses allowed for a clear identification of the key priority areas where action was required, namely: (1) safeguarding consumer protection; (2) preventing money laundering; (3) acting against match-fixing; (4) enhancing administrative cooperation; (5) ensuring compliance of national regimes with EU law. Each of these policy areas have been acted upon to varying extents, elaborated upon below.

Further to the Action Plan, the Commission adopted a Decision on 5 December 2012 by which it also created the Expert Group on Gambling Services (EGGS) composed of representatives of Member States (or the designated Authorities/regulators), to exchange experiences and good practices as well as to provide advice and expertise on the preparation of EU initiatives. The Expert Group meets four times a year. The MGA, as Malta's representative body, always participates actively, sharing its experience in the regulation of gaming and presenting the Maltese position while trying to align its internal initiatives with the developments at EU level. Alignment is particularly being sought with the aim of removing the need for duplicate checks and controls by the operators that are required to hold multiple licences from the different jurisdictions in which they operate.

In 2014, the EGGS concluded discussions on the European Commission's Recommendation on Consumer Protection which was eventually published in July 2014. The Recommendation encourages Member States to pursue a high level of protection for consumers, players and minors through the adoption of principles for online gambling services and for responsible advertising and sponsorship of those activities.

As from the 7th meeting of the 7 October 2014, three ongoing themes within the Expert Group concern action against match-fixing, the possibility of standardisation of technical requirements of the various states and enhancing administrative cooperation. The latter initiative is gaining momentum and the Commission has expressed its willingness to conclude a proposed text to which Member States may wish to adhere by the end of 2015. Discussions about technical requirements were still at the early stages in December and have mainly dealt with the exchange of best practices.

Following the conclusion of the negotiations on the Council of Europe Convention on the Manipulation of Sports Competitions in January 2014, in which all Member States participated, the Commission also initiated discussions on the possibility of a Recommendation for the prevention of match-fixing. These discussions are still ongoing and the adoption of a recommendation, as included in the 2012 Action Plan, remains pending.



COUNCIL OF EUROPE CONVENTION ON THE MANIPULATION OF SPORTS COMPETITIONS

Discussions on match-fixing were launched in 2011 by the Council of Europe (Recommendation CM/Rec (2011)10 of the Committee of Ministers to Member States on the promotion of the integrity of sport against manipulation of results, notably match-fixing (Adopted by the Committee of Ministers on 28 September 2011). Malta joined the negotiations during the second meeting held in 2013. While it consistently agreed with the objectives of the Convention to fight match-fixing, Malta maintained reservations on the betting provisions of the Convention which go beyond the scope of the Convention and are not linked to the prevention of match-fixing. The draft text was adopted by the Council of Europe following a vote of 43 states in favour during a meeting of the Committee of Ministers on the 9 July. It was opened for signature on the 18 September 2014 in Switzerland, and signed by 15 Member States of the Council of Europe (including 9 EU Member States). Malta has not signed the Convention as its proposals for amendments to the definition of 'illegal sports betting' were rejected. In July 2014, Malta filed a request for opinion of the Court of Justice of the European Union (CJEU) on the compatibility of the provisions of the Convention with the principles enshrined in the EU Treaties. It is expected that the CJEU will appoint a hearing on this request for opinion during 2015. It is also expected that in 2015, the Commission will issue proposals to the Council for the signature of the Convention by the European Union following its legal analysis. Given its position on the text of the Convention, and the fact that it has not signed the Convention, Malta will continue to follow these discussions closely.

THE 4TH ANTI-MONEY LAUNDERING DIRECTIVE

The Action Plan objective to prevent money-laundering was addressed by the inclusion of all 'providers of gambling services' within the scope of application of the Discussions on the 4th Anti-Money Laundering Directive (AMLD) that reached final political agreement during the last trilogue of 16 December 2014.

Malta and the MGA fully support the extension of the scope of application of the Directive to all types of gambling activities (the 3rd Anti-Money Laundering Directive, 2005/60/EC, only covered casino activities in its scope). The new Directive is expected to reach final adoption by the end of first Quarter 2015, after which Member States will have two years for its adoption and implementation.

The MGA will be working with the respective ministries, authorities and its stakeholders after its adoption in order to ensure a consistent and proportionate implementation of the provisions of the Directive amongst the various gaming segments.

VAT CHANGES IN PLACE OF SUPPLY RULES FOR ELECTRONICALLY SUPPLIED SERVICES

On 1 January 2015, the new rule established by article 5 of Council Directive 2008/8/EC (which amends article 58 of Directive 2006/112/EC), shifted the place of supply rule, currently applicable to electronic services, to the place of consumption of the services - being the place where those non-taxable customers are established, having their permanent address or usually reside.

Thus, providers of betting, lotteries and other gambling services established in Malta will now have to consider the VAT rules applicable to betting, lotteries and gambling in each of the Member States where they provide services, in accordance with the place of consumption rule. Although gambling services are exempt from the VAT Directive, this exemption is subject to the conditions and limitations that may be placed by the different Member States, and indeed very different approaches have been adopted by Member States.

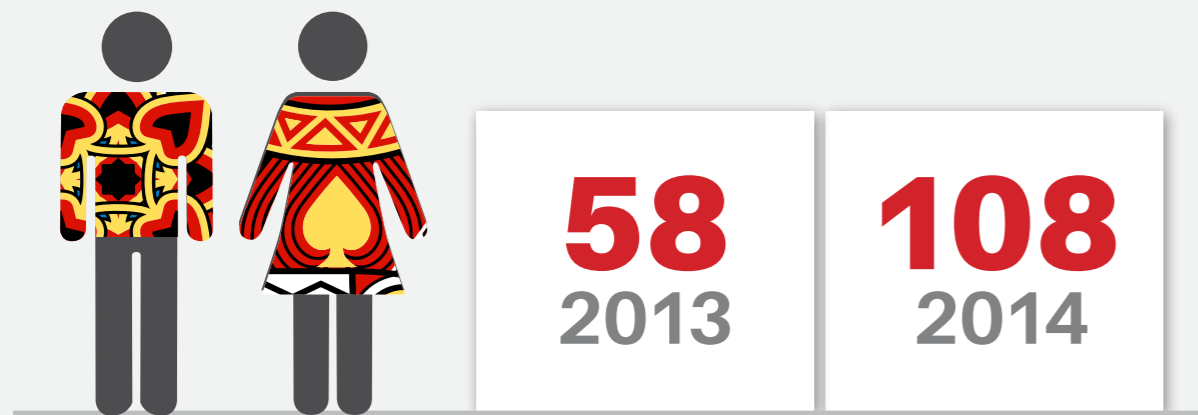
During 2014, the MGA commissioned a detailed study to determine the expected impact of the changed VAT rules and propose adequate information to assist in the implementation of the said new rules by the respective Ministry, VAT department and the industry in order to facilitate compliance. This included the organisation of an information session for the industry to provide guidance on the various aspects of the changes adopted to the VAT Act. A list of FAQ's has also been published on the MGA's website at www.mga.org.mt

HUMAN RESOURCES: RIGHTSIZING, TRAINING AND SUPPORT

IN ORDER FOR THESE STRATEGIC AND OPERATIONAL INITIATIVES TO BE IMPLEMENTED EFFECTIVELY, THE MGA WAS CONSIDERED TO BE UNDER-RESOURCED EVEN IN KEY FUNCTIONAL AREAS. IT WAS EQUALLY CONSIDERED THAT AN ADEQUATE INVESTMENT WAS NEEDED IN ORDER TO RIGHTSIZE THE HUMAN RESOURCE INFRASTRUCTURE TO THE SPAN AND DEPTH OF ITS REDEFINED FUNCTIONS.

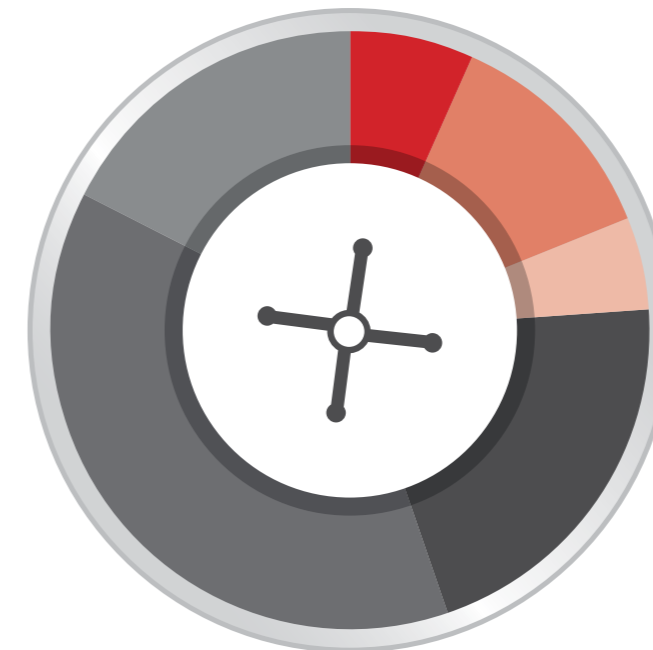
This has led to a considerable organisational restructuring and capacity building which saw the total number of employees at the MGA increase by 86% over the previous year. From an initial headcount of 58, the Authority grew to a total number of 108 employees by end of December 2014. This investment was and continues to be supplemented by training and development programmes at all functional levels. The right-sized headcount level had been established to be approximately 155 employees.

EMPLOYEES



Includes student workers and contracted employees.

2013 EMPLOYEES BY DEPARTMENT

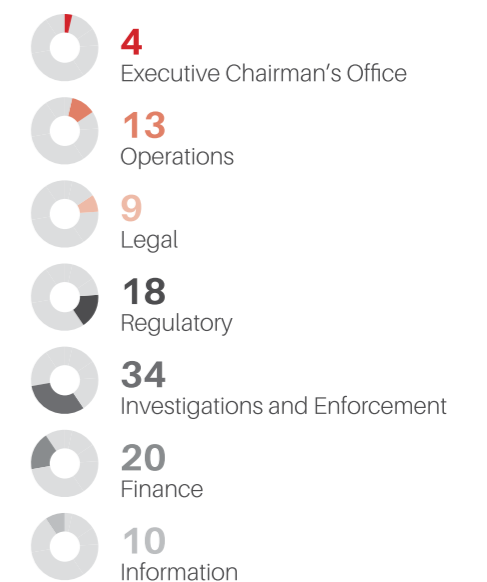
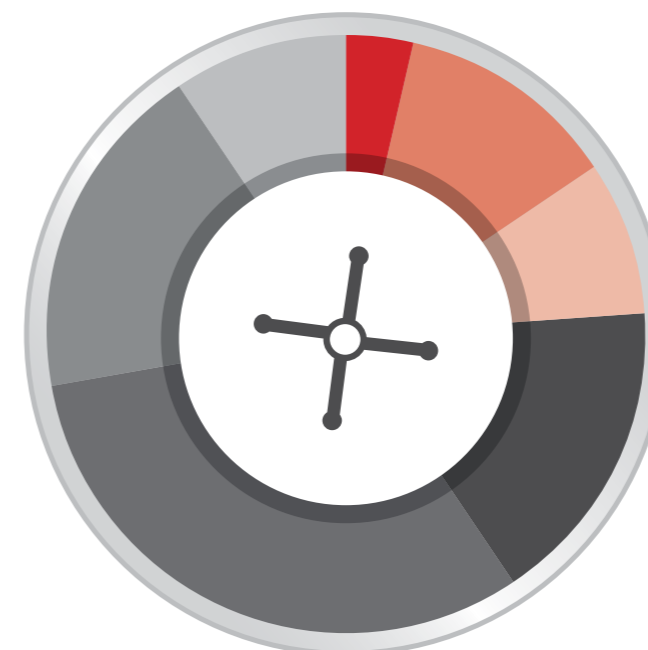


For 2013, some changes to the organisational set-up were effected in order to have a comparable structure against 2014.

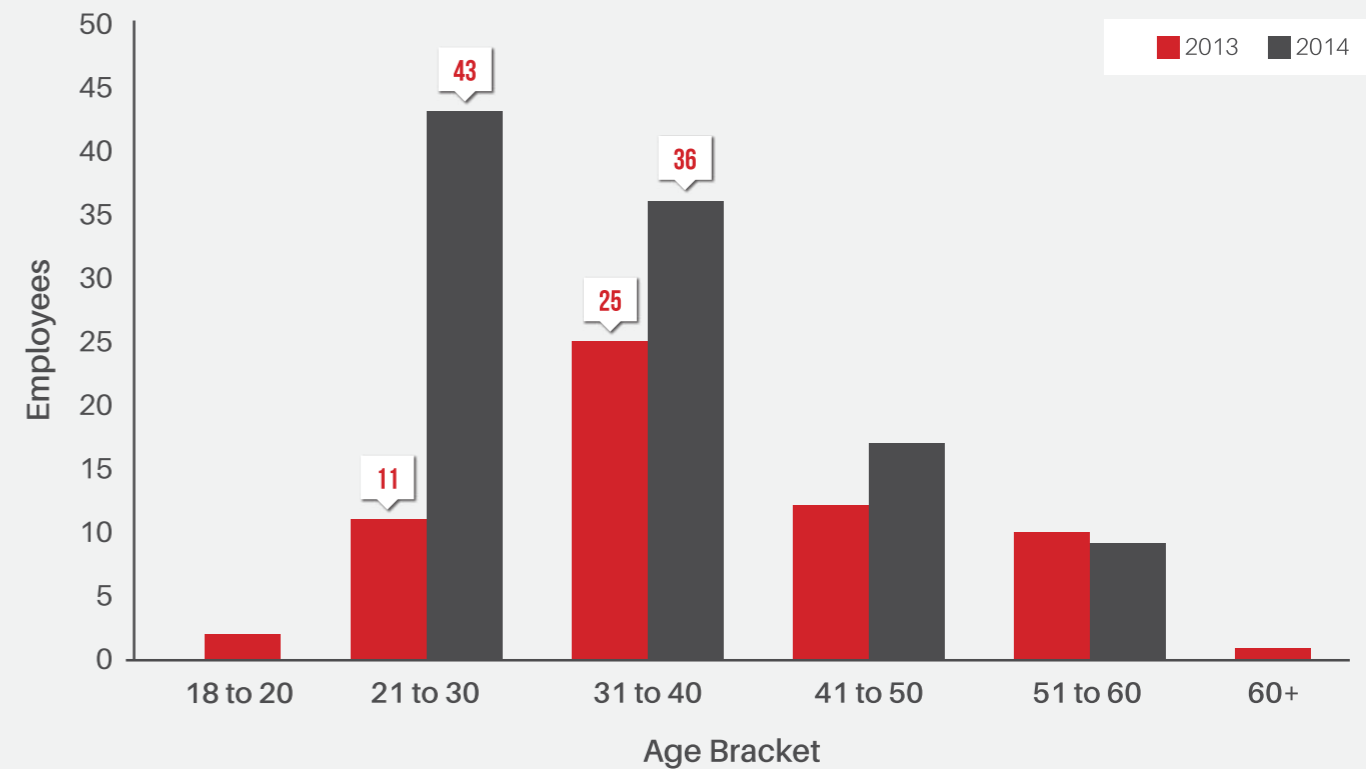
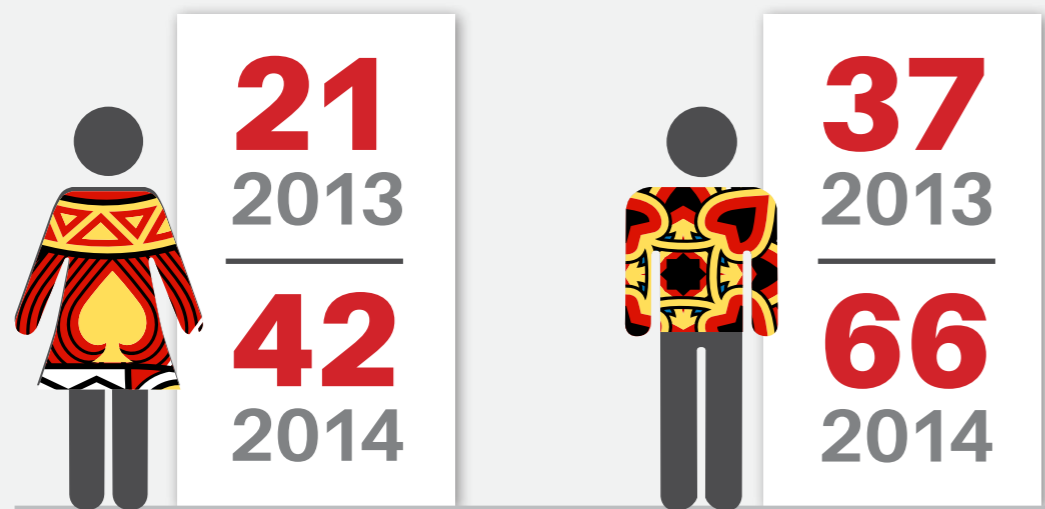
THIS MEANT THAT IN 2014,
THE AUTHORITY INCREASED ITS WORKFORCE BY 50 EMPLOYEES OVER 2013,
68% WITH OF THESE ADDITIONAL EMPLOYEES DEDICATED TO STRENGTHEN THE INVESTIGATIONS & ENFORCEMENT, FINANCE, REGULATORY AND LEGAL DEPARTMENTS.

Apart from these functions a new directorate has been created, headed by the Chief Information Officer which is responsible for ICT, economic analysis, research and business intelligence. The overall workforce is set to keep growing marginally in 2015 by which time the projects underway, particularly in monitoring and compliance, and enforcement, will become fully operational.

2014 EMPLOYEES BY DEPARTMENT

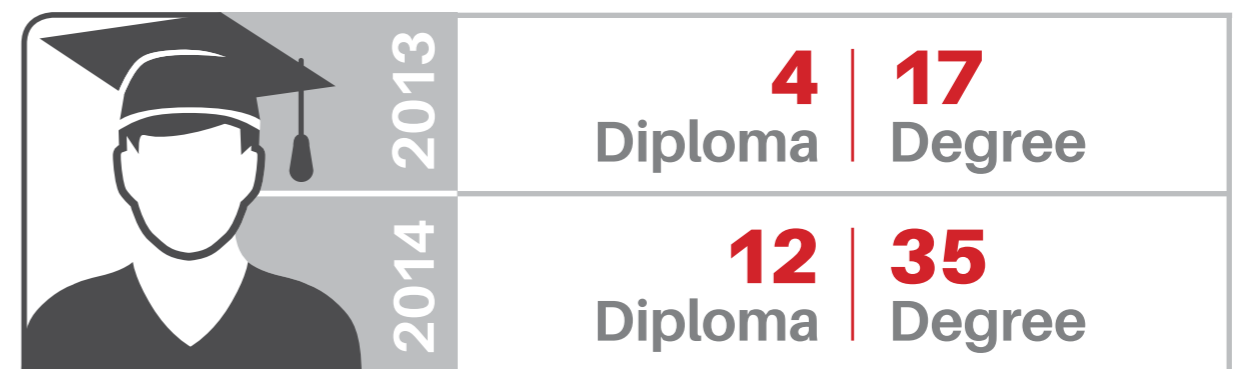


FURTHERMORE, **21 (42%)**
 OF THE NEW RECRUITS
 WERE FEMALES, **42%**
 LEADING TO A FEMALE
 EMPLOYEE BASE OF
 WHICH IS DOUBLE THE FEMALE WORKFORCE OF THE
 PREVIOUS YEAR AND IS EQUIVALENT TO
39% OF THE TOTAL
 EMPLOYEE BASE.



In 2014, the Authority also managed to attract a younger workforce, within the 21 to 30 age bracket now representing 40% of the Authority's workforce when compared to 19% in the previous year. This was part of our effort towards attracting a younger and more dynamic workforce, having the necessary qualifications to work in such a fast changing industry.

In fact in this year of review, employees in possession of a Degree doubled when compared to the year 2013, clearly reflecting the Authority's efforts towards attracting young and talented individuals. This trend is set to continue as the Authority gears up to regulate and generally govern an increasingly dynamic and challenging regulatory and industry environments over the coming years.



