

# The Annual Report 2006 of the Gaming Board

## Contents

<b>Introduction.....</b>	<b>2</b>
<b>The Gaming Board.....</b>	<b>3</b>
The work of the Gaming Board in 2005.....	3
The Gambling Market.....	5
Major changes in regulation related to the organisation of gambling.....	6
<b>Casinos.....</b>	<b>8</b>
Development of the market.....	8
Licensing.....	9
Supervision.....	9
Authority work, legal remedies.....	10
<b>Draw games, betting games and games obliged to be registered.....</b>	<b>11</b>
Development of the market.....	11
Licensing.....	14
Supervision.....	14
Authority work, legal remedies.....	16
<b>Slot machines, gaming machines, gaming arcades.....</b>	<b>18</b>
Development of the market.....	18
Licensing.....	22
Supervision.....	23
Authority and legal remedies.....	25
<b>Central Office of Customer Service.....</b>	<b>27</b>
<b>Legal Work of the Gaming Board.....</b>	<b>29</b>
<b>Financial management of the Gaming Board.....</b>	<b>31</b>
Revenues.....	31
Payments to the central budget.....	32
Organisational structure and staff of the Gaming Board.....	33
<b>The state revenues coming from gambling.....</b>	<b>34</b>
<b>Domestic relations of the Gaming Board.....</b>	<b>35</b>
<b>International relations, travels abroad.....</b>	<b>36</b>
<b>Annexes.....</b>	<b>37</b>

## **Introduction**

The Annual Report of the Gaming Board aims to show the results, changes of the Hungarian gambling market, the work of the Board, its licensing, control and authority activity.

In 2006 – similarly to the previous years – a wide range of changes on the whole gambling market came into force. In accordance with the modifications of the Gambling Act and the Enforcement Order (exact references to the regulations to be found in the relevant chapters), the regulations on taxation and corporate activity have been modified as well, which aim to make the state regulation more effective.

In 2006 the lottery game 5/90 was still the most popular draw game in the market, the popularity of the game Puttó proved the strategic plans of the state gaming organiser right and the players received well the developments of the market of the draw tickets.

The turnover of the casinos was about the same as in the previous year, the percentage point of the gaming tax and the net gaming revenue was the same as in 2005.

Although the level of the gaming tax was not changed on the market of slot machines in 2006 but the increase of the tax level had effects on the whole market. The number of arcades, slot machines and the registered gaming positions slightly decreased during 2006. Due to the former raise of the tax, despite of the decrease of the gaming positions, the net gaming income and the payment of the gaming tax in the slot machine sector increased.

Year 2006 was a record year again; in 2006 the players spent the highest amount of money on gambling in the history of gambling in Hungary and the revenues of the state budget exceeded every previous records.

The licensing, control and authority activity and the strict and regular presence of the Gaming Board on the market guaranteed and will guarantee the pureness and credibility of the gambling market.

According to the intention of the legislators, the Gaming Board, which had been controlled the gambling market for 15 years successfully, has been operating with unchanged duties as a Department of the Tax and Financial Control Administration since 1<sup>st</sup> January 2007.

Márta Sibinger  
President

## **The Gaming Board**

The Gaming Board was established by the Act No. XXXIV of year 1991 on gambling.

The Gaming Board operated – apart from a short period – as an administration body with nationwide competence under the supervision of the Minister of Finance. The aims of its operation are to help the gambling organisers operate legally and to control the gambling market continuously. Beside ensuring that the market can function unperturbed and successfully, the interest of the legislators (and the state budget) and the players should be protected as well. The Board contributes to the strengthening of the trust in the gambling market and the credibility of the games.

The duties of the Gaming Board cover the licensing of games, approving gaming plans and modified gaming plans, extending previous licences, issuing licences of operation, the record keeping of licences, the control of compliance with the content of the licence, sanctioning the 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 2005***

In 2006 the Gaming Board issued 38,878 licences and fulfilled the duties of registration and record keeping.

In 2006 it carried out 17,405 inspections, passed 58,638 rulings revisable by the court of justice and 1,558 rulings to be presented to the Ministry of Finance and avoidable by an appeal – 1,312 of them imposed a fine.

The licensed organisers of the Hungarian gambling market paid to the central budget – under the fulfilment of 99.9 % of the tax obligations – 71.41 billion HUF gaming tax, 16.66 billion HUF personal income tax, in total 88.07 billion HUF. The tax revenue per one employee of the Board – counting 122 persons as an average number of employees last year – exceeded 700 million HUF, which is higher by nearly 14 % than the relevant figure in 2005.

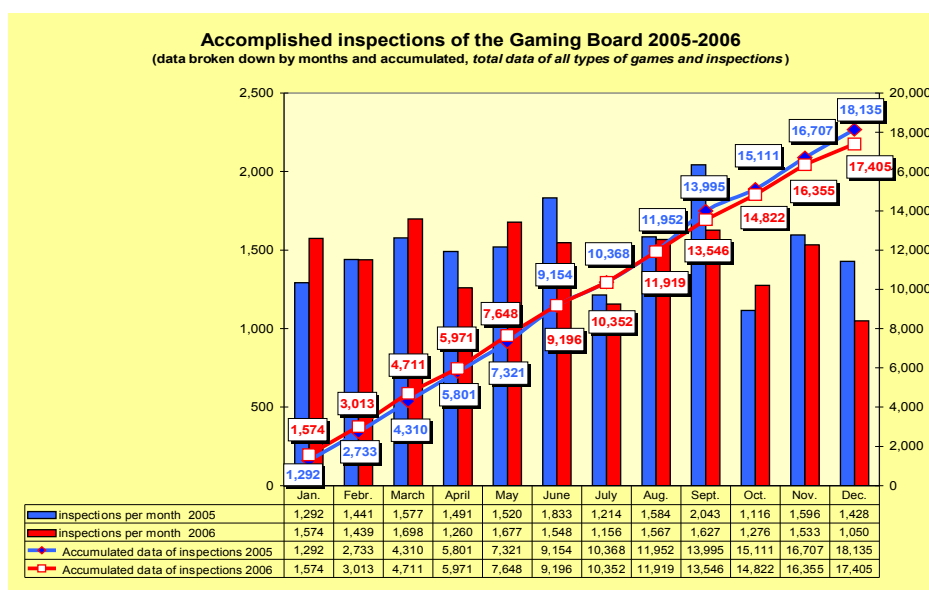
The 38,878 licences issued in 2006 year were less by nearly 7.2 % than those issued in 2005. 34,533 of the issued licences were for slot machines and 4,126 for gaming arcades. The Board registered 5,337 amusement machines.

The Board issued 188 different licences for casinos (for the modification of the gaming plan, for the issuance of promotional chips, etc.). However, the Gaming Board did not issue any licence for the operation of a new casino.

The Gaming Board decided favourably about the applications of the state gaming organiser for 21 draw games and 10 betting games.

In 2006 nearly 93,000 documents arrived to the Gaming Board, the files attached to these documents were over 30,000, which meant more than 500 documents to be filed per one day.

Based on the Rules of Inspections, the professional plans of inspections and the analyses of the experiences of the inspections, the Gaming Board fulfilled 17,405 inspections in 2006 (Annex 2). The average number of inspections per month was 1,450. The decrease of the number of average inspections per year and per month had several reasons. The reduction of the number of employees required by the Government affected disadvantageously the capacity of the inspections and due to the new regulations and the modification of the possibility of sanctions it took more time for the inspectors to file the documents. Moreover, the more effective inspections required more time.



93 % of all inspections were on the liberalized market, i. e. on slot machines and gaming arcades. The local inspections covered more than the two-third of the operating arcades. The total number of “rulings revisable by the court of justice” issued by the Gaming Board was 58,638. This is a considerable increase compared to 40,067 in 2005. This is a result of the modification of the regulations and the higher quantity of work of the regional offices. Based on them and on rulings being in process, lawsuits were brought in 32 cases against the rulings of the Gaming Board.

2006	Accomplished inspections	Rulings imposing a fine	Fines (thousand HUF)
Draw games	135	8	7,200
Betting games	84	27	6,600
Casinos	784	1	600
Slot machines	16,135	1,126	216,480
Promotional drawings	267	150	19,260
<b>Total</b>	<b>17,405</b>	<b>1,312</b>	<b>250,140</b>

1,312 of the 1,559 rulings of the Gaming Board avoidable by an appeal were ruling imposing a fine, which number is less by 238 than in 2005. The total amount of fines based on the Gambling Act and imposed by the Board was 250,140,000 HUF. The Gaming Board passed 46 rulings imposing a fine based on the Administration Act, the amount of them was 4,460,000 HUF (Annex 3).

86 % of the revenues from fines came from the operators of slot machines and arcades. The average amount of fines of this sector was 192,300 HUF, in 2005 it was 181,000 HUF. The total amount of fines imposed for the organisers of promotional drawings was more than 19,260,000 HUF, the average amount of fines was 128,400 HUF.

In 136 cases the clients appealed against these rulings in 2006 (8.7 %). The Gaming Board forwarded 114 of them on second degree. The Ministry of Finance refused 11 of them, 58 were approved, in 16 cases the original ruling had to be changed or cancelled and a new procedure had to be launched. At the end of the year 29 appeals were in process. (Annex 4).

In 2006 there were 9 final bans to pursue the organisation activity (this is the half of the relevant figure in 2005) and 56 withdrawals of the licence (this figure is also smaller than in 2005). In 7 cases criminal procedures were initiated, in 31 cases offence procedures were launched.

Just like in 2005, in 2006 98 % of the revenues of the basic function came from the administrative, supervision fees and from fines.

In 2006 the amount of revenues coming from fines decreased, it was 80 % of the revenues in 2005. This decrease is basically the “overcoming effect” of a legal change in 2005. Due to the modification of the regulation there was no possibility to make sanctions.

The Act No. CLIII of year 2005 on the budget of 2006 prescribed 2,280,000,000 HUF payment obligation for the Gaming Board. Altogether with other payment obligations the Gaming Board paid almost 4,000,000,000 HUF to the state budget.

### **Internal Control**

The “Former and post control system implanted in the process” (FEUVE) became a significant part of everyday’s practice at the Gaming Board. The Internal Control analysed and estimated the function of FEUVE in several cases by the examination of the financial operation.

### **Press, communication**

In 2006 the Gaming Board fulfilled its duty to give information. 54 press enquiry arrived to the Board and nearly a hundred articles were published in connection with the work of the Gaming Board. The number of quoted articles and references on the Internet was over 500.

### ***The Gambling Market***

The structure and the circle of participants of the Hungarian gambling market was unchanged in 2006, it continued to be bipolar. On the liberalised side the companies operating slot machines, on the other side the state gaming organiser(s) and the concession companies, offering draw , betting and casino games.

Szerencsejáték Zrt (furthermore as SzZrt.), as the state monopoly, achieved 125 billion HUF gaming revenue and 74.22 billion HUF net gaming revenue from the number draw games and draw tickets. This increase of 5.7 % of the gaming revenue compared to 2005 was due to the 5

% increase of the number of the single games, as a result of the wider range of offered games, the more effective work on the market and the accumulation of prizes.

The gaming revenue of the scratch tickets was higher by 24 % than in 2005.

Two companies, SzZrt. and Hungarian Horse Race Betting Organiser Ltd. were licensed to organise betting games. The gaming revenue coming from the betting games of the state gaming organiser was 16.35 billion HUF, the gaming revenue of the horse races was 1.4 billion HUF, so the gaming revenue coming from betting games was nearly 17.75 billion HUF.

In 2006 there were still 6 casinos operating in Hungary. The total revenue (drop) of the six casinos was 52.88 billion HUF, which was although an increase of 10 % but their net gaming income – and thus the payment of gaming tax – was almost the same as in 2005 (Annex 5). The reason is definitely and still the deviation effect of the gaming arcades of category 1.

The net gaming revenue of slot machines operated in arcades of category 1 and category 2 almost reached 86.78 billion HUF, which is a 12 % increase compared to year 2005. Since the presumptive tax was increased by 33 % in September 2005, the gaming tax was above 40.97 billion HUF in 2006 but the number of arcades and slot machines operating on the market decreased continuously. As an effect, the number of gaming positions subject to account and tax payment was less by 2,200 in average, per month, examining the whole year.

Compared to the previous years, the number of promotional drawing being under the scope of the Gambling Act decreased. The amount of net prizes won on them was nearly 1.37 billion HUF. It is lower than in 2005. It shows that the promotional, TV, Internet and certain phone games not being under the scope of the Gambling Act became more popular.

The gaming tax revenue of the state budget was nearly 71.41 billion HUF in 2006, this is higher by about 5.8 % than in 2005. The payment of personal income tax linked to gambling was 6.17 %, which is a 6.17 % increase.

