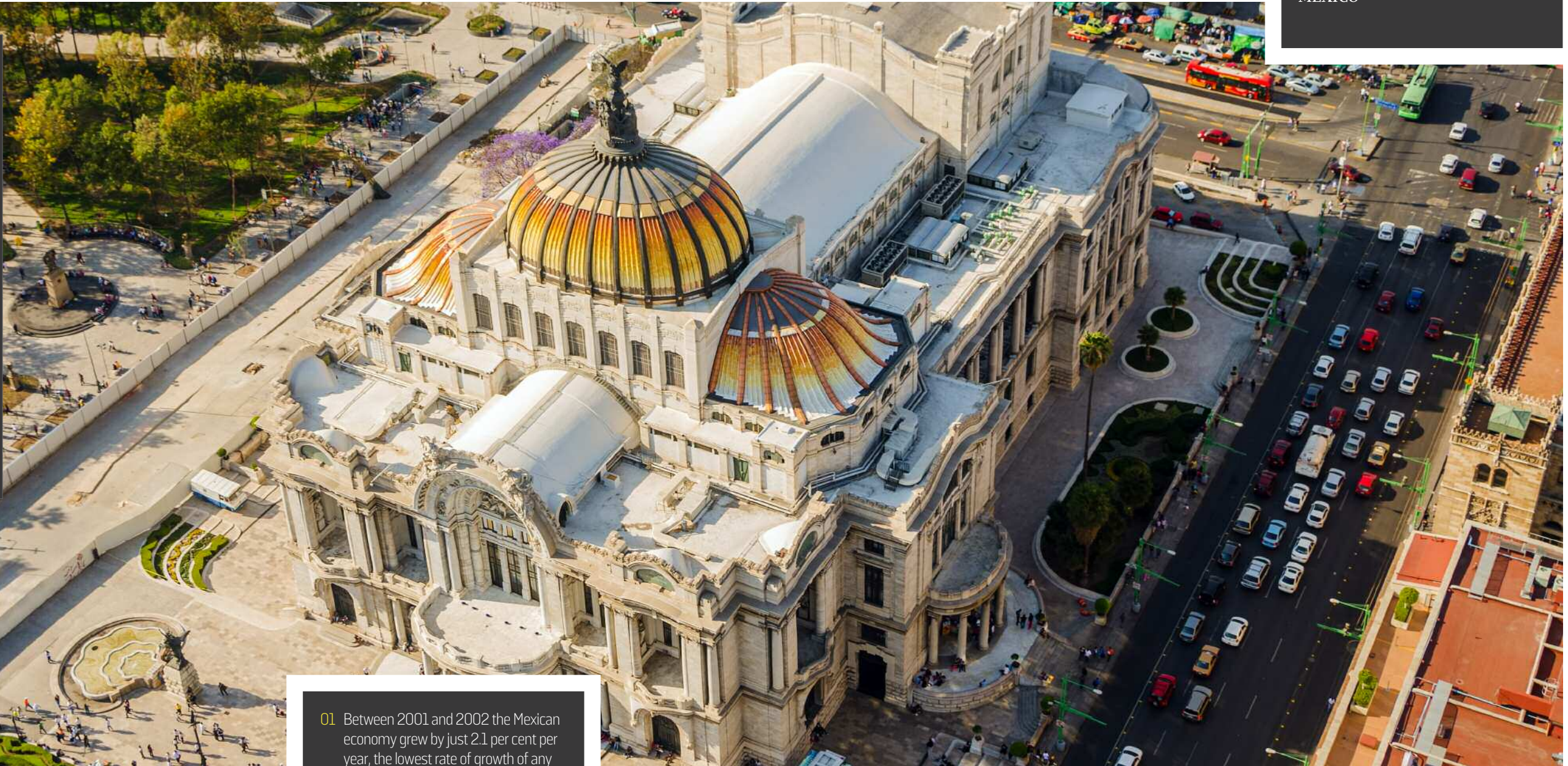


G3-247 Report

MEXICO

Fifty shades of grey

A volatile market to say the least, the Mexican gaming market has been making headlines for all the wrong reasons in recent years, but there remains massive interest in stabilising the sector



They say that Mexico is a country no one ever really leaves. With a population of 112 million and 22.7 million foreign tourists passing through last year, one can imagine in essence that this is true.