In 2014, 35 employees held a Degree, Post-Graduate Degree or equivalent, whilst 12 employees held a Diploma. This is up from 17 holding a Degree, Post-Graduate Degree or equivalent and 4 employees holding a Diploma in 2013. This was predominantly the effect of the newly-recruited employees, as well as a number of employees undertaking studies at Diploma or Degree level.

ONGOING TRAINING AT THE MGA

Apart from financial support for self-development studies, the Authority has also focused on up-skilling its workforce and making sure employees are kept abreast with the latest developments in the gaming industry, through a number of training courses. These included, but were not limited to:



Training at the MGA is ongoing, and is coordinated by the HR Development Unit. A number of local, as well as international service providers, are engaged to ensure training is up to the desired levels.

A MORE EFFECTIVE AND EFFICIENT REGULATORY, MONITORING AND COMPLIANCE FUNCTION

Over the years the Authority has reviewed its regulatory processes on various occasions in order to update and remain abreast with developments taking place in the industry structure and technology in all gaming sectors. Notably, these were more evident in the remote gaming segment.

During 2014, the MGA intensified its focus on its regulatory and compliance functions in both pre and post-licensing phases which is still ongoing as it aims to further strengthen them. These are considered as critical functions by the Authority (together

with customer support) and thus were amongst the first to be restructured and allocated further resources. The principle aims of restructuring the functions and processes were: increasing both efficiency and effectiveness, simplification and standardisation of processes, and the non-duplication of requirements.

The licence application and renewal processes have been integrated into a single stage and applicants are required to submit all corporate, financial, operational and technical information at one go. This allows for processing by the different regulatory and compliance functions concurrently.

This has resulted in increased efficiency both for the Authority and the applicants with a significant reduction in processing time; and an enhanced effectiveness owing to the holistic, objective-based approach now adopted in screening the applicant's status and compliance checks. Increased consideration is being given to operators applying for licence renewals that have had an uneventful regulatory compliance operational performance.

As a result of these internal changes the average processing time for a new or renewal licence across segments handled (mainly gaming parlours and remote gaming operations) stood at 7.5 weeks in 2014.

In June 2014, after consultation with the remote gaming industry stakeholders, it was decided to revise certain restrictions and permit players to be simultaneously logged on their account through separate devices (as long as players confirm their awareness of their status).

Furthermore, the post-licensing system audits that fall due at the end of years 1, 3 and 5 (licence duration is 5 years) were integrated when licencees are in possession of more than one operational licence as is the case when for example an operator offers casino-type games and betting (as required by the applicable Regulations).

These changes are also objectively based on the non-duplication of checks policy and a holistic approach to compliance of an operator, irrespective of the number of licences held, rather than the system used for a licence.

During 2015 the Authority will continue with its open dialogue with the industry and its analysis of evidence collated along the years to update policy, internal processes and enhance effectiveness without undue burden on the operators, irrespective of their size.

More changes are being planned in these regulatory and compliance processes during 2015, as the Authority continues to shift its focus on to an integrated approach to regulation and monitoring of compliance by applicants and licencees.

The MGA will publish its full set of technical requirements for remote gaming operations and update its pre and post-licensing auditing mechanism and approval process for third parties undertaking these audits.

More focus will be placed on real-time monitoring to complement the ex-post report-based monitoring currently in place. The study launched in 2014 on system-based real-time monitoring will be finalised in Quarter 2 of 2015 and this will feed into the larger overhaul of the regulatory framework underway.

STRENGTHENING OF THE ENFORCEMENT DEPARTMENT

The enforcement team, which includes the investigations unit has also been further strengthened in 2014. This team is responsible for onsite inspections, investigations, administrative sanctions and the co-ordinating function with the Police with regard to criminal investigation and prosecution further to offences under the relevant gaming legislation. The enforcement function also fulfils the reporting and coordinating function with the Malta Financial Intelligence Analysis Unit for the Authority with regard to all gaming activities concerning Money Laundering and Financing of Terrorism. The team also assists the Regulatory and Compliance department in conducting the fit and proper checks on applicant operators and their ultimate beneficiary owners.

The inspectorate (also part of the Enforcement team) has been increased to 27 employees and carries out regular and *ad hoc* inspections in the casinos, gaming parlours, bingo halls, non-profit tombola and remote gaming infrastructure with casinos being monitored around the clock. Other inspections are carried out at gaming parlours, bingo halls and on non-profit tombolas and the National Lottery draws.

NUMBER OF INSPECTIONS HELD IN 2014

INSPECTIONS	2013	2014
Casinos	1,933	5,572
Commercial Bingo	383	829
Non-profit tombola	27	130
Maltco - Lotto Booths	37	128
Lotto Draw	122	368
Maltco Super 5	18	51
Maltco Lotto/Grand Lottery	33	104
Gaming Parlours	76	183
Court Duties	9	19
Duty Paid Lotteries	13	25
TOTAL	2,651	7,409

During 2014, there were 15 inspections in conjunction with the Malta Police during which, amongst others, 14 illegal gambling devices were seized. In the remote gaming sector, the inspectorate issued 20 administrative fines and suspended the licence of five gaming operators further to regulatory breaches by the respective operators.

Suspended operators are kept under investigation in order to ensure that they do not resume operations until their suspension period expires or their licence completely revoked.

In 2014 the enforcement department, together with the Police was very actively engaged in investigating two directors of a gaming company alleged of misappropriating player funds. Following the investigations these two directors were prosecuted by the Police and arraigned in court.

COMBATting OF GAMING-RELATED MATCH-FIXING

The enforcement department on behalf of the Gaming Authority and the sports organisations, namely Malta Football Association, held various discussions with a view to setting the Anti-Corruption and Transparency Experts' Task Force by the end of the first quarter of 2015.

The primary aim of the task force will be to combat match fixing in sport and will be composed of representatives from:

- i. Ministry for Home Affairs and National Security**
- ii. Police**
- iii. MGA**
- iv. Parliamentary Secretariat for Research, Innovation, Youth and Sport**
- v. The Parliamentary Opposition**
- vi. Kunsill Malti għall-iSport**
- vii. Malta Football Association**
- viii. Permanent Commission against Corruption.**

The co-founders have agreed on the action plan for the Task Force, including:



EDUCATION AND PREVENTION

- Provide a better understanding through educational programmes both for school children and young athletes in order for them to grow in a safe and fair environment,
- Enhance awareness of the problem and empower players, coaches and referees to recognise, resist and report attempts of corruption and manipulation in sporting competitions.

LEGISLATION AND REGULATION

- Propose and implement the necessary amendments to the relevant legislation in order to enhance the effectiveness of the fight against the manipulation of sports competitions,
- Draw up and assist in the application of rules for all Maltese sports organisations so that the manipulation of sports competitions is treated as a serious offence across all sporting disciplines.

INVESTIGATION AND ENFORCEMENT

- Assist and provide for Maltese law enforcement agencies and officials to be better equipped in the fight against sports manipulation in order to prosecute criminals engaging in the manipulation of sports competitions.

The Malta Gaming Authority's role will be to share information on suspicious and irregular betting which may be related to match-fixing and to make proposals to Government on the changes that may be necessary to betting related legislation, and its relationship with other legislation.

CONSUMER PROTECTION AND SUPPORT

In February 2014, the MGA launched the Responsible Gaming Foundation (www.rgf.org.mt) in conjunction with the Ministry for the Family and Social Solidarity. The Responsible Gaming Foundation is another link in a chain of new initiatives to consolidate the gaming industry in Malta from a wider perspective. The Foundation is financed by multiple contributions, including initiatives organised by itself, European Funds and monthly contributions by Licencees and contributions by the MGA.

The main function of the Foundation is to administer the funds collected in order to support individuals who are suffering through pathological gambling, whilst organising projects that serve to assist in the rehabilitation of victims of excessive gambling and other problematic behaviour.

PLAYER SUPPORT

The MGA places a lot of importance on consumer protection and it is strategically aiming to raise the bar in this area through both legislative changes that will be based on evidence and research in the area and its practical applicability in terms of empowering and supportive measures and facilities. During 2015 the MGA will also establish a forward-looking, holistic consumer protection policy.

While the legislative changes providing for this will be translated into practice with the adoption of the new regulatory framework (expected in 2015 - 2016), other immediately implementable changes were made in the compliance monitoring of operators in this area and in the strengthening of the player support function at the MGA.

Player support is a requirement that every MGA licensee is required to offer its players, including handling of complaints and other supportive measures in case of problems encountered by the player. The MGA's internal player support department is currently responsible to further assist and facilitate resolution of complaints between players and operators that are mainly of a financial nature.

MOST OF THE COMPLAINTS

ORIGINATE FROM ONLINE GAMING PLAYERS.

IN 2014, THE EMPLOYEES IN THIS FUNCTION WERE INCREASED TO 6

AND TRAINED IN DEALING WITH REQUESTS FOR INFORMATION AND OTHER COMPLAINTS WITH THE RESULT THAT THE PENDING CASES AS AT THE BEGINNING OF THE YEAR WERE DRASTICALLY REDUCED WITH THE AVERAGE COMPLAINT RESOLUTION TIME

REDUCED BY 50% OVER 2013.

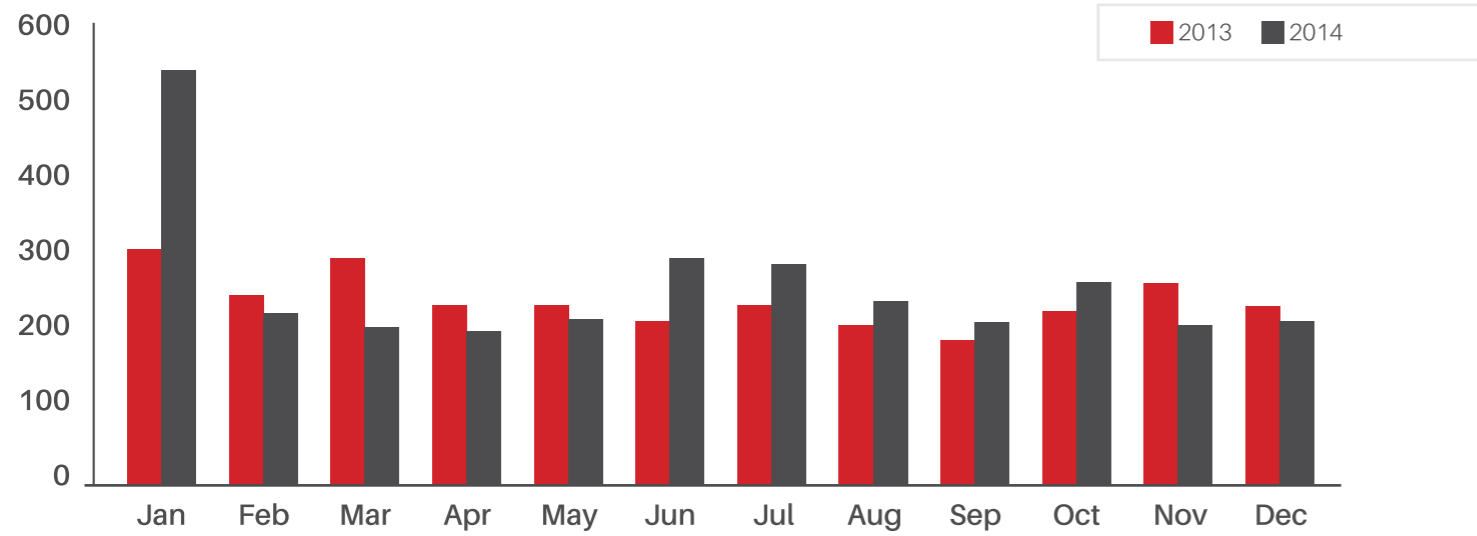
COMPLAINTS LOGGED

2,867 | **3,094**
2013 | 2014

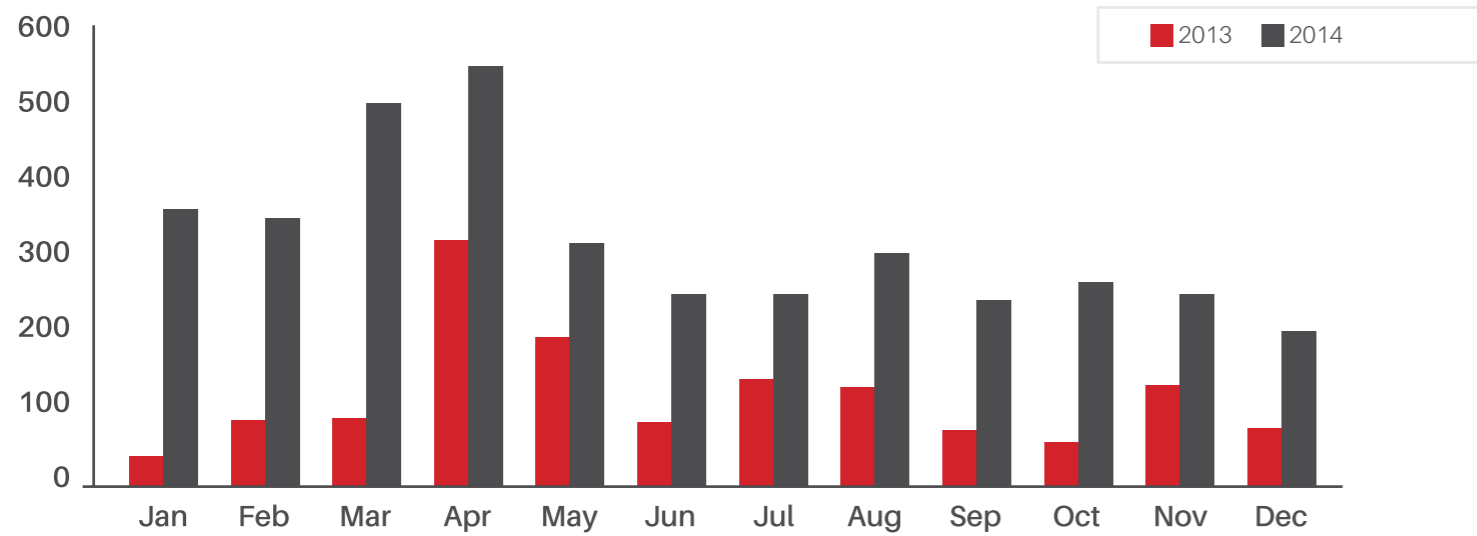
COMPLAINTS CLOSED

1,409 | **3,850**
2013 | 2014

COMPLAINTS LOGGED



COMPLAINTS CLOSED



FACING THE
FUTURE WITH
OPTIMISM



◎ MGA'S MISSION

Ensure a high level of integrity, efficiency, consumer protection and value in all gaming products and services across all channels of supply.

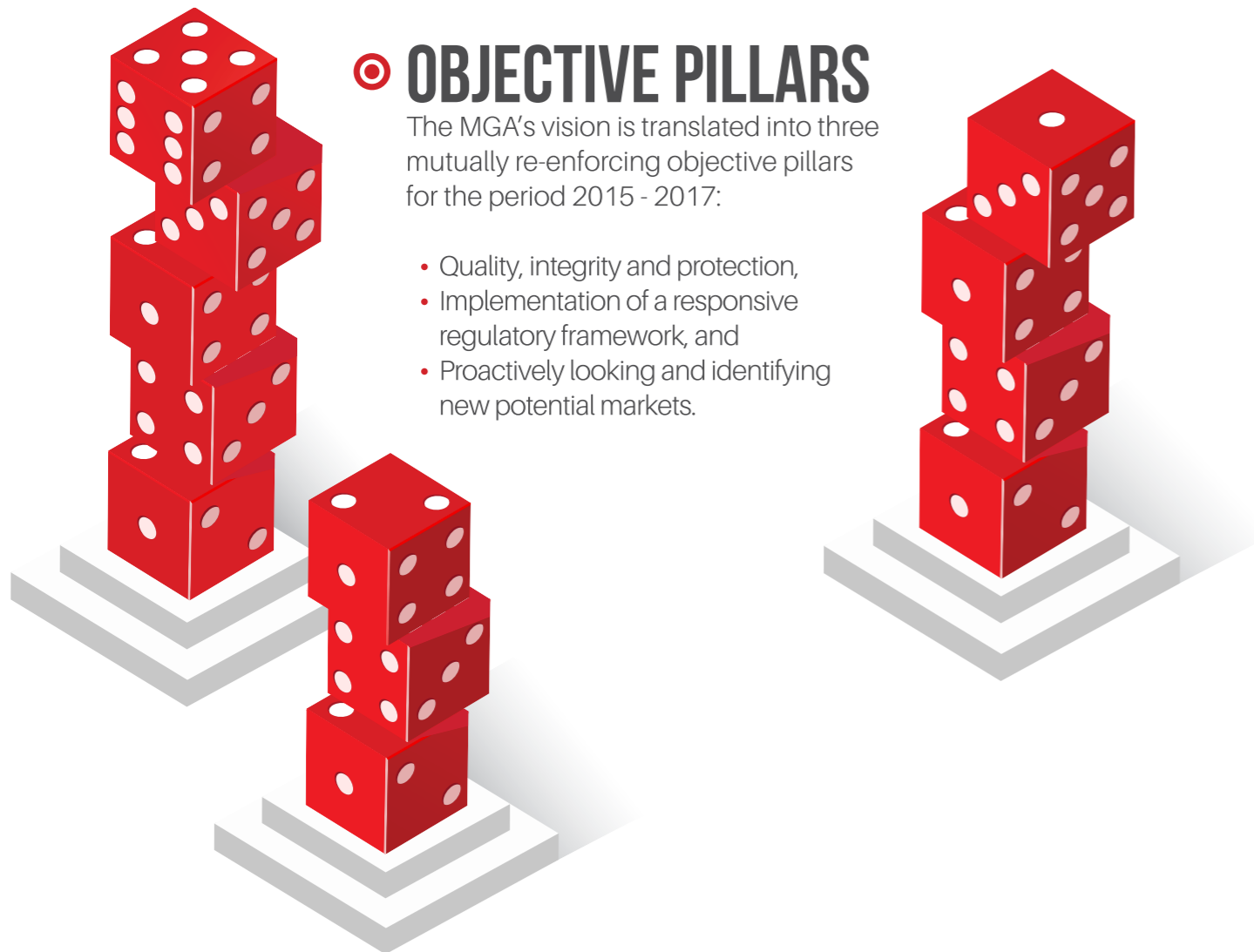
◎ OUR VISION: TRANSFORMATION

To lead in its core regulatory functions and become the jurisdiction of choice/centre of excellence for gaming development and operation, along the whole value chain, including neighbouring supply services, by focusing on consumer protection and integrity in every facet of its functions, through innovative, intelligent and simplified regulatory mechanisms and wide stakeholder collaboration.

◎ OBJECTIVE PILLARS

The MGA's vision is translated into three mutually re-enforcing objective pillars for the period 2015 - 2017:

- Quality, integrity and protection,
- Implementation of a responsive regulatory framework, and
- Proactively looking and identifying new potential markets.



STRATEGIC THRUSTS

In order to achieve its three inter-dependent objective pillars, the MGA will focus on these action areas:

INNOVATION:

Innovation drives growth and the gaming sector is one in which there is a high level of innovation in product, channel and marketing. As consumers become more demographically and culturally diverse, more intelligent and the industry harnesses the potential of technology to meet this increasing demand, regulation cannot lag behind if it is to be effective and efficient in attaining the stated policy objectives. While the lack of harmonisation of gaming regulation at EU and international level is an obstacle in most cases, Malta and the MGA aim to lead in this area and will grasp this situation as an opportunity to tailor-fit its regulatory framework and mechanisms to the dynamism of this sector, in a manner that is consistent across sectors, robust and capable of withstanding diversity and technological advances in the short and longer term. An intelligent and performance-based approach will ensure that the regulatory framework promotes social responsibility, minimises risks and enhances regulatory responsiveness potential in order to attain the gaming policy objectives in a measurable way. This requires a total overhaul of the applicable legislation which is expected to be launched in 2016. This will widen the scope and competencies of the MGA and shall be preceded by various detailed policy assessments undertaken by the MGA during 2014 and 2015.

