

The Annual Report 2004 of the Gaming Board of Hungary

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Introduction

After having closed year 2004, we prepared again the Annual Report of the Gaming Board. In this Report we will show the development of the Hungarian gambling market and the whole year's activity of the Gaming Board.

The most important figure of data describing the gambling market is the game tax paid, which was higher by 25 % than in 2003. The main reason of the increase is the rise of the taxes for lotteries and slot machines.

The technical development of the games has accelerated in Hungary: today all number games – except for “Luxor” and “Tippmix” – organised by Szerencsejáték Rt. (the state game organiser) can be played through the internet, phone and SMS. In these games electronic signature and time-seal closing technology are applied. Now it is sure that the first, state organised Hungarian game, playable exclusively through the Internet will be presented in year 2005.

Having the experiences of more than a decade, the Gaming Board controlled with responsibility the continuously developing gambling market in 2004. It fulfilled its duties prescribed by law and helped preserve the credibility and integrity of the Hungarian gambling market.

The Gaming Board fulfilled its duties concerning the preparation of legislation as well. It took part in establishing the forming legal background and was ready for the tasks in connection with the new gambling strategy being in preparation. (Beside the domestic developments, we expressed our opinions time after time about the Directive of The European Commission on the services in the internal market and studied the cases referred to the European Court of Justice and the rulings made.) At the same time the Gaming Board had to face the problem of the appearance of Internet gambling organised abroad. One of the tasks of next year will be to handle and to solve this problem.

We think that the Gaming Board – which is an organisation with a relatively small staff compared to the size of the market and to other foreign authorities – achieved good results in many fields (the number of so called live controls, presence on the market, support of the customer, preventive function, permanent professional education) and, paying attention to the national interests, worked also in compliance with the European standards. These results determine the tasks of year 2005.

Márta Sibinger
President

The Gaming Board

The Gaming Board has been established by the Act No. XXXIV of year 1991 on the organisation of gambling with the following objectives:

- to satisfy the demands on the organisation of gambling;
- to prevent gambling without licence and contrary to the good moral;
- to control the gambling organisation activity;
- to use a part of the revenues coming from gambling to public objectives.

The Gaming Board has a nationwide competence. According to current legislation, its specific duties are:

- licensing of games, approving modified game plans, extending of previous licences, issuing licences of operation;
- record keeping of licences, the control of compliance with the content of the licence, sanctioning of non-compliance with the rules;
- preparing the legislation proposals and strategic decisions;
- participating in the combat against the harmful social effects caused by illegal gambling and
- participating in the combat against money laundering.

The work of the Gaming Board in 2004

In 2004 the Gaming Board issued 44,053 licences¹ and registered 6,596 gaming machines. Last year the Gaming Board fulfilled 18,643 inspections in total, passed 43,616 rulings revisable by the court of justice and 1,958 rulings avoidable by an appeal to be presented to the Ministry of Finance.

The participants of the Hungarian gambling market paid to the state budget – under the fulfilment of 99.9 % of the tax obligations – 61.2 billion HUF game tax, 10.5 billion HUF personal income tax, in total 71.7 billion HUF. The tax revenue per one employee of the Gaming Board exceeded 512 million HUF².

Currently the exchange rate EUR/HUF is about 250.

The 44,053 licences issued during last year were less by about 5 % than those issued in 2003 but this number corresponds to the average of the last three years. The work of licensing meant mostly the licensing of the liberalised market, the issuance of licences of operation for slot machines and gaming halls, the issuance of 38,046 licences for slot machines and 5,908 licences for gaming halls.

In addition,

¹ Licensing means

in case of draw games and betting: new game licence, approval of a modified game plan, extending of a previous licence, termination of a game;

in case of casinos: licence for the modification of a game plan and for the use of promotional chips;

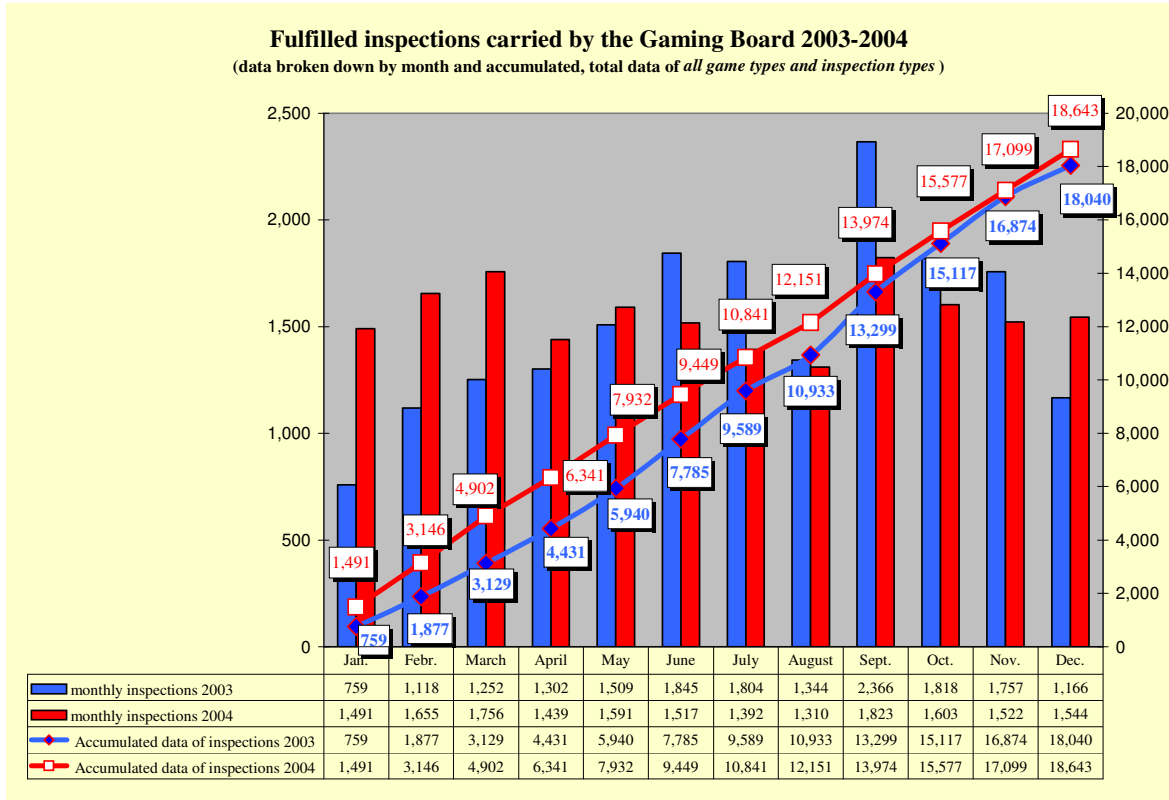
in case of slot machines and gaming halls: issuance of a licence of operation

² In 2003 the tax revenue per one employee of the Gaming Board was 433 million HUF. In 2003 (which was the last complete year before joining the EU) the relevant figure of the Hungarian Customs and Finance Guard was 315 million HUF per person, the relevant figure (which contains the game tax and the personal income tax to be paid on gambling) of the State Tax Authority was 464 million HUF.

- the registration of 6,596 gaming machines,
- in 73 cases the modification of casinos' game plan and giving promotional chips,
- the granting of 18 licences related to draw games,
- the granting of 4 licences related to betting,
- in 4 cases the granting of import licences needed for the customs examination of tickets of draw games were done.

During last year the number of files arrived to the Gaming Board was approximately 132,000, which meant 500 documents to be filed per day.

The Gaming Board, according to the Rules of Inspections and plans of inspections, fulfilled 18,643 inspections in total. It means that 14 overall controls, 17,371 focusing inspections (without promotional drawings), 414 focusing controls, 700 post inspections, 70 controls focusing on accounting and 74 "super" inspections (the supervisor of the inspectors performs the inspection) were fulfilled by the units and experts authorised to carry inspections and controls. The number of average monthly inspections, without "super" inspections, was 1,547, which was 3 % higher than the average of the previous year.



93 % of all inspections were fulfilled on the liberalised market, i. e. on slot machines and in gaming halls. The level of the inspections³ in gaming halls was approximately 91 %, in category 2 it exceeded 82 %.

After the stabilisation of the increased number of inspectors in 2003, in 2004 the Gaming Board increased the checking of the integrated control units (ICU) – their use has been obligatory since 2003 – of the slot machines.

³ On sight focusing inspections per all gaming halls having a licence at the end of the year

During last year the Gaming Board passed 2,419 rulings of sanction, most of them (80 %) was issued for slot machines and gaming halls, about 19 % for promotional drawings.

The number of rulings imposing a fine increased by 4.7 % (from 1,310 in 2003 to 1,921 in 2004), the total amount of fines imposed by the Gaming Board increased by 50 % (from 251.4 million HUF in 2003 to 380.3 million HUF in 2004).

	Number of fulfilled inspections	Rulings on fines	Fines (HUF)
Draw games	101	20	7,160,000
Betting games	44	2	700,000
Casinos	873	2	1,600,000
Slot machines	17,301	1,633	360,410,000
Promotional drawings	324	264	10,435,000
Total	18,643	1,921	380,305,000

873 contains the inspections carried by the heads of regional offices or heads of departments.

95 % of the revenue of fines came from the operators of slot machines and gaming halls. The average fine at the Gaming Board was 198,000 HUF, within this number 39,500 HUF on promotional drawings and 221,000 HUF on slot machines and gaming halls.

Last year there were 16 final bans to pursue the organisation activity and 36 withdrawals of the licence.

In 14 cases criminal procedures were initiated, in 41 cases offence procedures were launched.

In 2004 the Gaming Board passed 1,958 rulings avoidable by appeal, based on the records of the inspection work strengthened from year 2003. These are basically the rulings on fines, against which a legal remedy can be presented to the Ministry of Finance. The number of appeals against the rulings was 222, it was similar to the previous years, i. e. about 11 %, in spite of the fact that the number of the rulings increased by nearly 50 %. The Gaming Board introduced 191 of the appeals presented to second degree. In two third of the cases the Ministry of Finance approved the rulings of the Gaming Board or refused the appeals. In 36 cases the original ruling had to be amended or cancelled or a new procedure had to be launched. At the end of the year 19 % of the appeals were in process.

The total number of licences issued by the Gaming Board, the refusals, the rulings revisable by the court of justice was 43,616 in 2004. Against them the organisers brought lawsuits in 114 cases.

In 2004 99 % of the Gaming Board's revenues came from the authority, licensing, supervision and controlling fees. 78.7 % of the revenues of the basic function came from the licensing fees of slot machines of category 1 and 2.

The Act on the state budget of year 2004 prescribes that the Gaming Board should pay 2.04 billion HUF into the state budget. Taking also the amounts of December into consideration, the amount paid into the state budget approximated 4 billion HUF.

The gambling market

In 2004 the side of the organisers of the Hungarian gambling market continued to be bipolar. On one side the state gambling organisers, on the other side more than a thousand organisers were operating.