The state budget received 88.07 billion HUF in total from these two taxes, which is also a 6 % increase compared to 2005.

### ***Major changes in regulation related to the organisation of gambling***

In 2006 several regulations related to gambling organisation were changed.

According to the Act No. LXI of year 2006 on the modification of certain laws about finance, the operation of the Gaming Board was terminated on 31<sup>st</sup> December 2006, its duties have been taken over by the Central Bureau of the Tax and Financial Control Administration (APEH). Since this date the Gambling Supervision Department of APEH has been fulfilling the duties of state control of gambling supervision. This reorganisation is contained also by the Act No. XXXIV of year 1991 on the organisation of gambling and in the Order of the Minister of Finance No. 32/2005 (X.21).

The Gambling Act, beside several specifications, authorised the Minister of Finance to create detailed rules in connection with the concession procedure and introduced the electronic casino classified as gaming arcade of category 1.

These modifications have been justified by the experiences and confusions of the recent years. The modifications have been covering the creation of the detailed rules of the concession procedure, the rules of establishing e-casinos, the prescriptions for slot machines linked into jackpot system and the handling of waste of slot machines to be destroyed.

Year 2006 can be called as a period of transmission because on one hand it was the first whole year of the application of the authority procedure according to the provisions of the Administration Act, on the other hand certain provisions of the Gambling Act No. LXXXIV of year 2005 came into force in 2006.

## Casinos

In 2006 six casinos were operated in Hungary, three of them in Budapest (Las Vegas Casino Kft., Várkert Kaszinó Kft., Belvárosi Kaszinó Kft.) and three in other towns (Casino Győr Kft., Casino Kecskemét Kft., Casino Sopron Kft.). Casino Győr Kft. and Casino Kecskemét Kft. are owned by the state gambling organiser, they do not pursue their activities within concession contracts.

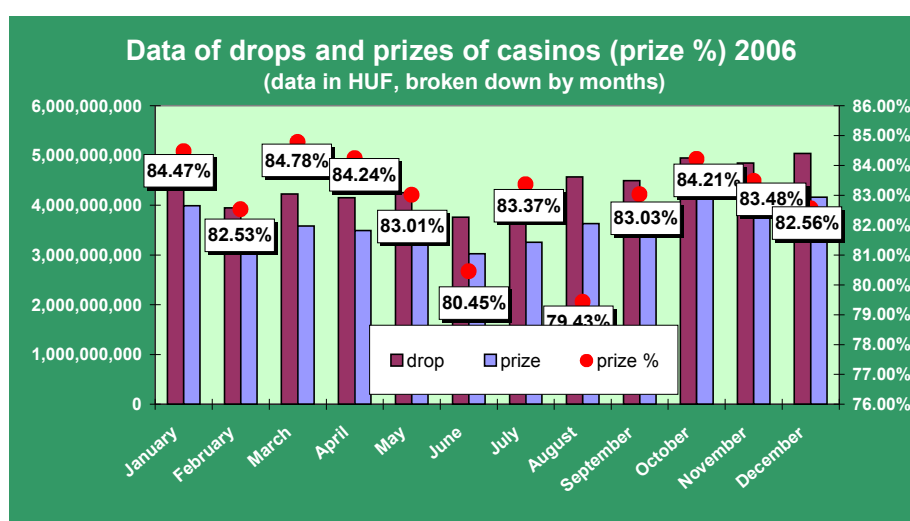
### *Development of the market*

The six casinos were visited by 342,385 customers in total, which was a decrease of 5 % compared to 2005. The proportion of the foreign customers decreased by 1 percentage point compared to the previous years, to 54 %. 63.7 % of the net gaming revenue was paid in HUF, which was higher by 1.1 percentage point than in 2005.

The two casinos outside Budapest, owned by Szerencsejáték Zrt. (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. (In 2006 the exchange rates were 189-225 HUF/USD and 251-282 HUF/EUR).

In 2006 the customers wagered 52.88 billion HUF in the casinos, which was higher by more than 10 % than in 2005. The net gaming revenue exceeded 8.99 billion HUF, which is about the same as in 2005.



The number of slot machines placed in casinos was increased by nearly 21 % by the casino companies compared to the previous year, that was their response to the challenge and crowding competition caused by the exclusive gaming arcades of category 1.

The payment of gaming tax of the casinos was 2.89 billion HUF in 2006, which was about the same as in 2005. This figure was nearly 4.05 % of all gaming taxes in 2006.

### ***Licensing***

The Gaming Board permitted the modification of the gaming plan, the deviation from the gaming plan and the giving of promotional chips in 188 cases, it is more by 71 approvals than in the previous year. The Board filed the documents of rules sent pursuant to the law, the reports about changes, the giving of data and the approvals of the Minister in additional 77 cases.

The Minister of Finance of Hungary invited a concession tender on 16 January 2006 for the operation of casino complexes of category 1 and for organising gambling in these casinos on the territory of Győr-Moson-Sopron county, except for the cities of Győr and Sopron.

The Gaming Board, upon the demand of the Minister of Finance, was involved in the tender process as the Tender Office of the Ministry of Finance and two colleagues of the Board were involved as experts. The tender was successful, the winner was Venetian Hungary Limited.

The economic organisation wholly owned by the State of Hungary established for the regular organisation of gambling activity (state gaming organiser) did not received any approval for the operation of a new casino.

### ***Supervision***

In 2006 the inspectors of the Gaming Board carried out 760 on-site inspections, 5 focusing controls, 4 overall, 12 post controls and 3 executive “super” controls, according to the prescriptions. The casino companies completely paid the controlling fees.

The opening hours of Las Vegas Casino and Várkert Casino were changed, compared to 2005. In 2006 Las Vegas Casino was open in the whole year, Várkert Casino till 15<sup>th</sup> May continuously, it required a change in supervision, both in quantity and quality.

The inspection of the slot machines placed in casinos still had an emphasized importance. (It was justified by the considerable increase of the turnover of slot machines and their increase of share in the turnover within the casino). 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.

In average, 127 on-site inspections were done in one casino in 2006. The frequency and time of the inspections of the casinos were weighted based on their opening hours and turnover, so the number of inspections was between 72 and 185. The inspectors checked mainly the accounting, the opening/closing of the tables, the compliance with the content of the gaming plan and the licence.

The number of on-site inspections (according to the inspection-efficiency plans and the increase of time used for inspections) slightly decreased compared to 2005.

The experiences of the previous years have proved 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. The

proportion of the official records that registered failures in the casinos was relatively low in 2006.

Casino Sopron and Casino Kecskemét changed to the computer based video record keeping in 2006. (Instead of video tapes the records are saved to hard discs. This manner meets better the requirement of the control, they give more reliable and clearer pictures. The experiences are definitely favourable).

Based on the experiences of the inspections it can be stated that the companies basically fulfilled their legal obligations during the casino operations.

### ***Authority work, legal remedies***

In 2006 the Gaming Board passed one ruling imposing a fine: the sanction was due to the breaking the rules of handling of tips, the organiser acknowledged it and paid the fine of 600,000 HUF.

Three complaints were reported to the Gaming Board related to casinos in 2006. In two cases the complainant asked for the examination of the claim in connection with the ban out of the casinos, another complainant in connection with the practice of the exchange of chips.

After having the claims examined, the Board found that the casinos had organised the games in accordance with the effective regulations and gaming plans.

## Draw games, betting games and games obliged to be registered

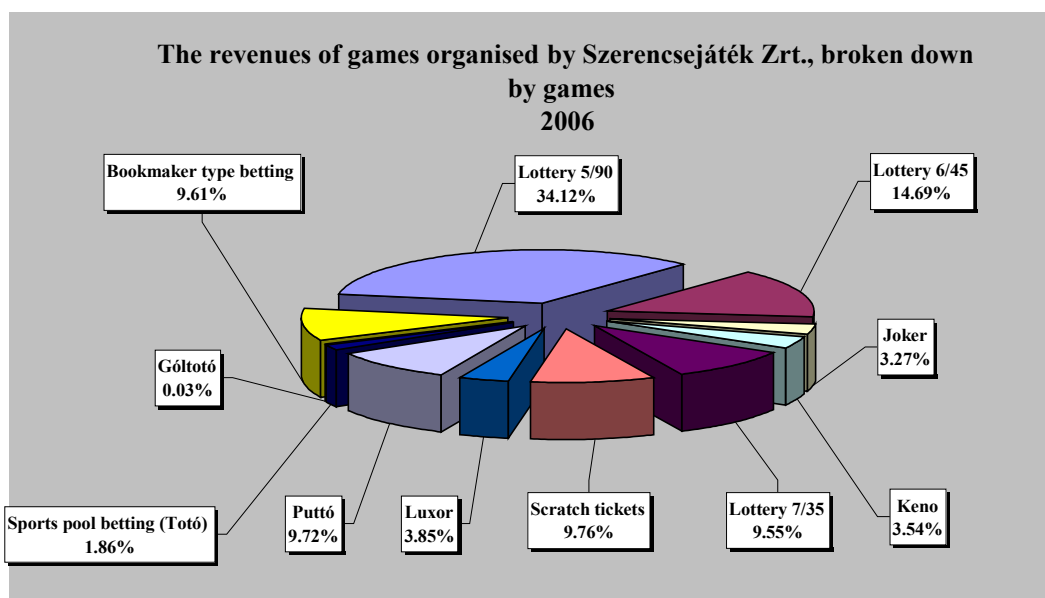
The state gaming organiser – Szerencsejáték Zrt. – remained in monopoly position in the market of draw games in 2006, which had licences to organise 25 kinds of draw games, of which 7 were number draw games (lotteries 5/90, 6/45, 7/35, “Joker”, “Kenó”, “Puttó”, “Luxor”) and 18 scratch tickets.

The distribution of one of the licensed games (Kedvenc) was not started in 2006.

### *Development of the market*

The total revenue from the 7 number draw games was 111.13 billion HUF, which was more by 3.8 % than in 2005.

The increase of the total revenue of the number draw games was due to the increase of the turnover of the lottery game 6/45 and the game Puttó started on 21<sup>st</sup> November 2005. The turnover of the other number draw games decreased.



The revenue of 48.09 billion HUF from the lottery game 5/90 was less by 9.43 % in 2006 than in 2005.

The decrease of the turnover was partly because of the fact that in 2006 there was not such an accumulation in the prize as in 2005, when the prize had been above 2 billion HUF twice.

The turnover of the lottery game 6/45 was 20.69 billion HUF, it was higher by 15.2 % than in the previous year.

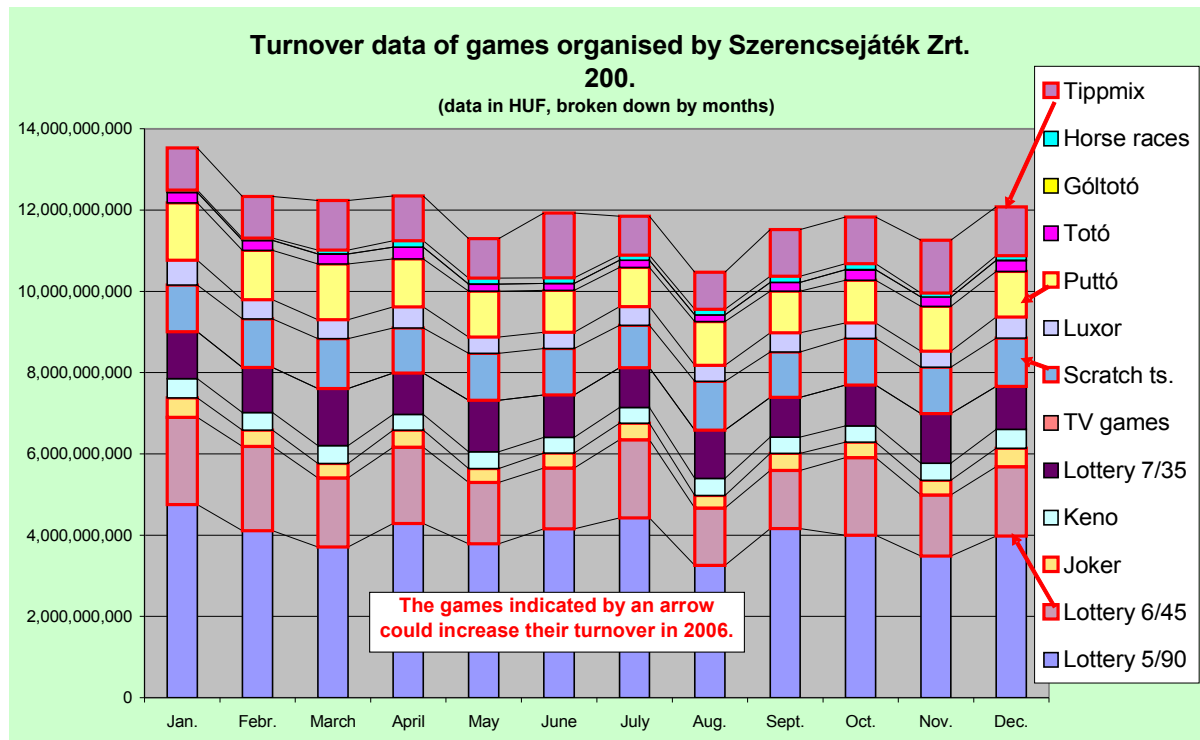
The turnover of the lottery game 7/35 was a little above 13.4 billion HUF but it was less by 11.8 % than in 2005.