QUALITY:

Quality for the MGA as gaming regulator is multi-faceted and includes the enhanced level of player support, standardisation of its business processes, collaboration, transparency and accountability, improved monitoring of all licensees and enforcement for non-compliant operators, amongst other areas. A quality improvement has already been registered in most areas (as can be seen in other sections of the report) which shall continue in all of MGA's functions in order for it and for Malta to be even worthier of having a reputation of being a leading jurisdiction of regulatory integrity and effectiveness with players, industry, its peers (regulators of other jurisdictions) and other critical stakeholders.

CONSUMER PROTECTION:

While Malta's gaming policy objectives are not ranked or prioritised, the MGA will strive to implement its statutory function in this area with an innovative approach and mechanisms with a view to lead with evidence-based measures. The MGA will capitalise on its experience and knowledge in the area and also invest in seeking sector-specific expertise in order to foster and lead a more informed school of thought in this critical area of gaming regulation.

Since gaming has been excluded from all EU directives, including the more recent (2012) Consumer Rights Directive and in spite of the 2014 Commission Recommendation on Consumer Protection, the European gaming consumer is, to a large extent, protected only by national measures that, in their majority, are more restrictive than supportive and empowering the player to adjust any risky gaming behaviour. As gaming technology and products evolve and their marketing continues to target consumer behaviour, the MGA aims to adjust its knowledge, regulatory and support mechanisms in a quest for more effectiveness and leadership in this area.

To this effect, the MGA will review its legislative framework and mechanisms on the basis of more recent knowledge and research in this sphere in order to ensure that these are up to date with current and developing health and financial risks associated with gaming. The span of review and action will address, amongst others, information and contractual rights, commercial communications, monitoring of consumer behaviour, empowering measures to protect and minimise possibility of harm and fraud, enhancement of supportive measures for players at risk and the provision of alternative dispute resolution. Owing to its importance for both the MGA and the industry, the MGA will work in close collaboration with other relevant competent authorities, the industry and other relevant stakeholders in order to ensure that a measurable improvement is attained in the short term and sustained in the longer term. The role of the player support unit within the Authority will be reviewed and further supported with the necessary competencies, resources, training and information systems in order to be in a better position to monitor compliance and offer necessary support and direction to players and providers.

COST EFFICIENCIES:

The implementation of the strategic and other operational actions planned for the three-year period are projected to entail substantial financial and other resource investment. It is therefore necessary for the Authority to exploit the opportunities afforded by new technology and information systems in order to improve, amongst other functions, financial management, including tax and administrative fee collection, resource management, security, consumer protection, licensee monitoring and to develop a business intelligence system to support and empower the MGA in conducting all its functions and reduce costs of operation.

Improvements realised in 2014 through the review of stand-alone systems will continue. This will be digitised and integrated in one, multi-functional Information System which will be rolled out in 2015 and 2016.

GROWTH:

The level of investment made and that continues to be made by Government and private providers in supporting the physical, economic and services infrastructure of the gaming industry in Malta require that a constant level of growth is attained. In order for the MGA to focus on its core regulatory functions and the other Action Areas of its strategic plan, GamingMalta will be set up as a distinct legal entity to promote Malta in existent and new and emerging markets.

The aim of GamingMalta is two-pronged, namely: the development of access to new markets, be they geographic and/or product markets and the attraction of new and diverse gaming developers, operators and service providers to locate and operate in Malta.

Sustainability and continued relevance of the Maltese jurisdiction in existent markets for Malta-based industry, largely including EU markets, necessitate that the MGA itself strengthens and increases the scope and depth of its collaboration and administrative cooperation with regulatory authorities of other jurisdictions and other directly relevant bodies, such as sports organisations. A number of such agreements already exist. These will be reviewed with a view to enhance administrative cooperation, reduce duplication of compliance effort and cost and share best practices through exchange of personnel and knowledge. The MGA's potential in this action area will be further enhanced by the alignment of regulatory measures where possible, that will be incorporated in the new regulatory framework.

KNOWLEDGE:

The gaming industry in Malta thrives and grows on the many factors that make it attractive as an operating hub, including the highly skilled workforce. While Malta already supplies this industry with around 50% of its current needs, the advances in technology, gaming products and services, and the increased complexity in regulatory compliance require a constant stream of specialised skills and competencies dedicated to this industry. For this reason the Government/MGA together with other entities/partners will set up a Gaming Academy in order to consolidate and further develop the sophisticated ecosystem that supports the industry in Malta. To this end the Gaming Academy will serve to improve and diversify the knowledge, skills, competencies worthy of Malta as a gaming hub of excellence.

VALUE:

Value may be subjective in definition. At its core, MGA defines value in terms of welfare of both industry and consumers. All the action areas included in its strategic plan aim to add value and welfare to both domains and the MGA shall strive to achieve its strategic objectives in time, which, in turn, shall add more value to the MGA itself, its decade-long experience, its regulatory systems and mechanisms, its knowledge and reputation.

In the longer term, the MGA will seek to use this value to assist other jurisdictions that may benefit from its experience and the lessons learnt in regulating such a dynamic economic sector.

KEY MILESTONES: 2015

- Establishment of GamingMalta: **Q2**
- Draft proposals to Government for the change of the primary and subsidiary regulatory framework - a 'New' Gaming Act: **Q4 and progressive roll-out thereafter**
- Establishment of Consumer Protection Policy: **Q 3-4**
- Establishment of Gaming Academy: **Q4**
- Move MGA offices to SmartCity, Kalkara: **Q3**
- Full implementation of IT strategy: **Q4 / Q1 2016**

LAND-BASED STATISTICS

Preface

Malta through the promulgation of the Lotteries and other Games Act (Cap. 438) and the establishment of the then Lotteries and Gaming Authority (now Malta Gaming Authority) in 2003 was one of the first EU Member States to separate the regulatory functions from the operation and the gaming market then dominated by the National Lottery (now Maltco). This paved the way for the liberalisation and regulation of various gaming sectors, of which the most prominent is remote gaming that was still in its early stages of development at the time. Indeed, Malta was also the first EU member state to specifically regulate remote gaming.

The MGA is the national single governing body responsible for the implementation of Malta's gaming policy, as laid down by Government that seeks to protect vulnerable people from the ills usually associated with gaming and to prevent gaming from being a source of crime and fraud. In order to do this, the MGA was vested with statutory competence to regulate all gaming activities and namely to licence and monitor the gaming licensees for compliance with the law together with other established conditions, as well as to sanction misconduct and other offences.

Another important role the MGA has been vested with is its advisory function to Government on the performance of regulation and the gaming industry in general. In order to better fulfil this role, Government vested the MGA with the power to collate all the necessary data through an amendment of Article 11 of the Lotteries and other Games Act that came into effect in December 2014.

The MGA therefore collects data in order to deliver its responsibility under the Act to provide advice to the Government on important information about gaming industry developments and consumer behaviour.

It also collects and analyses data needed to keep itself up-to-date on all areas of participation in gaming and to monitor changes that may have an impact on the regulatory framework. It intends to improve quality of data used and published. It is indeed the MGA's intention to publish industry statistics at six month intervals.

The MGA utilises information provided by the Industry to assess any changes in the gambling landscape amongst others, with regard to, turnover, gross profits, the number of licences, the number of gambling premises, social responsibility measures and much more.

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

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

2. Figures are representative of the position at the end of the year, or reflect an average of values for dates falling within 2014; whichever is the case is clearly stated.

3. Regulatory returns due for the period ending December 2014 have not all been submitted. This is mainly due to the inconsistent statutory time intervals for the submission of due returns amongst the sectors regulated by the MGA under different legislation. This situation will be progressively rectified so that all returns are brought in line thus providing for uniform reporting. Accordingly the MGA opted to publish figures where these are complete and therefore give a true picture of the sector to which they relate. Figures are correct as of date of publication, although they may be subject to further change as a result of a number of overdue returns or where the MGA may subsequently identify errors that operators have made in their submissions.

INDUSTRY PERFORMANCE 2014

LAND-BASED STATISTICS

4. In the section referring to remote gaming, the data is largely based on a survey conducted by the MGA amongst all the licensed gaming companies with a response rate of 75%. Every licensee was invited to participate in this research study but 25% did not reply. However, data was weighted to compensate for the no-response. This study was conducted by e-mail during the first quarter of 2015. During the data collection process, the MGA followed-up by phone to encourage companies to forward their responses to this questionnaire. The questionnaire was pre-tested to ensure that the right tool was being used. No particular problems were encountered. After data collection, data cleaning was conducted to ensure that there were no inconsistencies. Following this, data was analysed thoroughly by the MGA's Research Team. Other data was compiled by the Authority from information obtained through regular reporting by the licensees.

5. The information contained in this document covers Maltese land-based gambling (Casinos, Gaming Parlours, Commercial Bingo, National Lottery, betting and the suite numbers games provided by Maltco) and remote gaming. It does not cover spread betting because the MGA does not regulate this activity or other gaming activities, such as social games or digital games of skill with prize that are not regulated at the time of publication.

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

7. The terminology used in this document is explained in Appendix 1 at the end of this section.

8. Totals and percentages are calculated from unrounded figures.

General

On the land-based gaming front, the number of licensees, which include Maltco, casinos, bingo and other gaming parlours, remained largely unchanged in 2014. Growth in the segment was marginal.

On the other hand, as at December 2014, the MGA regulated more than 450 online gaming licences spread over a portfolio of 283 companies. These include a large number of leading and well-respected multi-national brand names like Betfair, Bwin, Betsson, Betclix, Poker Stars, Unibet, Tipico, Mr Green and others. Year on year (i.e. for the year 2014 compared with the year 2013), the number of companies licensed by the MGA increased by 11% and the number of licences increased by 21%.

LAND-BASED STATISTICS

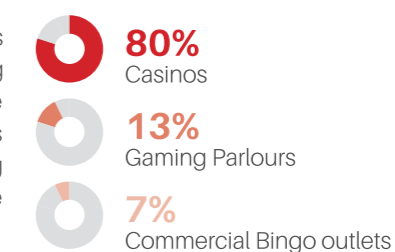
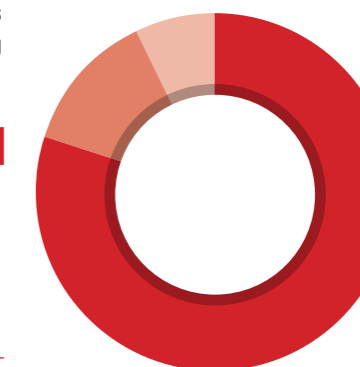
Land-based sector (excluding National Lottery/Maltco)

In 2014, the Maltese land-based industry (excluding Maltco), as regulated by the Malta Gaming Authority, generated gross gaming revenue (GGR) of €41,223,775, an increase of 3% over 2013.

GGR - Land-based	2013	2014
	€	€
Casinos	32,189,966	33,193,717
Gaming Parlours	5,109,921	5,337,513
Commercial Bingo outlets	2,830,431	2,692,545
Total	40,130,318	41,223,775

The largest segment in GGR terms is represented by the casinos with an 80% market share of the land-based industry, recovering marginally from the dip post-2012 which is attributed to the licensing of the gaming parlours and their subsequent success and re-distribution of the lower stake street market. The gaming parlours constitute 13% of the market share, followed by the commercial bingo outlets (7%).

GGR - Land-based sector 2014 (excl. Maltco)

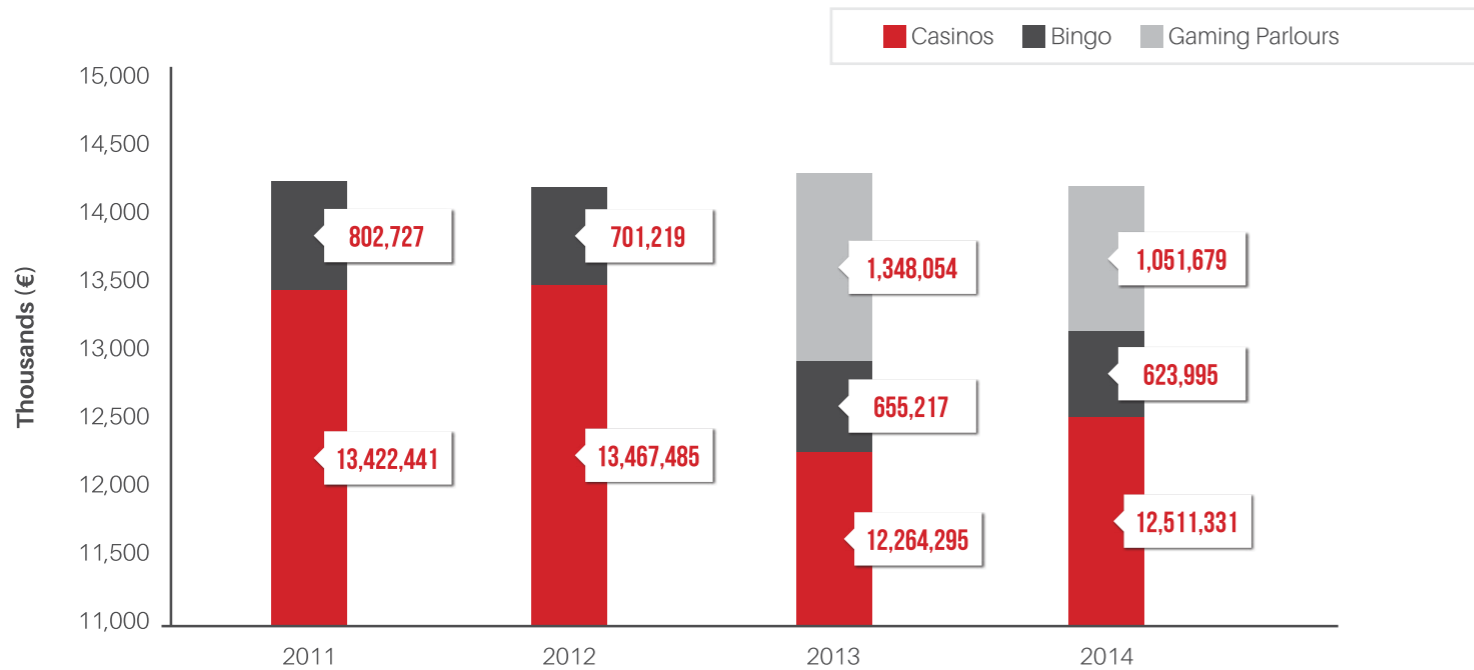


LAND-BASED STATISTICS

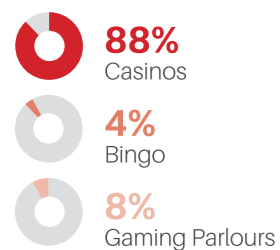
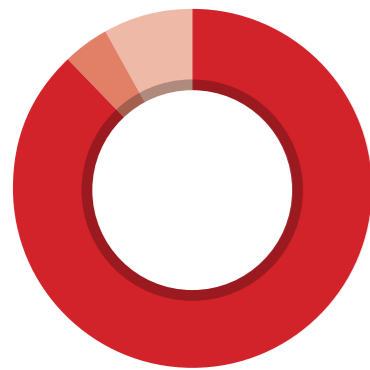
Tax paid by the land-based sector (excl. Maltco)

The increase in revenue generated by the industry contributed to the increase of the gaming tax due to Government which reached €14.18 million in 2014 (a decrease of 1% over 2013).

Gaming tax (land-based)



Tax paid by land-based sector 2014 (excl. Maltco)



LAND-BASED STATISTICS

1. Casino Segment

The establishment and operation of casinos in Malta is subject to a two-tier authorisation system, namely the granting of a concession by Government and a subsequent operating licence by the MGA.

As at the end of 2014 there were three licensed casinos which offer slot machines and live table games.

Licensed operators:

- Dragonara Casino
- Oracle Casino
- The Casino at Portomaso

Market development

The first casino in Malta, the Dragonara Casino, was opened in 1964 at the Dragonara Palace, a historic building built in 1870 by the late Marquis Scicluna who used it as a summer residence located on the St Julian's peninsula. It was one of the major projects to establish Malta as a prime tourist destination.

The Dragonara Casino was initially operated by the Government, but in 1999 the management and operation of the casino was conceded to a private operator for a period of 10 years. This coincided with the earlier promulgation of the Gaming Act (Cap. 400 of the Laws of Malta) of April 1998 that provided for the opening of the sector subject to the aforementioned two-tier authorisation framework. The concession for the management and operation of the Dragonara Casino has been granted to Dragonara Gaming Limited in 2010 for a period of 10 years following a competitive process.

Casino operations continue to be considered as part of the Maltese tourism product and are thus located mainly in areas of entertainment and other touristic zones.

The subsequent development of the sector included the establishment and operation of Oracle Casino in September 1998, as part of the Dolmen Resort Hotel in St Paul's Bay; and Casino di Venezia followed, located on the Vittoriosa Waterfront which started operating in August 2001. (Casino di Venezia's licence was suspended in 2013).

In June 2006, Portomaso Casino launched its operations at Portomaso adjacent to Hilton Malta also in St Julian's and became the fourth casino establishment to be granted a 10-year licence to operate in Malta.

In July 2013, Government issued two expressions of interest to establish and operate other casinos in Malta and one in Gozo and received various offers. Eden Leisure Group was identified as the preferred bidder for Malta and was granted a 10-year concession to open a casino.

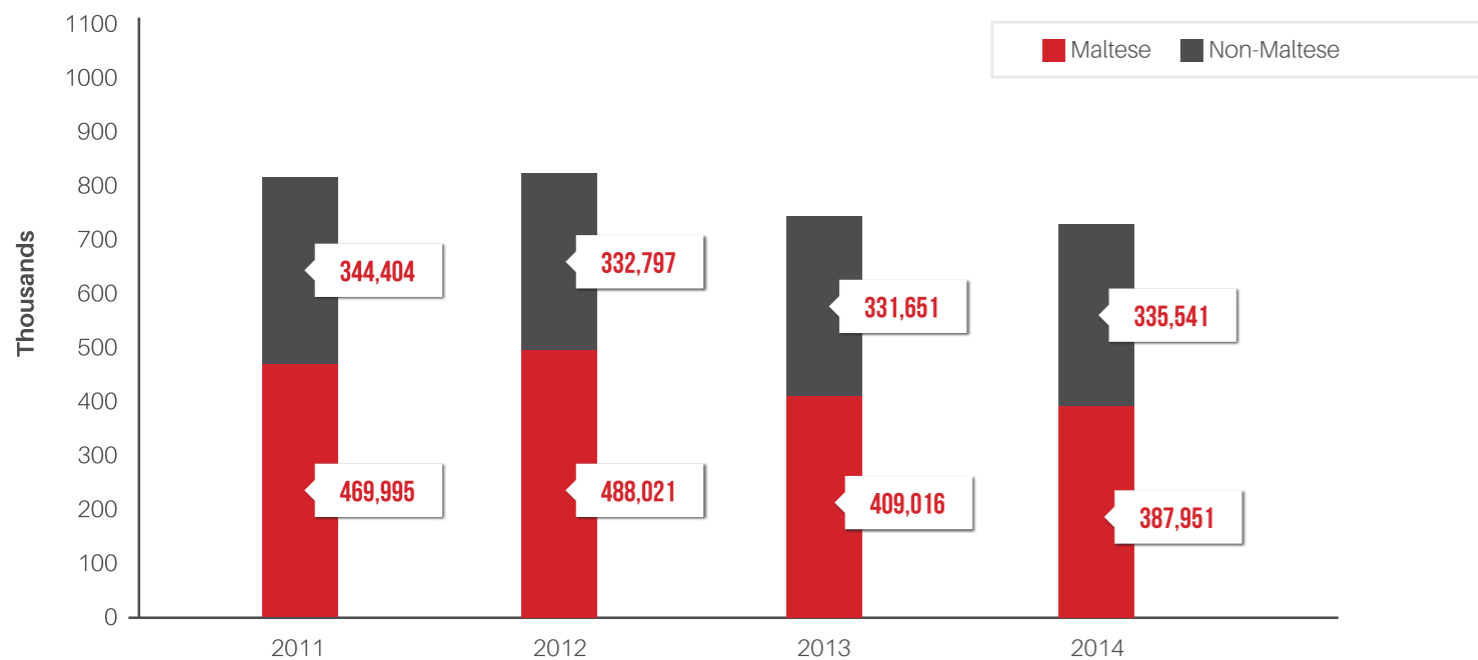
LAND-BASED STATISTICS

1.1. Casino visits

Total casino visits have decreased by 2% between 2013 and 2014 and most markedly (- 5%) in the number of visits by Maltese residents. The number of visits by non-Maltese has marginally increased by 1%.