The game revenue of the draw games organised by Szerencsejáték Rt. was 98.2 billion HUF in 2004, which was less by 15 billion HUF than the level of the previous year, due to the smaller sales of the three lottery games. The net game revenue of the sector did not reach 62 billion HUF, which meant a decrease of 9 billion HUF. Only the game revenues of “Keno” and the draw tickets increased compared to 2003. During last year the prices of the draw games did not change. From 1st January 2004 the game tax of lottery games increased from 17 % of the monthly winning base to 24 % of the monthly winning base. In spite of the 41 %-tax increase – due to the decrease of the turnover – the payment of the game tax of the lottery games increased only by 16.6 %.

The game revenue of the betting games was 13.9 billion HUF, which exceeded the level of the previous year by 15.4 %. The increase is only because of the fact that the revenues of the bookmaker betting increased by more than 24 %, the turnover of “Góltotó” (it is a special sports betting game) decreased by more than 15 %, the turnover of horse race betting by 2.6 % and the turnover of “Totó” (it is the classical sports pool betting game) stagnated. The net game revenue of the sector was 6.6 billion HUF, it was more by 9.3 % than a year earlier. During last year there was no price increase on betting games.

The total revenue of the six casinos operating in Hungary exceeded 54 billion HUF, it means an increase of 19 % compared to the previous year. At the same time the increase of the net game revenue stayed under 7 %.

The net game revenue of the slot machines operated in gaming halls exceeded 70 billion HUF, which is an increase of nearly 16 % compared to 2003. Due to the rise (by 36.4 %) of the presumptive tax from 55,000 HUF to 75,000 HUF the payment of game tax of the sector increased by 34.4 %.

The net winning won at promotional drawings during last year was 1.9 billion HUF, it was less by nearly 15 % than the winnings won in 2003.

The game tax revenue of the state budget was 61.2 billion HUF, it exceeded by nearly 25 % the level of 2003; the payment of the personal income tax related to gambling⁴ was 10.5 billion HUF, it was less by 10 % than the level of the previous year. The relative decrease on personal income taxes was equal to the reduction caused by the “missing” record winnings on the 5/90 lottery game.

The state budget received approximately 72 billion HUF in total coming from the two kinds of taxes, which was higher by 18 % than in the previous year. It meant 1.14 % of the revenues of the state budget.

⁴ According to the Act on the personal income tax the winning coming from draw games which do not need a licence based on Section 16 of the gambling Act, from slot machines, from casinos and from the totalizator type horse race betting is not considered as revenue.

The most important changes in regulations related to gambling

The overall modification of the regulation on gambling organisation started in 2003. The preparation of the Government's proposal on the national gambling strategy was still in process at the end of 2004.

The regulations having direct effects on gambling organisation were not modified in 2004.

It is expected that at the beginning of 2005 the Execution Order (the Order of the Minister of Finance, No. 25/1991 (X.16) on the execution of duties related to the licensing, performance and supervision of gambling) of the Act No. XXXIV of year 1991 will be amended.

Casinos

In 2004 six casinos were operated in Hungary, three of them in Budapest (Las Vegas Casino Kft., Várkert Kaszinó Kft., Belvárosi Kaszinó Kft.) and three in the countryside (Casino Győr Kft., Casino Kecskemét Kft., Casino Sopron Kft.). Casino Győr Kft. and Casino Kecskemét Kft. are owned by the state gambling organiser, they pursue their activities not within concession contracts. The payment of game tax of the casinos was 5.3 % of the total game tax in 2004.

The development of the market

The six casinos were visited by 365,847 customers in total, which was an increase of 9.6 % compared to 2003. The proportion of the foreign customers were about at the level of the previous years, i. e. 59 %. 55.3 % of the net game revenue was paid in HUF, which was higher by 8.3 percentage point than in 2003.

The two casinos in the countryside owned by Szerencsejáték Rt. (Casino Győr and Casino Kecskemét) operate by using exclusively HUF. The other four casinos operate by using both HUF and foreign currency, of them Várkert casino uses USD and the others use EUR as foreign currency.

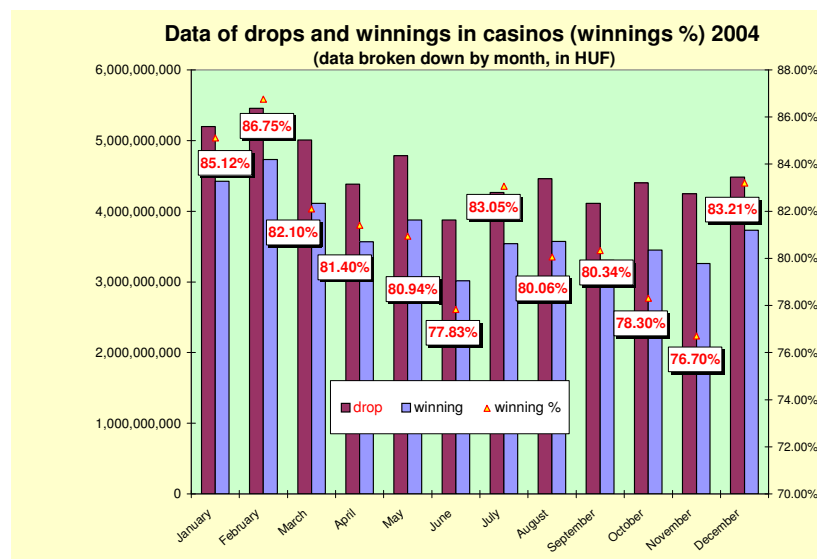
The considerable fluctuation of the exchange rates of HUF and foreign currencies had a significant effect on casinos. (The exchange rate 224 HUF/USD in 2003 decreased to 181 HUF/USD. The rate of HUF/EUR was 264 in January and 245.6 in December).

In 2004 the amount put by the customers into game in the casinos was 54.7 billion HUF, which was more by nearly 19 % than in 2003.

The net game revenue was 10.1 billion HUF, which exceeded the level of 2003 by 6.7 %.

After the continuous increase in the previous years, both the number of the slot machines (199) and their share in the net game revenue (15.7 %) were stabilized on the casino market.

The payment of game tax of the casinos was 3.25 billion HUF in 2004, which was more by nearly 6.7 % than in 2003.



Licensing

In 2004 – similar to year 2003 – no new concession was issued or extended. Neither economic organisations operating with majority state shares, nor business associations wholly owned by the state game organiser received an approval declaration of the Minister of Finance for a new casino operation.

The modification of the game plan and the giving of promotional chips were authorised by the Gaming Board in 73 cases, which was a decreasing tendency compared to the previous years. The Order of the Minister of Finance, No. 25/1991 (X.16) on the execution of duties related to the licensing, performance and supervision of gambling was modified in accordance with joining the European Union. As a result, we issued only two import licences during last year for the customs examination of ten slot machines.

Supervision of casinos

In 2004 the inspectors of the Gaming Board carried 835 on-sight inspections, 6 focusing controls, 4 overall and 18 post controls based on the annual inspection plan, according to the principles determined in the Inspection Rules of the Gaming Board. The casino companies completely paid the controlling fee.

Last year beside Várkert Casino, Las Vegas Casino changed to continuous opening hours as well, therefore the inspection duties increased further with a view both to quantity and quality. Considering their increased share in the turnover, the inspection of the slot machines still had an emphasized importance. A special attention was paid to the control of the compliance with the obligations prescribed in the act on the prevention and impediment of money laundering.

The 835 on-sight inspections in 2004 were fulfilled by six casino inspectors of the Gaming Board, in average 140 on-sight inspections were done in one casino. The inspectors checked mainly the accounting, the opening/closing of the tables, the compliance with the content of the game plan and the licence.

The inspection of the casinos is weighted based on their opening hours and turnover, so the number of inspections was between 86 and 197.

The number of on-sight inspections – under a reduction of staff by one person – increased by more than 9 % compared to the previous years.

The experiences of the previous years prove that the most effective measures of the control under the current casino structure are the frequent presence of the inspectors and the watching of videotapes of the video-controlled system, which have a preventive effect. As a result, the proportion of the official records that registered failures in the casinos was relatively low in 2004 and as a conclusion it can be stated that the companies basically fulfilled their legal regulations during the casino operations.

Authority work, legal remedies

In 2004 the Gaming Board passed two rulings imposing fines in this sector, in a value of 1,600,000 HUF in total. The organisers presented appeals against the ruling of the Gaming Board in both cases to the Ministry of Finance proceeding on second degree, which approved the rulings of the Gaming Board. The organisers presented a lawsuit against the ruling of second degree to the Court of Justice of Budapest, where the proceedings were not closed till the end of 2004.

Two complaints were reported to the Gaming Board related to casinos in 2004. The subject of the complaint in one case was the defective operation of the progressive jackpot system connected to the table poker game, in the other case – in connection with a huge losing on a certain gaming day – the arrangement of the game in the casino. The Gaming Board examined the complaints but did not find them well-founded.

Draw games, betting games and games obliged to be registered

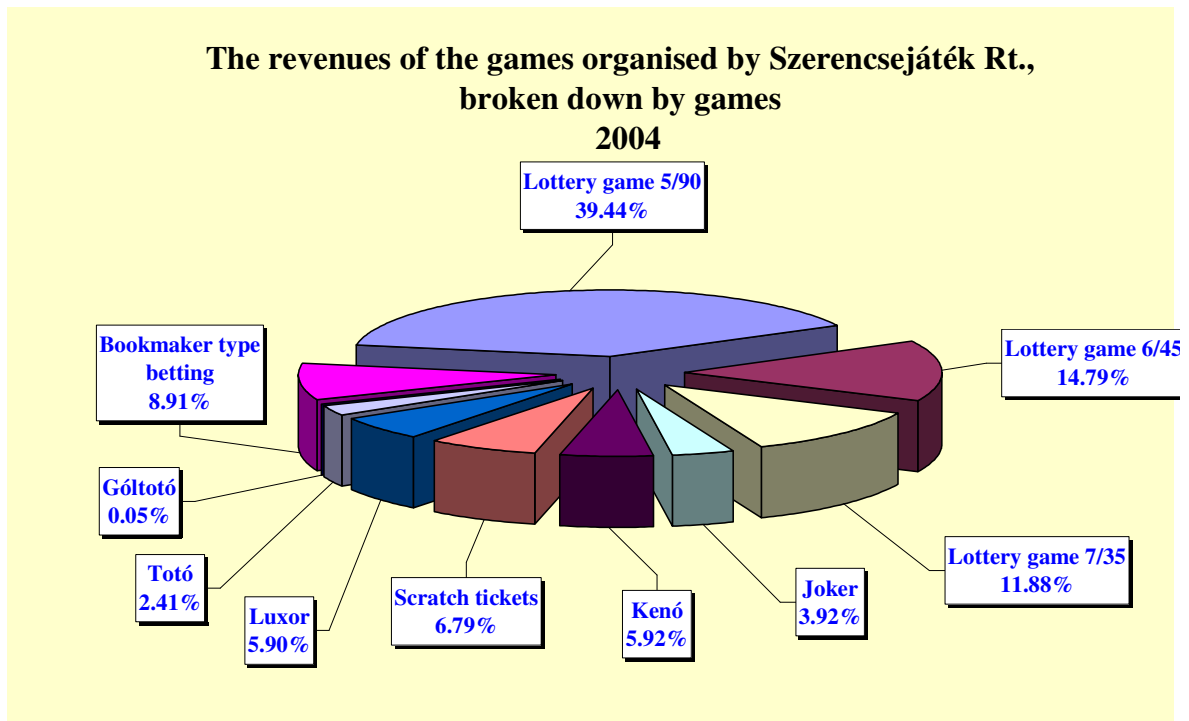
The state game organiser – Szerencsejáték Rt. – remained in monopoly on the market of draw games in 2004, which had licences to organise 26 kinds of draw games, of which 6 were number draw games (lotteries 5/90, 6/45, 7/35, “Joker”, “Kenó”, “Luxor”), 18 scratch tickets and 2 “windows” draw games.

