

All roads lead to Romania

One of the Balkans most interesting markets for games and gaming, Romania has huge potential for growth

Romania has forever been in the path of migrations and conquests. In the early days it was incorporated into the Roman Empire but later abandoned by a declining Rome. Romania disappeared from recorded history for hundreds of years and reappeared in the medieval period as the principalities of Moldavia and Wallachia.

Heavily taxed and badly administered under the Ottoman Empire the two principalities were unified in 1859 and had their full independence ratified in 1878. A German prince was crowned the first king of Romania in 1881.

The new state squashed between the Ottoman, Austro-Hungarian and Russian empires looked to the West, particularly France, for its cultural and administrative models. During World War I it was an ally of the US and was granted territories such as Transylvania, Bessarabia and Bukovina after the war.

Between the two wars however the fascist Iron Guard movement was a key destabilising factor and led to the creation of a royal dictatorship in 1938 under King Carol II. During World War II on the side of the Axis Powers

Romania invaded the Soviet Union to recover Bessarabia and Bukovina which had been annexed in 1940.

The communist party which governed Romania after the war began to assert some independence from Russia in the late 1950s. In 1965 Nicolae Ceausescu became head of the party and head of state two years later.

Although he initially received a positive image, by the late 1970s his regime had become harsh and arbitrary and rapid economic growth fuelled by foreign credits gradually began to take its toll.

In 1989 a new Romania was reborn as a free nation. The dictator was swept from power during country wide protests and Ceausescu and his wife were executed after a military trial. An impromptu coalition, the National Salvation Front installed itself and the Communist Party was dissolved. Ion Iliescu, a former communist party official emerged as leader of the NSF, won the elections in 1990 and Petre

Roman became Prime Minister. The new government began cautious free market reforms such as opening the economy to consumer imports and establishing independence from the National Bank. However 44 years of communist rule is hard to shake off and many anti communist protestors were unhappy at members of the Ceausescu era being in power. The Roman government fell in 1991 and the NSF split into two groups - the FDSN led by Iliescu and the Democratic Party led by Petre Roman. Elections in 1992 returned Iliescu to power and the FDSN became the Party of Social Democracy of Romania (PDSR) in 1993. Prime Minister was Nicolae

Vacariu. In 1996 the national elections saw the opposition, with a campaign of economic reform and action against corruption, take power for the following four years despite internal frictions and three prime ministers. In 2000 the electorate returned the PDSR to power (now named PSD) and the next four years saw a relative stable government which guided Romania towards greater stability. In 2004 former Bucharest mayor Traian Basescu representing the centre-right PNL-PD alliance took over the government and he appointed PNL leader Calin Popescu Tariceanu as Prime Minister.

However in April this year Basescu was suspended for 30 days from his position at President following alleged violations of the constitution. Some say it is an attempt by the Romanian mafia to stop Basescu's anti corruption programme. So what's happening in Romania today? Well, apart from the current political upheaval, back in the 1970s Romania borrowed heavily from the West to build a substantial state-owned industrial base. By the end of 1989 Romania had paid off a foreign debt of \$10.5bn which had left it crippled. Vital imports had been slashed and food and fuel was rationed whilst the government exported everything that wasn't nailed down.

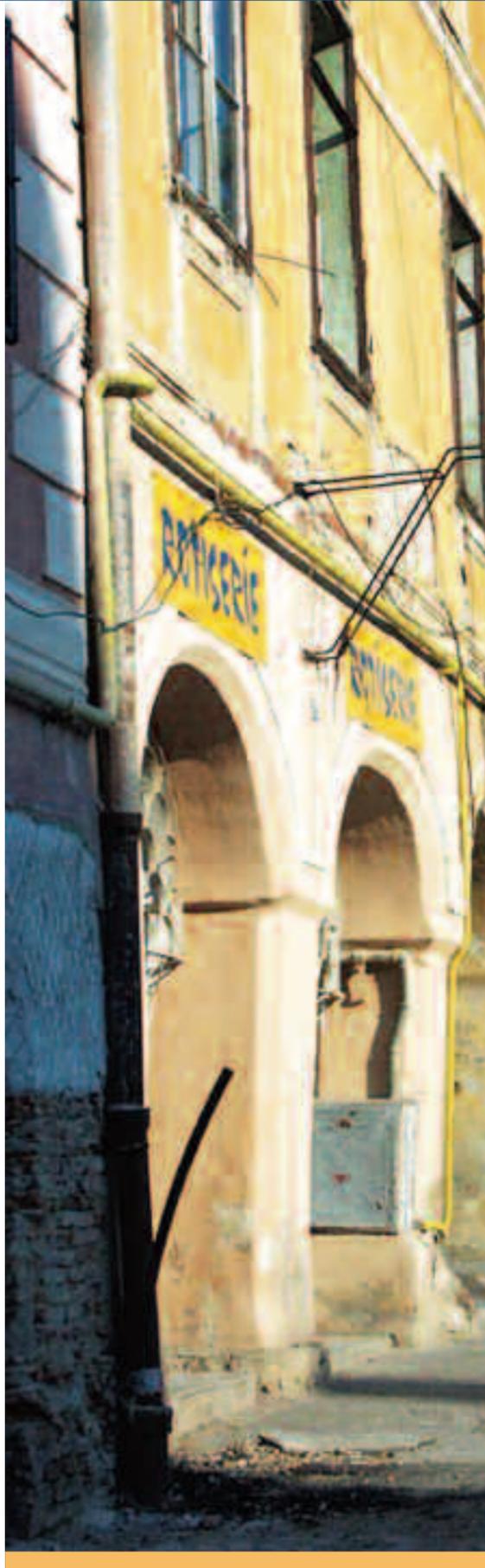
Since the fall of the Ceausescu regime successive governments have tried to build a Western style market economy. And although the pace of restructuring has been slow it is largely now in place. Laws now permit foreign entities to purchase land and foreign capital investment in Romania has been increasing. Privatisation of Romania's industry first began in 1992 when 30 per cent of shares of some 6,000 state-owned enterprises were transferred to five private ownership funds. The remaining 70 per cent of ownerships were transferred to a state ownership fund. Romania succeeded in privatising most

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Cristian Savu, McDonalds.

industrial state-owned enterprises whilst an initiative which began in 1989 to return collectivised farmland to its original owners was also completed. The country's inflation rate has steadily decreased whilst growth rates have stood at around four to eight per cent since 2001. The economy grew by 6.4 per cent in 2006 and unemployment stands at around 6.1 per cent. In addition the number of foreign tourists arriving in Romania has risen significantly over recent years from some 800,000 in the year 2000 to 1.4 million in 2004. In the 1960s Romania invested heavily in tourism facilities especially