Casino visits	2011	2012	2013	2014
Maltese	469,995	488,021	409,016	387,951
Non-Maltese	344,404	332,797	331,651	335,541
Total	814,399	820,818	740,667	723,492

Casino visits

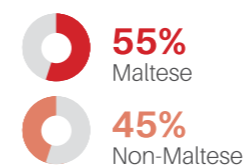
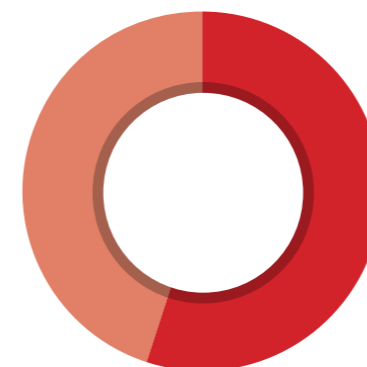


In 2014, the number of Maltese visitors to land-based casinos accounted for 54% of total visitors while the number of non-Maltese visitors amounted to 46%.

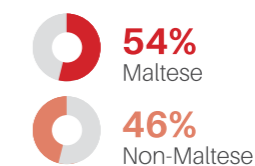
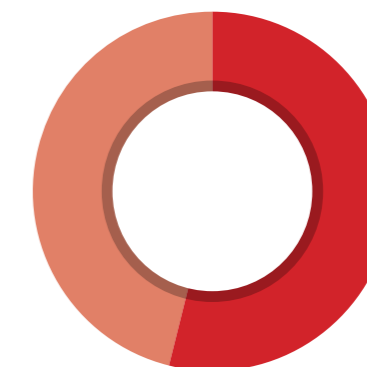
Attendance at the casinos is directly related to tourism, with sales peaking in August, in line with the peak in inbound tourism to Malta. During the year, the number of non-Maltese customers gradually increases, reaching its peak during the summer months.

LAND-BASED STATISTICS

Casino visits 2013

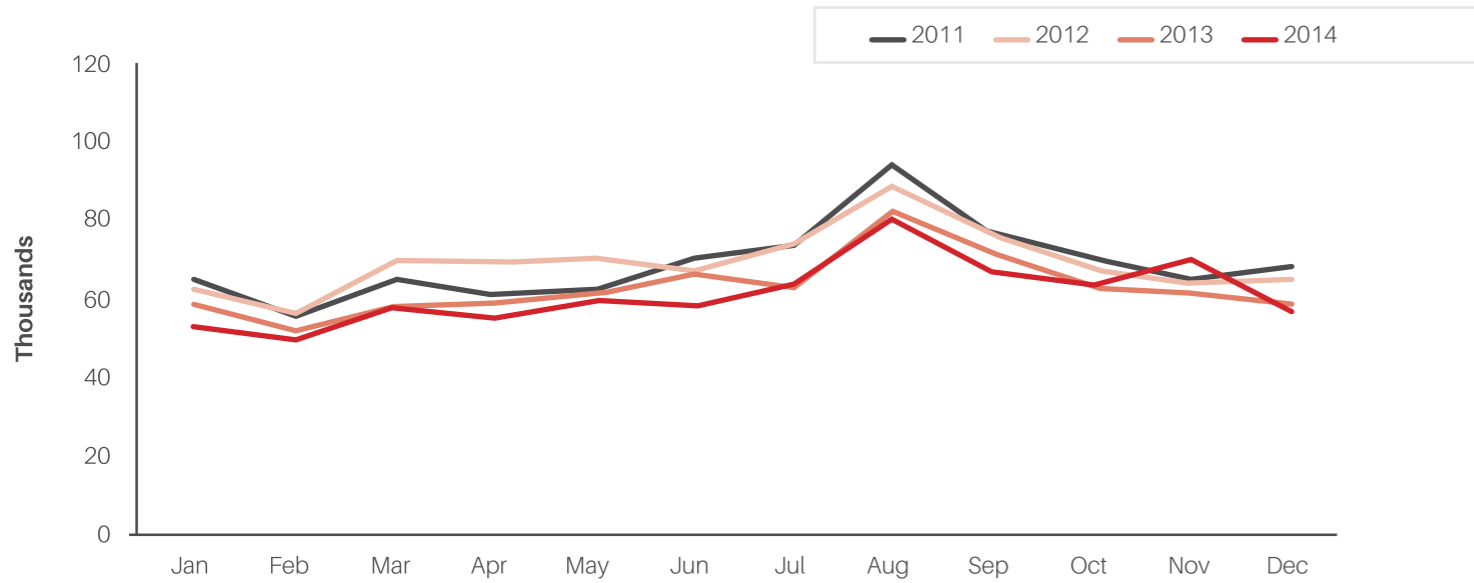


Casino visits 2014



LAND-BASED STATISTICS

Casino visits



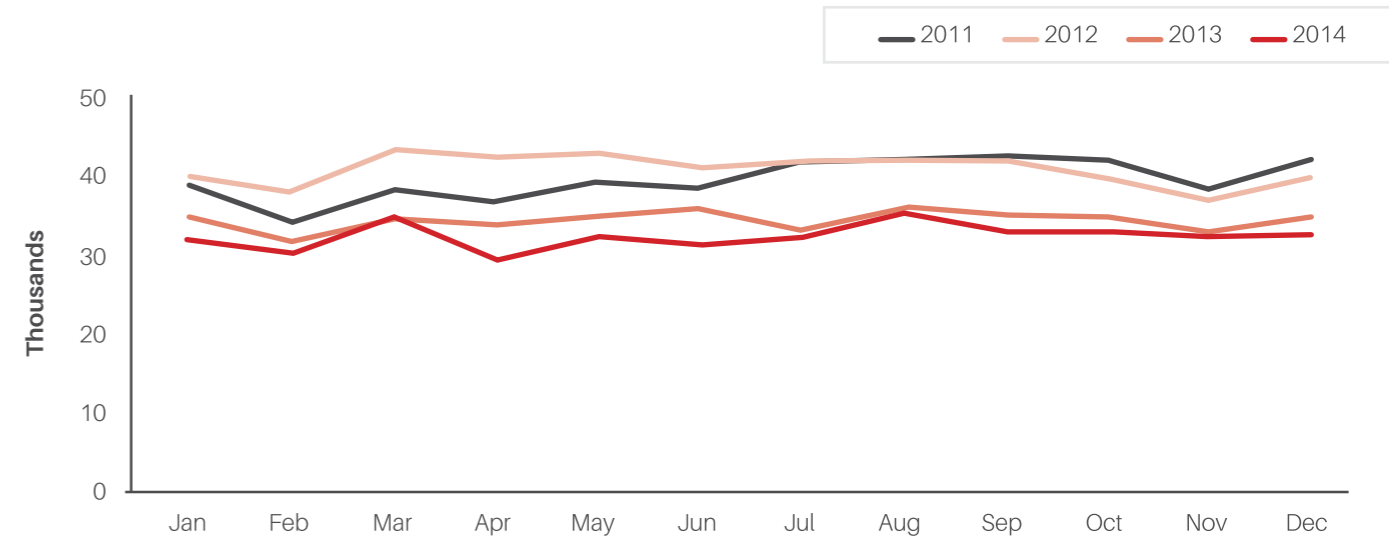
Casino visits (Maltese & Non-Maltese visitors)	2011	2012	2013	2014
January	64,020	61,591	57,380	52,465
February	54,361	55,552	50,563	49,162
March	63,959	68,898	56,495	56,613
April	60,300	68,422	57,866	53,785
May	62,042	69,600	60,113	58,840
June	69,303	66,504	64,910	57,600
July	72,910	73,154	61,771	62,291
August	92,746	87,766	81,035	79,897
September	75,738	75,315	70,489	65,568
October	69,555	67,183	62,179	62,169
November	62,832	62,321	60,460	69,160
December	66,633	64,512	57,406	55,942
Total	814,399	820,818	740,667	723,492

LAND-BASED STATISTICS

Casino visits - Maltese visitors

During 2014 casinos reported the highest number of Maltese visitors in August. This is consistent with the general trend over the years and coincides with a similar peak in the number of non-Maltese visits. On the other hand, in April and June of the same year, the number of visits was 12% less than the same period in 2013.

Casino visits - Maltese visitors



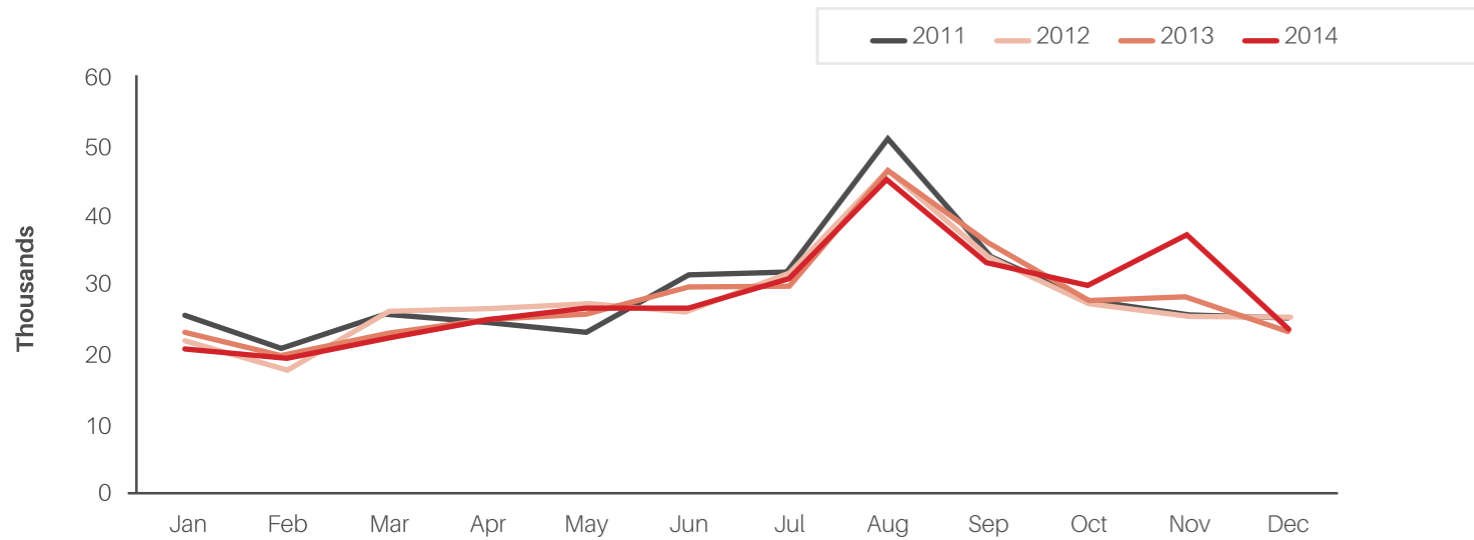
Casino visits (Maltese)	2011	2012	2013	2014
January	38,317	39,713	34,671	32,043
February	33,745	37,966	31,503	30,133
March	38,191	43,257	34,165	34,646
April	36,340	42,089	33,413	29,270
May	39,102	42,611	34,706	32,160
June	38,013	40,683	35,577	31,266
July	41,097	41,807	32,803	32,274
August	41,722	41,875	35,649	35,110
September	41,924	41,924	34,776	32,988
October	41,784	39,728	34,675	33,035
November	37,998	36,816	32,515	32,397
December	41,707	39,552	34,563	32,629
Total	469,995	488,021	409,016	387,951

LAND-BASED STATISTICS

Casino visits - Non-Maltese visitors

Month on month, the highest number of non-Maltese visitors was reported in August, even if year on year, the number of visits in 2014 was marginally lower than that registered in the same month in 2013. The highest increase was seen in November 2014 when the number of visitors increased by 32% compared to the same month in 2013.

Casino visits - Non-Maltese



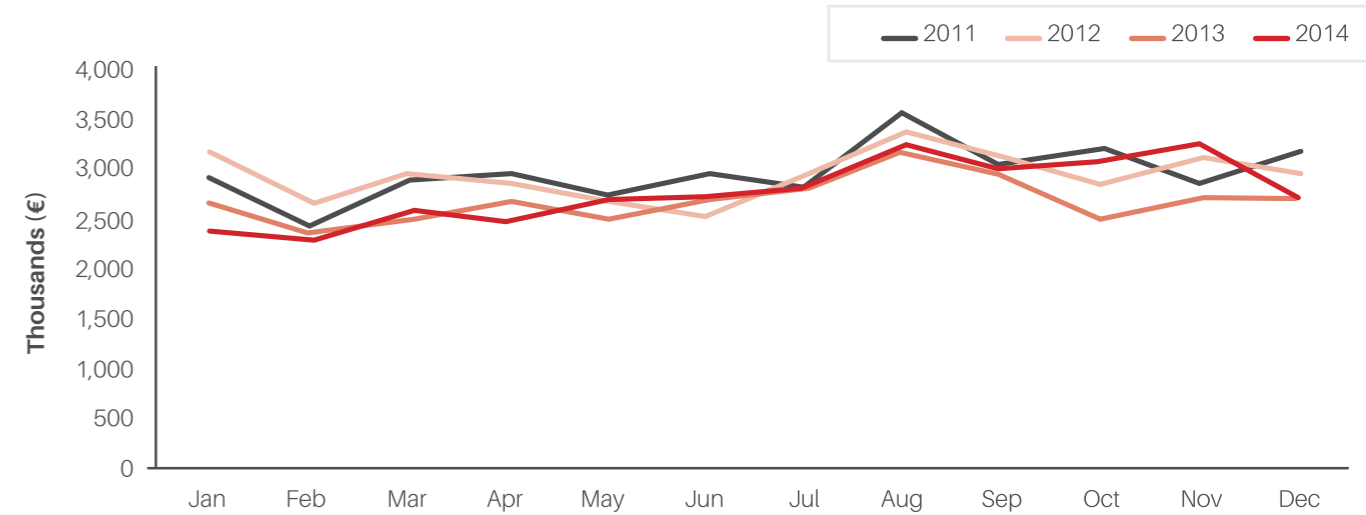
Casino visits (Non-Maltese)	2011	2012	2013	2014
January	25,703	21,878	22,709	20,422
February	20,616	17,586	19,060	19,029
March	25,768	25,641	22,330	21,967
April	23,960	26,333	24,453	24,515
May	22,940	26,989	25,407	26,680
June	31,290	25,821	29,333	26,334
July	31,813	31,347	28,968	30,017
August	51,024	45,891	45,386	44,787
September	33,759	33,391	35,713	32,580
October	27,771	27,455	27,504	29,134
November	24,834	25,505	27,945	36,763
December	24,926	24,960	22,843	23,313
Total	344,404	332,797	331,651	335,541

LAND-BASED STATISTICS

1.2. Casino Revenues

Overall casino GGR (including junkets) has increased by 3% during 2013 and 2014. The highest revenue was reported in August as the casinos' revenue is directly related to the number of visitors.

Casino GGR



Casino GGR	2011	2012	2013	2014
	€	€	€	€
January	2,898,007	3,141,329	2,648,843	2,389,310
February	2,416,614	2,655,460	2,357,430	2,260,272
March	2,907,465	2,957,244	2,492,829	2,570,388
April	2,948,146	2,843,742	2,666,619	2,455,149
May	2,701,878	2,689,093	2,520,729	2,723,683
June	2,942,849	2,520,250	2,697,318	2,731,577
July	2,791,341	2,937,614	2,789,699	2,802,795
August	3,569,637	3,337,793	3,209,777	3,236,838
September	3,004,874	3,115,293	2,925,943	2,994,588
October	3,216,387	2,803,033	2,485,940	3,083,952
November	2,864,097	3,099,654	2,704,716	3,234,083
December	3,187,278	2,928,748	2,690,123	2,711,082
Total	35,448,573	35,029,254	32,189,966	33,193,717

LAND-BASED STATISTICS

In 2014, casinos revenue obtained from junkets went up by 29%. The highest junkets revenue was reported in August (both in 2013 & 2014) due to the increasing number of junket players during the summer months.

Casino - average revenue per visit

The average GGR per visit has decreased from €44 to €43 between 2011 and 2012. In 2014 the average GGR per visit increased by 6% (€3) over 2013 despite the 2% reduction in the number of visits in the same year over 2013.

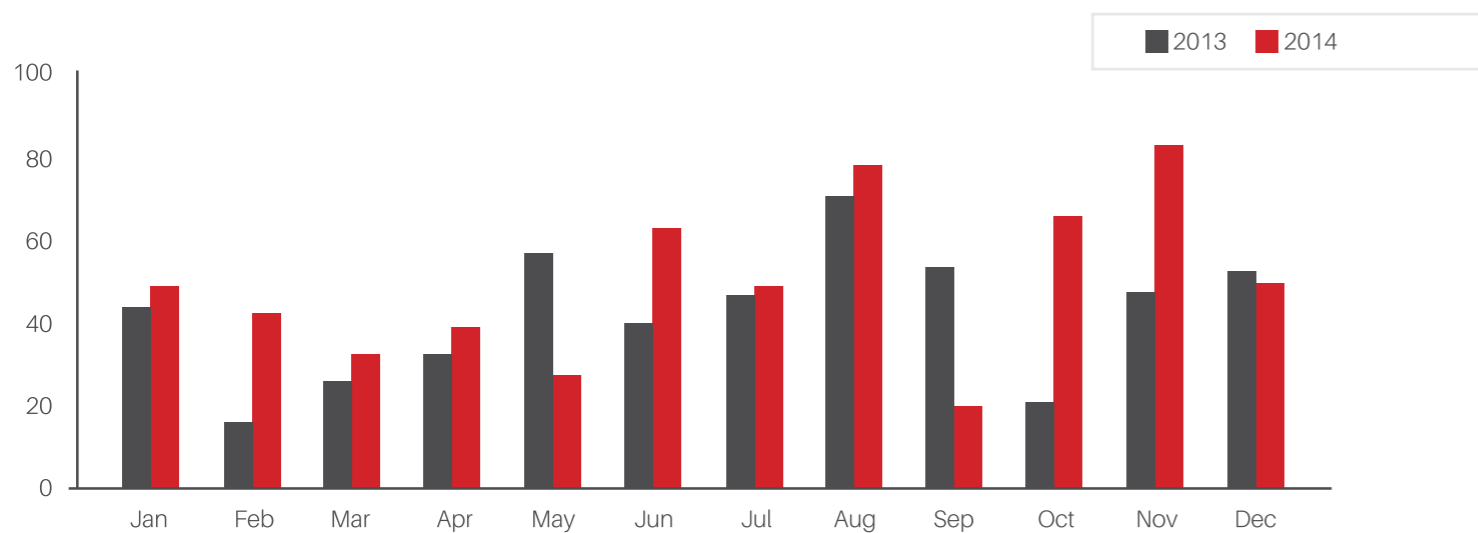
	2011	2012	2013	2014
GGR (€)	35,448,573	35,029,254	32,189,966	33,193,717
Number of visits	814,399	820,818	740,667	723,492
Average GGR per visit (€)	44	43	43	46

1.3. Casino Junkets

Even if the numbers are still relatively low, casino junkets are increasing in Malta. Casino junkets combine the destination facilities offered by the casino operator to the foreign visitors that are usually all or partially inclusive of accommodation and other services, and the gambling offers.

The number of junket players increased by 18% in 2014. The highest number of players was reported in August & November 2014 (78 & 83 players respectively).