The distribution of one (“Ajándék”) of the licensed draw games was not started in 2004. During last year the Gaming Board – for the request of the organiser – withdrew the licence of the draw ticket “Las Vegas” and authorised the suspension of the sales of the draw ticket “Texas Aranya”.

The development of the market

48 % of the payment of game tax and the personal income tax came from draw games, betting games and promotional drawings in 2004. During last year there was no price increase either on draw games or on betting games.

The total revenue of the six number draw games was 90.64 billion HUF, which was less by more than 15 % than in 2003.



The revenue of the lottery game 5/90 with the amount of 43.68 billion HUF was less by 22.5 % than in 2003. The reason of such decrease of the turnover is that the number of single games (i. e. to wager one simple stake) played decreased by 24.5 %. In 2004 the highest winning in the lottery game 5/90 was 1.721 billion HUF, which was considerably less than the record winning of 5.093 billion HUF in the previous year.

The turnover of the lottery game 5/90 was 16.38 billion HUF, less by 7.8 % than in the previous year.

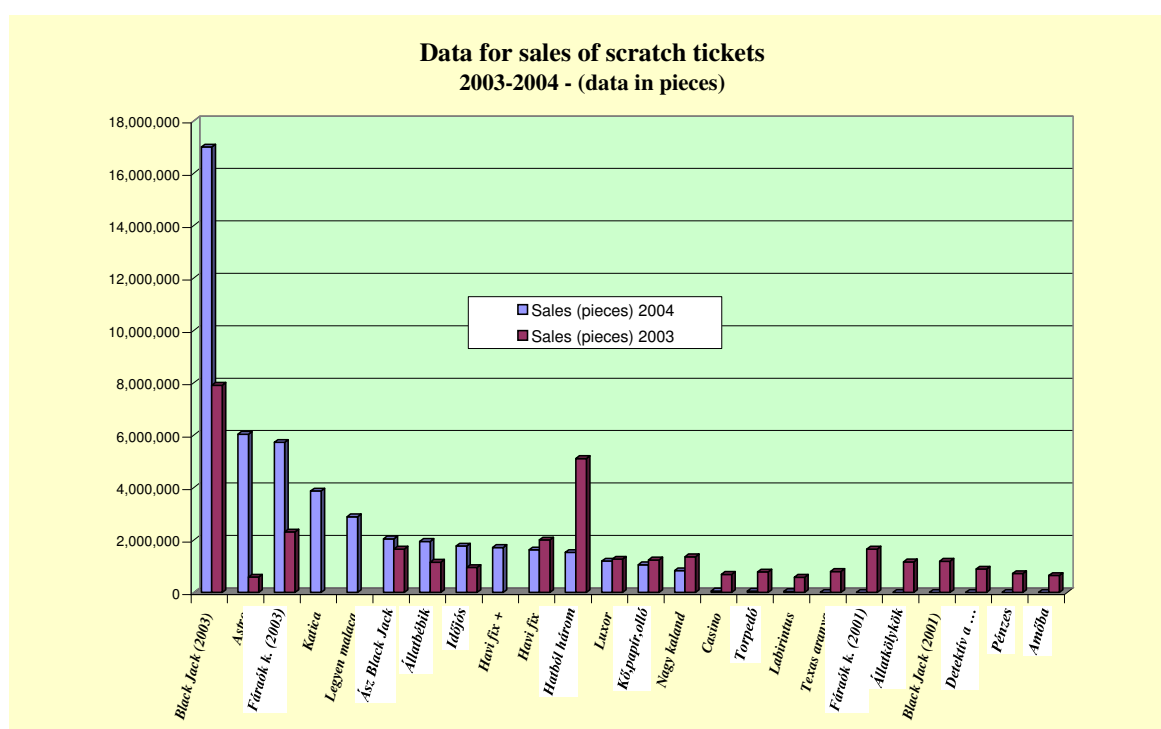
The turnover of the lottery game 7/35 (“Skandináv Lottó”) was 13.15 billion HUF, less by 9.3 than in 2003.

The turnover of the game “Joker” was 4.34 billion HUF in 2004, which meant a decrease of 16 % compared to the previous year.

The revenue of the number draw game “Luxor” was 6.53 billion HUF, which was a decrease of 7.8 %.

The game “Kenő” is the only number draw game, whose turnover increased. The revenue in 2004 was 6.55 billion HUF, which is higher by 5.4 % than the level of the previous year.

In 2004 the customers spent 7.52 billion HUF to draw games obliged to be registered (draw tickets), which is a 31 %-increase of the revenue compared to the previous year.



In 2004 Szerencsejáték Rt. and Magyar Lóversenyfogadást Szervező Kft. (Hungarian Horse Race Betting Organiser Ltd.) were the participants on the betting organisation market as organisers. The total revenue of the betting games was 13.9 billion HUF, less by 15.4 % than in the previous year.

Szerencsejáték Rt. had a revenue of 2.66 billion HUF coming from the sports pool betting in 2004, which was a 0.6 %-decrease of the turnover of the previous year.

The turnover of “Góltótó” was 54.1 million HUF, less by 15 % than in 2003⁵.

The turnover of the bookmaker type betting was 9.87 billion HUF in 2004, more by 24 % than in the previous year.

⁵ The decrease of the turnover of “Totó” and “Góltótó” was much less than in 2003. In 2003 the decrease was 6.2 % and 28 % respectively.

The increase of the turnover is due to the big sport events held in 2004. In the period of the European Soccer Championship the amount of wagered stakes was three times higher, in the period of the Olympic Games one and a half times higher than in an average betting week.

The figures of the turnover of draw games and betting games can be monitored through an on-line station of the game information system (ELOSINFO) of Szerencsejáték Rt., installed in the building of the Gaming Board.

The totalizator type horse race betting was organised by Magyar Lóversenyfogadást Szervező Kft. The revenue of horse race betting was 1.31 billion HUF in 2004, which was a 2.6 % decrease compared to the previous year.

Two third of the totalizator turnover came from the bets wagered on trotting race, one-third from gallop races.

On 29 May 2004 the old racecourse was closed and since 12 June 2004 also the trotting races have been held in the new multi-function racecourse in Kincsem Park. The gallop races have been held in Kincsem Park already since 19 October 2003.

In 2004 nine betting offices were operated by Magyar Lóversenyfogadást Szervező Kft. in Budapest, in addition the stakes could be wagered in thirteen pubs. Because of the technical obstacles the betting offices could be operated only in Budapest and its vicinity.

The possibility of participation through telecommunication means

The number draw games – except for “Luxor” – and the betting games – except for “Tippmix” – organised by Szerencsejáték Rt. can be played through the Internet, phones and SMS as well.

The number of bets put into games through the internet, phones and SMS increased compared to the previous year, however it is still very low, it is 0.26 % of all bets put into games. In 2003 this proportion was 0.2 %.

Games	On-line		By phone		Through Internet		SMS		Total	
	pieces	%	pieces	%	pieces	%	pieces	%	pieces	%
5/90	290,636,895	99.8062	83,668	0.0287	456,931	0.1569	23,653	0.0081	291,201,147	100
6/45	108,931,175	99.7602	32,348	0.0296	221,814	0.2031	7,726	0.0071	109,193,063	100
7/35	87,507,148	99.7886	15,761	0.0180	162,017	0.1848	7,642	0.0087	87,692,568	100
Joker	28,870,599	99.6926	15,784	0.0545	69,524	0.2401	3,718	0.0128	28,959,625	100
Kenó*	65,088,131	99.3434	66,199	0.1010	363,997	0.5556		0.0000	65,518,327	100
Totó	33,207,630	99.7169	33,282	0.0999	59,175	0.1777	1,823	0.0055	33,301,910	100
Góltotó	667,644	98.6763	5,281	0.7805	3,459	0.5112	216	0.0319	676,600	100
Total	614,909,222	99.7350	252,323	0.0409	1,336,917	0.2168	44,778	0.0073	616,543,240	

* In case of Kenó the games wagered by SMS are described in “By phone”.

Promotional drawings

In 2004 2,714 promotional drawings subject to the gambling law were organised, less by 2.6 % than in 2003. The sum of the net winnings won decreased by a higher measure, i.e. by nearly 15 %.

Licensing

26 licensing procedures were closed by final rulings within draw games and betting games in 2004. Of them, 18 were related to draw games, 4 were related to betting games, in 4 cases –

until the relevant regulation is revoked – the Gaming Board issued import licences needed to the customs examination of draw tickets.

At the time of modification of the game plan and the extension of previous licences (lottery games 5/90, 6/45, 7/35, “Luxor”, “Joker” number draw games, “Totó”, “Góltotó” betting games) initiated by the state game organiser, Szerencsejáték Rt., the Gaming Board authorised the introduction of a new method of gaming performed by the so called m-commerce⁶ service and also the modification of the amount to be used for winnings paid from the prize base.

The Gaming Board approved the rules of the new game plan of the number draw game “Kenő”, according to which it may be played altogether with the game “Joker” and seven times a week, instead of six times a week as previously.

The Gaming Board authorised the use of the electronic signature and the time-seal closing technology in the organisation of “Tippmix” bookmaker type sport betting, similar to the other games. With these means the right of participation in the betting and the inaccessibility, authenticity and completeness of the database containing the date of betting can be certified.

During last year the organisations of three new number games arranged by scratch tickets were licensed by the Gaming Board (“Havi Fix+”, “Ajándék”, “Legyen malaca”).

The Gaming Board approved the suspension of the activity on one draw game (“Texas Aranya”), in another case it withdrew the licence of the draw game upon the request of the organiser (“Las Vegas”).

The Gaming Board made a decision about the extension of the totalizator horse race betting licence of Magyar Lóversenyfogadást Szervező Kft., which expired on 31 December 2004. The Gaming Board deemed it justified to extend the licence only for a 2-year period instead of the requested 5-year period, because of the current circumstances of the arrangement of horse race organisation and horse race betting and the elaboration of the forthcoming strategic ideas related to this sector.