ROMANIA'S PAST AND PRESENT

The principalities of Wallachia and Moldavia secured their autonomy in 1856, united in 1859 and a few years later adopted the new name of Romania. The country gained recognition of independence in 1878. It joined the Allied Powers in World War I and acquired new territories following the conflict, notably Transylvania. In 1940 Romania allied with the Axis powers and participated in the 1941 German invasion of the USSR. Three years later overrun by Soviets the Romanians signed an armistice. The post war Soviet occupation led to the formation of the Communist 'People's Republic' in 1947 and the abdication of the king. The long rule of dictator Nicolae Ceausescu who took power in 1965 became increasingly oppressive through the 1980s and Ceausescu was overthrown and executed later in 1989. Former Communists dominated the government until 1996 when they were swept from power. Romania joined NATO in 2004 and the EU in 2007.



>> along the Black Sea coast and was successful in attracting foreign visitors. However during the 1980s the quality of accommodation was not maintained and the numbers started falling.

However this has been improving over the last few years as the tourism industry has been governed by those who are keen to improve the infrastructure and have invested heavily in several resorts, particularly those in the premier mountain ski resorts such as Poiana Brasov, Predeal and Sinaia.

The World Travel and Tourism Council rates Romania as the fourth country in terms of growth in tourism development and it was predicted that Romania's economic activities related to tourism would top \$7bn last year.

The country has a huge amount to offer tourists, from mountains to countryside to coastal resorts along the Black Sea. As Romania is halfway across the Balkan Peninsula it occupies the greater part of the lower basin of the Danube river system and hilly eastern regions of the middle Danube basin. It lies on either side of the Carpathians mountain range which forms a natural barrier between the two Danube basins.

Meanwhile Romania's property market is also providing opportunities for capital growth with many residential and industrial land investments. The boom in the real estate market is fuelled by a growing national economy. The country attracted higher levels of FDI in 2004 than any other CEE country other than the Czech Republic.

A recent report conducted by MRI Overseas Property revealed that one in seven Brits (13 per cent) would consider buying a property in either Romania or Bulgaria following their entry into the EU. And as investment grows in the real estate and tourism markets, so too is growth within the retail market.

Discount stores were the first modern retail outlets to enter smaller towns whilst supermarkets are popping up all over the country alongside local retail chains.

A survey by ACNielsen shows that there are 87,445 stores in Romania whilst the number of shops, with an average sales area of more than 40sq.m, has risen by nine per cent due to the development of grocery stores.

Meanwhile the report also shows that in 2006 (September) there were 4,624 restaurants, 8,536 bars, nightclubs and pubs and 18,302 taverns.

McDonalds already has 52 sites in Romania with plans to increase this number to 100 over the next five to seven years with immediate plans for a further four locations this year.

Cristian Savu, McDonalds communications manager said: "Romania has huge potential and we consider the

current number of outlets to be insufficient. For a few years I've noticed Romanians are attracted to hypermarkets and shopping centres and I believe this trend will remain constant and as a result such locations are always of interest to us."

The number of hypermarkets increased by 33 per cent in September 2006 from the March 2006, whilst the number of supermarkets has increased by five per cent and discount stores by 24 per cent. The biggest growth was by the group, Real Hypermarkets which arrived only two years ago in Romania and intends to open 21 stores by 2008.

Discount stores are also booming with Kaufland, which already has 17 stores, planning to open 100 stores nationwide with a focus on cities with more than 40,000 inhabitants whilst Plus Discount plans to have 70 stores open by this year. Europe's fourth largest retailer, Germany's Selgros Cash and Carry, is due to invest €30m with two new stores opened last year. The company plans to increase the number of stores from its current 11 to 20.

Meanwhile the commercial shopping mall and retail park sector is also booming. The first commercial shopping centre of its type was opened in the Ceausescu era in 1999 in Bucharest.

The Bucuresti Mall cost over \$35m and has 70 stores, supermarket, 25 restaurants, 10 screen cinema, bowling alley, video arcade and library. Owners Anchor Group recently announced it will spend a further €20m expanding the retail space by 20 per cent.

Other malls in Bucharest include Plaza Romania, the country's largest shopping centre so far which includes cinemas, bowling alley and food courts; Jolie Ville Galleria mall which opened in 2004 and covers 12,000 sq.m and Unirea Shopping centre which opened in the 1990s and was the first modern shopping centre in Bucharest.

There are 11 new shopping centres now planned for Bucharest. There are also several new retail parks opening also in Romania including the Cotroceni Park which covering 12 hectares aims to be the biggest shopping centre in the city. It is due to be finished by 2008.

Sun Plaza shopping complex is owned by a real estate division of Erste Bank and will be ready next year and covers a total built surface area of 200,000 sq.m whilst the Baneasa project in north Bucharest includes commercial, residential and office areas and costing €1.2bn.

The Baneasa shopping mall will cover 65,000 sq.m and have 220 stores and restaurants. The residential area will include a church, kindergarten, school and hospital. It is considered the largest urban development project in central and eastern Europe.



>> THE CASINOS

The Romanian gaming legislation is governed by the Gaming Authority Licensing Committee which is part of the Ministry of Finance.

Casinos first began to open in Romania during the first half of the 20th century until World War II. They were often located in the mountain and coastal resorts and aimed at the foreign tourists. After the communists took control casinos were no longer permitted. Prior to 1990 the industry did begin to function again and slot machine operations and amusement parks were opened and operated under the control of the Romanian Ministry of Tourism. Casino gaming was finally approved in 1990 and a year later the first casino opened in 'modern day' Romania which was Casino Bucharest, a joint venture between Casinos Austria and Inter-Continental Hotel.

The second casino was Casino Berlin which opened in 1993 and shortly afterwards, Novomatic's Casino Victoria opened. Bucharest suddenly became a hive of activity and in the space of two

"Bucharest was the wild, wild east of casinos in the mid 90s with more than 25 casinos operating simultaneously. New operations popped up weekly whilst other disappeared overnight. Competition was fierce and each casino tried to outdo the other with lotteries, prize draws and other schemes to attract players. The quality of many operations was low."

General Manager of Casino Bucharest, Michelle Cummins.