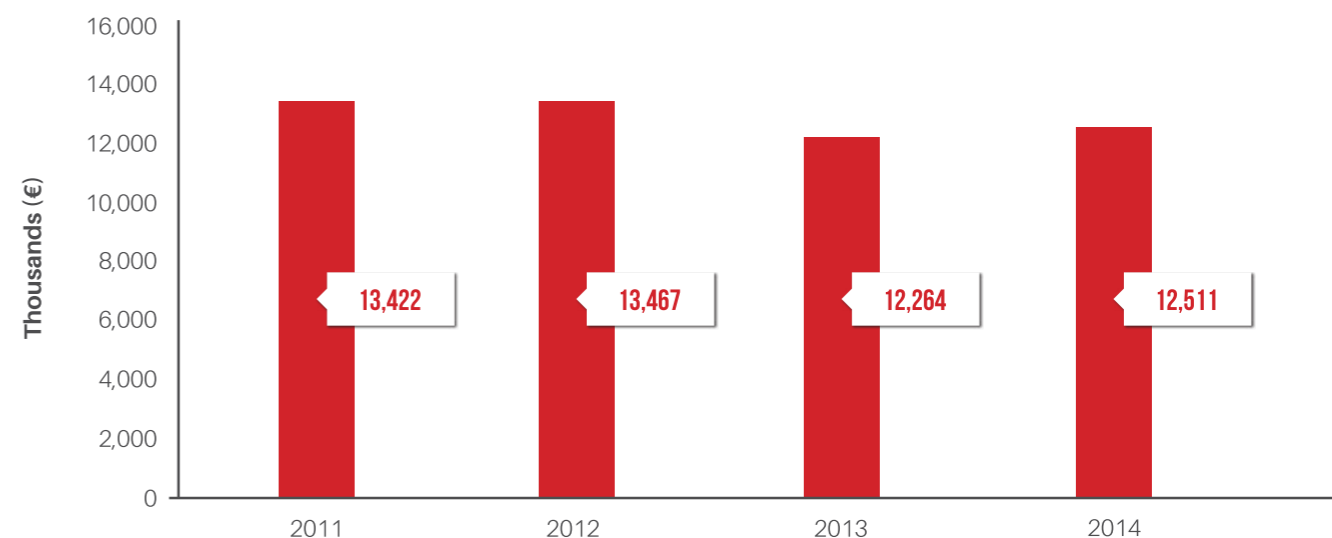
Junkets - number of players



LAND-BASED STATISTICS

1.4. Casinos Gaming tax

Government revenue from the casino gaming taxes fell by 9% in 2013 over 2012 but increased by 2% in 2014 to reach €12.5 million in 2014.



2. Gaming Parlours

The Gaming Devices Regulations came into force in 2011 which, with the concurrent amendments to the Lotteries and other Games Act, empowered the Malta Gaming Authority (MGA) to license, regulate and monitor gaming devices in the street market that, owing the previous blurred regulatory stance and the technological development in such devices, fell in an inadequately regulated space. With effect from 2011 applicants wishing to host, operate and offer to the public gaming on gaming devices must apply for a licence and fulfil the strict criteria and established requirements of the Gaming Device Regulations (Legal Notice 75 of 2011) and subsidiary Directives. The first gaming parlours to be licensed following the new regulations became operational in 2012.

2.1. Approved Gaming Parlours

As at December 2014, there were 42 approved Gaming Parlours spread over Malta and Gozo. According to the Regulations, there cannot be more than 10 gaming devices in each parlour. The total number of licensed gaming devices in this segment has increased from 259 in 2013 to 273 in 2014 leading to an average of 6.5 devices per gaming parlour.

LAND-BASED STATISTICS

Approved Gaming Parlours	2012	2013	2014
Gaming Operations - Fairplay	16	22	23
Bestplay Gaming Ltd	8	6	6
Media Games Ltd	3	3	5
Fairbet Ltd	3	4	5
Bingo Ltd	3	3	3
Silverplay	1	1	-
Total	34	39	42

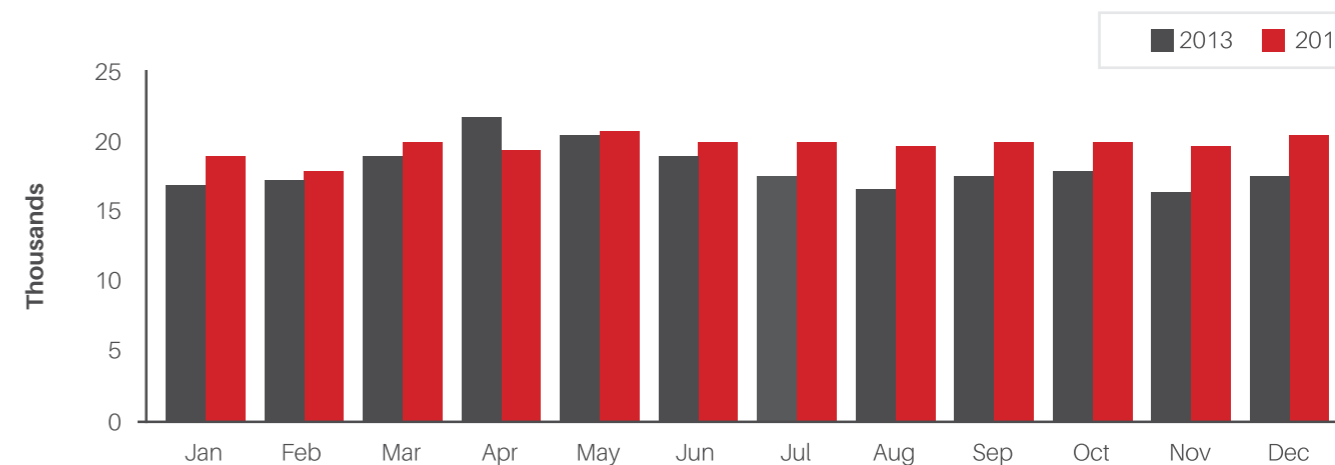
Total gaming devices per operator	2012	2013	2014
Gaming Operations - Fairplay	96	136	150
Bestplay Gaming Ltd	44	52	41
Media Games Ltd	19	16	29
Fairbet Ltd	20	20	23
Bingo Ltd	30	30	30
Silverplay	5	5	-
Total	214	259	273

LAND-BASED STATISTICS

2.2. Gaming Parlour visits

The total number of visits in the gaming parlours in 2014 has increased by 9% over 2013.

Gaming Parlours number of visits



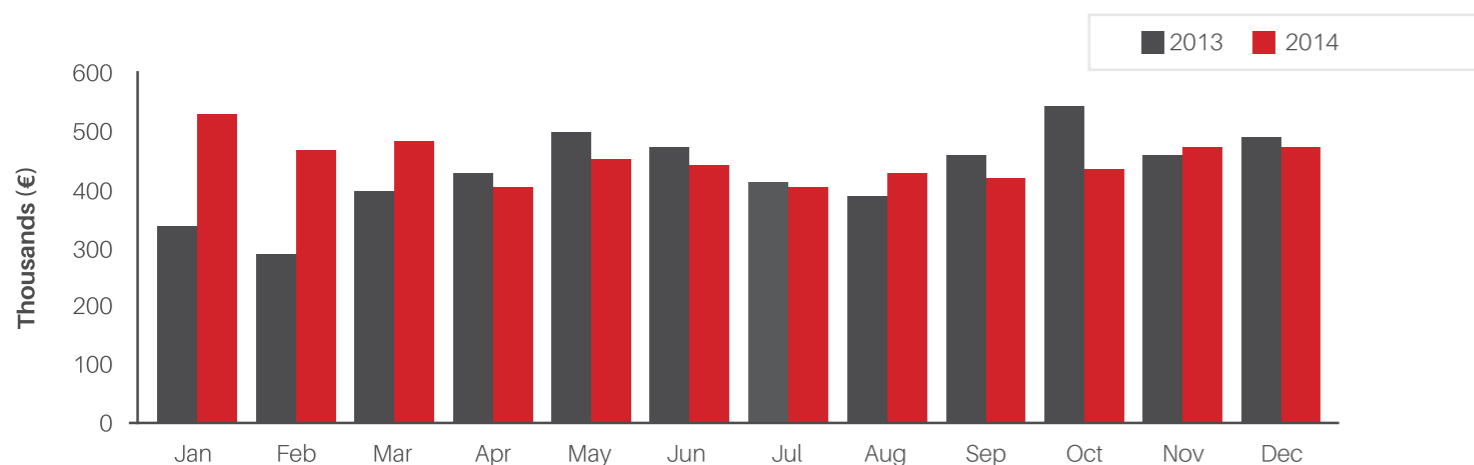
Number of visits	2013	2014
January	16,927	18,926
February	17,151	17,873
March	18,961	19,988
April	21,648	19,173
May	20,331	20,642
June	18,713	19,747
July	17,510	19,842
August	16,482	19,529
September	17,611	19,717
October	17,692	19,974
November	16,293	19,604
December	17,576	20,496
Total	216,895	235,511

LAND-BASED STATISTICS

Gaming Parlours GGR

The GGR generated by gaming parlours went up from €5,109,921 (in 2013) to €5,337,513 (in 2014), reporting an increase of 4%. The pay-out ratio by gaming parlours averaged at 90% in 2014 (the minimum pay-out ratio required by the Regulations is 85%).

Gaming Parlours GGR



The average GGR per visit in gaming parlours decreased from €24 in 2013 to €23 in 2014.

Average GGR per visit (€)	2013	2014
GGR (€)	5,109,921	5,337,513
Number of visits	216,895	235,511
Average GGR per visit (€)	24	23

2.3. Gaming tax

Government revenue from the gaming parlours' gaming tax has decreased by €296,375 (22%) in 2014, from €1,348,054 to €1,051,679. The decrease in tax revenue reflects the change in tax structure for gaming devices, which came into effect in March 2014.

LAND-BASED STATISTICS

3. Commercial Bingo

3.1. Structure of the non-remote bingo industry

Commercial Bingo, also known in Malta as Tombola, is based on the Spanish game of Bingo. The numbers range from one to 90 and participants can win cash for the line, house or progressive jackpot. Presently there are four licensed Commercial Bingo Halls:

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

The Commercial Bingo (Tombola) Regulations were published by the Malta Gaming Authority (MGA) on January 27, 2006, under Article 78 of the Lotteries and Other Games Act, 2001, repealing the previous Tombola Regulations of 2000.

3.2. Non-profit tombola

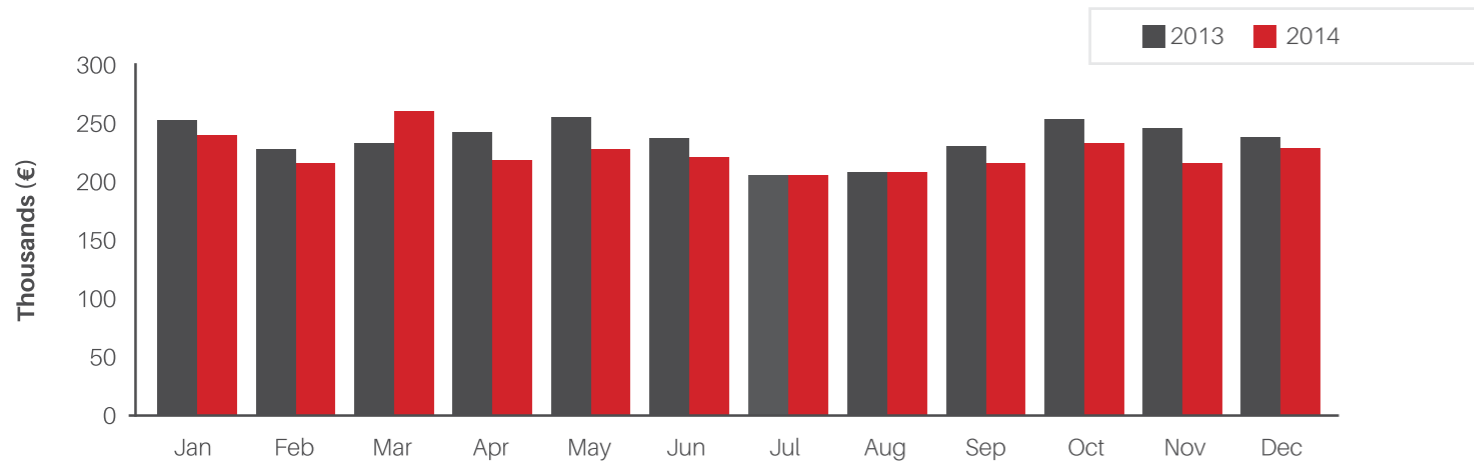
Owing to the tombola's popularity amongst the Maltese, the organization of such games is often seen as a means of raising funds by non-profit organisations, such as local parishes or band clubs. Apart from commercial bingo, which is subject to licence under the Regulations, it is also possible for anyone to organise tombola where the proceeds go to non-profit causes which are subject to approval/permit by the MGA. In 2014, the Malta Gaming Authority issued 1,916 permits for non-profit tombola which is 11% less than in 2013.

3.3. Commercial Bingo GGR

GGR of commercial bingo decreased by 5% in 2014.

LAND-BASED STATISTICS

Commercial Bingo GGR



Commercial Bingo GGR	2013	2014
	€	€
January	252,568	239,531
February	227,967	216,646
March	231,971	260,867
April	243,653	217,563
May	255,523	229,184
June	237,784	220,629
July	207,091	206,552
August	208,700	208,791
September	229,966	216,792
October	251,701	231,926
November	245,935	216,615
December	237,571	227,449
Total	2,830,431	2,692,545

3.4 Payout ratio

The payout ratio of the bingo sector remained on the same level of 57% during the last two years.

3.5. Gaming tax

The Government tax obtained from Commercial Bingo has decreased by €31,222 (5%) when compared to 2013, whilst GGR decreased by 10% year on year.

Gaming tax	2011	2012	2013	2014
	€	€	€	€
Bingo	802,727	701,219	655,217	623,995

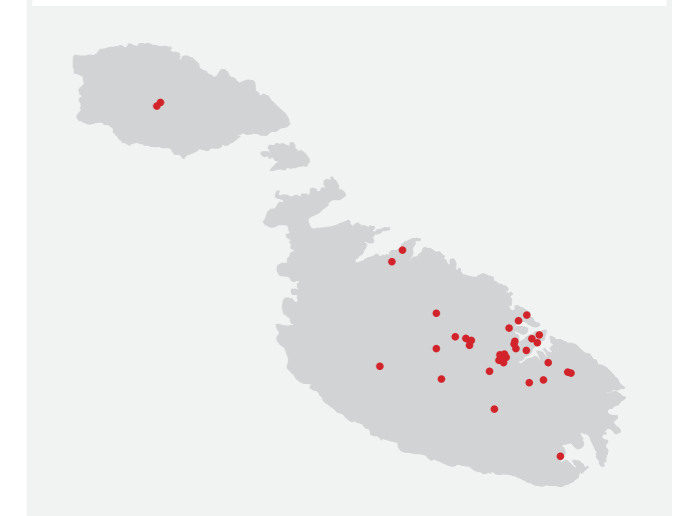
LAND-BASED STATISTICS

OPERATOR LOCATIONS



▶ GAMING PARLOURS

The **42** Gaming Parlours are spread in over 28 towns in the Maltese Islands.



▶ COMMERCIAL BINGO

4 Commercial Bingo halls situated in Valletta, Paola, Bugibba and Sliema respectively.



▶ CASINOS

1 Casino is located in Bugibba, whilst another **2** are located in St. Julian's.



LAND-BASED STATISTICS

4. Maltco Lotteries Limited

The National Lottery was set up by Government in 1934. Prior to February, 2004, all National Lottery games were operated and governed by the Public Lotto Department.

The promulgation of the Lotteries and other Games Act in 2011 provided for, amongst other things, the privatisation and independent regulation of the National Lottery. Following a competitive process, the concession to operate the National Lottery and other numbers games was granted to Maltco Lotteries Limited in February 2004 for a period of 7 years which expired in 2011.

In June 2012, following another competitive process initiated in October 2011 for the award of concession rights for the operation of the National Lottery Games, namely Lotto, Super 5 and the Grand Lottery and a judicial challenge in which the Courts decided that Government was abiding by applicable Maltese and European law, Maltco Lotteries was again awarded a 10-year concession.

The MGA regulates and monitors the operations of the Maltco Lotteries Limited as the National Lottery Licensee and collects gaming tax from the licensee on behalf of the Government.

Maltco offers a wide portfolio of numbers games and betting including the Super 5 lottery, the Lotto, Grand Lottery, instant lotteries (Scratchers), U*BET Sports Betting and Horse racing, Quick Keno, Bingo75 and Fast Bingo.

4.1. Product sales by category

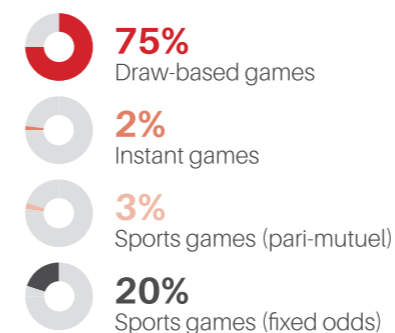
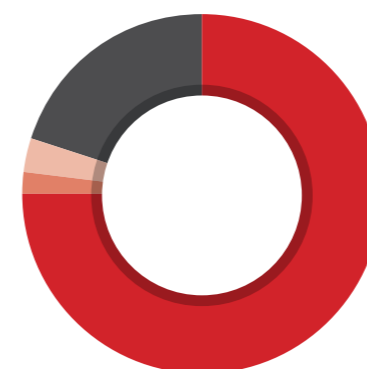
In 2014, Maltco reported 9% growth in the sale of their products. The highest increase of 31% was reported for sports games (fixed odds), followed by the sports games (*pari-mutuel*) with 24% increase and instant games of 18%. The sale of the draw-based games increased by 4% over 2013.

LAND-BASED STATISTICS

Product sales by category	2012	2013	2014
	€	€	€
Draw-based games	64,571,989	62,862,756	65,451,795
Instant games	1,231,017	1,385,958	1,632,148
Sports games (pari-mutuel)	2,108,843	2,179,483	2,701,100
Sports games (fixed odds)	14,590,740	13,583,234	17,742,276
Total	82,502,589	80,011,431	87,527,319

*Reported for the calendar year

Maltco - products sales by category 2014



Source: Maltco

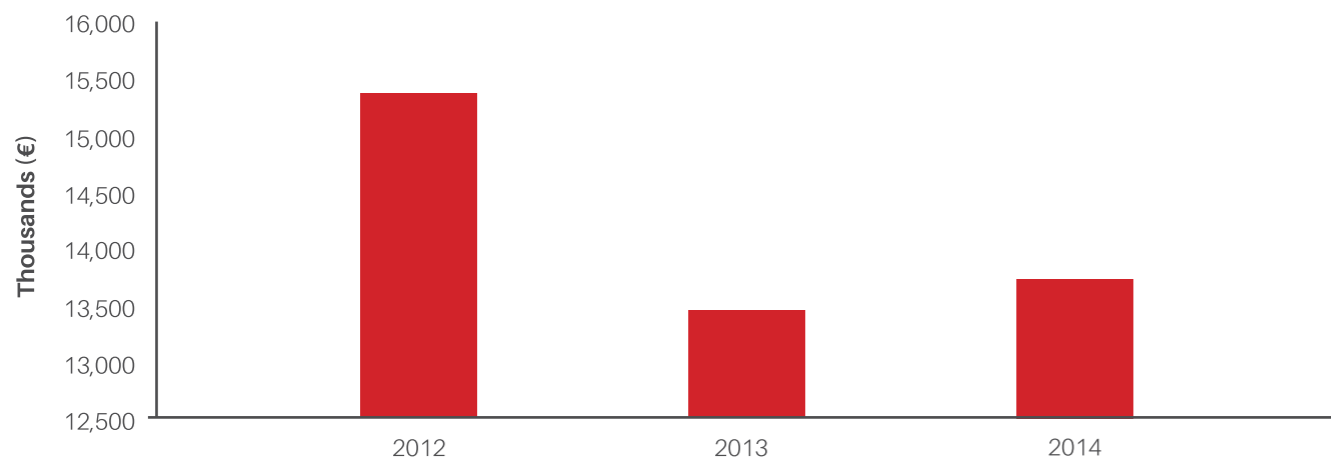
LAND-BASED STATISTICS

4.2. Maltco - Gaming tax paid

The Government revenue from the Maltco Gaming tax has increased by €279,311 (2%) in 2014.