Supervision

The games obliged to have a licence were supervised by the Gaming Board – following the practice of the previous years – within overall, focusing and post inspections based on continuous and monthly inspection schedules. All the tasks of the inspection schedule approved for 2004 were fulfilled, there were 10 overall controls, 408 focusing controls, 50 focusing inspections and one post control.

Type of game	Overall controls	Focusing controls	Focusing inspections	Post controls
Draw game	10	40	50	1
Betting		44		
Promotional drawing		324		
Total	10	408	50	1

⁶ This is a game performed according to a contract accepted by Szerencsejáték Rt. and concluded between the mobile phone service provider and the customer.

Draw games

Within the continuous on-site inspections of the on-line games of Szerencsejáték Rt., the Gaming Board checked 50 times the official closing of worm discs, the registration of data and the authenticity of the high winnings in 2004. After the introduction of the new closing process it examined the authenticity of high winnings, checked if the data of the winner tickets correspond to the data in the worm disc, if there is an electronic signature and time-seal in the transaction files and the official closing of the auditing equipments.

The Gaming Board examined the followings by processing the periodical accountings sent monthly by Szerencsejáték Rt.:

- determining the amounts of the weekly prize base and each winning;
- the changes in winnings not taken over;
- special attention to the accumulation of the winnings and the managing of the accumulation;
- reinvesting – within the prescribed time limit – of the winnings not taken over;
- determining the tax and fee obligations towards the state and the fulfilment of these obligations.

The organiser regularly sent us the periodical accountings of the draw games obliged to have a licence in the required form, with proper content for each period.

The data of turnover of the draw tickets (stocks and the change in the stocks deduced from the quantity of draw tickets given for distribution) shown in the accountings matched with each other.

The Gaming Board continuously controlled the reported special drawings too, which can be conducted by the organiser according to the game plan of each licensed game, therefore giving the winnings not taken over back to the customers.

During the supervision of the special drawings it is very important that the principle of equal opportunity of the customers and the chance of the drawing should not be threatened and the winnings should be received by the participants of the same game – within the time limit prescribed in the regulations – in which the winning was not taken over.

Within focusing controls the Gaming Board inspected several times the drawing of number draw games, that is the drawings of lottery games 5/90, 6/45, 7/35, the games “Joker”, “Luxor” and “Kenő”. Within focusing controls – till 1 May 2004 – the Gaming Board carried 4 on-site inspections when scratch tickets were imported and it checked in several places if draw tickets without licence were distributed. During the inspections no such draw tickets were found.

Within overall controls the Gaming Board re-examined the final settlements of 10 draw games in 2004.

In the examination of the final settlement of draw games “Amőba”, “Állatkölykök”, “Black Jack”, “Casino”, “Detektív a pénz nyomában”, “Labirintus”, “Pénzes”, “Torpedó”, “Fáraók kincse 2001” and “Texas Aranya” no failures were found, Szerencsejáték Rt. organised these games in compliance with the game plan and the legal provisions and completely fulfilled its payment obligations arisen from the gambling organisation toward the State and the Gaming Board.

Within post controls the Gaming Board examined the draw games and bets – organised by Szerencsejáték Rt. – sent into game through SMS.

In the previous focusing control it was found that in case of a wagered game the SMS reply containing the individual identification number of the game had not arrived, so the organiser deviated from the content of the approved game plan.

In the post control it was found that Szerencsejáték Rt. acted in compliance with the content of the approved game plans, rules of participation, and their attachment “Practical guideline” when the draw games and bets were sent into game through SMS. This time no failure and deviation from the game plan observed in the previous focusing control were found.

Betting

The Gaming Board carried 44 focusing controls on betting games in 2004. It was checked if the rules of participation of “Totó”, “Góltotó” and “Tippmix” were available for the bettors, if the bettors were correctly informed by the conditions of participation.

The time limits of horse race betting and the publication of information related to betting were also checked in the form of focusing control. No failures were stated in any cases.

Promotional drawings

The Gaming Board was present at about 12 % of the reported promotional drawings, i. e. 324 drawings, in 2004. Nearly half of the inspections (160) were carried by the regional offices. During the on-site inspections of the promotional drawings just a few infringements occurred. In many cases however the organisers failed to ensure the publicity of the drawing game, the drawings were not held in the previously announced place or time, contrary to the announcement “reserve winners” were drawn or not the prizes indicated in the announcement were drawn.

By the announcement of the promotional drawings additional failures were that some organisers ignored the time limit (at least 10 days) prescribed by law, the announcement was not complete and the payment of the duties were not fulfilled.

In many cases the organisers interpreted incorrectly the concept of “reserve winner” and it often happened that the obligation of the final settlement was not completely fulfilled.

The number of reports increased, in which the organiser intended to perform the drawing through telecommunication means.

If a normal tariff service had to be used in the promotion for the participation in the game it was not qualified as a promotional drawing, since the participants could win the prizes not by the public drawing of draw tickets received at the time of purchase, therefore it had not to be reported to the Gaming Board or if it was reported it must not have been taken into registration.

If a premium tariff had to be used in the promotion organised through telecommunication means for the participation, the difference between the normal and promotional tariff was considered as a payment of a stake. According to Section 1 (1) and (2) of the Gambling Act if other conditions exist then the promotion shall be qualified as gambling, so, after the detailed facts had been clarified, the Gaming Board applied sanctions against it.

A special attention was paid to the reports mentioning these kinds of games and if it was possible, the organisers were warned that these games may entail sanctions.

The Gaming Board initiated sanctions for the organisation of gambling without licence and criminal process for the organisation of prohibited gambling at the competent police authorities.

Authority work, legal remedies

In 2004 the Gaming Board issued 447 sanction rulings in the sector of draw games, betting games and promotional drawings, of which 423 were connected to promotional drawings, 2 to betting and 22 to draw games.

Most of the fines related to draw games were imposed by the Gaming Board because of games having no licence, performed through premium tariff SMS. The fines were 200,000 HUF to 2,000,000 HUF depending on all circumstances of each case. Similar to the previous period, if the Gaming Board had knowledge of the organisation of such games, it consistently imposed sanctions against the illegal acts.

In the field of betting games the Gaming Board imposed a fine in a case, which had a big press publicity. The fine was imposed because of the mediator activity offering the participation in a gambling organised abroad and available in Hungarian language on sportingbet.hu website and because of the marketing related to this activity. In this case a criminal procedure against unknown criminal was launched based on a well-founded suspense of committing illegal gambling.

In 2004 the share of the fines imposed was as follows: 7,160,000 HUF on draw games, 700,000 HUF on betting and 12,285,000 HUF on promotional drawings. In the field of promotional drawings fines of judicial execution procedure were imposed in 35 cases against those who had not fulfilled their final settlement obligation in spite of the fact that they had been officially obliged to do so, the total sum of these fines was 1,850,000 HUF.

There were 320 rulings avoidable by appeal against which the organisers presented legal remedies in 20 cases. The Ministry of Finance, as an authority on second degree, approved the rulings of the Gaming Board in 10 cases, in 2 cases it cancelled them and ordered the Gaming Board to launch a new procedure, in 1 case it cancelled the ruling, in 2 cases – due to delay – the appeals were refused, 5 appeal procedures were not closed by the end of the year.

The procedure related to the fact that the final settlement of the draw game organised by Ibusz Fortuna Kft. had not been approved and to the fact that this organiser has to pay nearly 100 million HUF game tax was closed by final judgement. The court of justice obliged the company to pay the indicated amount.

After the overall control of the draw games organised by Szerencsejáték Rt. the Gaming Board approved ten final settlements.

The Gaming Board took steps in connection with 45 complaints last year. The Gaming Board received reports or complaints related to games organised by Szerencsejáték Rt. in 20 cases. In 13 cases the complaints were forwarded to the Customer Protection Authorities or to the police authorities, due to the lack of competence based on the information in the reports. In the other cases the reports arrived in connection with promotional drawings or other promotional games. We launched examinations based on the well-founded complaints and, depending on the result of the examination, applied sanctions.

Slot machines, gaming machines, gaming halls

Development of the market

Organisers

In the recent years more and more operating business associations were transformed, generally by merging or by fusion. It indicated the concentration of the market. At the same time, there were also separations and dissociations in 2004. The number of organiser business associations have been slightly increasing from quarter to quarter since 2001⁷. In 2004 this number increased by 7.5 %, to 1,194. It seemed that the concentration of the market slowed down and new companies appeared continuously. It did not mean deconcentration in all cases, sometimes it meant only that the owners decided to establish a new company. It could be observed that the operator (owner) of the bar/restaurant established an organiser company.

Gaming halls

The number of gaming halls having licence has been constant (with a small difference of 200 to 300), which indicates the saturation of the market. Only a small percentage of the licences issued in the recent years referred to new gaming halls, to new address. In 2004 the number of gaming halls having licence (i. e. operating or the operation was suspended) approached or exceeded 20,000 in certain months. It meant averagely 1,000 more gaming halls than in the previous year but this “increase” should be evaluated only through the change of the rules on the suspension of operation of the gaming halls.

Compared to 2003, the number of gaming halls of category 1 was about the same, at the same time the number of gaming halls of category 2 increased by 5 %, thus their proportion within all gaming halls increased. The proportion of the categories was significantly influenced by the proportion of slot machine categories in the market, by the authorisations of the municipalities and the by protected institutions related to category 1.

The number of gaming halls with suspended operation considerably increased last year⁸. While in 2003 5 %, in 2004 11 to 12 % of the operating gaming halls suspended their operation.

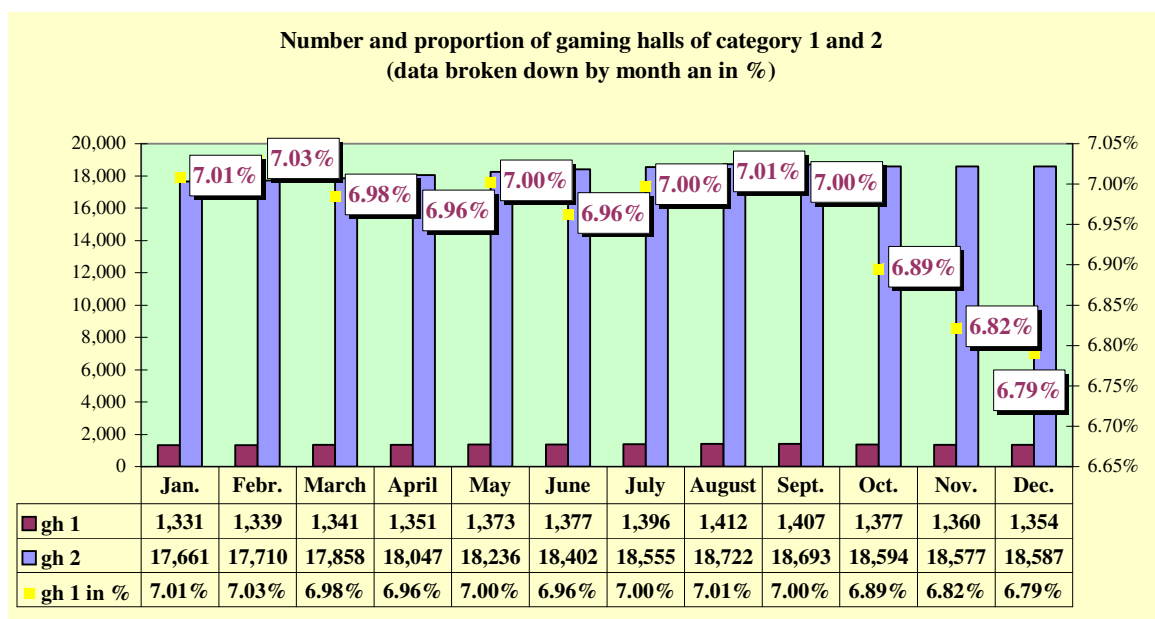
Number of gaming halls					
Category	2003 pieces	proportion %	2004 pieces	proportion %	change % 2003/2004
1	1,358	8%	1,354	7%	99.71%
2	17,671	93%	18,587	93%	105.18%
Total	19,029	100%	19,941	100%	104.79%

(The table contains data of the end of the year.)