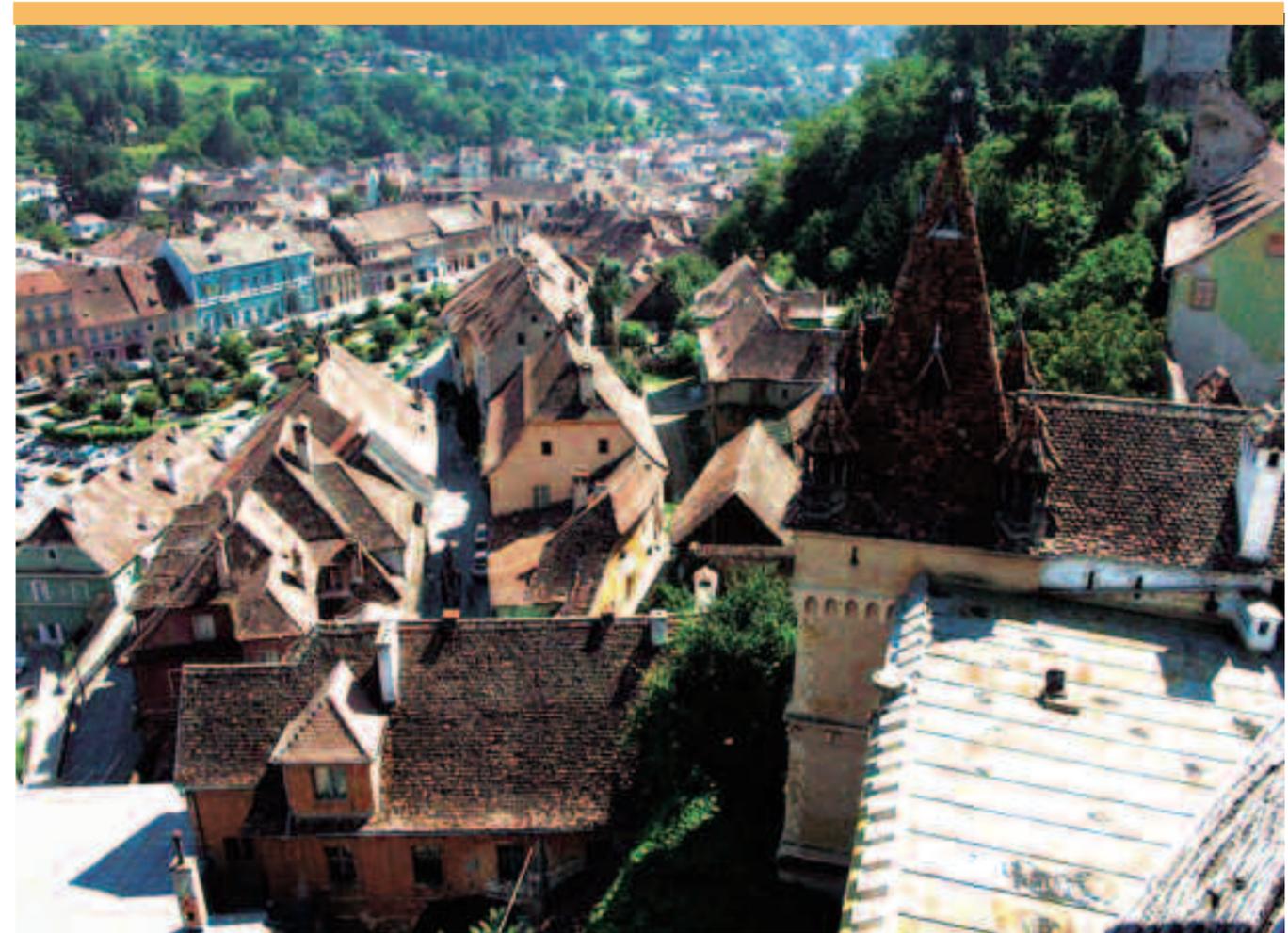
years there were some 15 casinos.

Today Casino Bucharest sees an average visitor split of 50-50 between locals and tourists with a significant visitor growth over the last two years. The casino has 14 table games and 12 slots and main suppliers include John Huxley, Abbiati, Shufflemaster/CARD, Gaming Partners International, Progressive Gaming International, Novomatic and Fournier. According to local operators, Admiral, Atronic, Aristocrat and IGT all have a big presence today in Romania alongside local and Bulgarian suppliers who are increasing their activities. Turkish and Baltic suppliers are also popular for table games equipment whilst electronic roulettes come from Slovenian manufacturers in the main.

American Roulette seems to be the most popular game followed by Black Jack and although video pokers used to be the most popular game several years ago, multiline reel games are now taking over. General Manager of Casino Bucharest, Michelle Cummins said: "Bucharest was the wild, wild east of casinos in the mid 90s with more than 25 casinos

ROMANIA: VITAL STATISTICS

Country: Romania
Land Area: 230,340 sq.km
Capital: Bucharest
Population: 22,276,056 (2007)
Median age: 36.9 years
Male: 35.5 years
Female: 38.2 years
Ethnic groups: Romanian (89.5%), Hungarian (6.6%), Roma (2.5%), Ukrainian (0.3%), German (0.3%), Russian (0.2%), Turkish (0.2%)
Religions: Eastern Orthodox (86.8%), Protestant (7.5%), Roman Catholic (4.7%)
Languages: Romanian, Hungarian, German
Currency: New leu (RON) was introduced in 2005 and old leu (ROL) was phased out in 2006. 10,000 ROL = 1 RON
Government types: Republic
Prime Minister: Calin Popescu-Tariceanu (December 2004)
President: Traian Basescu (December 2004)
Cabinet: Council of Ministers appointed by Prime Minister
Elections: President elected by popular vote for five year term (next due November-December 2009). Prime Minister appointed by the president with consent of the parliament.



>> operating simultaneously. New operations popped up weekly whilst other disappeared overnight. Competition was fierce and each casino tried to outdo the other with lotteries, prize draws and other schemes to attract players. The quality of many operations was low. "But it has been noticeable over the past few years that the general standard and quality of operation has improved and the market has settled at a fairly stable level of 10-12 casinos in Bucharest. "The future is uncertain whilst the government is still unclear on its approach to casinos. Many officials view casinos as necessary evils only allowed to operate because of the 'vast' sums of tax revenues that can be made out of them.

"There is a complete mistrust of the gaming industry and this is something that has to be worked upon. The new gaming law project initially set out to limit the number of casinos, via an auction system, with license fees set so high as to be impossible to recover. Public debates on the issues have led to some softening and it is hoped that a transparent, fair, tightly controlled yet open gaming market will be the outcome

of any new gaming law."