The game Joker reached a turnover of 4.68 billion HUF in 2006, which is a decrease of 6.9 % compared to 2005. (Joker is a connected game, so its turnover depends on the turnover of the main game).

The turnover of the game Luxor decreased considerably as well: it was 5.49 billion HUF, which is a decrease of 17.3 %.

The revenue from the game Kenó was 5.04 billion HUF, less by 26 % than in the previous year.

The game Puttó is a bookmaker type new number draw game, started on 21<sup>st</sup> November 2005, the drawing are daily, in every 5 minutes, 7.05 am to 10.00 pm. The game is popular among the customers, Szerencsejáték Zrt. had a revenue of 13.69 billion HUF from this game.



The price of the single games of the number draw games was not changed in 2006. (However, when comparing years 2005 and 2006, it should be noted that the price of the single games had been – except for Kenó – 150 HUF instead of 175 HUF till 13<sup>th</sup> March 2005).

In 2006 the customers spent 13.81 billion HUF on games obliged to be registered (draw tickets), which was an increase of 24.22 % of the revenue compared to the previous year.

Due to the modification in law, in case of draw tickets licensed after 1<sup>st</sup> January 2005 the operator has to spend at least 60 % - instead of 54 % as previously – of the prize base for prizes and he/she has to pay no personal income tax on prizes.

The higher prizes had definitely positive effects on the customers' will to play, which has been proved by the increase (of 12.3 %) of the number of the sold tickets. In 2006 the organiser changed the variety of the draw tickets, for example one of the most popular ticket, Black Jack, cost 150 HUF instead of 100 HUF. A new ticket has been introduced (Jubileum), which cost 300 HUF. The average price of the draw ticket was 187 HUF in 2006, in 2005 it was 169 HUF.

In 2006 Szerencsejáték Zrt. and Magyar Lóversenyfogadást Szervező Kft. (Hungarian Horse Race Betting Organiser Ltd.) were the participants in the betting organisation market as operators, they offered both totalisator and bookmaker type bets. (The latter is Tippmix, the successful game of the state gaming organiser). The total revenue of the betting games was 17.75 billion HUF, more by 18.15 % than in the previous year. The price of the single games of the betting games was not changed in 2006.

The turnover of the pool betting game (Totó) was 2.67 billion HUF, less by 1.8 % than in 2005.

The state gaming organiser had a revenue of 43.3 million HUF from Góltotó, it was more by 11.15 % than in 2005.

The turnover of the bookmaker type betting games was 13.63 billion HUF in 2006, more by 24.82 % than in the previous year. The increase of the turnover was primarily due to the Soccer World Championship held in June: the amount of stakes wagered in this period was three times higher compared to an average week.

The totalisator type horse race betting was organised by Magyar Lóversenyfogadást Szervező Kft. The revenue from horse race betting was 1.39 billion HUF in 2006, which means an increase of 4.58 % compared to the previous year. 60 % of the totalizator turnover came from the bets wagered on trotting race, 40 % from gallop races.

Magyar Lóversenyfogadást Szervező Kft. operated 8 betting offices in Budapest in 2006, in addition the stakes could be wagered in 9 pubs and in 2 lottery offices. 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 totalizator typed betting games “Totó” and “Góltotó” organised by Szerencsejáték Zrt. can be played through the Internet, phones and SMS as well.

The number of bets wagered through the Internet, phones and SMS increased compared to the previous year, however it is still very low, it is 0.5 % of all bets wagered (in games which may be played this way). In 2005 this proportion was 0.39 %.

Games	On-line		By phone		Internet		SMS**		Total	
	db	%	db	%	db	%	db	%	db	%
5/90	273,765,289	99.6083	52,554	0.0191	685,911	0.2496	338,131	0.123	274,841,885	100
6/45	117,727,063	99.5319	23,849	0.0202	409,087	0.3459	120,770	0.1021	118,280,769	100
7/35	76,314,148	99.5949	6,782	0.0089	234,880	0.3065	68,753	0.0897	76,624,563	100
Joker	26,623,956	99.4991	11,567	0.0432	89,612	0.3349	32,844	0.1227	26,757,979	100
Kenó*	67,619,273	99.1471	141,403	0.2073	440,294	0.6456	0	0	68,200,970	100
Totó	33,255,289	99.4006	34,186	0.1022	146,004	0.4364	20,334	0.0608	33,455,813	100
Góltotó	531,290	98.1611	1,787	0.3302	7,452	1.3768	714	0.1319	454,1243	100
<b>Total</b>	<b>578,073,910</b>	<b>99.5006</b>	<b>260,383</b>	<b>0.0448</b>	<b>2,059,335</b>	<b>0.3545</b>	<b>581,546</b>	<b>0.1001</b>	<b>580,975,174</b>	<b>100</b>

\* In case of Keno the games wagered by SMS are included in “By phone”. \*\* It includes the Internet games paid through m-commerce contract.

### Promotional drawings

In 2006 1,596 promotional drawings subject to the Gambling Act were organised, less by 36.8 % than in 2005. The amount of net prizes won decreased by 15.7 %.

## ***Licensing***

The Gaming Board issued 21 licences for draw games and 10 licences for betting games to the state gaming organiser.

Upon the applications of SzZrt. the Gaming Board licensed the extension of the licences and period of organisation, modifications of gaming plans and authorised existing games to be played through the Internet, phone and SMS.

A new feature was in the licensing procedure of draw tickets that the organiser could include special drawing in the gaming plans to the debit of the prizes not taken over at the end of 2006. SzZrt. submitted an application for the organisation of a new draw game called Tangó but the procedure was not closed till the end of the year.

6 of the 10 issued betting licences were for the games of SzZrt. and 4 for horse race betting organised by Magyar Lóversenyfogadást Szervező Kft. In 3 cases of these latter four ones the Gaming Board allowed the deviation from the gaming plan, so making it possible that bets could be taken to the courses of the French horse races organised by PMU. The Gaming Board terminated the licensing procedure in one case because the organiser meanwhile withdrew the application.

In 2006 the state gaming organiser submitted again its application for licences for the Internet games called Webperc, Webmeccs, Webluxor and Szerencseszalon, the licences were granted, however the organisation of the games have not been started.

## ***Supervision***

The draw and betting 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. The inspection schedule of 2006 were fulfilled: the inspectors of the Board carried out 1 overall inspection, 445 focusing inspections 38 focusing controls and 2 post controls.

<b>Type of game</b>	<b>Overall control</b>	<b>Focusing control</b>	<b>Focusing inspection</b>	<b>Post control</b>
Draw games	1	94	38	2
Betting games		84		
Promotional drawing		267		
<b>Total</b>	1	445	38	2

### ***Draw games***

The Gaming Board checked 38 times the on-line games of SzZrt. within continuous on-site inspections in 2006. It checked if the data of the winner tickets corresponded to the data in the worm disc, if there was 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 Zrt.:

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

The operator 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 Gaming Board continuously controlled the reported special drawings, checked mainly the keeping of those rules defined in the gaming plan, which make it possible that the prizes not taken over may be given back to the players.

During the supervision of the special drawings the Gaming Board checked if the principle of equal opportunity of the customers and the chance of the drawing were not threatened and the prizes were received by the participants of the same game – within the time limit prescribed in the regulations – in which the prize had not been 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 “Kenó”. The Board checked in several places and several times if draw tickets without licence were distributed. During the inspections no such draw tickets were found.

Since the game was new on the market, the Gaming Board checked the data of the gaming day of the game Puttó on 26<sup>th</sup> November 2006 within a special focusing inspection and it was observed that the organiser complied with the content of the approved gaming plan in every aspect and it determined the prizes according to it.

In 2006 the Gaming Board examined the final setting of the draw game called “Legyen Malaca” within an overall inspection. No ruling pointing out a failure was found, SzZrt. organised this game in compliance with the licensed and approved gaming plan and to the relevant regulations. The organiser completely fulfilled its payment obligations towards the state and the Gaming Board. The so called “big prizes” were all paid out.

### ***Betting games***

The inspectors of the Gaming Board carried out 84 focusing controls on betting games in 2006. It was checked if the rules of participation of the games were available for the bettors, if the bettors were correctly informed by the conditions of participation. In 10 of the checked betting offices an older version of the rules of participation were found, in some betting offices no rules of participation containing the rules of betting was available at all.

The inspectors also checked within focusing controls if the time limit of wagering related to horse race betting were kept and if all the information about the betting were available.

The Gaming Board continuously checked in the sale points of the state gaming organiser if the notes about the risks of gaming addiction are properly placed. The inspectors found 7 failures of this kind. (In 2 of these sites a post control was carried out by the Board and it was observed that the organiser filled the failures.)

### ***Promotional drawings***

In 2006 the Gaming Board was present at 267 drawings, that is 16.7 % of the reported promotional drawings. 49 % of the inspections was carried out by the regional offices. The promotional drawings were generally organised according to the rules, the problems found at on-site inspections were as follows:

- the drawing was not held in the place reported,
- not in the time reported,
- not according to what had been reported,
- the conditions of participation reported to the Board had been modified and the drawing was held so.

Despite of the information given by the Gaming Board, some operators 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.

There were organisers who wanted to organise a drawing game through telecommunication means and wanted to report it as a promotional drawing.

According to the state position of the Gaming Board, 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, 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 for the participation in the game organised through telecommunication means, it should be considered as a payment of stake and the promotion (game) is to be qualified as gambling, under other conditions according to Sections 1 (1) and (2) of the Gambling Act. These activities – after the detailed acts had been clarified – should be sanctioned by the Gaming Board. A special attention was paid to the reports mentioning these kinds of games and if it was possible, the operators were warned that these games may entail sanctions.

### ***Authority work, legal remedies***

In 2006 the Gaming Board issued 323 sanction rulings related to draw games, betting games and promotional drawings. (185 rulings according to the Gambling Act, 45 rulings according to the Administration Act and 93 obligations related to final settlements). 271 of the 323 sanction rulings were for promotional drawings, 28 for betting games and 24 for draw games (Annex 3). 6 of the 45 fines according to the Administration Act were imposed for draw games, 1 for betting game and 38 for promotional drawings.

7 of the fines were imposed by the Gaming Board on unlicensed games organised with premium SMS tariff, the amounts of the fines were between 200,000 HUF and 3 million HUF.

All of the fines on betting games – to the debit of SzZrt. and Magyar Lóversenyfogadást Szervező Kft. – were imposed due to the insufficient information given to the customers.

The Gaming Board imposed 37,120,000 HUF penalty in this sector in 2006. (This amount includes the fines according to the Administration Act). Of this 37,120,000 HUF 7,750,000 HUF was related to draw games, 6,700,000 HUF to betting games and 22,870,000 HUF to promotional drawings.

According to the provisions of the Administration Act, the Gaming Board issued 124 rulings, which refused the registration of promotional drawings. The Gaming Board issued 7 rulings ordering the deletion of the promotional drawing from the registration, 1 ruling refusing the final settlement of the promotional drawing, 2 rulings terminating the procedure, 6 rulings refusing the representative's procedure, 8 rulings refusing the complaint, 2 rulings refusing the request for fairness and 16 rulings ordering a distraint.

In 2006 the Gaming Board issued 158 position statements related to promotional drawings, draw games and betting games.

There were 230 rulings avoidable by appeal, issued within the authority work, against which the operators presented legal remedies in 33 cases. The Ministry of Finance, as an authority on second degree, approved the rulings of the Gaming Board in 18 cases, in 2 cases it cancelled them, in 2 cases it modified them (reduced the amount of the penalty), in 3 cases the appeals were refused. 8 cases were not closed till the end of the year.

In one case of promotional drawing the claim was withdrawn by the organiser company. Another suitcase against the Gaming Board launched by a state company – because the Board had refused the registration of a promotional drawing – was legally closed, in which the court refused the claim of the complainant. At the end of 2006 4 of the suitcases were in process.