⁷ While 1,003 companies were obliged to make accounting in the first quarter of 2001, in the last quarter of that year this number was 1,026, in 2002 1,034 and 1,044, in 2003 1,049 and 1,111 business associations.

⁸ As a consequence of the Order of the Minister of Finance No. 25/1991. (X.16.) on the execution of duties related to the licensing, performance and control of certain games.

Most of the licences were issued for the same address, which shows only the change of the operator or the modification of the content of data of the licence.



Slot machines

A slow rise in the sector of slot machines could be observed in the recent years. In 2004, as a consequence of the increase of the game tax, the number of slot machines having a licence decreased by 2.7 %⁹. Within it, category 2 decreased by 6 %, category 1 increased by 20 %, compared to the beginning of the year.

In case of slot machines of category 1 the number of playing stations increased by more than 5 %, in category 2 there was a similar decrease, which meant nearly a 6 % decrease of all playing stations.

Number of slot macines					
Category	2003 pieces	proportion %	2004 pieces	proportion %	change % 2003/2004
1	4,439	13%	5,341	19%	120.32%
2	29,626	87%	27,800	84%	93.84%
Total	34,065	100%	33,141	100%	97.29%

(The table contains data of the end of the year.)

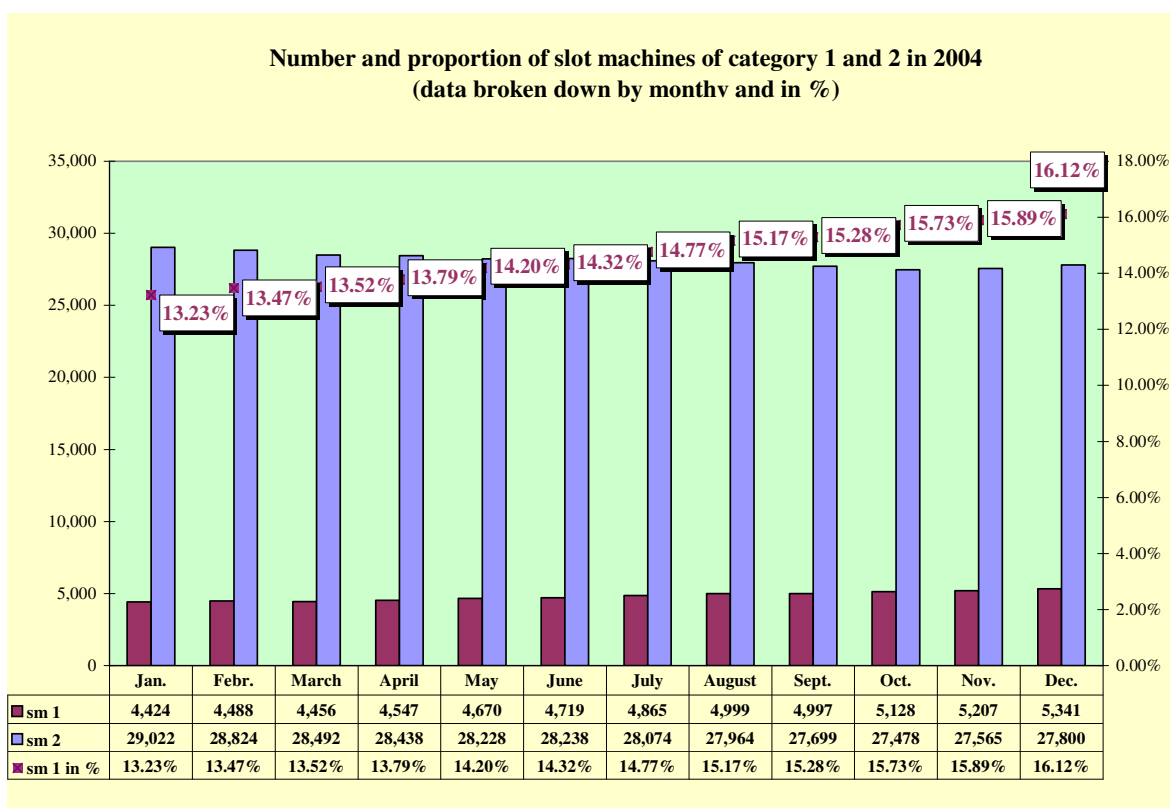
⁹ In the recent years there was an increase in both categories. The number of slot machines of category 1 showed a slight increase from year to year, in 2002 there was a small break on slot machines of category 2, which was the effect of the increase of the game tax. In 2003, the number of slot machines increased by nearly 14 % because of the anticipation related to the increase of the licensing fee.

The above mentioned small increase of the number of slot machines of category 1 can be explained by the rise of the popularity of slot machines, which perform the same game at the same time, on more playing stations.

The decrease in the number of slot machines of category 2 was influenced by the extension of reasons for the suspension of the gaming hall's operation, therefore the increase of the suspension period up to 270 days and the saturation of the market.

The payment obligation of the organisers was 33.78 billion HUF in contrast to 25.13 billion HUF in 2003, which was basically the result of the rise of game tax from 55,000 HUF to 75,000 HUF per playing station.

While the organisers had 60.38 billion HUF net game revenue in 2003, they achieved 70.03 billion HUF, more by 16 %, in 2004.



Licensing

In 2004 41,951 applications for slot machine licences and 7,887 applications for gaming hall licences were submitted to the Gaming Board.

During the licensing procedures the following rulings were made: in 38,046 cases authorisations, in 764 cases refusals, in 431 cases the procedures were terminated, 2,710 procedures passed through to 2005.

The Gaming Board issued 6,442 licences for slot machines of category 1, and 31,604 licences for category 2, of the total 38,046 licensed slot machines. 503 licences for gaming halls of category 1 and 5,405 licences for gaming halls of category 2 were issued, of the total licensed gaming halls.

In 2004 the Gaming Board refused those applications for slot machine licences, which were submitted by the organisers so early – mainly because of the anticipated rise of the licensing fee – that if the Gaming Board had issued the licences even on the last day of the 90-day procedure time limit, then the licences should have been issued for those machines, which already had a valid licence for that period.

Urgent applications

The modification coming into force on 5 December 2003 of the Order of the Minister of Finance No. 25/1991. (X.16.) on the execution of duties related to the licensing, performance and control of certain games made it possible that applications for slot machine and gaming hall licences can be judged urgently – against a double amount of the fee. In 2004 this possibility was very popular among the organisers, mainly considering the applications for gaming halls.

Files of urgent applications for gaming halls and slot machines and their proportion within all files of application for licences in 2004:

	All submitted applications for licences	Requests for not urgent procedure	Requests for urgent procedure	Proportion of urgent requests
Slot machines	43,154	39,892	3,262	7.6 %
Gaming halls	11,846	8,364	3,482	29.4 %

In 2004 the proportion of urgent applications reached 12 %. Within urgent applications the proportion of gaming halls exceeded 51 %.

The proportion of urgent applications for slot machine licences was 7.6 % compared to all slot machine applications. The judgement of urgent procedures made difficulties for the Gaming Board but, apart from some cases, the rulings were made in these cases within 5 days.

After the licensing fees of slot machines had increased by 25 % and 50 % and the licensing fees of gaming halls had increased by 100 % in December 2003, the revenues coming from licensing fees increased by 49 %.

Supervision

On-site inspections

In order to make the supervision easier and controllable our regional supervision offices got navigation equipments capable to plan the itinerary and equipments capable to read the data of the integrated control unit (ICU), which were continuously used during the increasing inspections in November and December.

In 2004 the process of making a central work plan, introduced in 2003, was improved and the inspections became more unified.

Last year the Gaming Board inspected nearly 16,500 gaming halls, which covered almost 83 % of all gaming halls subject to inspections. More than 3 % of the fulfilled inspections were focusing controls carried within administrative procedures, more than 4 % of the inspections were post controls. During the inspections the inspectors registered more than five thousand failures. Last year the Gaming Board withdrew the licences of 13 gaming halls and banned to play on 317 slot machines by sealing the equipment until certain steps are taken.

54 % of the failures registered in the gaming halls related to documents, 29 % were in connection with requirements for gaming halls. 17 % of the failures concerned slot machines.

77 % of the registrations relating to the documents found failures in the filling of documents, the lack or failures of the rules of visit presented 15 %.

8 % of the records relating to gaming halls mentioned not suitable rooms or the fact that another activity was pursued as well (in case of gaming halls of category 1). 22 % of the records showed that the establishment, in which the gaming hall could be found was closed or the gaming hall was not operating.

14 % of the reports on slot machines were about the counters or official seals, 13 % about the lack of the key and 73 % about other failures. (Most of the other failures meant the deviation from the game plan or the lack or injury of certification marks previously not mentioned.)

It can be stated that the types and proportion of failures have been the same for years.

At the same time with the on-site inspections 64 “super” controls were carried by the Gaming Board.

Beside them, the leaders of the regional offices controlled their own region in 55 cases (2 cases of them were cross-controls) – at the same time with the focusing control.

The Gaming Board carried concentrated inspections in Borsod-Abaúj-Zemplén and Szabolcs-Szatmár-Bereg counties, which were the least inspected regions in 2003 and 2004.

During this control 86 reports were made on 104 failures. 50 % of them were related to problems about the documents, 29 % about gaming halls. 22 % of the reports concerned slot machines.

In the only one overall control last year the Gaming Board examined the company’s gaming halls, in the head office of the company the data reporting obligations, the tax reports, the accounting, the payment of the game tax and inspection fee, the registration of accounting documents and forms and also if the organisers had made the reports on legal changes and other reports within the prescribed time limit.

Control of periodical accountings

Beside the controls carried at the time of receiving the quarterly accountings, 70 focusing controls on accountings were carried, which, among others, covered the report of the game tax, payment of the game tax, the control of determination of net game revenue and control of operation without licence. In these controls infringements were found in 60 cases.