The initial law of 1990 saw some limitations. Only state owned buildings such as hotels, restaurants and clubs were allowed to open a casino and only hard currency operations aimed at foreign tourists were applicable.

The Ministry of Finance only allowed joint ventures with foreign companies if the Romanian stake was a majority partner and the foreign party profits were partly reinvested into Romanian tourism. Casinos also had a minimum of 10 table games and five slots (no maximum). The law has constantly been changing. The best years for operators were between 1995 and 1998. In 1996 there were a staggering 45,000 slot machines and 120 bingo salons. In the year 2000 this had dropped to 9,000 slots and 50 bingo halls.

From 1999 to 2002 the business suffered due to high taxes forcing many operators out of the market. The market has begun to improve again over the last few years. In 2006 there were 25,649 gaming machines compared to 23,106 in 2005 and 16,021 in 2004.

The growth rate of the sector, according to Romania Gaming Association AOPJNR,

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Dan Vajaijanu, AOPJNR.

was 11 per cent and there are currently 26 betting operators, 15 bingo operators, 20 casino operators and 918 gaming machine operators.

AWPs rarely exist in the market and Romanian slot halls include casino slots, video pokers, bingo machines and multiplayer machines

Today there are 21 casinos authorised in Romania, according to the Ministry of Finance, 10 of which are located in Bucharest. Two new casinos are rumoured to be opening soon in Bucharest.

Last year a new gambling law draft was introduced which is still currently under discussion.

Michelle Cummins said: "The gaming law has not changed a great deal despite the publication of a new gaming law in 1999. A new gaming law project has been under discussion since 2004 but only recently have we seen any impetus behind it.

"Intensive public debates were held in March and April of this year but before final agreement could be reached the ruling coalition split up and a minority government formed, with the effect that the Minister of Finance and

>> others lost their position. The project is now in limbo whilst the political upheaval continues.”

“I think taxation should be the exclusive domain of the Ministry of Finance and casinos should not face unworkable and poorly considered taxes set by the other ministries.

“Officials responsible for controlling gaming should receive some training in the field and any laws impacting gaming should then be filtered through these officials to ensure that they are logical, enforceable and fit for their purpose. Legislation is not enforced consistently. “Seasonal casinos and small operations in tourist centres are not possible under the present gaming law as the minimum requirements for table games and slots are set too high making a decent return on investment impossible.”

At the moment under the current gaming law, licenses are issued for 12 months and first time applicants must apply for at least five electronic or mechanical machines.

Within the casino sector, the licensee must apply for at least 10 special gambling tables or which four need to be roulette. The licensee must deposit US\$5,000 or equivalent in the bank for each gambling table.

The points of the proposed new law include:

- A new classification of gambling activities.
- Introduction of a license for gambling activities with five year validity together with an authorisation of operation with validity of one year granted for each type of game or location.
- Establishment of a compulsory number of gambling machines which can be operated and a minimum number of gambling machines placed within a location. The AOPJNR suggests a minimum of 50-100 machines per operator and a minimum of 5-10 machines per location. This will benefit the medium sized operators.
- Operators must have the minimum value of the stated share capital when they apply for the license.
- An increase in operation fees. The AOPJNR suggests an increase of not more than 1.7 from the current amount.
- Obligation for operators to pay authorisation fees in advance or in four equal quarterly amounts.
- The technical control of gaming machines, installations and devices etc to be exercised by Romanian Office of Legal Metrology. Technical norms and tariffs will be approved by Minister of Finance.
- The prohibition of online games organised by internet systems.



Dan Vajaianu of AOPJNR said: “The enforcement of new legal provisions will have the effect of an estimated reduction of 50 per cent of the number of gambling operators, an extension of the market for medium sized operators and a more efficient control of the authorities upon this field and control of unfair competition.”

One of the main contentions with the current law is the tax system. At the moment there are various gaming taxes which are paid in local currency although periodically updated to reflect the changes in the US\$ and Euro exchange rates. These are:

Annual Licence Fee - \$2,350 per American Roulette table, \$1,800 per card table and \$220 per slot machine. These are all paid in advance.

Monthly Gaming Tax - \$3,200 per American Roulette table, \$2,150 per card table and \$38 per slot machine.

Solidarity Fund - \$1,000 per month per table. Slots pay 10 per cent of the win.

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Ozcan Erulgen,
Viva! Group.

This is a type of stamp duty also known as the ‘poor man’s fund’.

Meanwhile casino operators also pay several other taxes to different ministries and organisations including:

Corporate (profit) tax – Casinos, nightclubs and other similar business must pay either 16 per cent gross profit or five per cent on gross revenues, whichever is the higher. Gross revenues only take into consideration winning nights (under Romanian accounting law losing nights are not considered as revenues) and as such the taxable gross revenues of casinos are significantly higher than GGR would indicate.

Fee for technical inspections for licensing – Around \$8,000 per year (depending on number and type of games)

Payroll taxes – approximately 32 per cent on top of gross salaries

Other taxes – 19 per cent VAT; sanitation and fire inspections; environment and city hall taxes.

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>> The Cinema Fund – This was introduced by the Government Ordinance in 2005 which enforces a tax of one per cent of a gaming company’s gross profit to benefit Romanian Cinema and Film Production. The tax was increased to four per cent in 2006.

Historical Monuments Tax – In July 2006 a new tax in favour of the National Office of Historical Monuments was imposed by the Ministry of Cults and Culture. The ministry slipped an addition into the latest law by adding gaming sales to list of sources for the two per cent stamp duty. The law now requires casinos to add two per cent to the sale price and then issue a receipt to the customer detailing the cost of the sale and the two per cent stamp duty separately. Casinos then forward this to the NOHM. Michelle Cummins said: “In practice this would require charging \$5.10 for every \$5 chip for example and issuing a detailed receipt for the transaction. Obviously this is unworkable. The method required for collecting the tax would imply that casinos would be forwarding two per cent of turnover to the NOHM.

“A joint effort by casino operators in Romania produced a law project for the norms of application, now under consideration by the NOHM, namely setting a fixed fee on gaming equipment rather than as a percentage of sales. “So not only do casinos in Romania face high gaming taxes and an absurd calculation method for profit taxes, they also face taxes applied by ministries

other than the Ministry of Finance that have nothing at all to do with gaming.” Other sectors of the gaming industry also pay taxes. For a bingo or keno or similar type gambling hall there is a RON20,870 annual fee plus seven per cent from the nominal value of the game cards acquired from National Printing Office. For sports betting – five per cent is required from the estimated receipts but not less than RON10,400; for lotteries, tombola, contests and games organised via telephone or other communication lines – 15 per cent from the annual estimated receipts but not less than RON33,400.