In 2006 the Gaming Board took steps in 55 complaints presented. 17 of the complaints were related to games organised by Szerencsejáték Zrt. None of them was well-founded, the proceedings of the organiser were in compliance with the provisions. Due to the lack of competence the complaints were forwarded to the Customer Protection Authorities in 22 cases. 7 complaints had to be refused – also due to the lack of competence – without examination. In 3 cases – due to the withdrawal of the complaint – the Gaming Board ceased the procedure. Two complaints were about games organised abroad, the Board informed the complainants that organising foreign gambling in Hungary is illegal, about the risks of the participation and how difficult it can be to receive the winnings. The content of 2 other complaints were not under the scope of the Gambling Act, but since the complainants had sent their complaints to the competent customer protection authorities, it was not necessary to forward their complaints. In one case the Gaming Board reported a suspected illegal gambling to the competent police authorities. Due to the failure to report data, the Gaming Board imposed a fine in one case.

## Slot machines, gaming machines, gaming arcades

### *Development of the market*

#### *Organisers*

In 2006 there were 1,286 business companies in the slot machines' market, which had licence – for a longer or shorter time – for slot machines and for gaming arcades and had to pay gaming tax. At the end of the year – in the fourth quarter – the number of organisers obliged to make account was 1,208. This is less by 0.8 % to 2005 (1,217). The market is saturated, which is proved mainly by the fact that despite of the fluctuation of the number of organisers, the number of organisers obliged to make account was about 1,200 in every quarter: the ones who left the market were immediately replaced by new organisers, the fluctuation was more significant only in case of the smaller organisers operating one or two machines. At the end of 2006 the business companies with an equity of 50 million HUF appeared, which meet the requirements prescribed for the operation of electronic casinos. In the last third part of the year 3 companies reported the increase of the equity, one of them have sent its application for the operation of an electronic casino.

#### *Gaming arcades*

The number of licensed gaming arcades grew – with a fluctuation of 200-300 per month – till 2004. In August 2004 the number of licensed gaming arcades (i. e. operating or the operation was suspended) exceeded 20,000. After that this number decreased continuously. A small percentage of the licences issued in the previous years was issued for new arcades, new addresses, it also shows the saturation of the market. At the end of 2006, compared to the same period of 2005, the number of licensed arcades was less by 945, i. e. by 5 %.

<b>Number of gaming arcades</b>					
<b>Category</b>	<b>2005</b>	<b>proportion</b>	<b>2006</b>	<b>proportion %</b>	<b>change % 2005/2006</b>
<b>1</b>	1,261	7%	1,176	6%	93%
<b>2</b>	18,044	93%	17,184	94%	95%
<b>Total</b>	<b>19,305</b>	<b>100%</b>	<b>18,360</b>	<b>100.0%</b>	<b>95%</b>

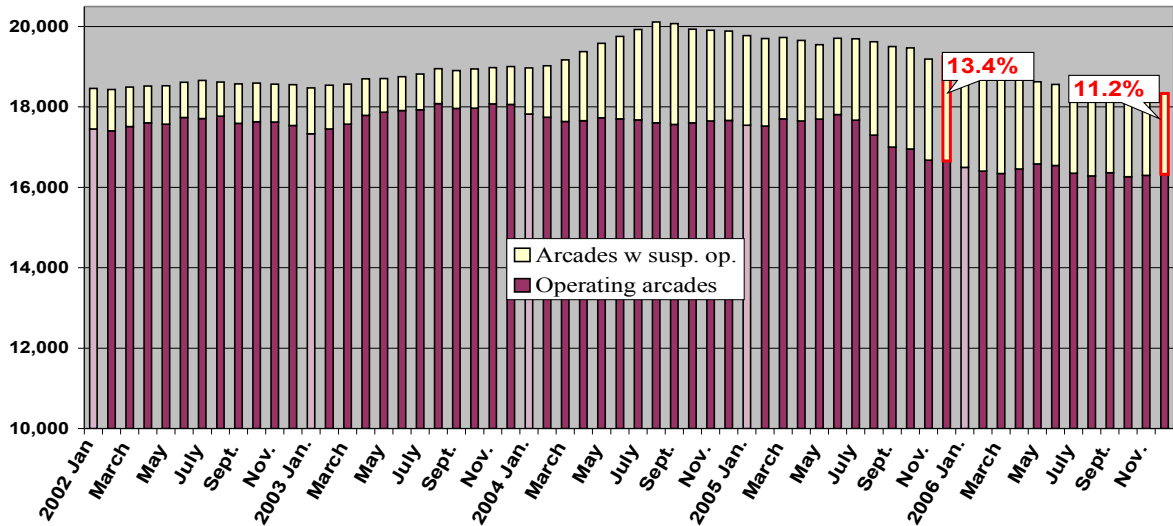
*data on the last day of the year*

Compared to 2005, the number of arcades of category 1 (which have a smaller market share) was less by nearly 7 %, the number of arcades of category 2 decreased by about 5 %, the proportion of the categories compared to each other was about the same.

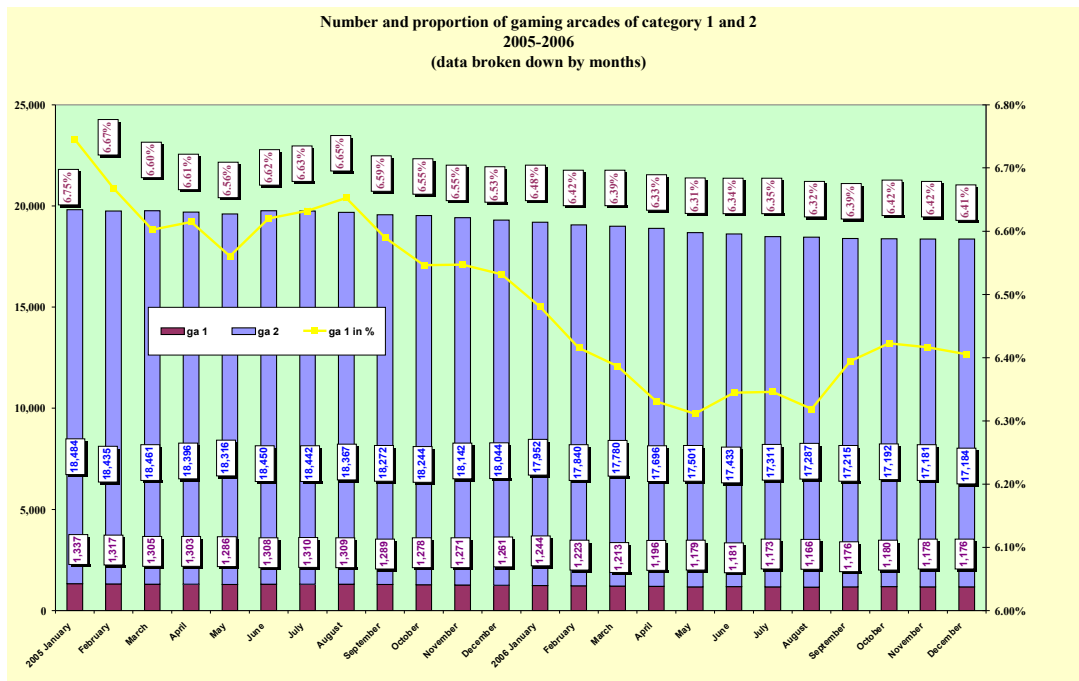
The number and proportion of arcades suspending the operation also decreased. At the end of 2005 the number of arcades with suspended operation was 2,587 (it is 13.4 % of all arcades), at the end of 2006 only 2,061 arcades, i. e. 11.2 % of the arcades suspended the operation.

The diagram below shows the number and proportion of gaming arcades operating or with suspended operation, in the past five years, broken down by months, on the last day of the months.

**The number of licensed arcades (operating + with suspended operation)  
2002-2006  
data broken down by months**



The proportion of the arcades operating was about the same at the end of the year, but during the year these proportions were modified, due to licensing, terminations, the enter and quit of seasonal arcades and machines (e. g. in places frequented by tourists).



## Slot machines

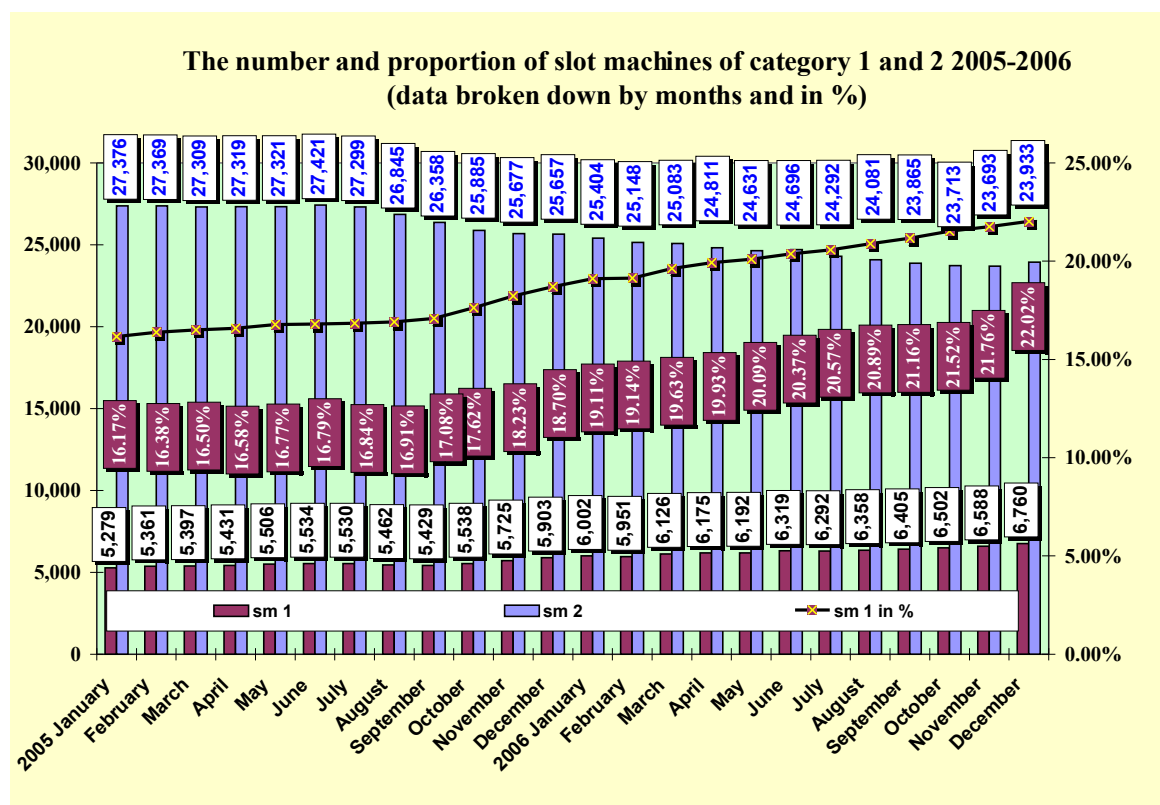
Till 2004 the number of slot machines increased, since then the number of machines operated on the market has been decreasing. The effect of the higher gaming tax increased in 2005 could be felt in 2006: at the end of the year the number of slot machines operated was less by 3 % than in the year before. Within this figure, the number of machines of category 2 decreased by 7 % but the number of slot machines of category 1 increased by 15 %, compared to 2005.

Number of slot machines					
Category	2005	proportion %	2006	proportion %	change 2005/2006
1	5,903	19%	6,760	22%	115%
2	25,657	81%	23,933	78%	93%
<b>Total</b>	<b>31,560</b>	<b>100%</b>	<b>30,693</b>	<b>100%</b>	<b>97%</b>

*data on the last day of the year*

In 2006 the proportion of machines of category 1 operated in the market increased by 3 %, it means the proportion of machines of category 2 decreased by 3 %.

In case of slot machines of category 1 the number of gaming positions increased by 8.1 %, the number of gaming positions in category 2 decreased by 6.3 %, which may have the conclusion that the applicants for licences preferred the slot machines of category 1.



By examining the number of gaming positions per one slot machine, it can be also observed that in the previous years the slot machines with 6 – 12 gaming positions were more popular in category 1 but this number slightly decreased. In category 2 there was no change concerning gaming positions.

An interesting tendency can be observed in the increase of the number of slot machines of category 1: most of the installed new machines have 2 – 6 gaming positions, previously they had 10 – 12 gaming positions. So the average number of gaming positions per one game decreased also in this category. The organisers try to define the optimal number of gaming positions per arcade this way.

The decrease of the number of slot machines of category 2 was caused by the possibility to suspend the operation of the arcades, the length of period for suspension, the saturation and reordering of the market, the higher gaming tax, the increasing costs of operation.