The most frequent problem was the operation of machines without licence. Other problems were the failures in submitting the monthly reports on cash flow, gaming hall without licence, the suspension of the activity, differences in the revenue, incorrect tax report, differences in the forms.

The modification of the Execution Order for the Gambling Act No. XXXIV of year 1991 made it possible to submit the quarterly accountings through electronic means, which was used by 10 organisers in the first quarter, by 65 organisers in the second quarter and by 82 at the end of the year.

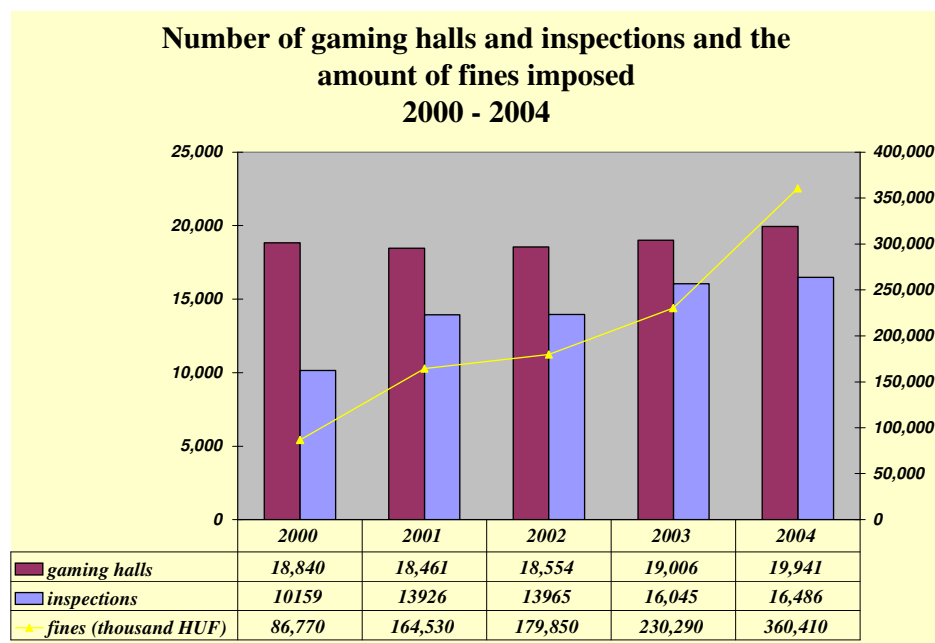
Authority work

In 2004 the Gaming Board imposed fines in 1,633 cases, in a total amount of 360,410,000 HUF, which meant an average fine of 221,000 HUF. Comparing it to the data of 2003, these figures showed the increase of rulings on fines by 75 % and the increase of the amount of fines imposed by 57 %. In 16 cases the organisers were banned from the organising activity, in 29 cases the licence of the gaming hall was withdrawn, mainly because the reason of suspension was not real. Beside the sanction rulings the Gaming Board issued 243 warnings and suspended the licence in 53 cases. Of this number 33 cases were related to slot machines, mainly because the organiser had not paid the licensing fee for the change in the method of operation. In 20 cases the licence of the gaming halls were suspended, partly because the legal debate was to be settled in the court of justice, partly because the conditions prescribed by the Gaming Board were not fulfilled¹⁰.

The Gaming Board ordered the repeat of the authentication of the slot machine in 136 cases and in 3 cases an expert was required. Due to the lack of the proof of the lawful possession, two gaming hall licences issued for the same room with 2 different addresses, the withdrawal of the notary's authorisation the Gaming Board refused the applications or the gambling organiser was banned from the operation in that place in 114 cases. In 2004 it could be observed that the municipalities regulated or restricted the gambling organisation licensable in their territories through orders.

The Gaming Board refused applications for the modification of the reason of suspension of the gaming hall or for the suspension of the gaming hall in 14 cases. The Gaming Board acted the same way in the case of 17 applications of equity. The organising activity was terminated in 58 cases.

¹⁰ Compared to 2003, the number of rulings on suspension considerably decreased in respect of slot machines. The reason is that in 2004 the Gaming Board – if the organiser proved a lawful possession shorter than one year – issued the licence only for the period of the lawful possession, in 2003 – the tolerance period – the licence was suspended in similar cases until the lawful possession was proved.



In 2004 the Gaming Board initiated 41 offence procedures. It made criminal reports because of well-founded suspense on forging of official documents and because of breaking the lock in 14 cases. During the on-site offence procedures the inspectors seized the slot and gaming machines not having a registration card or the licence of the Gaming Board. The inspectors of the Hungarian Customs and Finance Guard initiated offence procedures in 13 cases, the Gaming Board forwarded these cases – as cases offence initiated by another body – to the notary of the municipalities who acts as offence authorities with general competence.

Against the Gaming Board's 1,633 rulings on sanction 200 appeals were received. Of them 169 were put to second degree, of them 25 modifying or cancelling rulings were made.

Central Office of Customer Service

In 2004 there were changes in every field of the customer service. In one hand they occurred for rationalisation and for higher efficiency, on the other hand they were caused by the changes in regulations and the modifications of personal conditions. The aim is the modernisation of the customer service, the customer friendly, so called "service provider" public administration.

Since December 2003 the customers have handed their urgent applications – due to the nature of the procedure – mainly at the customer service office. It significantly increased the time of filing the applications. At the beginning of last year the number of completions was high, most of them were related to the renting and owner's declarations needed for gaming hall applications. The employees of the office drew the customers' attention to the failures in every case, however the customers sometimes handed their applications with failure and they rather filled the gaps in the following days. In many cases the customers handed urgent applications for gaming halls whose operation was suspended. There were demands that the Gaming Board should provide data, of which the organiser can learn if the previous operator

gave the licence back finally or the operation of the gaming hall is only suspended. No decision has been made yet about this question.

As in the previous years, in 2004 the Gaming Board collected the typical failures arising at the time of handing the applications or during the operation of gaming halls and slot machines. The organisers could get this list in the customer service office or on the Internet website of the Gaming Board, where statements for the public can also be found.

An examination – which can be considered almost as a public opinion poll – showed that out of the sample of 140 persons visiting the customer service office 80 persons visit the office once a week. Of all respondents 122 persons (87 %) were at least satisfied, 55 person were very satisfied, 4 were not satisfied at all with the verbal information given. 71 respondents visited the regional offices at least once a week. 84 % of the respondents were at least satisfied with the verbal information given. The satisfaction index of information given by phone was 86 % in case of the Customer Service Office and 90 % in case of the regional offices. 87 % of all respondents were at least satisfied with the information given by the Gaming Board.

Legal work of the Gaming Board

Participation in the preparation of regulation modifications

With its proposals, the Gaming Board took part in the process to keep the proposal of the Ministry of Finance for the national strategy on gambling organisation up-to-date. The Gaming Board also expressed its opinions about the proposals of Szerencsejáték Rt. on the modification of the law.

The Gaming Board made proposals for the modification of the Order of the Minister of Finance No. 25/1991. (X.16.) on the execution of duties related to the licensing, performance and control of certain games and participated in the negotiations related to the modification of the Order with the Ministry of Finance and the Hungarian Gambling Association.

We were engaged in the proposal on the rules of public authority procedures and services coming into force on 1 November 2005.

The Ministry of Foreign Affairs and the Ministry of Finance were notified in writing about the statement of the Gaming Board related to the EU Directive on the services in the internal market.

Internal professional work

As a consequence of the overall re-examination of most of the Instructions of the Gaming Board's President and the preparation of unification of the justified modifications, 14 Instructions of the President came into force.

The Gaming Board informed the Ministry of Finance several times about its statement in the Gaming Board's procedure initiated by the gambling organiser companies and also described its procedures made in connection with the transfer of licensing fees back to the organiser and the licensing procedures.

Last year the Gaming Board initiated a personal consultation at the Public Administration Committee of the Court of Justice of Budapest in connection with the lawful possession of gaming halls and special authority declarations.

The Gaming Board prepared the plan of equal opportunity between the employer and the employees.

Professional information was given to the request of other authorities, in one case a ruling on game qualification was issued.

The Gaming Board made 63 judicial petitions in the procedures initiated for ordering liquidation against gambling organiser business associations and initiated a procedure for liquidation in 23 cases. In the ordered procedures for liquidation it made steps to register our claims as creditors. Judicial enforcement procedures were initiated in 8 cases.

In 2004 the Gaming Board fulfilled 64 requests to give data. According to their requests, some customers were previously informed about the costs of giving data. The requests to give data of the general interest concerned slot machines and gaming halls, without exception. In one case the request to give data was denied.

In 2004 the Gaming Board prepared 245 judicial petitions and attended 83 trials, in one case it officially initiated a proceeding of cancellation at the competent court of registration.

Financial management of the Gaming Board

Revenues

In 2004 the revenues of the Gaming Board were considerably influenced by the attitude of the organisers and the changes in the regulations. The administrative service fees unchanged since 1995 were modified by the Order of the Ministry of Finance No. 30/2003 (XII.2.) come into force on 5 December 2003, and the fees of urgent applications for licences were introduced as well.

The licensing fees were modified as follows:

- for slot machine of category 1 from 100,000 HUF to 125,000 HUF per playing station;
- for slot machine of category 2 from 50,000 HUF to 75,000 HUF per playing station;
- for gaming halls from 10,000 HUF to 20,000 HUF.

In case of urgent procedure (to be done within 5 working days) the double amount of the above mentioned fees should be paid.

The planned revenue of the Gaming Board for 2004 was 3,970,000,000 HUF, our modified planned revenue was 4,850,182,000 HUF, the fulfilment was 5,016,662,000 HUF. Altogether with the approved funds remained from 2003 the actual revenue was 6,072.277,000 HUF in 2004.

99 % of the revenue without funds remained from 2003 was composed of authority, licensing, supervision and controlling fees. 78.7 % of the revenue of our basic function came from the licensing fees of slot machines of category 1 and 2. In 2004 the highest increase of the revenues compared to the previous year was in the fines, 187,3 %.

Revenues of the Gaming Board coming from authority, licensing, supervision and inspection fees in years 2002 to 2004 (data in HUF)

	2002	2003	Original plan for 2004	Modified plan in 2004	Actual in 2004
Slot machine cat. 1 Licensing fee	870,350,000	887,400,000	1,000,000,000	1,171,915,000	1,236,440,000
Slot machine cat. 2 Licensing fee	1,814,050,000	1,799,115,000	2,400,000,000	2,592,825,000	2,673,925,000
Licensing fee for gaming halls	55,480,000	53,950,000	80,000,000	160,860,000	165,935,000
Licensing fee for casinos	3,814,000	2,994,000		1,226,000	1,666,000
Licensing fee for drawing and betting	67,053,000	45,150,000		74,445,000	74,445,000
Modification of game plan	5,218,000	8,066,000		10,522,000	10,897,000
Inspection fee	346,988,000	406,427,000	310,000,000	441,451,000	441,451,000
Fine	186,287,000	209,681,000	180,000,000	349,812,000	373,873,000
Offence procedure	195,000	356,000		94,000	94,000
Fee revenues of the basic function of GB	3,349,435,000	3,413,139,000	3,970,000,000	4,803,150,000	4,968,726,000

The increase in 2004 is due to the considerable rise of the licensing fees.