For media gambling via television or other transmission networks – 18 per cent from annual estimated receipts but not less than RON53,200. On the plus side Romania has become the place on the map to target for most manufacturers who say the country is experiencing a boom period. Although many companies entered Romania six or seven years ago, when the number of casinos and junkets were at their height, the new law changed this and many casinos closed and the market became a little stagnant. However slot parlours began to boom in the market and the quality of operations increased with the arrival of international operators. And with Romania’s recent entry into the EU, business is also expected to be much easier and now many companies are looking at Romania as their current target market. EGT has established a Romanian office in

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Board.

Bucharest and offers to existing and potential customers the full range of EGT products and services, 24 hour technical maintenance as well as casino equipment for rent. The Romanian offices also offer leasing schemes to local operators. Atronic has been active in Romania for the last six years or so and says the market has exploded over the last couple of years and became the place to do business at the moment. The company has a distributor called Innogate Trade.

THE OPERATORS

Although officially there are 21 casinos, to the observer there are many more as slot parlours often use the name casino for their locations and these can be found on almost every street corner. This market has exploded over the last few years and new slot halls open on a weekly basis. In November 2006 there were 907 slot companies operating 25,446 slot machines. There are approximately 8,000 slot parlours now in Romania. And in addition to slots these sites also operate multiplayer machines such as roulettes with around 250 units in total in the market. One casino operator in Romania includes the Princess Group. The Ozkanlar Group of Companies was founded in 1974 by Turk Sudi Ozkan and consists today of 12 companies. Mr. Ozkan began business in the trade of steel and iron products but branched out into tourism and entertainment sectors. He began to specialise in hotels and casinos and developed the Princess

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>> Group chain. It became a sector leader in Turkey and since in other countries. The Princess brand currently consists of seven five star hotels and a number of restaurants, nightclubs, cinemas and bowling alleys. The company also has business centres and real estate companies. In Romania the Princess Group now operates two casinos (Havana Princess Casino and Perla Princess Casino) and a slot parlour (Princess Slot Planet). The Princess Slot Planet is located in the centre of Bucharest in an area called University Square. It is open 24 hours a day and Jimmy's Diner's Restaurant offers American cuisine with an open air garden. Turkey's Viva has recently signed a contract to open a live gaming casino in a newly built hotel in Bucharest by autumn this year. The group, which already operates a slot parlour in Bucharest, will open the 12 table, 100 slot casino in the new Rin Hotel. The hotel is due to open in September 2007 and will include 1,516 rooms with convention facilities for up to 4,000 people. Viva's Ozcan Erulgen said: "This will be our fifth casino following locations in Cyprus, Sofia, Bucharest and Omsk and there are more projects for our agenda in 2007 and the future. "We are happy to operate in countries where the casinos are well controlled. This makes the casino more trustable and the rules are the same for everyone. "Competition is tough in Romania. They are well organised good operators. But we have a big edge with our friendly service, detailed long term marketing plans and different entertainment and fun we do in our casinos." Viva's current slot parlour, Viva Bucharest Casino, is 550sq.m and houses seven electronic roulette machines and 82 slots. It was opened in November 2004 in the Plaza Romania mall. The shopping mall receives around 12 million visitors a year and the main suppliers of products include Novomatic, Interblock, Aristocrat and Atronic. Viva's Ozcan Erulgen said: "We were always interested in this market and it was a good start to open a small club in the biggest mall in the country. We believe in Romania. So far the development in the country's infrastructure and economics proved to be a good choice. And also we are trying to stick with emerging markets that are close to our head office. "We can open more slot clubs but we don't want to make low end slot clubs with low service, therefore we must be patient to find the right location. We might expand to other cities in Romania after a year or so and establish an area office in Bucharest."

The Estonian based Olympic Entertainment Group has also recently signed a contract for the acquisition of a casino operator in Romania. The group has acquired the operations of Empire International Game World, one of the country's best known casino operators. The deal worth €3.85m concerns one casino and two slot halls in Bucharest. The casino is the Napoleon located in the Sofitel Hotel in the World trade centre. Olympic is now due to start renovating the three casinos to comply with the standards of the group's branding. Olympic's Andri Avila said: "The deal will give us an ideal opportunity to enter the Romanian market and a base for further expansion." Earlier this year, Olympic, which claims to be the biggest company in the Baltic States to operate gaming facilities, set up a company in Romania. Olympic Casino Bucharest SRL was established in March and is managed by the group's expansion director Anders Galfjenso and was the company's first step towards entering the local gaming

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Vladimir Dokov, EGT.

market. Olympic already has 39 per cent of the gaming operations market in Estonia with 24 casinos, 55 per cent of the Lithuanian market with 10 casinos, 15 per cent in Latvia with 38 casinos and operations also in Ukraine (nine casinos) and Belarus (one casino). Olympic is market leader in Estonia and Lithuania and has the second largest market share in the Latvian casino market. It has also acquired 80 per cent shares of Casino Polonia. The group's vision is to become the biggest casino operator in Eastern Europe by turnover and to operate in at least 10 countries by 2010. To achieve this goal, OEG has further established a subsidiary in Romania. The name of the registered company is Muntenia Food and Beverage, and it is aimed to provide bar services for Olympic Casino Bucharest and its clients. At the moment the company employs almost 130 people in Romania. Andri Avila, Member of the Olympic Board said: "Compared to local casino operators we see that the unique concept of Olympic Casino is our competitive advantage."