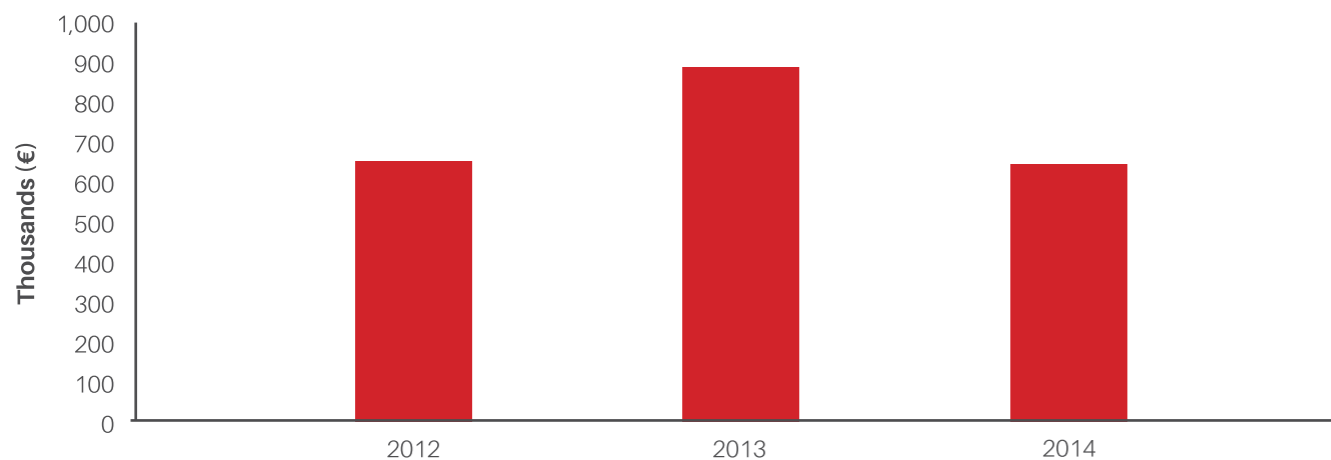
	2012	2013	2014
	€	€	€
Gaming tax	15,365,311	13,457,932	13,737,243

Maltco - Gaming tax paid



The Gaming tax payable is calculated on the gross turnover of the particular game as it is specified in the Maltco's licence conditions (See Appendix 1 at the end of this section). Apart from tax due according to law and concession conditions, Maltco contributes to the Good Causes Fund through unclaimed winnings. In 2014, Maltco contributed €650,688 to such Fund.

Maltco contribution to Good Causes Fund



LAND-BASED STATISTICS

4.3. Points of Sale (Lotto Booths)

Maltco offers its services through an extensive network of Points of Sale (Lotto Booths). In 2014 there were 225 points of sale located around the Island.

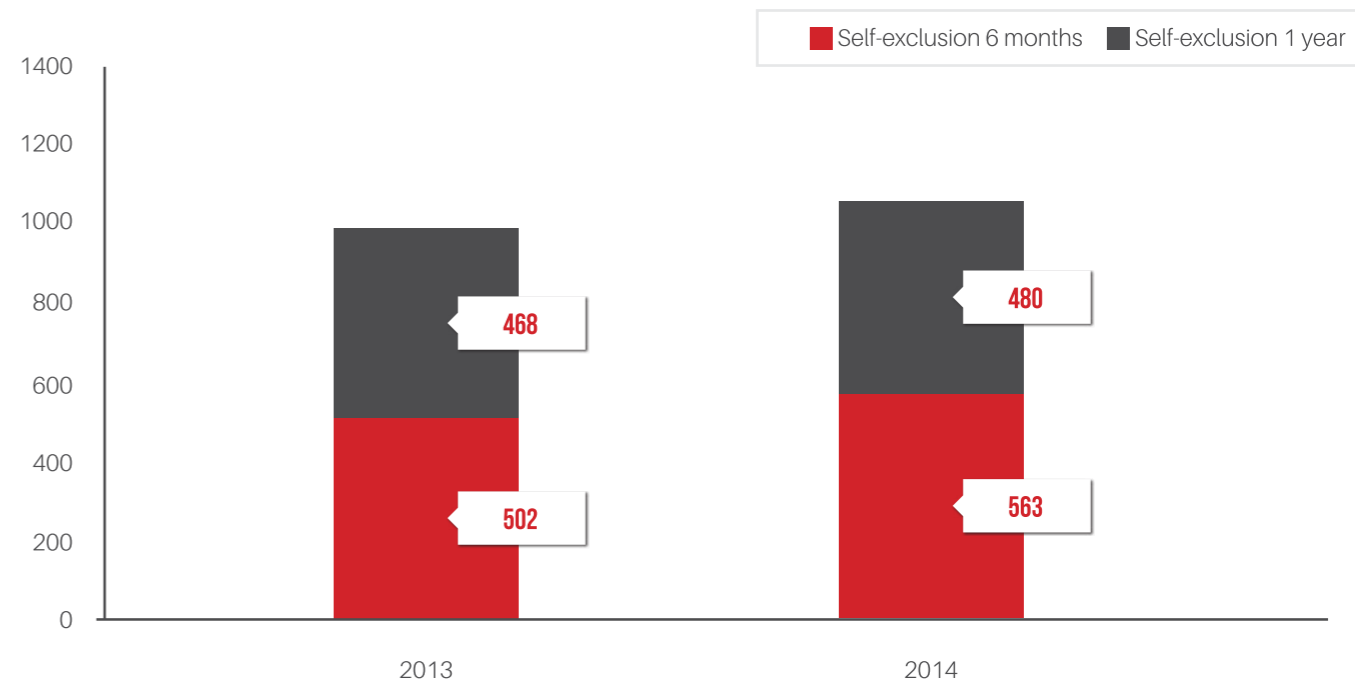
5. Responsible Gaming Measures - self-exclusion

Self-exclusion is one of the empowering and supportive measures that licensees must provide to their players in order to control their gambling behaviour.

Casinos in Malta are obliged by law to offer a self-exclusion opportunity to players who request that for a stipulated time (six months - 1 year) he/she is not allowed access to any casino, gaming parlours or commercial bingo. (Article 26 of the Gaming Act, 1998). The commercial bingo (Tombola) Regulations and the Gaming Devices Regulations contain similar provisions. If a player chooses to bar himself from any land-based premises, being a casino, commercial bingo hall or gaming parlour, then the player is self-barred from all of them for the stipulated period.

In 2014, 1,043 persons signed a declaration by which they barred themselves from casinos and gaming premises. Of these, 563 have barred themselves for six months while 480 have barred themselves for 12 months. The number of persons who barred themselves from casinos and gaming parlours for either six or 12 months has increased from 970 in 2013 to 1,043 in 2014.

Self-exclusion requests



REMOTE GAMING STATISTICS

Remote Gaming Sector

1. Number of licences and companies in Malta

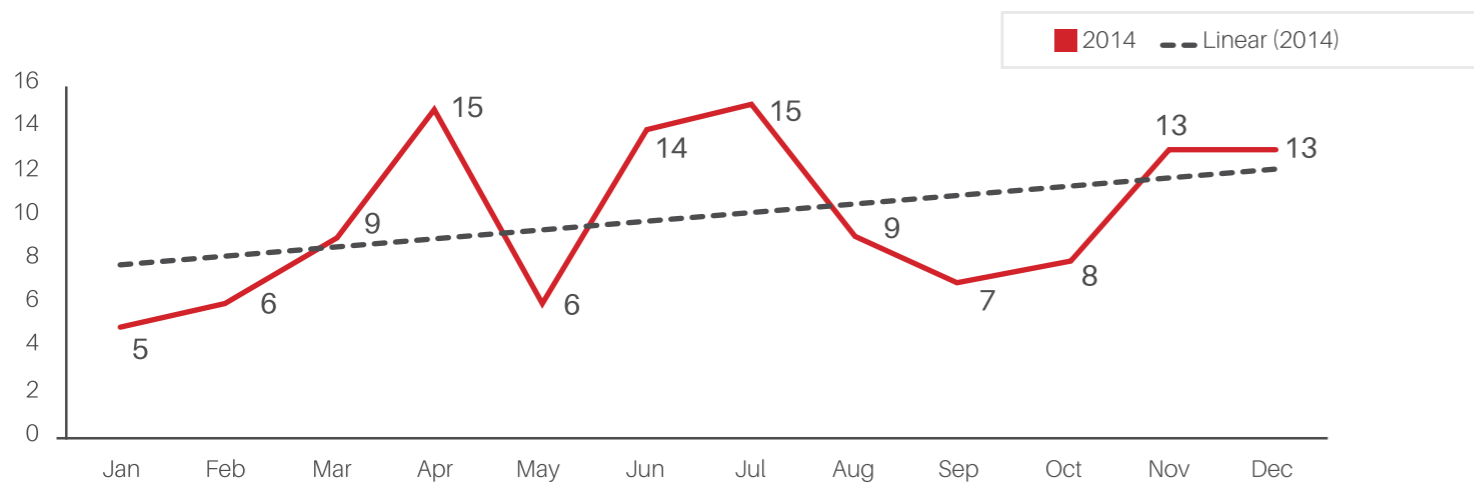
The number of registered and licensed remote gaming companies in Malta has increased from 255 to 283 in the reporting periods.

Number of Companies	2010	2011	2012	2013	2014
Total	262	278	275	255	283

Number of Applications received

In 2014, the number of new applications received for remote gaming licences accounted for 120.

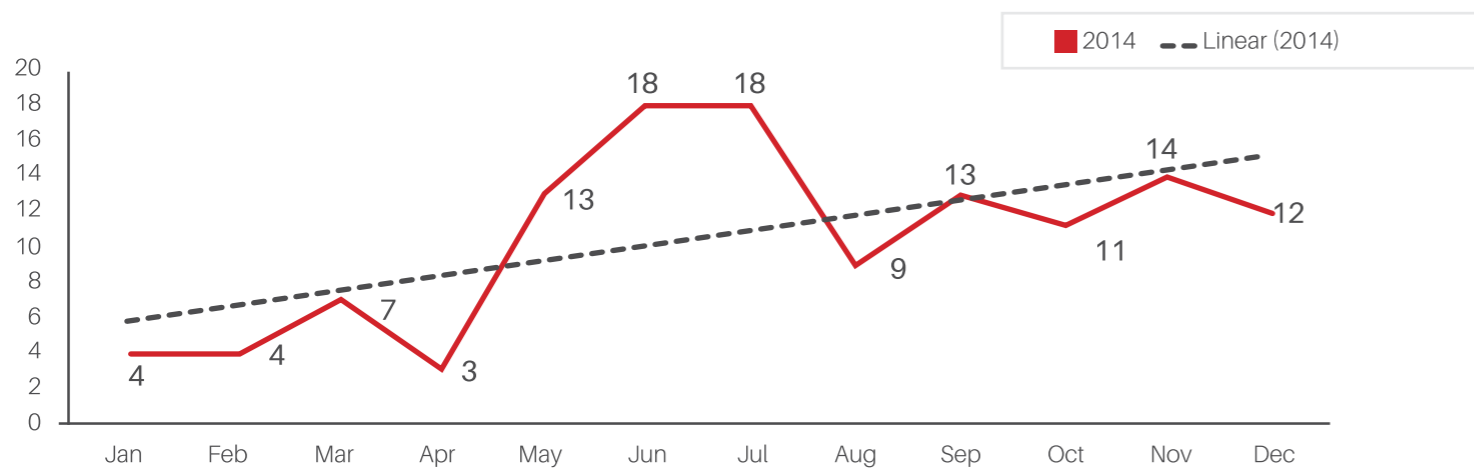
Number of Applications received



Number of licences issued

The number of new licences issued in 2014 accounted for 126.

Number of licences issued - Remote Gaming

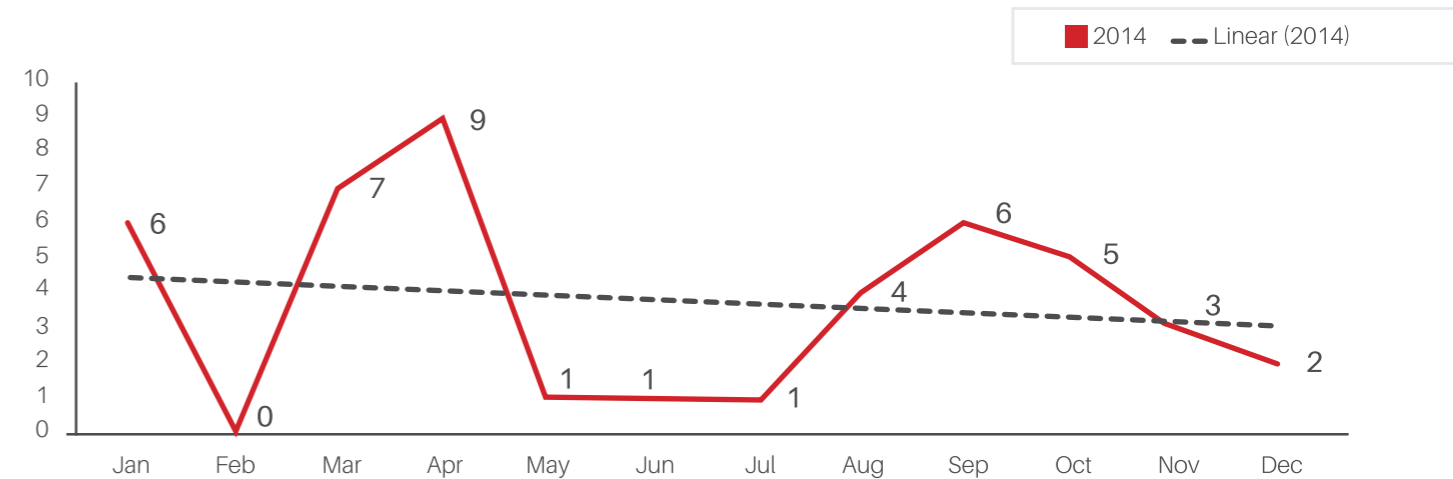


REMOTE GAMING STATISTICS

Number of Terminations actioned

In 2014, the number of terminated / closed licences amounted to 45.

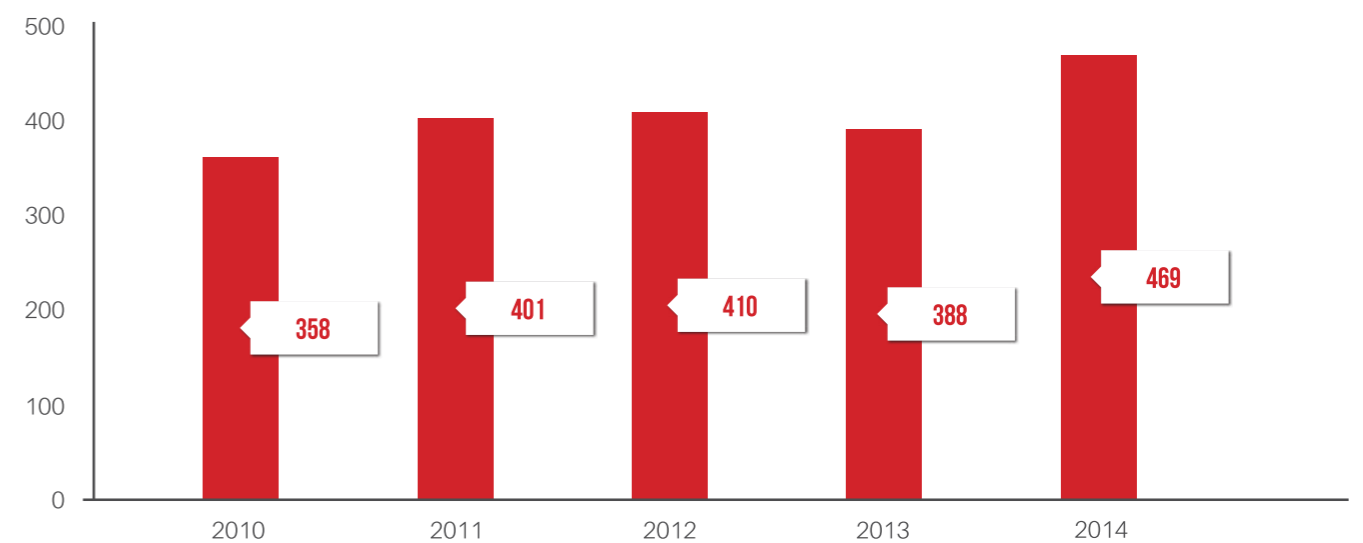
Terminated / Closed Licences



Number of registered licences

In 2014 the total number of remote gaming licences regulated by the MGA increased by 21% in 2014.

Number of registered licences



REMOTE GAMING STATISTICS

2. Distribution of licences by class type

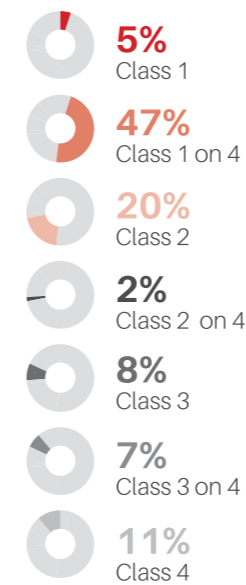
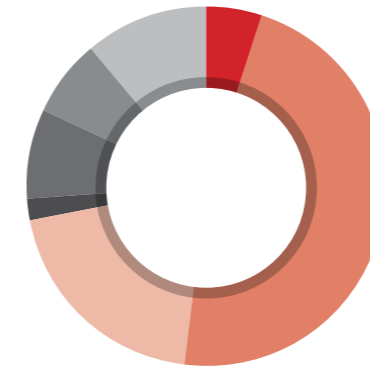
In 2014, the total number of licences increased to 469 from 388 in 2013 (21% increase). The highest demand was registered in Class 1 holders (+ 38%) among all licences.

Number of licences by class type



REMOTE GAMING STATISTICS

Distribution of licences by class type in 2014



Licences	No.
Class 1	25
Class 1 on 4	222
Class 2	91
Class 2 on 4	9
Class 3	37
Class 3 on 4	32
Class 4	53
Total	469

The Class 1 group of licences (Class 1 and Class 1 on 4) continued to represent the highest share of total gaming licences in issue and accounted for 53% of the total licence base (5% - Class 1, 47% - Class 1 on 4).

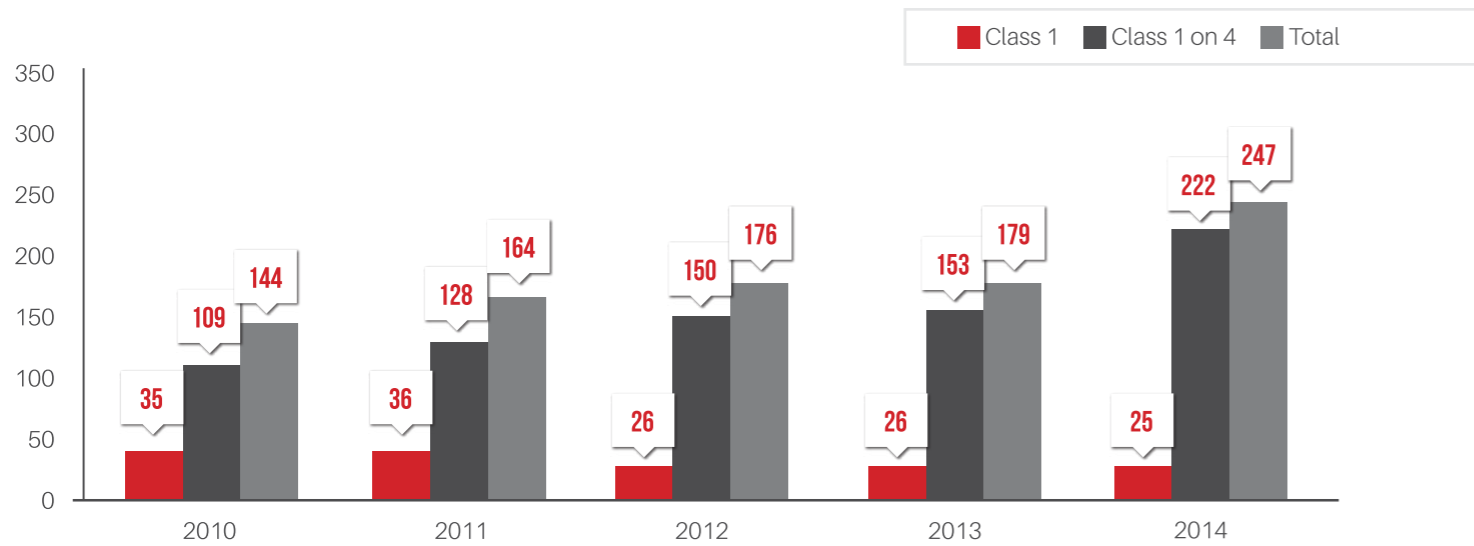
Class 1 licences¹

Class 1 licences continued to show positive growth year-on-year. In 2014, the number of class 1 licences increased by 38% when compared to 2013.