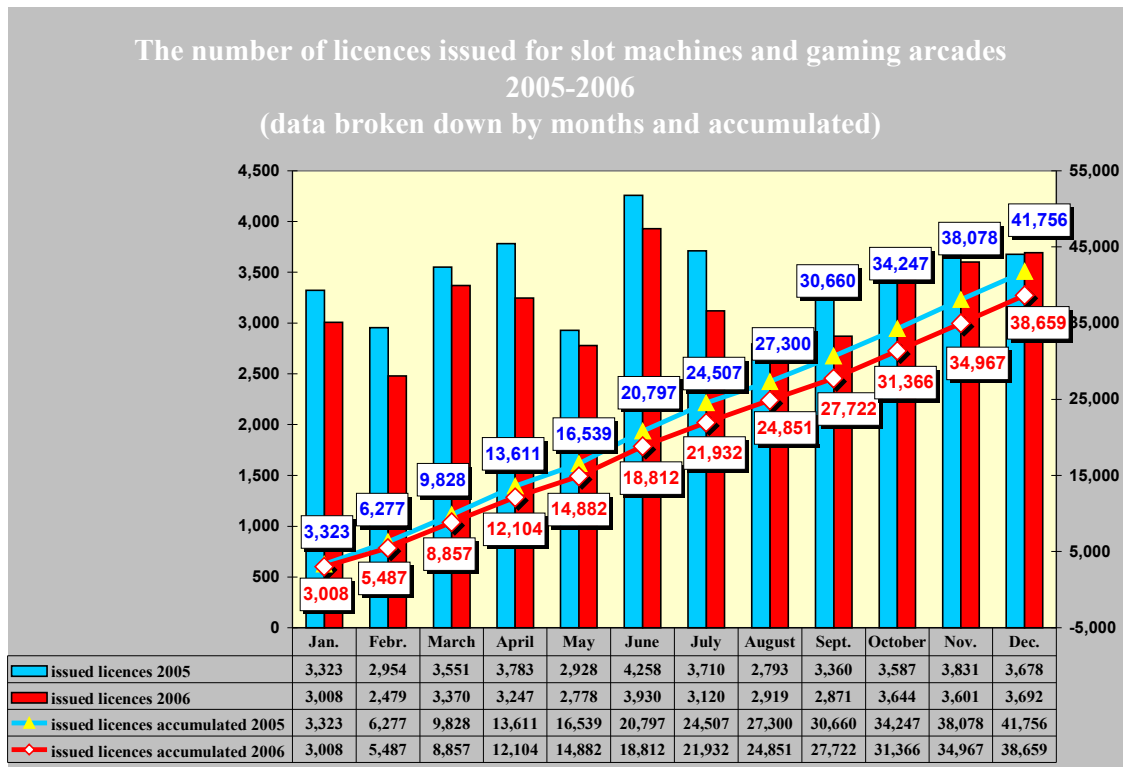
	2005.			2006.		
	Monthly average of gaming positions subject to account	Net gaming revenue (thousand HUF)	Gaming tax (thousand HUF)	Monthly average of gaming positions subject to account	Net gaming revenue (thousand HUF)	Gaming tax (thousand HUF)
Slot machines of category 1	7,967	26,300,139	7,945,025	8,438	32,579,976	10,125,100
Slot machines of category 2	28,387	51,411,581	28,268,050	25,705	54,198,169	30,845,500
Total	36,354	77,711,720	36,213,075	34,142	86,778,145	40,970,600

The net gaming revenue of the organisers was 86.77 billion HUF in 2006, it was higher by 11 % than one year before. They had to pay more than 40.97 billion HUF as gaming tax, which exceeded by 13 % the level of 2005. These figures are the results of the decrease of gaming positions by 2.200 on average and of the 100,000 HUF gaming tax.

## Licensing

55,830 applications related to the licensing of slot machines and gaming arcades were submitted to the Gaming Board in 2006, of which 38,741 were for slot machines and 17,089 for gaming arcades.

Within the basic procedures of licensing 35,976 applications for slot machines and 4,610 applications for gaming arcades were judged by the Gaming Board.



In the licensing procedures the following rulings were made: in 38,659 cases authorisations, in 504 cases refusals, in 216 cases the procedures were terminated, 1,207 procedures passed through to 2007.

The Gaming Board issued 8,256 licences for slot machines of category 1, and 26,277 licences for category 2, of the total 34,533 licensed slot machines. 383 licences for gaming arcades of category 1 and 3,743 licences for gaming arcades of category 2 were issued (Annex 1).

Based on the modification of the gambling Act in 2005, the operation of the slot machines, under the payment of the annual administration fee and upon the special request of the applicant could be licensed even for 2 years (but not longer than the legal ownership was certified). In 2006 the Gaming Board issued 7,170 licences for slot machines valid for more than one year.

The slot machines are to be handled as waste beyond 5 years after the manufacture. Based on the regulations, when the slot machines older than 5 years are withdrawn, the organisers have to submit the data read-out of the machines and the record proving the destruction of the slot

machine to the Board. The organisers presented 1,977 such records in 2006, of which 24 cases entailed authority measures.

In 2006 the provision prohibiting the use of the name “Casino” for gaming arcades and companies came into effect. It affected 26 gambling organiser companies. All of them fulfilled the obligation of name modification and submitted the registration of the name modification of the registration court.

### ***Urgent applications***

The urgent judgement of the application may be requested from the Gaming Board by paying the double amount of the administration fee prescribed for the applications. The organisers presented many of such applications, mostly in case of gaming arcades.

In 2006 the proportion of the urgent applications was 11 % of all applications.

The proportion of urgent applications for slot machines was 5.3 % of all applications for slot machines and 55.9 % of all applications for gaming arcades was urgent.

	File related to licence	File related to application for licence	Urgent procedure was not requested	Urgent application was requested	Proportion of urgent applications in %
Slot machines	38,741	35,976	34,073	1,903	5.3%
Gaming arcades	17,089	4,610	2,035	2,575	55.9%
Slot machines and arcades total	55,830	40,586	36,108	4,478	11.0%

The urgent applications needed extra work since the competent authorities had to be contacted and legal assistance had to be asked.

## ***Supervision***

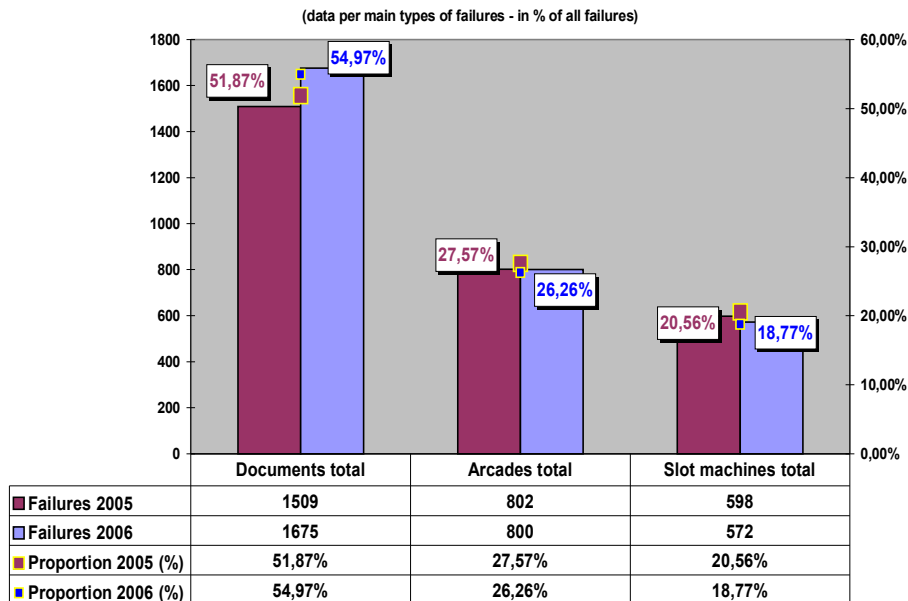
### ***On-site inspections***

The work of the inspectors – from scheduling till controls and post controls – was helped by the latest data-analysing and navigation equipments. The inspections were coordinated by the central and regional schedules, the lawful and professional fulfilment of the inspections were ensured by methods developed and introduced through the years and by unified practice.

The inspectors fulfilled 16,135 inspections in the market of slot machines, included all types of inspections. 14.813 were on-site focusing inspections, 787 were focusing controls, 508 were post controls and 27 were executive super inspections. Within these inspections, the Gaming Board inspected bars, restaurants having no licence for gaming arcade in 223 cases.

These inspections covered about 87 % of the gaming arcades of the market. In 2006 about 200 account inspections were carried out. More than 4.88 % of the inspections were focusing controls and 3.15 % were post controls. The inspectors found failures in 2,326 gaming arcades and recorded 3,047 failures. In 2006 the inspectors withdrew – on site – the licences of 18 gaming arcades; they banned to play on 263 slot machines by sealing the equipment until certain steps are taken; in 757 cases calls, in 1,133 cases warnings were given.

**Changes in the number of failures detected during the inspection of gaming arcades and slot machines 2005-2006**



54.97 % of the failures registered in the gaming arcades related to documents, 26.26 % to prescriptions for gaming arcades and 18.77 % to slot machines.

77 % of the failures related to documents were incomplete and not adequate filling. The lack and failures of rules of visit was 10 %, the lack of documents was 11 %.

53 % of the records concerned the opening hours of the gaming arcades. 34 % of the records showed that the establishment, in which the gaming arcade could be found was closed or the gaming arcade was not operating, 8 % of the records relating to gaming arcades mentioned not suitable rooms or the fact that another activity was pursued (in case of gaming arcades of category 1).

In 55.7 % of the cases concerning slot machines the deviation from the gaming plan was recorded. 29.1 % of the records were in connection with the certification marks, 9 % with the lack of the key, 4.7 % with the counters. The types and proportion of the failures have been about the same, although the number and share of records about documents increased a little.

Concentrated inspections were carried out in 4 cases, which means that all inspectors made the inspections in one time, in one region or place. In these inspections 168 gaming arcades were inspected and failures were found in 61 cases.

The on-site executive super controls (which check if the work of the inspectors are professionally and lawfully fulfilled and if the prescriptions for the methods are kept) were carried out in 27 cases. In 2006 there were 43 such on-site inspections where the executives checked simultaneously with the inspection if the team of inspectors fulfils its work according to the rules.

### ***Control of periodical accountings***

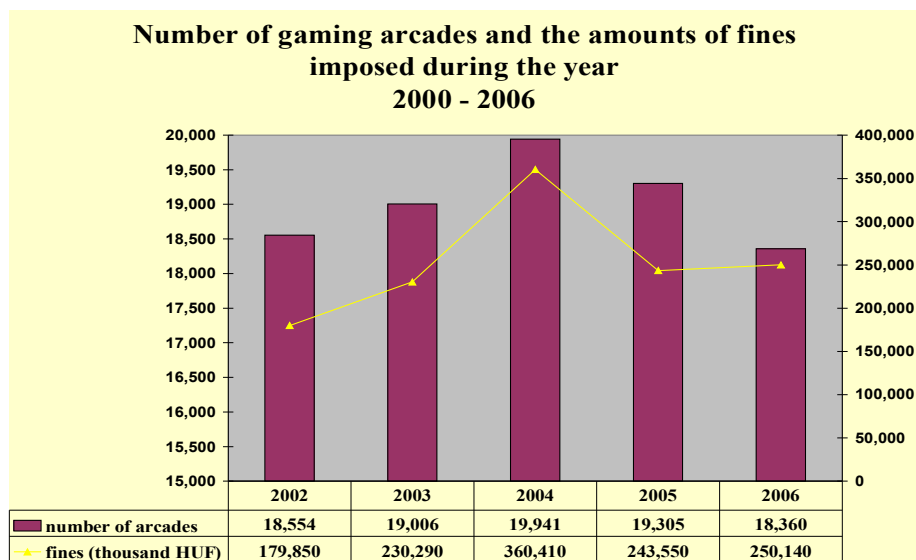
Beside the controls carried out at the time of receiving the quarterly accountings, 200 focusing controls on accountings were carried out. These, among others, covered the report of the gaming tax, payment of the gaming tax, the control of determination of net gaming revenue and control of operation without licence. In 80 % of the cases failures or offences were found.

Many slot machines operating without licence were found. Other problems were the failures in submitting the monthly reports on cash flow, gaming arcade without licence, the suspension of the activity, differences in the revenue, incorrect tax report, differences in the forms.

Based on the provisions of the Gambling Act, the organisers can submit the quarterly accountings through electronic means. This way of accounting is more and more popular, it was used by 339 operators in the first quarter, by 383 operators in the second quarter, by 485 operators in the third quarter and by 536 at the end of the year.

### ***Authority and legal remedies***

In 2006 the Gaming Board imposed fines against the organisers operating slot machines in 1,126 cases, in the value of 216,480,000 HUF, which means an average fine of 192,3000 HUF. Compared to 2005, it is a decrease of 16 % in the number of rulings imposing a fine and 11 % in the amount of fines imposed.