In the slot hall sector operators include the Gauselmann group (Merkur Casino) which currently has seven arcades in Romania the first of which opened in August 2004. The average size of the arcades is between 300 and 500 sq.m and feature electronic roulette machines and electronic blackjack games. The first one opened was called 1.Mai was opened in Bucharest and is 150 sq.m and has 37 slots and four roulettes. The second Point Zero was opened a month later also in Bucharest and is 310 sq.m and has 45 slots and three roulettes. A third in Bucharest was opened in December 2004 called Prosper and is 325 sq.m and has 35 slots and three roulettes. The following year in June 2005 an arcade was opened in Constanta which is 256 sq.m and has 27 slots and three roulettes. Six months later two arcades were opened including a fourth in Bucharest, Bucur Obor Market, which is 308 sq.m and has 12 slots and two roulettes and a second in Constanta which is 135 sq.m and has 22 slots and three roulettes. A

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fifth in Bucharest, Crangasi, was opened in March 2006 and is 203 sq.m and has 19 slots and two roulettes. In total Merkur operates 197 slots and 20 roulettes. Caesars Casino is operated by Bulgaria's EGT and the Bulgarian Caesars chain. The slot hall has a total area of 300 sq.m and 83 machines including VIP room and café-bar. The slot hall also acts as a showroom for EGT's products including games from Atronic, Williams and IGT and the Alfastreet roulette. In addition there are three lotteries organised every day and raffles which gives players the chance to win a car each month. EGT's Vladimir Dokov said: "Our clients have the opportunity to watch the EGT products in real operation. They may track the results of the game and observe the players' interest in certain games." Meanwhile Austria's Novomatic has five electronic casino locations in Bucharest which were set up in 2005 with Intertop, Novomatic's representative in the Romanian market. The locations all range from 75 to 100 sq.m in size and are situated in busy areas such as Piata Kogalniceanu or Baba Novac Boulevard. Adrian Georgescu of Intertop said: "Our priority is Bucharest a market where we want to operate up to 30-40 electronic casinos." The Russian Ritzio Entertainment Group is also active in Romania and since operations began 18 months ago has become the second largest gaming operator in this country. At the moment Ritzio has 22 clubs under the Million brand located in nine cities. Across these clubs there are 643 gaming machines and 20 electronic roulettes. The Million brand is one of the group's most recent business projects. The first Million clubs were opened in 2004 in Moscow and this followed in 2005 with expansion into Kazakhstan and Romania. The first Million Club to open in Romania was in November 2005 in Bucharest followed by clubs now in Pitesti, Brasov, Ploiesti, Ramnicu Vilcea, Galati, Vaslui, Cluj and Bistrita. The latest clubs to open include one in Bistrita in April and in Cluj Napoca which opened in May. The company is planning to open a further 11 clubs in large regional cities in Romania and is also looking at the possibility of casino operations. President of Ritzio, Oleg Boyko said: "Romania is the first country in Eastern Europe where Ritzio Entertainment has spread its core business. This choice was substantiated by the strategic importance of Romania - its entrance to the European Union, consistent legislation on gaming and absence of large competitors."

STREET OPERATIONS
Mega Game was founded in 2005 in Bucharest and has grown to become the leading provider of gaming services in Romania. Mega Game operates AWP (Amusement With Prizes) machines, slot machines as well as skill games. The company currently manages over 600 locations with a total of 1,340 machines in 23 out of 41 districts. Although the company was only established two years ago, Mega Game is now the clear leader in the Romanian AWP market and the biggest operator on the Romanian gaming market regarding gaming licenses. The services Mega Game offers to its customers are characterised by a wide diversity of available games from several suppliers such as AWP-design.nl, JVH gaming, Unidesa and Novomatic with different set-ups and different levels of cooperation. From the very beginning, Mega Game has successfully maintained a strategy of aggressive growth and is now benefiting from significant experience in its operations, as well as from employing a dedicated and professional management team. Mega Game is continuously expanding to other districts, although the current regions still have plenty of locations to be targeted. The company is both youthful and ambitious, with designs upon keeping hold of its position as the biggest AWP operator on the Romanian market. Mega Game has also set out to operate in at least 30 out of Romania's 41 regions by 2008. Besides operating machines Mega Game also distributes the games that have proven to be successful within its operations. During the first Romanian Gaming Exhibition, which will be held from September 13-16 2007, Mega Game will present the most successful AWP products from the Cretus brand of JVH gaming and AWP-design.nl. Mega Game considers it essential to improve the image of the industry by contributing to good causes, having discussions with the trade associations as well as other relevant departments. Further, Mega Game is promoting moderate and responsible gaming as a legal and socially accepted way of entertainment.

LEGISLATION CHANGES AHEAD
Currently, the Romanian government has proposed a number of changes to the gaming law that could have a significant impact on the gaming market. The most important proposed changes are:

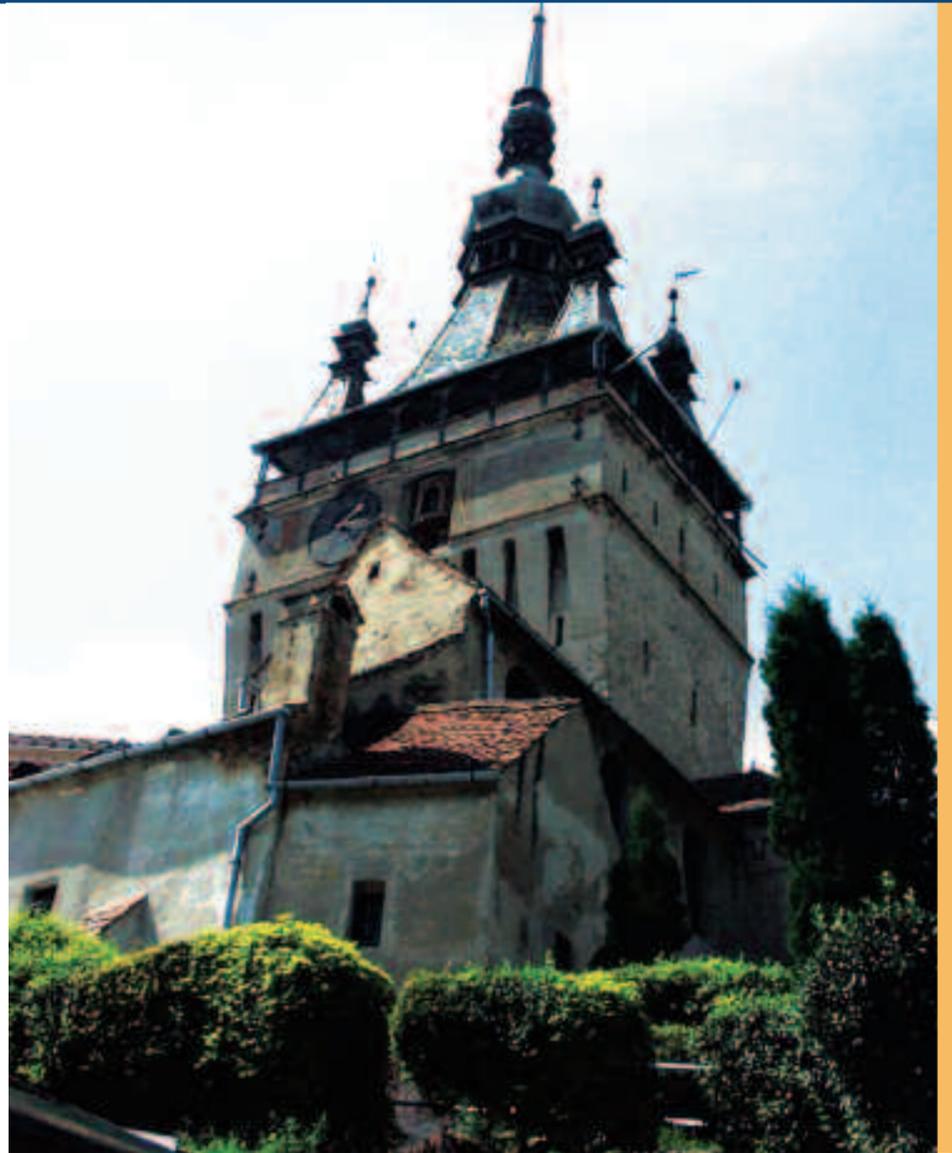
- for an operating company to have a minimum of 150 machines,
- for each location a minimum of 10 machines,
- a prepaid license purchased for 5 years