¹ Class 1 – a remote gaming licence (examples of Class 1 licences would include casino-type games and online lotteries) whereby operators manage their own risk on repetitive games. It is also possible to have a Class 1 on 4.

REMOTE GAMING STATISTICS

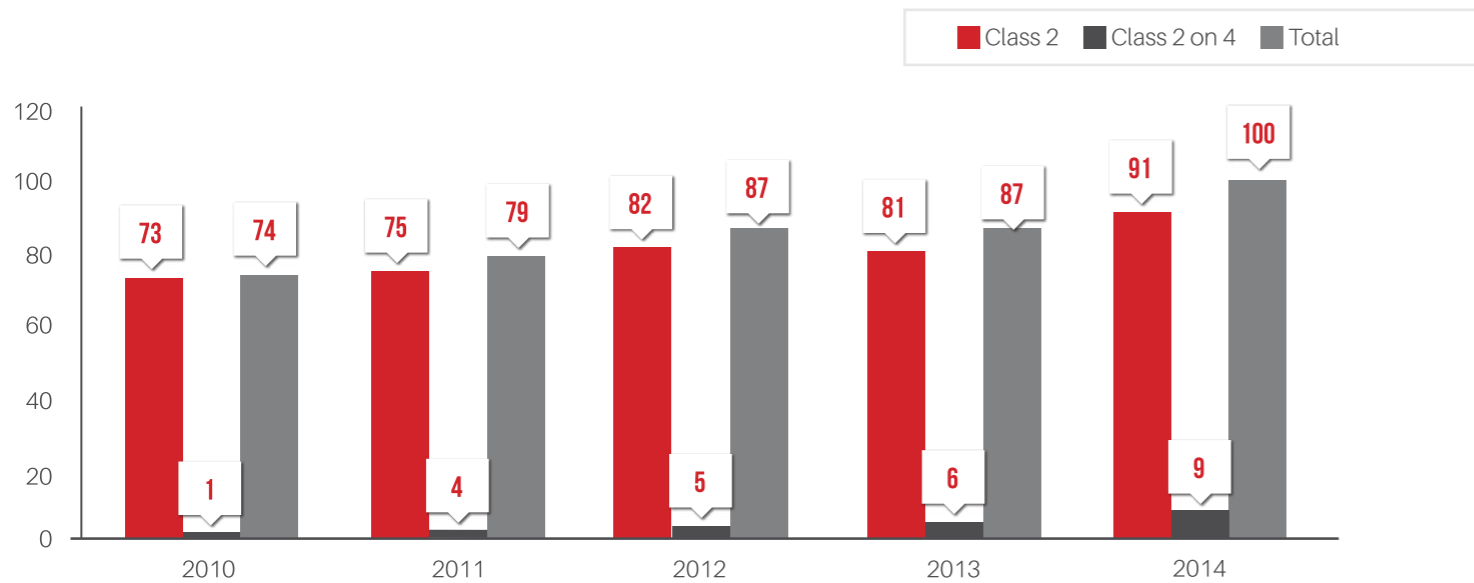
Class 1 and Class 1 on 4



Class 2 licences²

The number of Class 2 licences (including class 2 on 4) holders continued to register growth (by 15%) to reach 100 licence holders as at the end of 2014, compared to 87 in 2013.

Class 2 and Class 2 on 4



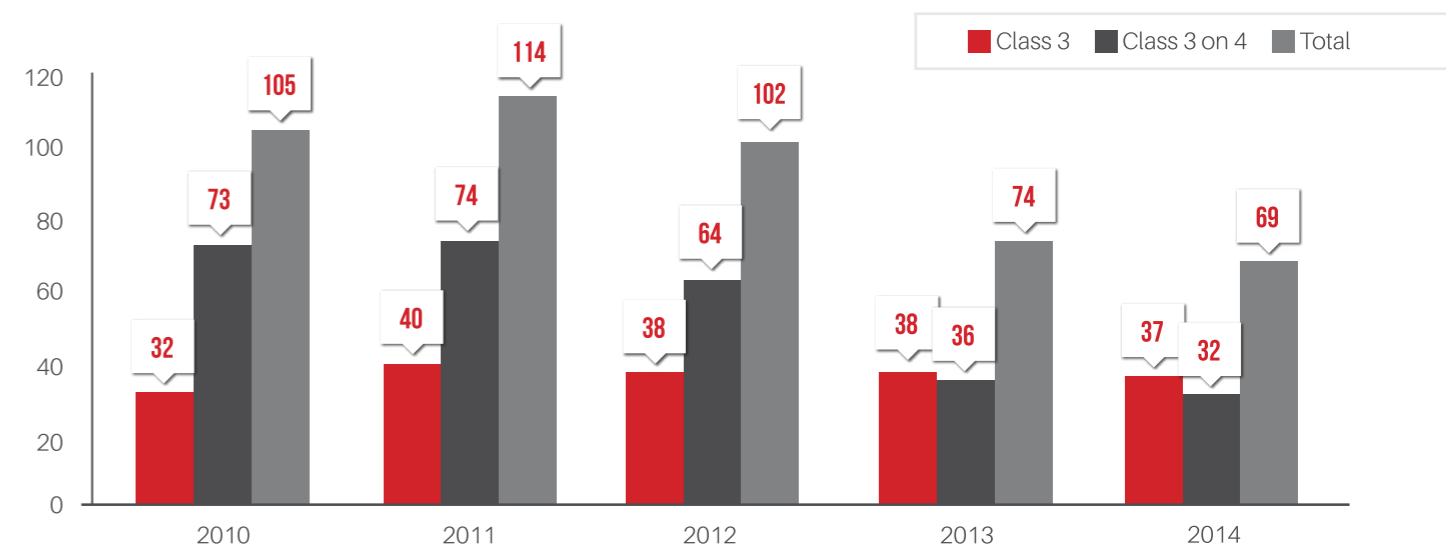
²Class 2 – a remote betting licence (an example of a Class 2 licence would include fixed-odds betting) whereby operators manage their own risk on events based on a matchbook. It is possible to have a Class 2 on 4 licence whereby the Class 2 licensee operates its games on the software and in certain cases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

REMOTE GAMING STATISTICS

Class 3 licences³

The number of Class 3 licence holders (including Class 3 on 4) declined by 7% in 2014. This was attributed to the general slowdown in the popularity of poker and poker derivative games.

Class and Class 3 on 4

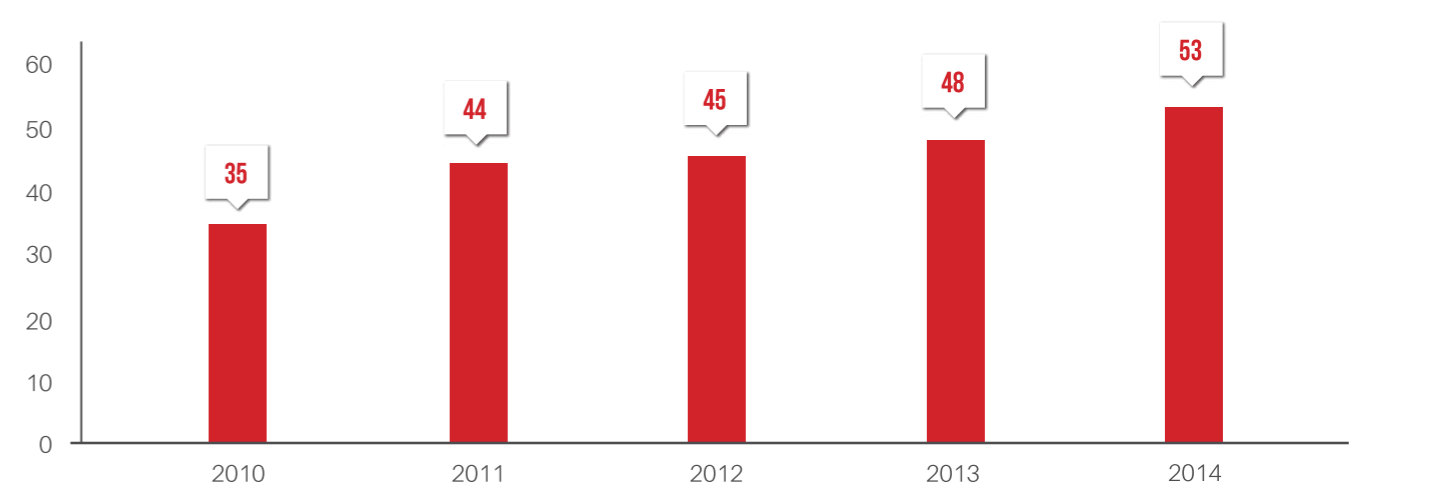


³Class 3 – a licence to promote and/or abet remote gaming in or from Malta (an example of a Class 3 licence would include poker networks, peer-to-peer (P2P) gaming and game portals). It is also possible to have a Class 3 on 4 licence whereby the Class 3 licensee operates its games on the software and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

Class 4 licences⁴

In 2014 the number of Class 4 licence holders increased by 10% over the previous year.

Class 4



⁴Class 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.

REMOTE GAMING STATISTICS

3. Gaming tax

The Government revenue from gaming tax increased by €3,350,514 (15%) between 2013 and 2014.

Tax paid - Remote Gaming	2012	2013	2014
	€	€	€
Class 1	1,768,252	1,529,772	1,682,140
Class 1 on 4	1,146,153	1,648,602	2,700,085
Class 2	11,139,386	11,646,997	13,251,208
Class 2 on 4	454,349	503,351	1,516,214
Class 3	1,704,570	1,839,810	1,688,901
Class 3 on 4	2,139,569	2,590,461	2,231,586
Class 4*	2,870,406	2,726,238	2,765,611
Total	21,222,685	22,485,231	25,835,745

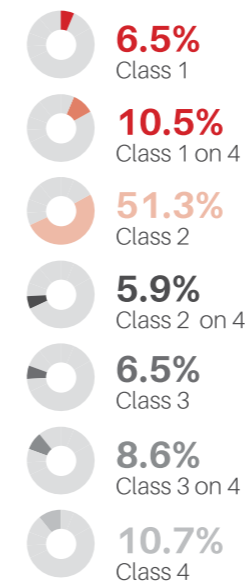
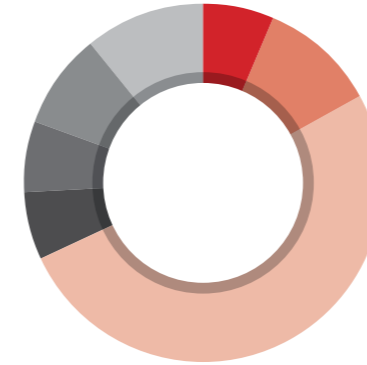
Above gaming tax is calculated on an accrual basis.

Gaming taxes due from Class 2 licences accounted for 51% of total the remote gaming tax revenue. Tax from Class 4 represents 11% of total tax collected, followed by Class 1 on 4 (10%), Class 3 on 4 (9%), Class 3 (7%), Class 1 (7%) and Class 2 on 4 licences (6%).

* Also includes tax paid by European Economic Area (EEA) operators working on Class 4.

REMOTE GAMING STATISTICS

Distribution of tax paid by licence class



4. Customer Accounts

The average number of customers per licensed gaming company during 2014 increased by 11% when compared to 2013. In fact the average number of customers by company in 2013 was 374,662 while in 2014 it stood at 415,476. For the scope of this analysis, the companies licensed for their class 4 operation only were excluded as these are Business to Business companies.

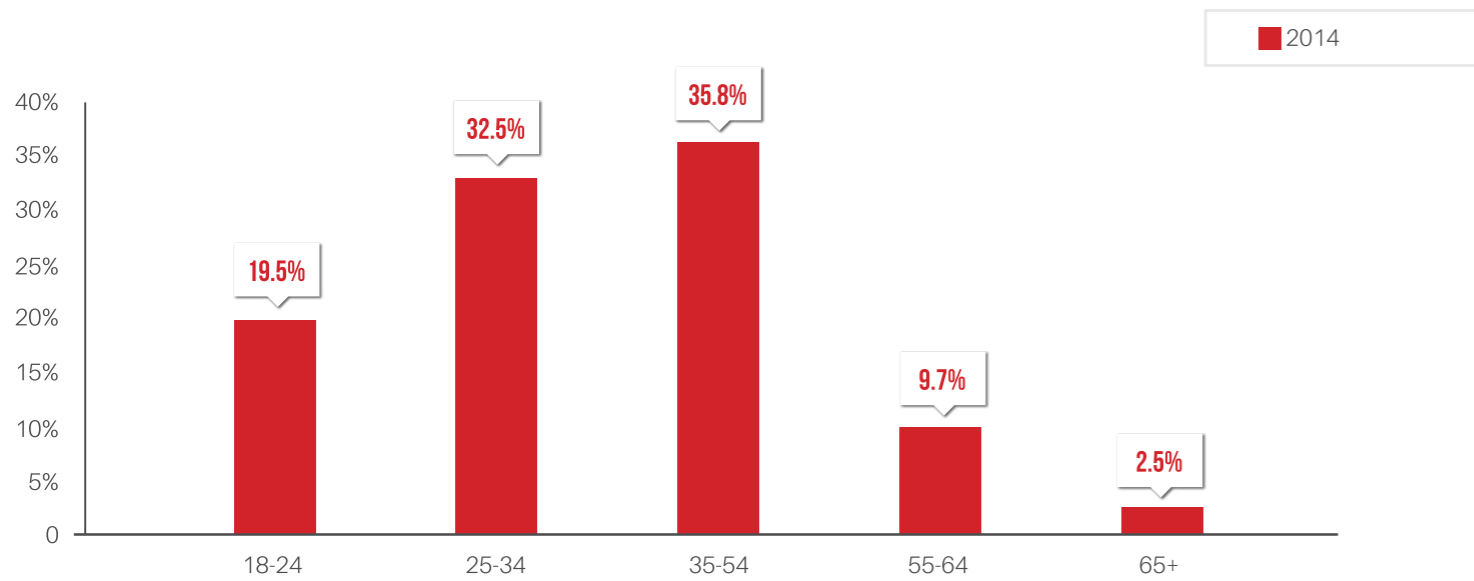
Customer accounts	Average
2013	374,662
2014	415,476
YoY	11%

5. Age Distribution of the Remote Gaming Players

The following table depicts the age distribution of the remote gaming players amongst the Maltese licensed gaming companies. Around 52% are customers aged between 18 and 34, while close to 36% are aged between 35 and 54. Around 12% are 55 or older.

REMOTE GAMING STATISTICS

Age Distribution of the Remote Gaming Players

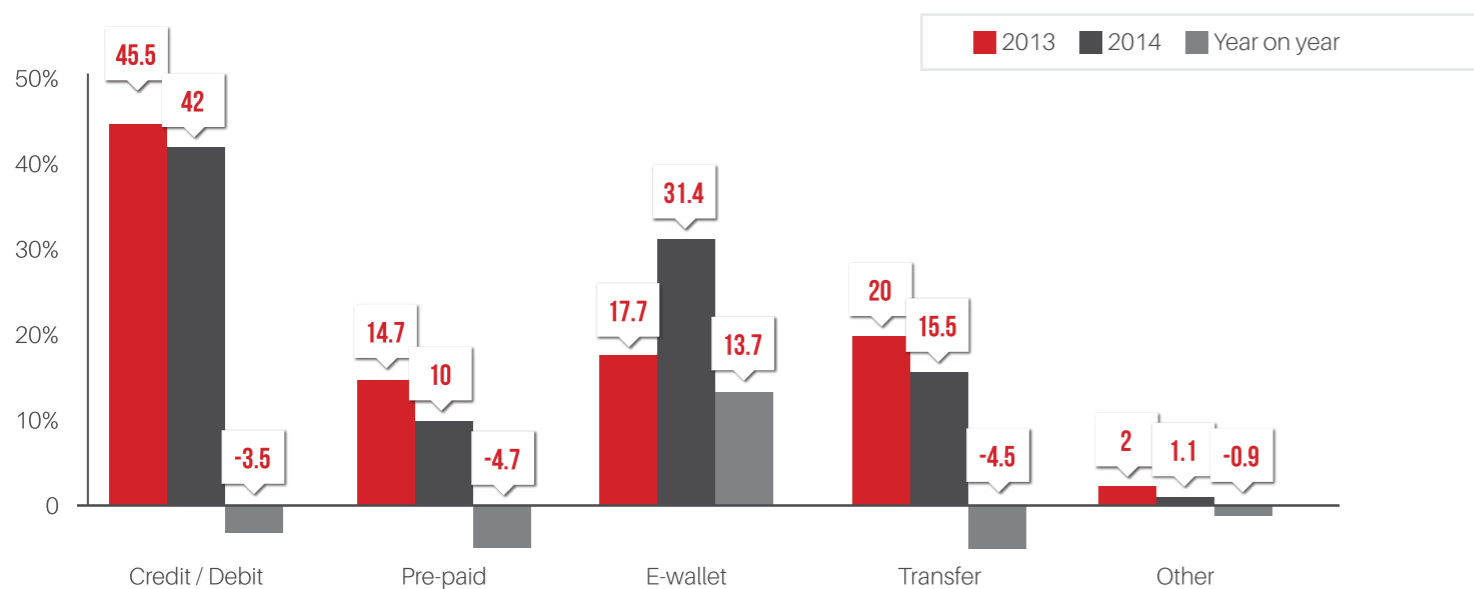


6. Method of Payment

The methods of payment used for remote gaming is governed by the Remote Gaming Regulations (Regulation 35.4). Licensees offer multiple methods of payment for their remote gaming services on websites.

The industry reported that there was a shift towards the use of e-wallets during 2014 with an estimated 31.4% of all money transfers passing through e-wallet systems. This was up by 13.7% year on year, representing the biggest increase experienced in payment methods used. The share of the credit/debit card payments decreased by an estimated 3.4% when compared to 2013.

Method of Payment



REMOTE GAMING STATISTICS

5. Self-exclusion requests

In 2014, MGA continued its efforts towards promoting self-exclusion mechanisms leading to the average member of self-exclusion requests going up to 3,141 per registered company, against 2,185 in 2013. An increase of 956 average self-exclusion requests which is also the result of the increase in the average customer accounts registered by licensed operator, which grew by 40,814 YOY (refer to Customer Accounts on page 75).

For the scope of this analysis companies with a Class 4 licence only, were not considered as these are Business to Business (B2B) companies.

REMOTE GAMING STATISTICS

Appendix 1: Terminology

Customer Account: account with a unique username and password, that enables a player to access the games, and which is created following registration.

Gaming Tax: the tax is imposed on the GGR. The applicable gaming tax and basis for computation differs by segment and class of licence. The rate of tax payable is established in the following sections in regulations:

- Casinos – Schedule of the Gaming Act 1998,
- Commercial Bingo Halls – Fifth Schedule of the Commercial Tombola (Bingo) Regulations, 2006,
- Gaming Parlours – Third Schedule of the Gaming Devices Regulations, 2011,
- Remote Gaming – Fourth Schedule of the Remote Gaming Regulations,
- Maltco – Gaming duty payable on Maltco Games as stipulated in conditions of Concession/Licence (as per table below).

Game	Gaming Duty
Grand Lottery	20% on gross turnover
Super 5	20% on gross turnover
Lotto	20% on gross turnover
Additional Games with a fixed prize guaranteed by the operator, excluding betting (inclusive of games where the prizes are capped) and excluding Keno	20% on gross turnover
Instant lottery games (including scratch cards but excluding Keno)	12.5% on gross turnover
Additional Games with a prize dependent on the total amount played (pool prizes)	25% on net turnover
Additional Games (including sports betting and horse racing, Keno)	25% on net turnover

Gross Gaming Revenue (GGR): the amount retained by operators after the payment of winnings but before the deduction of the costs of the operation; GGR is the figure used to determine what a gaming operation earns before taxes, salaries and other expenses are paid.