9 companies had to be banned from the gambling organisation activity, in 2 cases the organisation activity – because of unpaid taxes – was suspended, in 56 cases the licence of the arcade was withdrawn. (The withdrawals were mainly due to the lack of the legal ownership).

The Gaming Board refused 6 requests for the suspension of the licence of the gaming arcade. 19 of the 23 applications for certification were refused, 4 were accepted. The Gaming Board made decision on the starting date of the suspension in 3 cases and on the final withdrawal of the licence of slot machine also in 3 cases.

Beside the sanctions, in 21 cases a warning was given, process penalty was imposed in one case. 9 applications for part payment were refused, in 9 cases it was suspended, in 3 cases the procedure was terminated.

The Gaming Board ordered the new authentication of slot machines in 107 cases and in 11 cases an expert was appointed because the inspectors had found connections with unknown function on the inspected slot machines.

The organisers presented 103 appeals against 1,126 rulings imposing a fine. 81 of them were put to second degree, of them 40 were approved, 12 were changed, 8 were cancelled, in 21 cases the decision was not made till the end of the year.

The Gaming Board initiated 27 offence procedures within its competence, in 4 cases the Customs Guard detected offences. (These latter cases, as cases initiated by another authority, were forwarded to the notary of the mayor's office.)

Under on-site offence procedures the inspectors confiscated the amusement and slot machines having no registration card or the licence issued by the Gaming Board. In these procedures the Gaming Board confiscated 6 amusement and 9 slot machines. The Gaming Board reported the suspected forgery of official documents and the break of lock in 6 cases.

## Central Office of Customer Service

In 2006 the Gaming Board identified the major task of the Central Office of Customer Service as the customer friendly, so called “service provider” public administration.

The figures of urgent applications presented in the Customer Service Office were as follows:

Description:	2005	2006	Change in %
<b>Gaming arcades in total</b>	<b>2,681</b>	<b>2,288</b>	<b>-14.66%</b>
<b>Slot machines in total</b>	<b>2,374</b>	<b>1,782</b>	<b>-24.94%</b>
<b>Gaming arcades + slot machines</b>	<b>5,055</b>	<b>4,070</b>	<b>-19.49%</b>

The urgent applications presented in the Central Office of Customer Service decreased by 19.49 % in total compared to the previous year.

The employees of the Central Office of Customer Service gave a huge number of licences for slot machines and gaming arcades to the clients.

Description:	2005	2006	Change in %
Gaming arcades category 1	321	377	17.45%
Gaming arcades category 2	3,403	3,725	9.46%
<b>Gaming arcades in total</b>	<b>3,724</b>	<b>4,102</b>	<b>10.15%</b>
Slot machines category 1	6,920	8,209	18.63%
Slot machines category 2	28,619	26,179	-8.53%
<b>Slot machines in total</b>	<b>35,539</b>	<b>34,388</b>	<b>-3.24%</b>
<b>Gaming arcades + slot machines</b>	<b>39,263</b>	<b>38,490</b>	<b>-1.97%</b>

The number of licences for arcades increased by 10.15 %, for slot machines it decreased by 3.24 %.

In 2006 the employees of the Customer Service Office gave 38,490 licences to the clients (in 2005 this number was 39,263), it is a small decrease of 1.97 %. The Office filed 17,827 documents (in 2005 this number was 21,887) and received 349 requests for giving data.

Due to the modifications of regulations – related mainly to the applications for gaming arcades – the number of completion was higher (certification of ownership, approval of the owner, declaration of letting). The previous control and coordination of these documents required extra work from the employees of the Office.

As a result of the modification of the Act No. XXXIV of year 1991 and the Order of the Minister of Finance No. 32/2005 (X. 21.) the filling of accounting documents became easier. The Gaming Board publishes daily on its website the list of licences, which can be handed over. The information contains, beside the file number and date, the manufacture number of the machines and the address of the arcade. There are archive data on the website, in which

the licences older than 30 days but not taken over within 180 days can be found (with a password of the Gaming Board).

According to the relevant Government's Ruling, the examination of the citizens' satisfaction was carried out. The questionnaire shows that the customers were satisfied with the information given by the Gaming Board, 96 % of those who had answered the questionnaire were "at least satisfied". The means and forms of information used by the Board were found to be good, the customers would like to use these services in the future too.

As a result of the reduction of VAT in January 2006, the prices of the forms were reduced as well. The forms for the quarterly account were free; the customers could receive them in the regional offices. The changes of regulations modified the habits of purchasing forms. According to the provisions, the National Bureau of Measures also puts notes in the records when the slot machine is authenticated, so the customers need them even before submitting the application, therefore they purchased them when they received the licences, thus the scramble for forms at the beginning of the month could be avoided. In 2006 the Customer Service sold about 25,000 forms for operation, reports on accounts, control.

## **Legal Work of the Gaming Board**

### ***Participation in the preparation of regulation modifications***

The Gaming Board gave its opinions to the modification of the Gambling Act and to the Execution Order, made propositions for them. Assisted in the evaluation of propositions for law modifications of Szerencsejáték Zrt. and the Hungarian Gambling Association and in coordination meetings.

The Gaming Board gave its position statement to the preparation work of the 2006/123/EC Decree on the services in the internal market by giving propositions and observations to the modification.

The Gaming Board informed the Ministry of Finance about the experiences of the law enforcement activity regulated by the Administration Act and about the claims to law modifications and their justifications. It gave its opinions to the propositions concerning law modifications.

Upon the request of the Ministry of Finance – according to the regulations of the EU – the Gaming Board reviewed and analysed the regulations and their modifications of certain member states on slot and amusement machines.

### ***Internal professional work***

23 Instructions of the President of the Gaming Board came into force in 2006. The President's Instruction on the Rules of the Board's operation was sent to the Ministry of Finance for approval. Due to the reorganisation made at the beginning of the year, all former Instructions of the President had to be reviewed. The modification of the Document of Establishment of the Gaming Board was also prepared.

The Gaming Board elaborated the samples of rulings and orders needed because of the law modifications and made the forms and guides to be applied.

In 2006 – in compliance with the internal control plan – all departments of the Board were supervised with the aim to unify of the law enforcement of the departments and to help and to support the compliance with the law.

The Legal Department issued 96 position statements: most of the enquiries were about the operation of slot machines and games organised through SMS and the Internet. As in the previous years, many enquiries were in connection with the organisation of poker (tournaments).

In 2006 the Gaming Board fulfilled 25 requests to give public data, which concerned slot machines and gaming arcades, similarly to the previous years. In seven cases the requests – since they did not concern public data – were denied.

The Gaming Board made 84 judicial petitions in the procedures initiated for ordering liquidation against gambling operator business companies and initiated a procedure for liquidation in 24 cases. In the ordered procedures of liquidation the Board made steps to

register the claims of the creditors. The Gaming Board participated in 210 judicial enforcement procedures.

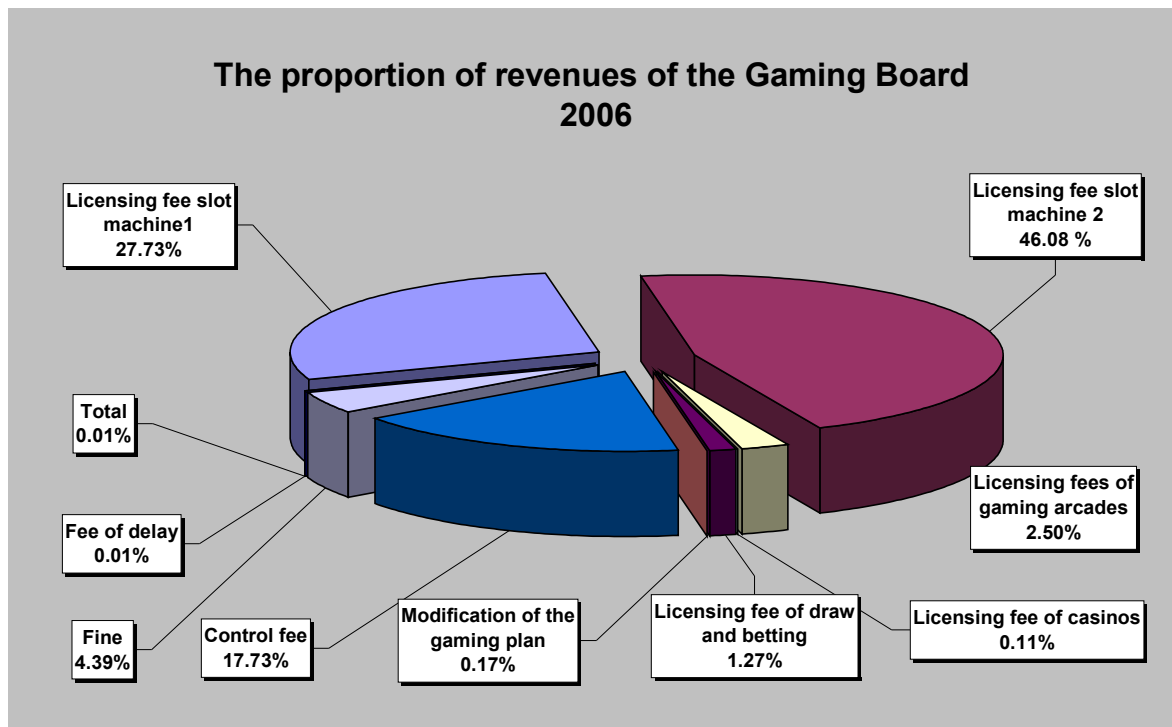
In 2006 32 suits were launched against the Gaming Board, by the end of the year 44 suits were closed including those which had passed through from the previous year, one of them was a re-examination procedure by the Supreme Court. At the end of the year 31 cases were in process (3 of them before the Supreme Court), the lawyers of the Board participated in 50 hearings and made 125 petitions to the court.

The Legal Department passed 308 different rulings and orders in 2006.

## Financial management of the Gaming Board

### Revenues

The revenues of the Gaming Board were influenced by the changes in regulations and – significantly and unpredictably – the attitude of the operators.



The planned revenue of the Gaming Board for 2006 was 4,100,000,000 HUF, the modified planned revenue was 4,825,143,000 HUF, the fulfilment was 4,891,756,000 HUF. Altogether with the approved funds remained from 2005 the modified planned revenue was 5,887,136,000 HUF, the actual revenue was 5,953,748,000 HUF in 2006.

In 2006 more than 98 % of the revenues of the basic function was composed of administrative service fees, supervision fees and fines. 73.8 % of these fees came from the licensing fees of slot machines of category 1 and 2.

The revenues from supervision fees were 2.4 times higher than it had been planned, at the same time the revenues from fines were lower by 30 % than in the allocation.

The fulfilment of revenues in 2006 shows an increase of 2 % compared to the revenues without remained funds of 2005 (in 2005 4,797,167,000 HUF, in 2006 4,891,756,000 HUF), due to the changes in regulations.

The revenues of the Gaming Board 2005-2006:

Description	2005 actual	Original plan for 2006	Modified plan for 2006	2006 actual
Slot machine 1 licensing fee	1,311,470	950,000	1,220,000	1,349,210
Slot machine 2 licensing fee	2,441,844	2,320,000	2,320,000	2,242,325
Licensing fees of gaming arcades	145,095	150,000	150,000	121,547
Licensing fee of casinos	2,244		5,052	5,148
Licensing fee of draw and betting games	71,851		61,861	61,861
Modification of the gaming plan	9,919		7,710	8,066
Control fee	487,010	360,000	721,104	862,818
Fine	265,957	300,000	300,000	213,786
Fee of delay			322	391
Other	139		348	348
Total	61,638	20,000	38,746	26,256
<b>Összesen:</b>	<b>4,797,167</b>	<b>4,100,000</b>	<b>4,825,143</b>	<b>4,891,756</b>

### *Payments to the central budget*

The Act No. CLIII of 2005 on the budget prescribed 2,280,000,000 HUF for the Gaming Board to pay in the central budget in 2006. In addition, according to Section 9 (2) of the Act, the Board had to pay 5 % of certain revenues.