Payments to the central budget

The Act on the budget of 2004 prescribed 2,040,000 HUF for the Gaming Board to pay in the central budget in 2004.

Based on a decision of the Government, the Gaming Board fulfilled other payment obligations in the amount of 200,000,000 HUF. 5 % of certain revenues and 50 % of the extra revenues had to be paid too.

The funds remained from 2003 had also to be paid in the central budget.

The payments of the Gaming Board to the central budget in 2004 are as follows:

Title of payment	HUF
Payment on the remaining funds of 2003	1,050,181,000
Payment prescribed by the Act on budget	2,040,000,000
Payment prescribed by an Order of Government	200,000,000
Payment obligation of 5 %	2,095,000
Payment obligation of 50 %	499,363,000
Offered for state budget	206,362,000
Total	3,998,001,000

Organisational structure and staff of the Gaming Board

In 2004 the Gaming Board, based on the approval of the Minister of Finance, had the same organisational structure as in the previous years, divided according to game types.

The authorised number of the staff was 140 in 2004. There were no permanent vacancies. In 2004 6 new employees joined the Gaming Board, 7 employees quit. 57 employees had special university or college education, 44 employees had other university or college education.

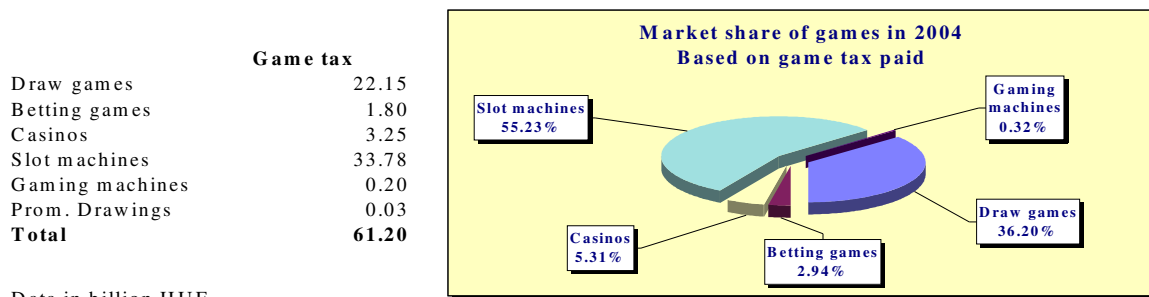
The Directive of the Ministry of Finance No. 13/2004 (P.K. 15) on the reduction of the employees in the central administrative bodies affected the Gaming Board as well, the level of the reduction was 5 persons.

The Gaming Board made the necessary steps in December.

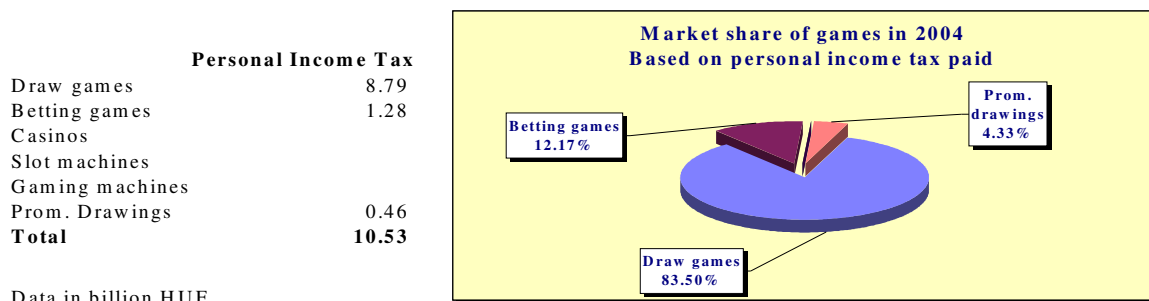
The average gross salary of the employees of the Gaming Board was 259.280 HUF per month compared to 267.510 HUF. This decrease is due to the change in the composition of the staff.

The state revenues coming from gambling

In 2004 the game tax revenue¹¹ of the central budget was 61.20 billion HUF, which is higher by 25 % than in the previous year; it is due to the fact that although net game revenues almost stagnated but the tax on lottery games and on the slot machines was increased. 36.2 % of all game taxes came from draw games, within them the three lottery games (having higher tax rate) provided nearly 29 percentage points, the lottery game 5/90 itself provided more than 17 percentage points. Compared to the previous year the decrease of the draw games is 2.5 percentage points, which was affected by the rise of the tax in one hand, and the relative decrease of the game revenue on the other hand. The game tax revenue coming from the betting games did not reach 3 % of all game tax revenues, the game tax of the casinos was 5.3 %. The highest proportion was the game tax of the slot machines (55.2 %), which was the consequence of the increase of tax by 36 %, the decrease of playing stations by 4 % and the higher number of inactive slot machines due to the change in the rules on suspension.



The payment of personal income tax on gambling¹² was 10.53 billion HUF, which is less by 10 % than the payment in 2003. 83.5 % of the revenue came from draw games, 12.2 % from bookmaker type betting games and 4.3 % from promotional drawings. This decrease compared to 2003 is approximately equal to the relative decrease of the game revenue of the lottery game 5/90.



(The differences of decimals in total and in percentage are due to rounding up/down.)

¹¹ The data of the Gaming Board concern the time of imposing the taxes, the data of the Ministry of Finance concern the time of receiving the taxes, so the data of game tax revenue in the two bodies are different.

¹² No personal income tax on winnings coming from casinos, slot machines and totalzator type horse race betting has to be paid. Only the revenues coming from draw games obliged to have a licence, from bookmaker type betting and from promotional drawing should be considered.

The total personal income tax of the central budget coming from game tax and gambling was 71.73 billion HUF, which was higher by 18 % than in the previous year.

Domestic and international relations of the Gaming Board

National Office of Measures (OMH)

The work between the two bodies is based on the Cooperation Agreement concluded in 2001 and reformed in 2004. The cooperation picked up in the second half of the year in the form of carrying joint controls and applying experts. Last year we had negotiations with the leaders of OMH several times, information was given to each other and the inspectors attended trainings about the registration of data of the integrated control unit (ICU) and the use of the technical equipments.

Police

In 2004, especially in the second half of the year, the number of enquiries from the police and the requests to give data and information increased. There is almost no regional office of the Gaming Board, which was not requested to give such answers. However, the level of the cooperation was different in each county or town. The police carried their own controls too in some regions and the Gaming Board was advised about the results.

Municipalities

In 2004 the municipalities reported many cases to the Gaming Board in connection with the residents' complaints about the gaming halls operating in the territory and by the authorisation of the municipalities. The Gaming Board examined all these within reasonable time. The number of requests to the Gaming Board submitted by the municipalities to give them information and statement also grew.

General Inspectorate for Consumer Protection

The Gaming Board carried inspections together with regional Inspectorates for Consumer Protection in gaming halls operating in restaurants and bars located in the popular and frequented tourist centres. The number of joint inspections was much less than in the previous years.

State Tax Authority (APEH)

During last year the Gaming Board was requested by the Tax Authority several times to give data concerning certain periods of the year and to carry inspections in certain gaming halls. We fulfilled all these requests.

Hungarian Customs and Finance Guard (VPOP)

Based on a Cooperation Agreement the inspectors of the regional offices of the Gaming Board and of the regional units of the VPOP carried several joint inspections. During the inspections the units of VPOP controlling the excise tax controlled the licences of gaming

halls of category 2 in 6,454 restaurants and bars and found infringements or offences in 10 cases. When they faced a problem that they could not solve alone, they asked for the professional help of the Gaming Board. In other 13 cases offence procedures were initiated by the inspectors of VPOP, which were carried by a third authority. A special advantage of the agreement is that during the control of the excise tax such restaurants and bars were also put under inspections, which were not qualified as gaming halls or were not in the registration of the Gaming Board.

International organisations and experiences

18 employees of the Gaming Board visited conferences or trade shows in 7 European Countries.

Beside the trade shows, the most important conference of the year was the Annual Meeting of GREF. The major topic of last year's conference held in Oslo was the discussion of the proposed EU Directive on the services in the internal market.

Other important issues were the effects of the Directive on e-commerce and the proposed Directive on the internal market on each other and the application of the Directive on the prevention of money laundering in each member state.

Decision was made to establish Working Groups on Technical Issues and on the Development of Technical Control.

Issues of gambling regulation in the European countries

In the European Union, concerning the organisation of gambling, the Directives on e-commerce, on the services in the internal market and on the prevention of money laundering were discussed.

Studies were made on the problem of gambling addiction in more and more member states.

Directive on the services in the internal market

Previously, in the legal system of the European Union neither the Treaty of Rome, nor other agreements establishing the unified internal market covered specially the field of gambling or betting. The regulation of this sector had been considered as a national matter during the negotiations before Hungary joined the EU.

In 2004 the Council of Competitiveness of the EU discussed several times the proposed Directive of the European Commission on the services in the internal market. The involved organisations, among them the Gaming Board, expressed several times their opinions about the modifications of the proposal.

The aim of the Directive, based on the principle of the free movement of services, is to eliminate the internal barriers, restrictions currently being in the internal market of the EU, in order to improve the competitiveness of the EU, to develop the economy of the member states, to help the small and medium business companies and to exploit the new opportunities coming from the elimination of the barriers.

The Gaming Board and the Ministry of Finance proposed every time that gambling – because of its special nature – should be taken out of the scope of the Directive.

There are significant differences in the national regulations of the member states, concerning monopolies, liberalisation, the controlling regime and the taxes. Till now the legal practice of the EU has not prohibited that the member states regulate themselves their lottery and gambling sectors.

Gambling addiction

At the Annual Meeting of GREF many countries presented their analyses and studies made in connection with gambling addiction.

In Sweden a study was prepared, involving 290 municipalities, in order to establish preventive measures.

In Germany the University of Bielefeld made a similar study.

In Finland and in Belgium helplines are operated for those who suffer of gambling addiction.

In Belgium, based on the experiences and results, further restrictions have been applied for slot machines.