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- an increase of the yearly machine license,
- all machines to be operated with a black box system.

Such legal requirements will make operation less profitable and is sure to increase entry barriers for new companies. On the other hand, the strict operating rules – and regulations – ensure a controlled legal market with no grey areas/unfair competition – thereby encouraging serious operating companies to invest in durable quality products. As of today, Romania has over 950 operating companies and from this only 28 companies operate 150 machines or more. It's expected is that the smaller companies will merge and operate under the umbrella of a larger company, which will acquire the operating license by fulfilling the minimum requirements. Romania counts approximately 32,000 licensed gaming machines operated in approximately 8,000 locations. In the main cities there are a lot of electronic casino's that have over 30 games installed, but the majority of Romania's gaming machines are operated in bars and pubs or mini salons with between two-five machines. If the government does insist on the minimum of 10 machines per location, a huge part of the market will disappear.

At this point it's uncertain as to whether the government realises that such legislation would result in illegal operation (again). Banning gaming machines in the past resulted in illegal operation and little in the way of taxed income for the government. Extremely high taxes will also achieve the same result as operators will undoubtedly refuse to pay. The Romanian government needs to find a balance between legal operation and reasonable taxation levels. The increase of the annual licence per machine is also dramatic. In addition to licence costs, the gaming companies also have to pay a monthly 10 per cent social tax on the income of the machines and several additional special taxes too. Altogether, the taxation pressure will be too much to support the current industry, and considering the fact that the 10 per cent tax on income is already difficult to police, the request has been made to compensate the increase of the yearly licence fee, for example, to replace the 10 per cent tax for a fixed taxation fee that would be included in this licence fee. Finally, in regards to the black box system, the technical details have not yet been revealed, but most operators are happy with this kind of solution because it should eliminate a great deal of administrative work. Besides, it will give the government more insight and control on the financial aspects of the Romanian gaming market, which will help to make the market more transparent,



understandable and one with a long-term future.

CASUAL GAMING AND BETTING

The Romanian cinema market is still undeveloped and recently a Romanian owned subsidiary of Cinema City International has signed a long term lease contracts for three locations in Romania. The deal has been made with Iulius Mall, the largest developer of shopping malls in Romania and the group intends to run six multiplex cinemas in four major cities by the end of 2008 and the first three scheduled to open this year. Moshe Greidinger, CEO of Cinema City said: "Romania is a large market with a very high growth potential and still low competitive edge of the cinema industry." The lease agreements state that Cinema City will operate cinemas in three key cities with a population of more than 300,000 inhabitants – Iasi, Timisoara and Cluj. All contracts are for 10 years with options to extend.

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In Iasi there will be a five screen multiplex with 830 seats, in Timisoara seven screens with 970 seats and in Cluj 10 screens with 1750 seats. Romania is the sixth market where Cinema City operates multiplex cinemas. The others include Poland, Hungary, Czech, Bulgaria and Israel. Due to a shortage of cinema infrastructure ticket sales per capita in Romania are around 0.2 per year compared to one in Poland and more than two across the EU as a whole. With the increase in shopping malls and cinema locations this is expected to have a knock-on effect on the bowling and possibly amusement sectors. There are currently almost 20 bowling centres now in Romania and new equipment is slowly beginning to replace the 'string' machine centres that have traditionally existed there. Nick Keppe of Complete Leisure said: "The market is still very much in its infancy but definitely showing gradual growth. Most centres are

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>> bar/restaurant operations with bowling as the attraction and new construction in Timisoara and Cluj for example shows development away from the capital and tourist resorts.

“We have not been very active in this market and most of the centres are equipped with refurbished equipment rather than new to reduce the capital cost. Some have used Chinese manufactured equipment rather than traditional US machinery.”

Meanwhile lottery activities in Romania date back as early as the 14th century, when Romanian lotteries were organised for financial purposes and to support social charities.

After Romania achieved its independence foreign lotteries were prohibited under the 1883 law and so the only games allowed were those organised by the Romanian lottery.

The first permanent lottery game during the communist era was established in 1907 and after World War I many fought to permit the lottery development and in 1931 the State Lottery was founded which was controlled at the time by the Health Ministry.

In 1994 a decree permitted a State Administration Lottery and since 1948 it has been a commercial activity and now comes under the Ministry of Finance and is today a monopoly.

In 1999 the company Romanian Lottery SA National Company was established replacing the old national lottery and today the group operates lottery games Loto 6/49, Loto 5/40, Noroc and Joker and football betting, fixed odds betting, horse betting, instant tickets, passive

lottery and video lottery.

Greece's Intralot has been collaborating with the Romanian Sate Lottery since 1992 when it first provided the integrated lottery system to the lottery for the lotto and toto games.

Since 2003 Intralot has also supplied full operational services for the video lottery games and also signed a 10 year contract to introduce fixed odds betting games which included the installation of 1,800 Coronis terminals initially covering football, basketball, tennis and formula 1. Initially 500 lottery terminals were supplied in 2002 which was followed by a further 1,500 terminals. The games offered include poker, blackjack, reels bingo and keno.

The agreement provided for the installation of up to 15,000 online VLTs connected online real time with a central system at lottery retail outlets and additional points of sale that were established by Lotrom, Intralot's subsidiary in Romania. Romania's VLT online operational model became the role model for other state lotteries.

In 2005 the Romania lottery saw a gross profit of €29m, about half the total in 2004. The company posted a turnover worth more than €194m compared to a turnover of €190m in 2004 and gross profit of €54m.