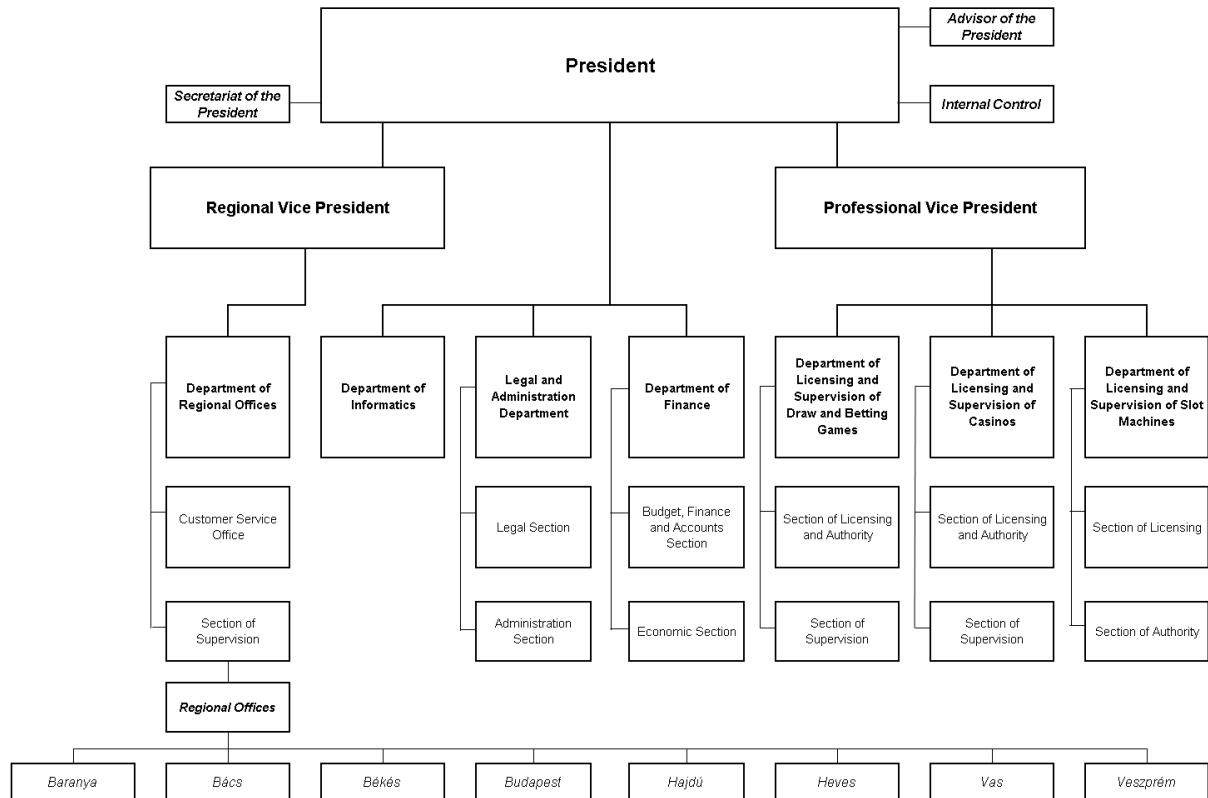
The funds remained from 2005 had also to be paid in the central budget and the Gaming Board transferred 100,000,000 from the revenues during the year.

The payments of the Gaming Board to the central budget in 2005 – including the funds passed through from December – were as follows:

<i>Title of payment</i>	<i>Amount</i>
Payment on the remaining funds of 2005	1,039,888
Payment prescribed by the Act on budget	2,280,000
Payment obligation of 5 %	372
Funds transferred for the purpose of operation	100,000
Offered for cut	469,049
<b>Total:</b>	<b>3,889,309</b>

## ***Organisational structure and staff of the Gaming Board***

In 2006 the Gaming Board had the same organisational structure as in the previous years, divided according to game types.



The authorised number of the staff was 135 in 2006. There were no permanent vacancies. In 2006 9 new employees joined the Gaming Board, 12 employees quitted. The reduction in the number of the staff by 13 persons, prescribed by the Ministry of Finance was done.

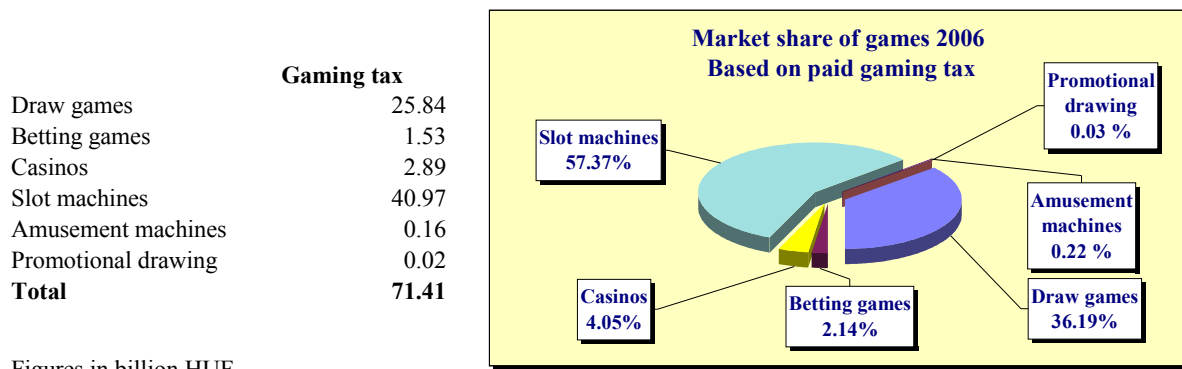
## The state revenues coming from gambling

In 2006 the operators paid 71.41 billion HUF to the central budget.

- The revenues of draw games increased by nearly 5.74 %, thereof betting games by 18.15 %, thereof casinos (drop) by 10.45 %.
- The net gaming revenue of draw games increased by 3.2 %, thereof betting games by 8.44 %, thereof slot machines by 11.67 %. The net gaming revenue of casinos was about the same as in 2005.

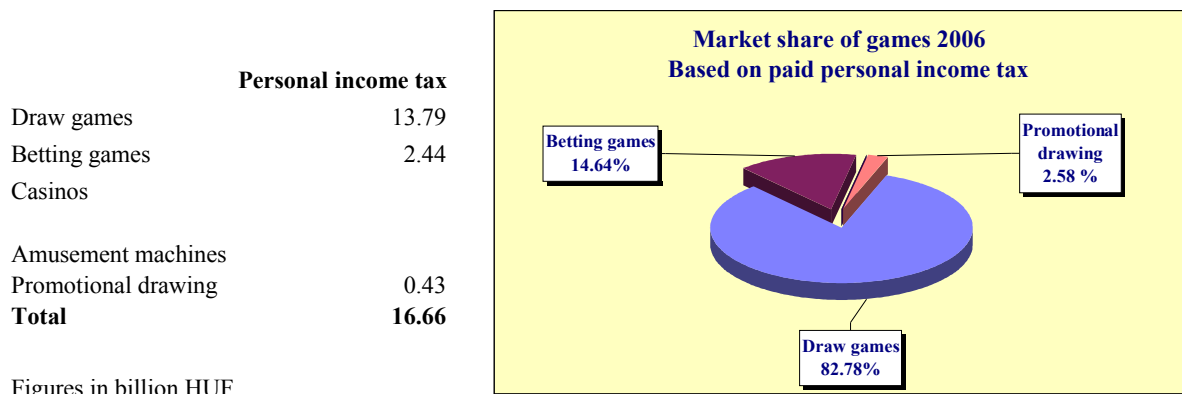
The gaming tax paid by the operators was higher by 5.77 %, than in the previous year, due to the moves in the market. (In 2005 this figure was 67.52 billion HUF).

57.37 % of the total amount of the gaming tax came from slot machines, 36.19 % from draw games, 4.05 % from casinos, 2.14 % from betting games, 0.22 % from amusement machines and 0.03 % from promotional drawings.



Figures in billion HUF

The personal income tax paid on gambling was 16.66 billion HUF, it is higher by 6.17 % than in 2005. 82.78 % of this revenue came from draw games, 14.64 % from betting games and 2.58 % from promotional drawings.



Figures in billion HUF

This increase of revenue coming from the personal income tax was due the increase of the number of sold single games and to the increase of prizes won in draw and betting games.

The revenue of the central budget coming from gaming tax and personal income tax on gambling was 88.07 billion HUF, it is higher by 5.87 %, than in the previous year. (Annex 5).

## **Domestic relations of the Gaming Board**

### ***National Office of Measures (OMH)***

In 2005 the two bodies cooperated under the Agreement of Cooperation. The cooperation was continuous between the managements because of the changes in regulations, joint inspections were carried out and experts were appointed.

### ***Police***

Similarly to the previous years, the enquiries from the police and the requests to give data and information were regular, as well as the joint controls. The cooperation was different in each county or town. The police conducted their own controls too in some regions and the Gaming Board was advised about the results.

### ***Municipalities***

In 2006 the municipalities contacted the Gaming Board in connection with the gaming arcades operating in the territory and by the authorisation of the municipality. Most of these cases were the complaints of the residents, which were examined by the Gaming Board within the prescribed time. The number of requests to the Gaming Board submitted by the municipalities to give them information and statement was high.

### ***General Inspectorate of Customer Protection***

The Gaming Board carried out inspections together with regional Inspectorates for Consumer Protection in gaming arcades operating in restaurants and bars located in the popular and frequented tourist centres. The number of joint inspections was about the same as in the previous years. The Gaming Board continuously reported the detected cases to the General Inspectorate of Customer Protection in which prohibited advertisement or break of the customer's interest were detected. The Inspectorate launched advertisement supervision procedures.

### ***Tax and Financial Control Administration (APEH)***

During 2006 the Gaming Board was requested by APEH several times to give data concerning certain periods of the year and to carry out inspections in certain gaming arcades. Negotiations began at the end of 2005 between the two bodies to make an agreement in the future for mutual and continuous data supply, it was realised in 2006. Since 1<sup>st</sup> January 2007 the Gaming Board became a department of APEH, which requires integration tasks and a new way of sharing the work.

### ***Customs and Finance Guard (VPOP)***

Based on a Cooperation Agreement signed in 2002, units of VPOP controlling the excise tax controlled the licences of gaming arcades of category 2. In many cases they asked for the professional assistance of the Gaming Board. During the control of the excise tax such restaurants and bars were also put under inspections, which were not qualified as gaming arcades, so they were not in the registration of the Gaming Board. These inspections were very useful because gaming arcades or machines having no licence could be detected. It can

be stated that the series of inspections have a preventive effect in this field. VPOP controlled 6,366 restaurants and bars and 6,706 slot machines in them and found 16 infringements in 2006.

The following failures were recorded:

- slot machines with expired authentication were operated,
- absence of persons mentioned in the rules of visit,
- no rules of visits were hung out, the opening hours were not shown,
- slot machines with expired licence or without licence were operated.

### **International relations, travels abroad**

The two main topics of the Gaming Regulators European Forum (GREF) were the issues of gambling addictions and the developments of the legislation of the EU, related to gambling.

The reports sent to the meeting showed that the prevention of growing problem gambling, the protection of players, the limitation of the gambling market are key issues for the national legislatures.

GREF has established 4 working groups to analyse the different aspects of gambling (Technical issues, Information and statistics, Gambling addiction, Illegal gambling). The Working Group for Information and Statistics has collected and systematized per game types the statistical data of the member states.

Beside the harmonisation of the legal systems, the importance of common actions and the representation of the interests were emphasized. A good example for that is the unified point of view expressed during the negotiation of the proposed Directive on services in the internal market, came into force at the end of the year. As a result, the gambling services were taken out of the scope of the Directive; moreover, the countries, against which the European Committee launched procedures because of regulations which maintain state gambling monopolies, received support from other countries.

20 employees of the Gaming Board visited 6 European countries under their professional travels abroad.

## **Annexes**

1. Statistics of licensing 2004-2006
2. Statistics of supervision 2004-2006
3. Fulfilment of controls of gambling 204-2006
4. Statistics of appeals 2004-206
5. Revenues, game tax and personal income tax payments of games per game and per game types 2005-2006
6. Turnover, game revenue, prizes and taxes of games 2006

## Statistics of licensing 2004-2006

### Statistics of licensing for 2004

without amusement machines								
Type of application	File of application for licence, for operation	Application for licence, for operation	Passing through from 2003	Refused	Licensed in total	Procedure 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 arcades	11,846	7,887	1,351	417	5,908	176	0	1,386
<b>Total</b>	<b>55,102</b>	<b>49,869</b>	<b>5,861</b>	<b>1,181</b>	<b>44,053</b>	<b>607</b>	<b>2</b>	<b>4,101</b>

### Statistics of licensing for 2005

without amusement machines								
Type of application	File of application for licence, for operation	Application for licence, for operation	Passing through from 2004	Refused	Licensed in total	Procedure terminated	Other	Passing through to 2006
Draw games	24	29	5	4	19	0	4	2
Betting games	1	1	0	1	0	0	0	0
Casinos	202	0	0	1	117	1	83	0
Slot machines	40,217	38,872	2,710	227	37,076	397	0	1,172
Gaming arcades	10,247	5,439	1,386	320	4,680	106	0	333
<b>Total</b>	<b>50,691</b>	<b>44,341</b>	<b>4,101</b>	<b>553</b>	<b>41,892</b>	<b>504</b>	<b>87</b>	<b>1,507</b>

### Statistics of licensing for 2006

without amusement machines								
Type of application	File of application for licence, for operation	Application for licence, for operation	Passing through from 2005	Refused	Licensed in total	Procedure terminated	Other	Passing through to 2007
Draw games	21	21	2	0	21	1	0	1
Betting games	11	10	0	0	10	1	0	0
Casinos	275	198	0	3	188	7	77	0
Slot machines	38,741	35,976	1,172	211	34,533	92	0	1,140
Gaming arcades	17,089	4,610	333	293	4,126	124	0	67
<b>Total</b>	<b>56,137</b>	<b>40,815</b>	<b>1,507</b>	<b>507</b>	<b>38,878</b>	<b>225</b>	<b>77</b>	<b>1,208</b>

Data of application in orange include other files related to licensing. In case of casinos they include applications related to casino licence and operation (machine, gaming plan, reports). These are displayed also in issued licences.