Method of Payment: the way in which customers pay for the services. A customer can choose a payment method based on the company's list of preferred payment methods. Typical payment methods used in a modern business context include credit or debit cards, money orders, bank transfers, cash and online payment services such as PayPal.

Self-exclusion: total number of clients requesting they be barred from playing within the gaming site / casino / gaming parlour / commercial bingo outlet. The minimum period for self-exclusion is six months.

Terminated/Closed Licences: The number of remote gaming licences that were terminated or closed by the holder of licence or by the MGA.

Visits Casino and Gaming Parlours: the number of attendees represents the number of separate visits, rather than the number of unique customers. In case of casino attendance, the total figure includes the junkets players.



FINANCIAL STATEMENTS 201³4

FINANCIAL REVIEW FOR THE YEAR ENDED 31 DECEMBER 2014

The total revenue generated by the MGA during the financial year under review amounted to €58.4m compared to €52.7m in 2013. This represents an increase in revenue of €5.7m or 10.8% year on year. Furthermore, gaming taxes collected and transferred to Government amounted to €53.2m compared to €48.8m in 2013. This represents an increase of €4.4m year on year or 9% in percentage terms. It is estimated that by the end of financial year 2015, the MGA will contribute €56m in gaming taxes to Government which would represent an increase of €2.8m over 2014. This increase is mainly attributable to the 21% increase in the number of remote gaming licences and revenue increases from both land-based and remote gaming licencees.

During 2014, the MGA embarked on a major transformation programme which amongst other things included an organisational restructuring of its operations, strengthening of its core competences and most importantly the development of its capacity which included a targeted increase in resources to cater for the organisational and industry challenges that the industry is presenting. As a result, the operating expenditure for the year amounted to €5.6m compared to €2.9m in 2013. This represents an increase of €2.7m over 2013.

This increase is mainly attributable to the following:

1. A progressive increase in head count 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 155 employees. This conclusion was reached following a technical exercise carried out by experts, which included benchmarking with local and foreign regulatory authorities,
2. A new 3-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 public 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. A vast amount of technical and professional engagements initiated last year 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 went through last year 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 2015 financial year where revenues are expected to increase by 10% year on year reaching €64m.

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
 Mr. Caesar Grech
 Ms. Ruth Trapani Galea

Chief Executive Officer

Mr. Joseph Cuschieri

Secretary of the Board of the Authority

Dr. Matthew Bondin

Head Office

Malta Gaming Authority
 Suite 1, Level 3
 TG Complex
 Brewery Street
 Birkirkara BKR3000

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 2014.

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 EUR58,388,232 (2013: EUR52,723,418). After deducting all expenditure of EUR8,948,005 (2013: EUR2,920,307) the Authority registered a surplus for the year of EUR49,553,560 (2013: EUR49,888,006). The Authority transferred EUR53,210,852 (2013: EUR48,774,199) to the Government of Malta.

Board Members of the Authority

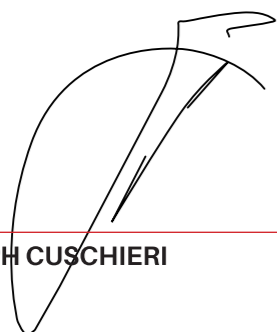
The Board Members of the Authority who served during the year under review are listed on page 2.

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

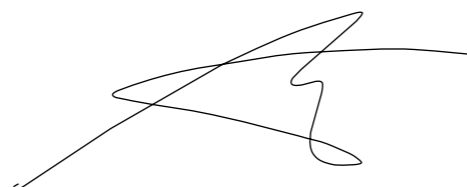
Ernst & Young Malta Limited have expressed their willingness to continue in office and a resolution for their re-appointment will be proposed at the next meeting of the Board Members of the Authority.

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



MR. JOSEPH CUSCHIERI
Chairman

23 April 2015



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'), which comprise the statement of financial position as at 31 December 2014 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 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.

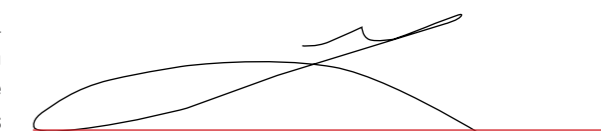
Opinion

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as of 31 December 2014, 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
Anthony Doublet for and on behalf of
Ernst & Young Malta Limited
Certified Public Accountants

23 April 2015

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2014

	NOTES	2014 €	2013 €
REVENUE	5	58,388,232	52,723,418
Administrative and other expenses	6	(5,648,005)	(2,920,307)
OPERATING SURPLUS		52,740,227	49,803,111
Provision for claims	8	(3,300,000)	-
Finance income	9	113,333	84,895
SURPLUS FOR THE YEAR		49,553,560	49,888,006

The accounting policies and explanatory notes on pages 88 to 97 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2014

	NOTES	2014 €	2013 €
ASSETS			
Non-current assets			
Property, plant and equipment	11	315,735	172,974
CURRENT ASSETS			
Trade and other receivables	12	7,039,298	5,644,280
Cash at bank and in hand	15	9,174,582	7,870,534
		16,213,880	13,514,814
TOTAL ASSETS		16,529,615	13,687,788
EQUITY AND LIABILITIES			
Equity reserve	13	250,000	250,000
National Lottery Reserve Fund	13	-	-
		250,000	250,000
NON-CURRENT LIABILITIES			
Provisions for claims	8	3,300,000	-
CURRENT LIABILITIES			
Trade and other payables	14	12,979,615	13,437,788
TOTAL LIABILITIES		16,279,615	13,437,788
TOTAL EQUITY AND LIABILITIES		16,529,615	13,687,788

The accounting policies and explanatory notes on pages 88 to 97 form an integral part of the financial statements.

The financial statements have been authorised for issue by the Board Members of the Authority on 23 April 2015 and were signed on their behalf by:



MR. JOSEPH CUSCHIERI
Chairman

23 April 2015



DR. CHRIS CILIA
Deputy Chairman

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2014

	National Lottery Reserve Fund	Reserve Fund	Equity Reserve	Total
	€	€	€	€
At 1 January	-	-	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)
Payment due from Government	-	2,684,636	-	2,684,636
AT 31 DECEMBER 2014	-	-	250,000	250,000
At 1 January 2013	-	-	250,000	250,000
Appropriation from statement of comprehensive income	965,532	48,922,474	-	49,888,006
Unclaimed prizes transferred in terms of section 54 of the Lotteries and Other Games Act, Cap. 438	321,968	-	-	321,968
Payments made to Government in terms of sections 50 and 59 of the Lotteries and Other Games Act, Cap. 438	(1,287,500)	(47,486,699)	-	(48,774,199)
Payment due to Government	-	(1,435,775)	-	(1,435,775)
AT 31 DECEMBER 2013	-	-	250,000	250,000

The accounting policies and explanatory notes on pages 88 to 97 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS for the year ended 31 December 2014

	NOTES	2014 €	2013 €
OPERATING ACTIVITIES			
Surplus for the year		49,553,560	49,888,006
Adjustment to reconcile surplus for the year to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment		116,644	71,161
Increase/(decrease) in provision for doubtful debts		255,208	(202,576)
Profit on disposal of property, plant and equipment		(6,103)	-
Provision for claims		3,300,000	-
Finance income		(113,333)	(84,895)
Working capital adjustments:			
Increase in trade and other receivables		(1,639,964)	(412,538)
Increase in trade and other payables		3,199,119	1,663,580
NET CASH FLOWS FROM OPERATING ACTIVITIES		54,665,131	50,922,738
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(259,964)	(39,198)
Proceeds from disposal of property, plant and equipment		6,662	-
Interest received		103,071	84,895
NET CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES		(150,231)	45,697
FINANCING ACTIVITIES			
Payments made to Government		(53,210,852)	(48,774,199)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(53,210,852)	(48,774,199)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		1,304,048	2,194,236
CASH AND CASH EQUIVALENTS AT 1 JANUARY		7,870,534	5,676,298
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	15	9,174,582	7,870,534

The accounting policies and explanatory notes on pages 88 to 97 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 2014.

- IFRS 10 – Consolidated Financial Statements (effective for financial years beginning on or after 1 January 2014)
- IFRS 11 – Joint Arrangements (effective for financial years beginning on or after 1 January 2014)
- IFRS 12 – Disclosure of Interests in Other Entities (effective for financial years beginning on or after 1 January 2014)
- IAS 27 – Separate Financial Statements (effective for financial years beginning on or after 1 January 2014)
- IAS 28 – Investments in Associates and Joint Ventures (effective for financial years beginning on or after 1 January 2014)
- IAS 32 Amendments – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (effective for financial years beginning on or after 1 January 2014)
- IFRS 10, IFRS 12 and IAS 27 Amendments – Investment Entities (effective for financial years beginning on or after 1 January 2014)
- IAS 36 Amendments – Recoverable Amount Disclosures for Non-Financial Assets (effective for financial years beginning on or after 1 January 2014)
- IAS 39 Amendments – Novation of Derivatives and Continuation of Hedge Accounting (effective for financial years beginning on or after 1 January 2014)
- IFRIC 21 – Levies (effective for financial years beginning on or after 1 January 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 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)

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 14 – Regulatory Deferral Accounts (effective for financial years beginning on or after 1 January 2016)
- IAS 16 and IAS 38 Amendment – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for financial years beginning on or after 1 January 2016)
- IFRS 11 Amendment – Accounting for Acquisitions of Interests in Joint Operations (effective for financial years beginning on or after 1 January 2016)
- IFRS 15 – Revenue from Contract with Customers (effective for financial years beginning on or after 1 January 2017)
- IAS 27 Amendments – Equity Method in Separate Financial Statements (effective for financial years beginning on or after 1 January 2016)
- IAS 16 and IAS 41 Amendment – 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)
- IFRS 10 and IAS 28 Amendments – Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures (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

- Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception (effective for financial years beginning on or after 1 January 2016)
- Amendments to IAS 1 – Disclosure Initiative (effective for financial years beginning on or after 1 January 2016)

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 licences, 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.

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

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:

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

In the opinion of the Board, the accounting estimates, assumptions and judgements 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'.

NOTES TO THE FINANCIAL STATEMENTS Continued

5. REVENUE

Revenue comprises the following:

	2014	2013
	€	€
Licence fees	5,119,198	3,524,345
Application fees	294,183	277,614
Other	359,096	319,225
Total Authority fees	5,772,477	4,121,184
Duties	52,615,755	48,602,234
Total revenue	58,388,232	52,723,418

Number of licences in issue at end of year:

	2014	2013
	No.	No.
Commercial Bingo Houses	4	4
Casinos	3	3
Gaming Parlours	42	40
National Lotteries	1	1
Remote online gaming licences	469	388
Total number of licences at end of year	519	436

6. EXPENSES BY NATURE

	2014	2013
	€	€
Auditor's remuneration	29,638	21,830
Chairman's emoluments and Board honoraria	34,910	29,823
Staff costs (note 7)	2,670,568	1,921,797
General administrative expenses	1,058,595	695,735
Professional fees	994,131	187,698
Promotional expenses (note i)	518,311	194,839
Depreciation on property, plant and equipment (note 11)	116,644	71,161
Provision for doubtful debts (note 12)	225,208	(202,576)
Total administrative and other expenses (Statement I)	5,648,005	2,920,307

i. Promotional expenses are stated net of amounts recovered of EUR30,550 (2013: EUR30,700) from third parties in respect of participation in promotional activities.

NOTES TO THE FINANCIAL STATEMENTS Continued

7. EMPLOYEE INFORMATION

a. Staff costs

The total employment costs were as follows:

	2014	2013
	€	€
Salaries	2,397,408	1,777,684
Social Security costs	157,377	107,675
Fringe benefits	98,209	36,438
	2,652,994	1,921,797
Other related costs	72,914	-
	2,725,908	1,921,797
Recharged salaries to Responsible Gaming Foundation	(55,340)	-
	2,670,568	1,921,797

b. Staff numbers

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

	2014	2013
	No.	No.
Administrative, Finance & IT	17	13
Legal affairs	5	3
Inspectorate	25	22
Regulatory division	19	16
Strategy	3	3
Foundation	2	-
COO - HR and Marketing	5	-
Chairman's Office	2	-
Other	3	-
Students	5	-
Total	86	57

NOTES TO THE FINANCIAL STATEMENTS Continued

8. PROVISION FOR CLAIMS

During 2014, players of certain gaming operators have submitted claims that they are 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. The Authority is seeking the advice of its lawyers in respect of these claims. Provision by the Authority has been made for these claims.

9. FINANCE INCOME

	2014	2013
	€	€
Interest receivable on bank balances	113,333	84,895

10. 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.

NOTES TO THE FINANCIAL STATEMENTS

Continued

11. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fittings	Office equipment	Plant and machinery	Motor vehicles	Computer equipment	Total
	€	€	€	€	€	€
COST						
At 1 January 2013	232,299	142,311	18,119	111,503	372,694	876,926
Additions	3,031	3,438	-	12,016	20,713	39,198
At 31 December 2013	235,330	145,749	18,119	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	156,616	18,119	115,901	568,103	1,099,801
DEPRECIATION						
At 1 January 2013	123,038	128,030	5,080	96,802	319,039	671,989
Depreciation charge for the year	23,040	10,290	3,020	7,303	27,508	71,161
At 31 December 2013	146,078	138,320	8,100	104,105	346,547	743,150
Depreciation charge for the year	21,890	5,800	2,505	20,869	65,580	116,644
Depreciation released on disposals	-	-	-	(75,448)	(280)	(75,728)
AT 31 DECEMBER 2014	167,968	144,120	10,605	49,526	411,847	784,066
NET BOOK VALUE AT 31 DECEMBER 2014	73,094	12,496	7,514	66,375	156,256	315,735
At 31 December 2013	89,252	7,429	10,019	19,414	46,860	172,974

12. TRADE AND OTHER RECEIVABLES

	2014	2013
	€	€
Duties and licences receivable (note i)	6,682,507	5,591,521
Other receivables	97,440	33,605
Prepaid expenses	181,173	12,383
Deposits	61,145	-
Accrued interest	17,033	6,771
	7,039,298	5,644,280

i. At 31 December 2014, duties and licences receivable at nominal value of EUR651,326 (2013: EUR426,118) were impaired and fully provided for (Note 6).

NOTES TO THE FINANCIAL STATEMENTS

Continued

12. TRADE AND OTHER RECEIVABLES - continued

Provision for doubtful debts	2014	2013
	€	€
Opening balance	426,118	628,694
Increase/(decrease) in provision for doubtful debts	225,208	(202,576)
Closing balance	651,326	426,118

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

	Total	Neither past due nor impaired	Past due but not impaired <30 days	Past due but not impaired 31-60 days	Past due but not impaired 61-90 days	Past due but not impaired >90 days
	€	€	€	€	€	€
2014	6,682,507	4,693,683	991,746	369,841	135,123	492,114
2013	5,591,521	3,747,542	986,790	562,101	26,148	268,940

13. RESERVES

a. 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.

b. 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 Licencee 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.

14. TRADE AND OTHER PAYABLES

	2014	2013
	€	€
Amounts due to Government (note i)	4,537,758	7,486,026
Unclaimed deposits (note ii)	3,862,340	3,303,370
Other payables (note iii)	1,629,708	766,680
Accruals	566,217	54,812
Deferred income	2,383,592	1,826,900
	12,979,615	13,437,788

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 that are passed on to the Authority by the gaming licensee when no transactions have been recorded on players' account for thirty months. The money is kept in a separate bank account at the Authority's discretion, to be used for the setting up and operation of the Responsible Gaming Foundation or such other use as may be determined by the Board.

iii. Other payables includes the amount of EUR468,400 (2013: EUR468,400) being duty held by the Authority due to investigations going on in respect of an operator. Other payables also include the amount of EUR416,104 (2013: EUR100,000) transferred in respect of Responsible Gaming Fund.

NOTES TO THE FINANCIAL STATEMENTS Continued

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:

	2014	2013
	€	€
Cash at bank and in hand	9,174,582	7,870,534

16. COMMITMENTS

The Authority operates from leased premises in Birkirkara. The Authority will be having its offices at SmartCity in Ricasoli, Kalkara. The future minimum rentals payable including VAT, under these operating leases as at 31 December 2014 and 31 December 2013, are as follows:

	2014	2013
	€	€
Within one year	311,724	65,263
After one year but not more than five years	1,859,071	-
More than five years	5,895,979	-
	<u>8,066,774</u>	<u>65,263</u>

17. RELATED PARTY DISCLOSURES

Related party	Year	Total transactions with related parties	Amounts owed to related parties at year end	Type of transaction
		€	€	
GOVERNMENT OF MALTA - THE TREASURY	2014	49,553,560	4,537,758	Surplus for the year
Government of Malta - The Treasury	2013	49,888,006	7,486,026	Surplus for the year

NOTES TO THE FINANCIAL STATEMENTS Continued

17. RELATED PARTY DISCLOSURES - continued

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 EUR34,910 (2013: EUR29,823).

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.

Credit risk

The Authority trades only with licenced, 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 licencees 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

As at 31 December 2014, gaming operators have submitted claims with respect to overpayment of gaming taxes paid to the Authority amounting to EUR1,694,532 due to wrongful classification of the games provided by the operator.

Other requests for damages amounting to EUR972,148, have been made by gaming operators against the Authority in respect of loss of profits and for the payments made on the importation of devices which originally the Authority, on the information provided by the gaming operator, categorised as other amusement machines and informed the operator accordingly. However, following further investigations, it resulted that the devices were gaming devices as defined within the Lotteries and Other Games Act (Cap. 438). Subsequently the Authority did not approve the devices that were imported by the operator and withdrew the original approval. The operator is claiming damages for initially being granted approval of importing the devices as these would be licenced however following the investment the operator was informed of the rectification of classification of the devices which resulted in the devices not being used.

The Authority is contesting the amount of these claims for taxes and damages. Up to the date of the authorisation of these financial statements, these were only claims made against the Authority and no legal action has been initiated. However, the Authority has been advised by its legal counsel that it is probable that it will not be found liable for any of these damages. Accordingly, no provision for any liability has been made in these financial statements.

SUPPLEMENTARY STATEMENT

Administrative and other expenses

Statement

|

ADMINISTRATIVE AND OTHER EXPENSES

	31 December 2014		31 December 2013	
	€	€	€	€
Salaries and national insurance	2,670,568		1,921,797	
Training	75,714		40,105	
Recruitment expenses	19,063		1,250	
STAFF COSTS		2,765,345		1,963,152
DEPRECIATION		116,644		71,161
Chairman's emoluments and Board honoraria	34,910		29,823	
Subcontracted services	84,945		46,217	
Telecommunications	60,827		37,981	
Water and electricity	36,557		31,990	
Rent	156,141		158,054	
Insurance and licences	19,169		12,629	
Postage, stationery and printing	45,893		39,497	
Office expenses	13,559		7,885	
Motor vehicle running expenses	47,892		26,317	
Bank charges	2,762		2,225	
Cleaning expenses	666		457	
Subscriptions	50,582		39,417	
Repairs and maintenance	60,280		50,303	
Business Development expenses	19,783		3,075	
Overseas travelling	181,807		69,965	
Seminars and conferences	40,308		38,888	
Regulatory development expenses	148,750		89,480	
GENERAL ADMINISTRATIVE EXPENSES		1,004,831		684,203
Accountancy fees	20,532		1,451	
Professional fees	918,076		148,322	
Internal Audit fees	55,523		37,925	
Auditors' remuneration	29,638		21,830	
PROFESSIONAL FEES		1,023,769		209,528
PROMOTIONAL EXPENSES (NOTE I)		518,311		194,839
PROFIT ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT		(6,103)		-
PROVISION FOR DOUBTFUL DEBTS		225,208		(202,576)
		5,648,005		2,920,307

i. Promotional expenses are stated net of amounts recovered of EUR30,550 (2013: EUR30,700) from third parties in respect of participation in promotional activities.



Malta Gaming Authority

Suite 1, Level 3,

TG Complex,

Brewery Street,

Mrieħel, Birkirkara, BKR3000

Malta

T. +356 2546 9000 E. info@mga.org.mt