Annex 1

Statistics of licensing 2002 - 2004

Statistics of licensing for 2002

Type of application	File of applications for licence, for organising gambling	Application for licence, for organising gambling	Passing through from 2001	Refused	Authorised in total	Proceeding terminated	Other	Passing through to 2003
Draw games	53	28	2	0	25	1	0	4
Betting games	12	7	1	0	7	0	0	1
Casinos	118	1	8	0	111	7	0	2
Slot machines	44,468	42,253	1,308	96	38,543	290	0	4,197
Gaming halls	10,997	8,380	875	273	5,778	175	0	1,059
Total	55,648	50,669	2,194	369	44,464	473	0	5,263

Statistics of licensing for 2003

Type of application	File of applications for licence, for organising gambling	Application for licence, for organising gambling	Passing through from 2002	Refused	Authorised in total	Proceeding terminated	Other	Passing through to 2004
Draw games	24	24	4	1	27	0	4	0
Betting games	3	3	1	0	4	0	0	0
Casinos	95	0*	2	1	88	3	0	4
Slot machines	45,029	44,347	4,197	426	39,805	292	0	4,506
Gaming halls	10,707	10,707	1,059	306	6,302	182	0	1,351
Total	55,858	55,081	5,263	734	46,226	477	4	5,861

Statistics of licensing for 2004

Type of application	File of applications for licence, for organising gambling	Application for licence, for organising gambling	Passing through from 2003	Refused	Authorised in total	Proceeding terminated	Other	Passing through to 2005
Draw games	29	27	0	0	22	0	0	5
Betting games	4	4	0	0	4	0	0	0
Casinos	69	0*	4	0	73	0	2	0
Slot machines	43,154	41,951	4,506	764	38,046	431	0	2,710
Gaming halls	11,846	7,887	1,351	417	5,908	176	0	1,386
Total	55,102	49,869	5,861	1,181	44,053	607	2	4,101

Data of application in orange contain also other files related to licensing. In case of casinos the applications related to operation (machine, game plan, reports).

Data of application in green are for the licensing of organiser activity or for the issuance of licence, they needed licences or rulings on authorisation or refusal. In case of casinos the data mean the applications for casino licences.

Annex 2

Statistics of controls 2002-2004

Statistics of controls for 2002

Game type	on-site/focusing inspection	focusing control	overall control	post control
Draw games	60	34	8	
Betting games	16	7	1	
Promotional drawings	283*	283	0	
Casinos	485	9	4	8
Slot machines/ gaming h.	14,001	4	91	586
Total	14,562	337	104	594

Statistics of controls for 2003

Game type	on-site/focusing inspection	focusing control	overall control	post control
Draw games	60	36	11	
Betting games	34*	34		
Promotional drawings	320*	320		
Casinos	763	12	2	10
Slot machines/gaming h.	16,068		30	657
Total	16,891	402	43	667

Statistics of controls for 2004

Game type	on-site/focusing inspection	focusing control	overall control	post control
Draw games	50	40	10	1
Betting games	44*	44		
Promotional drawings	324*	324		
Casinos	835	6	4	18
Slot machines/gaming h.	16,486		70**	681
Total	17,371	414	84	700

* The on-site/focusing inspections of promotional drawings and betting games are focusing controls as well at the same time. These are indicated only in "focusing control"

** Special overall control on accounting

Annex 3

Measures taken as results of the controls of gambling 2002-2004

Description	Slot and gaming machines			Casinos			Draw games			Betting games			Promotional drawings		
	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004
Ruling imposing a fine based on the Gambling Act	828	935	1,633	5	3	2	4	11	20	1	4	2	354	357	264
Termination of licence or gambling organiser activity	55	17	58												
Suspension of the licence	1	5	114												
Withdrawal of the licence		18	36												
Ban to organise gambling	19	4	16												
Ruling passed in connection with final settlement								1	2				138	156	159
Sanctions (1) in total	903	979	1,857	5	3	2	4	12	22	1	4	2	492	513	423
Fines imposed in total (thousand HUF)	178,650	230,290	360,410	2,400	1,700	1,600	2,130	2,090	7,160	1,000	1,250	700	14,040	16,075	10,435
Initiating criminal procedure	22	12	14		1										
Initiating offence procedure	89	69	41												
Forwarding the file to another authority															
Measures of collection															
Initiating liquidation procedure	36	40	23												
Execution fine according to Administration Act															
Fine for breaking the rules of proceeding													31	14	35
Sanctions (2) in total	147	121	78		1								31	14	35
Sanctions (1+2) in total	1,050	1,100	1,935	5	4	2	4	12	22	1	4	2	523	527	458

In case of slot machines “Suspension of licence” contains also the rulings that state the invalidity and are in connection with re-authentication.

Annex 4

The Gaming Board's data of statistics of appeals 2002-2004

Description	2002	2003	2004
Appeals presented	192	142	222
Introduced to second degree	166	133	191
Approved on second degree	111	48	120
Cancelled, modified, refused or obliged for new procedure on second degree	31	25	36
Withdrawn, modified within own competence	26	9	31
Being in process on second degree (31 December of the actual year)	24	60	42
Appealed before the court of justice	3	0	114
Repealed by the court of justice	0	0	0
Claim refused	0	0	1
Claim withdrawn, abandonment of the claim	0	0	0
Being in process before the court of justice (till 31 December of the actual year)	13	12	124

*The reason of the difference in the total data: the appeal has been filed in the previous year

Annex 5

Revenues of games - payment obligations for game tax and personal income tax per games and per type of games (2003-2004)

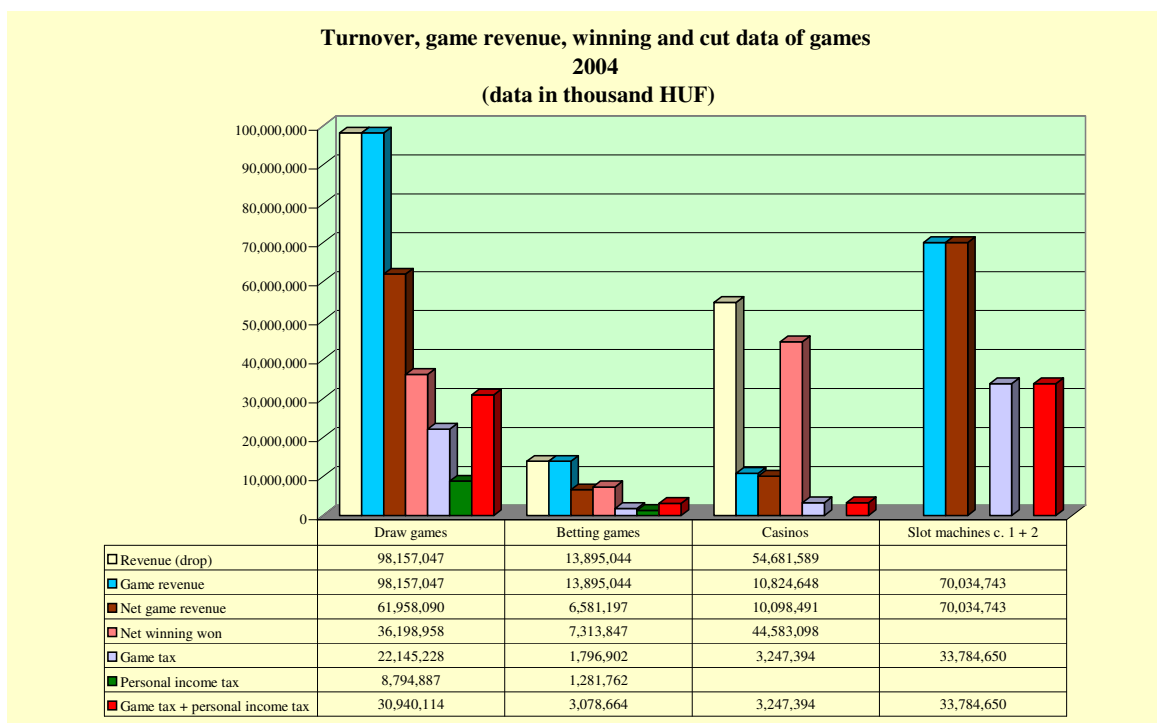
(Data in thousand HUF)

Games	Data for 2003			Data for 2004			Changes: 2003/2004 - 2003=100%		
	Game revenue	Game tax	Personal income tax	Game revenue	Game tax	Personal income tax	Game revenue	Game tax	Personal income tax
Lottery 5/90	56,383,858	9,585,256	4,821,006	43,680,172	10,483,241	3,680,292	77.47%	109.37%	76.34%
Lottery 6/45	17,754,508	3,018,266	1,514,137	16,378,959	3,930,950	1,436,097	92.25%	130.24%	94.85%
Lottery 7/35	14,505,514	2,465,937	1,468,163	13,153,885	3,156,932	1,278,819	90.68%	128.02%	87.10%
Joker	5,191,098	882,487	549,126	4,343,944	738,470	351,887	83.68%	83.68%	64.08%
Keno	6,217,247	956,545	568,964	6,551,833	978,074	618,802	105.38%	102.25%	108.76%
Scratch tickets	5,718,872	824,703	578,351	7,517,711	1,290,228	847,640	131.45%	156.45%	146.56%
Luxor	7,080,519	1,203,688	611,670	6,530,543	1,567,330	581,349	92.23%	130.21%	95.04%
Toto	2,680,337	455,657	242,682	2,664,153	452,906	238,867	99.40%	99.40%	98.43%
Góltó	63,970	10,875	6,913	54,128	9,202	5,107	84.61%	84.61%	73.87%
Horse race	1,345,974	-	-	1,310,639	-	-	97.37%	-	-
Bookmaker betting	7,950,232	1,165,254	831,340	9,866,124	1,334,794	1,037,788	124.10%	114.55%	124.83%
Casino *	10,147,809	3,044,343		10,824,648	3,247,394		106.67%	106.67%	
Slot machines. **	60,384,220	25,134,560		70,034,743	33,784,650		115.98%	134.42%	
Gaming machines	n.a.	215,082		n.a.	196,990			91.59%	
Prom. Drawings, raffle		16,038	520,815		32,790	455,639		204.45%	87.49%
Total	195,424,158	48,978,691	11,713,168	192,911,482	61,203,954	10,532,288	98.71%	124.96%	89.92%

*In case of casinos the revenue includes 50 % of the tips. **In case of slot machines the net game revenue is indicated in "game revenue".

Game types	Data for 2003			Data for 2004			Changes: 2003/2004 - 2003=100%		
	Game revenue	Game tax	Personal income tax	Game revenue	Game tax	Personal income tax	Game revenue	Game tax	Personal income tax
Draw games	112,851,616	18,936,882	10,111,418	98,157,047	22,145,228	8,794,887	86.98%	116.94%	86.98%
Betting games	12,040,513	1,631,786	1,080,935	13,895,044	1,796,902	1,281,762	115.40%	110.12%	118.58%
Casinos	10,147,809	3,044,343		10,824,648	3,247,394		106.67%	106.67%	
Slot machines	60,384,220	25,134,560		70,034,743	33,784,650		115.98%	134.42%	
Gaming machines		215,082			196,990			91.59%	
Prom. Drawing, raffle		16,038	520,815		32,790	455,639		204.45%	87.49%
Total	195,424,158	48,978,691	11,713,168	192,911,482	61,203,954	10,532,288	98.71%	124.96%	89.92%

Annex 6



Revenue: In case of draw games it is the revenue coming from the sale of tickets and single games. In case of casinos it is the drop.

Game revenue: In case of draw and betting games it is equal to the revenue. In case of casinos it is the net game income + 50 % of the tips. In case of slot machines it is equal to the net game revenue.

Net game income: The revenue or game revenue less the winnings won.