The lottery was at the heart of a scandal recently over events during this period and Nicolae Cristea, chairman of the board of directors has been dismissed and replaced by President Liliana Ghervasuc.

The scandal comes during a huge debate as to whether to partly privatise the

“Every market is a good market as long as you know how to deal with it. There is much competition and betting companies have been active in Romania since 2000.”

**Olga Deddens,
Betshop.**

national lottery. The idea was to transfer 20 per cent of stock to a property fund to refund people whose property was confiscated during Ceausescu's regime. Minister of Finance, Sebastian Vladescu, denied the claim and went on to ask the National Agency for Fiscal

Administration (ANAF) to run a financial check following press reports of illegal transactions. The focus is on the company's activities between 2003 and 2005 and the move comes as anti-corruption prosecutors announced they were investigating deputy prime minister George Copos in relation to possible illegal transactions with the lottery and tax evasion.

Copos is said to have sold commercial properties to the lottery for more than their market value through his company Ana Electronic causing €1m in losses to the state. The ANAF is also looking into sponsorship agreements with lottery and Rapid Soccer Club, also run by Copos, the acquisition of 5,500 TV sets in 1996 by the lottery from Copos' company and his huge €11m salary.

Meanwhile apart from the boom of slot parlours, it seems Romania's sports betting sector is also rapidly increasing. At the moment there are 26 betting operators compared to just eight back in 2001 and 13 in 2003.

In January 2004, StanleyBet International, the international sports betting arm of UK group Stanley Leisure plc, opened its first sports betting agencies in Bucharest.

The opening investment was for more than €2m for more than 100 locations. In spring 2005 the

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>> company then set up a complex website for clients to access information. At the moment StanleyBet Romania has 110 outlets with two or three opening every week.

Stanleybet International has some 500 outlets across Europe including operations in Italy, Croatia, Belgium, Germany and Romania.

Leisure and Gaming's Betsshop also holds licences to trade in Romania and now has a regional office in the country.

Betsshop Group currently has three betting shops in Romania although by the beginning of the new football season of September this year, the group will have a total of 12 shops open.

The first two betting shops opened in 2005 and the third opened six months ago. The shops offer fixed odds sports betting and also has slots in the shops.

Olga Deddens of Betsshop said: "The plans for further expansion that we have is to reach 20 betting shops by the end of 2007 and 80 betting shops by the end of 2008.

"Every market is a good market as long as you know how to deal with it. There is much competition and betting companies have been active in Romania since 2000." The group also has more than 1,000 franchised licensed betting offices primarily in Italy, five in Lebanon and five in Cyprus.

CASINOS IN BUCHAREST

CASINO BUCHAREST

Located at the Hotel Inter-Continental in the capital city this casino is operated by Casinos Austria International and was the first casino license to be issued in Romania after the fall of the Iron Curtain. Casino Bucharest opened in 1991 in the five star hotel and the casino also features a bar and lounge areas and is open from 6pm until 6am. The casino is 3,228 sq.ft and features 12 slot machines and 14 table games including seven American Roulette tables, four Blackjack, one Oasis Stud Poker, one Ultimate Texas Hold 'em and one Three Card Poker. There are also two restaurants, two bars and the hotel has 403 rooms.

CASINO PALACE

Casino Palace is located at the Casa Vernescu, an historical monument built in 1821. The building went through a process of restoration and modernisation which began in 1993 and in 1995 the casino was opened. It is the largest casino in Romania offering the most diverse games.

The casino features 25 table games including American Roulette, Blackjack, Caribbean Poker, Three Card Poker, Four card Poker, Texas Hold 'em, Casino Hold 'em, Classic Draw Poker, Dice and Punto Banco. There are also 97 slots and two



electronic roulettes all in eight elegant rooms. The casino receives more than 300 visitors a day.

MARRIOTT GRAND HOTEL AND CASINO

Located within the JW Marriott Bucharest Grand Hotel, which is a classical building located next to Parliament Palace. Classed as a 'city within a city' the hotel has 379 rooms and 23 suites there is also a health academy, shopping gallery and six restaurants. In the casino there are 19 slot machines and eight Dollar Dice machines, four Blackjack tables, four Poker, four roulette.

GRAND CASINO HILTON

The casino is located in the historic Athenee Palace Hilton Hotel which was built in 1914 and set in the heart of the city. The hotel has 272 rooms on seven floors. The casino has 16 gaming tables including roulette and black jack and slots and electronic roulette

HAVANA PRINCESS CASINO

This was the third casino in Romania after communism came to an end in 1995 and is operated by the Turkish Princess Casino Group. The building was known as the most famous restaurant at the time. After joining the Princess Casino Group it kept its name and began the casino. The casino is 1,200 sq.m and includes 12 table games and 131 slots.

PERLA PRINCESS CASINO

This casino opened in 2002 again by the Turkish Princess Casino Group. It is

Japan Cash Machine (JCM) is one of the largest bill acceptor suppliers worldwide.

A wide network of authorised JCM Service Centres ensures an uncomplicated and very fast service.

JCM Service Centres are all over Europe, in Russia, the Near East and in Africa.

JCM trained technicians provide support locally, they help with repairs, deliver spare parts and provide technical support for any questions customers might have. In Romania the company Innogate Trade S.R.L is the JCM Service Centre that looks after the all requests and concerns of JCM customers in that region.

located at the centre of Bucharest and is 1,000 sq.m in size, with 52 slots and 10 table games. The casino joined the Princess International chain recently

MIRAGE CASINO HOTEL AMBASADOR.

This casino features 62 slot machines and 12 table games including electronic roulette and blackjack. Other facilities include buffet and bar.

QUEENS CASINO

The Howard Johnson Grand Plaza is Bucharest's newest five star hotel and located in the heart of the city. Fully renovated and opened in 2004 it includes 285 rooms and suites on the 18th floor. There are nine meeting rooms, two grand ballrooms, two restaurants and a health club. The casino features 10 slot machines and three Blackjack tables, two Caribbean Stud Poker, four Poker and six roulette tables.

PLATINUM CASINO

Located in the former Bucuresti hotel.

NAPOLEON'S CASINO

This casino is located in the four star Sofitel in the commercial centre of the city within the World Trade Centre complex. There are 188 rooms and 15 suites, 10 meeting rooms and fitness centre and restaurants and bars. The casino features table games such as Blackjack, roulette and stud poker. The casino is operated by Empire International Game World but was recently acquired by the Estonian based Olympic Entertainment Group.