Data of application in green are for the licensing of operation or for the issuance of licence. They resulted licences or rulings on licence or on refusal.

### Statistics of supervision 2004 - 2006

#### Statistics of supervision for 2004

Type of game	on-site/focusing inspection	focusing contro	overall control	post control	executive super inspection	Total
Draw games	50	40	10	1		101
Betting games	44*	44				44
Promotional drawings	324*	324				324
Casinos	835	6	4	18	10	873
Slot machines/arcades	16,486		70	681	64	17,301
<b>Total</b>	<b>17,371</b>	<b>414</b>	<b>84</b>	<b>700</b>	<b>74</b>	<b>18,643</b>

#### Statistics of supervision for 2005

Type of game	on-site/focusing inspection	focusing contro	overall control	post control	executive super inspection	Total
Draw games	38	40	14			92
Betting games	47*	47		9		56
Promotional drawings	329*	329				329
Casinos	819	17	2	2	6	846
Slot machines/arcades	15,301	663	31	744	73	16,812
<b>Total</b>	<b>16,158</b>	<b>1,096</b>	<b>47</b>	<b>755</b>	<b>79</b>	<b>18,135</b>

#### Statistics of supervision for 2006

Type of game	on-site/focusing inspection	focusing contro	overall control	post control	executive super inspection	Total
Draw games	38	94	1	2		135
Betting games	84*	84				84
Promotional drawings	267*	267				267
Casino	760	5	4	12	3	784
Slot machines/arcades	14,813	787		508	27	16,135
<b>Total</b>	<b>15,611</b>	<b>1,237</b>	<b>5</b>	<b>522</b>	<b>30</b>	<b>17,405</b>

\* The on-site focusing inspections of promotional drawings and of betting games are focusing controls as well, these are indicated only in "focusing control".

## Results of the inspections of games 2004 - 2006

Description	Slot and amusement machines			Casinos			Draw games			Betting games			Promotional drawings		
	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
Ruling imposing a fine based on the Gambling Act	1,633	1,342	1,126	2	3	1	20	8	8	2	15	27	264	182	150
Termination of licence or gambling operation activity	58	56	114												
Suspension of the licence	114	9	67												
Withdrawal of the licence	36	65	56												
Ban to conduct gambling	16	18	9												
Ruling passed in connection with final settlement			1				2	17	10		6		159	81	83
<b>Sanctions (1) in total</b>	1,857	1,490	1,373	2	3	1	22	25	18	2	21	27	423	263	233
<b>Fines (1) in total (thousand HUF)</b>	360,410	243,550	216,480	1,600	800	600	7,160	5,750	7,200	700	1,270	6,600	10,435	7,375	19,260
Initiating criminal procedure	14	6	6		1							1			
Initiating offence procedure	41	50	31												
Forwarding the file to another authority															
Measure of collection															
Initiating liquidation procedure	23		145						1						48
Fine according to the Administration Act*			1					5	6		1	1	35	61	38
<b>Sanctions (2) in total</b>	78	56	183	1	1		5	5	7	1	1	2	35	61	86
<b>Fines (2) according to the Adm. Act in total (thousand HUF)</b>			200				250		550	50		100		3,670	3,610
<b>Sanctions (1+2) in total</b>	1,935	1,546	1,556	2	4	1	22	30	25	2	22	29	458	324	319
<b>Fines (1+2) in total</b>	360,410	243,550	216,680	1,600	800	600	7,160	6,000	7,750	700	1,320	6,700	10,435	11,045	22,870

\* includes the fines according to the Administration Act

### Statistics of appeals 2004 - 2006

(db)

Description	2004	2005	2006
Appeals presented	222	102	136
Introduced to second degree	191	86	114
Approved on second degree	120	50	58
Cancelled, modified, obliged for new procedure on second degree	28	20	16
Refused on second degree	8	8	11
Withdrawn, modified within own competence	31	16	22
Being in process on second degree (31 December of the actual year)	42	9	29
Appealed before the court of justice	114	33	32
Repealed by the court of justice			
Claim refused	1		
Claim withdrawn, abandonment of the claim			
Being in process before the court of justice (31 December of the actual year)	124	30	31

**Revenues, payment obligations for gaming tax and personal income tax of the games, broken down by games and game types 2005-2006**

(Figures in thousand HUF)

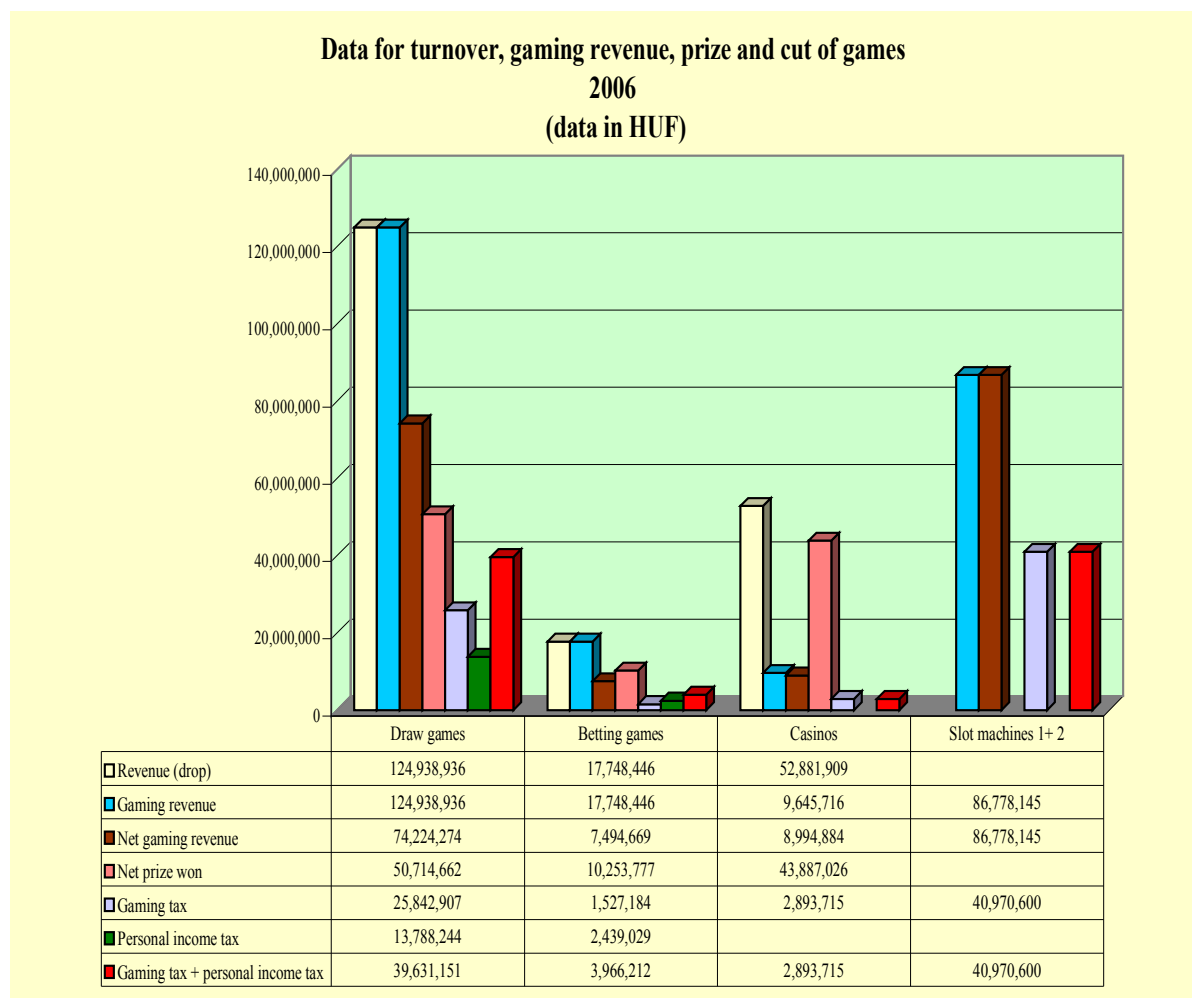
Games	Data for 2005			Data for 2006			Changes: 2006/2005 2005=100%		
	Gaming revenue	Gaming tax	Personal income tax	Gaming revenue	Gaming tax	Personal income tax	Gaming revenue	Gaming tax	Personal income tax
Lottery 5/90	53,105,741	12,745,378	6,448,536	48,097,330	11,543,359	5,465,853	90.57%	90.57%	84.76%
Lottery 6/45	17,970,168	4,312,840	2,076,043	20,699,135	4,967,792	2,311,900	115.19%	115.19%	111.36%
Lottery 7/35	15,197,184	3,647,324	1,962,026	13,409,299	3,218,232	1,706,146	88.24%	88.24%	86.96%
Joker	5,030,037	855,106	577,750	4,682,646	796,050	435,051	93.09%	93.09%	75.30%
Keno	6,820,097	1,039,289	813,086	5,047,292	775,702	638,808	74.01%	74.64%	78.57%
Scratch tickets	11,117,066	1,697,500	208,025	13,811,225	1,795,548		124.23%	105.78%	0.00%
Luxor	6,646,237	1,595,097	765,854	5,495,246	1,318,859	652,988	82.68%	82.68%	85.26%
Puttó	2,273,288	251,852	425,781	13,696,764	1,427,365	2,577,498	602.51%	566.75%	605.36%
Totó	2,725,606	463,353	327,423	2,676,465	454,999	320,350	98.20%	98.20%	97.84%
Góltótó	38,956	6,623	4,374	43,299	7,361	5,257	111.15%	111.15%	120.19%
Horse race	1,334,748			1,395,883			104.58%	-	-
Bookmaker betting	10,922,373	1,419,181	1,601,877	13,632,798	1,064,824	2,113,422	124.82%	75.03%	131.93%
Casino*	9,729,772	2,918,932		9,645,716	2,893,715		99.14%	99.14%	
Slot machine**	77,711,720	36,213,075		86,778,145	40,970,600		111.67%	113.14%	
Amusement machines		338,778			168,422			49.71%	
Promotional drawing, raffle		16,493	478,352		12,753	430,172		77.33%	89.93%
Total	220,622,995	67,520,822	15,689,125	239,111,243	71,415,581	16,657,445	108.38%	105.77%	106.17%

Game types	Data for 2005			Data for 2006			Changes: 2006/2005 2005=100%		
	Gaming revenue	Gaming tax	Personal income tax	Gaming revenue	Gaming tax	Personal income tax	Gaming revenue	Gaming tax	Personal income tax
Draw games	118,159,819	26,144,387	13,277,100	124,938,936	25,842,907	13,788,244	105.74%	98.85%	103.85%
Betting games	15,021,684	1,889,157	1,933,674	17,748,446	1,527,184	2,439,029	118.15%	80.84%	126.13%
Casinos	9,729,772	2,918,932		9,645,716	2,893,715	0	99.14%	99.14%	
Slot machines	77,711,720	36,213,075		86,778,145	40,970,600	0	111.67%	113.14%	
Amusement machines		338,778			168,422	0		49.71%	
Promotional drawing, raffle		16,493	478,352		12,753	430,172		77.33%	89.93%
Total	220,622,995	67,520,822	15,689,125	239,111,243	71,415,581	16,657,445	108.38%	105.77%	106.17%

\* In case of casinos the gaming revenue contains the net gaming revenue and 50 % of the tips.

\*\* In case of slot machines the net gaming revenue of the machines is indicated as gaming revenue.



**Revenue:** in case of draw and betting games it is the revenue coming from the sale of the ticket and the single game. In case of casinos it is the drop.

**Gaming revenue:** in case of draw and betting games it is the same as revenue. In case of casinos it is the amount of the net gaming revenue increased by 50 % of the tips. In case of slot machines it is the same as the net gaming revenue.

**Net gaming revenue:** the revenue or gaming revenue reduced by the prizes won.