Mexico is big country. It's a vast land comprising of nearly two million square miles of coastline, desert, rain forest, mountains, cities and fertile plains.

It stretches from its 3,141 km border with the United States in the north down through its agriculturally rich northern area, through two main mountain ranges to the volcanically active central highlands and capital city and further south to its narrow point before it hits Guatemala.

It has a 9,330 km coastline connected to the North Pacific Ocean, Caribbean Sea and Gulf of Mexico and some 6,000 sq.km of its land area is made up of islands dotted in the Pacific Ocean.

Mexico is the fifth largest country in the Americas by land area and the 13th largest independent nation in the world. It is the world's 11th most populous country and most the populous Spanish speaking country. It is made

up of 31 states and the capital Distrito Federal (Mexico City). Each state has its own constitution and congress and governors are elected for a six year term.

Mexico was conquered and colonised by Spain in 1521 and administered as the Viceroyalty of New Spain for three centuries until it achieved independence in 1821. The post independence era was characterised by a period of economic instability, the Mexican-American war, the territorial cession to the US, a civil war, two empires and a domestic dictatorship.

The dictatorship led to the Mexican Revolution in 1910 which culminated in the 1917 constitution and the emergence of the country's current political system which in turn led to the Institutional Revolutionary Party (PRI) which was founded in 1929 and began a period known as Maximato.

Between 1940 and 1980 although social inequality remained, Mexico experienced a substantial growth era often dubbed as the 'Mexican Miracle' however during this time the PRI rule became increasingly oppressive. In the 1980s electoral reforms and high oil prices led to a crisis and in turn high inflation and the first cracks in

01 Between 2001 and 2002 the Mexican economy grew by just 2.1 per cent per year, the lowest rate of growth of any big Latin American economies and even lower than during the crisis ridden PRI years in the 80s and 90s. Fox had promised seven per cent growth during his campaign.

02 Drug trafficking and narcotic related activities are a huge problem in Mexico. Under his administration, Calderon launched a huge battle against drug traffickers and it is said more than 35,000 have died in drug related violence since his campaign began in 2006.

the PRI monopoly began to show. Finally after 71 years of rule the PRI lost a presidential election in July 2000 to Vicente Fox of the opposition party National Action Party (PAN) who brought 'democracy', to the country.

The opposition party lasted two terms and after 12 years of PAN rule the PRI returned to power in December last

year under the leadership of Enrique Peña Nieto. It is said the PAN failed to achieve the transformation it promised and Mexico so desperately needed to recover the 'lost decades' of the 1980s and 1990s.

Vicente Fox's attempt at fiscal reform in 2002 failed and subsequent leader Felipe Calderon faced a lot of PRI obstruction and his attempts were often shot down or watered down. Between 2001 and 2002 the Mexican economy grew by just 2.1 per cent per year, the lowest rate of growth of any big Latin American economies and even lower than during the crisis ridden PRI years in the 80s and 90s. Fox had promised seven per cent growth during his campaign.

Meanwhile as the global economic crisis hit there was also a rise in the unemployment rate which sadly masks a larger problem and in addition drug related violence took a turn for the worst.

Drug trafficking and narcotic related activities are a huge problem in Mexico. Under his administration, Calderon launched a huge battle against drug traffickers and it is said more than 35,000 have died in drug related violence since his campaign began in 2006.

The main state owned lottery companies Loteria Nacional and Pronosticos – between them have combined sales of over US\$1.5bn.

On the plus side Mexico has one of the world's largest economies and is considered both a regional power and a middle power. It has the 14th largest nominal GDP and the 11th largest by purchasing power parity.

The socio economic gap remains wide and rural areas are often neglected and huge shanty towns ring the cities. Many Mexicans trek across the border to the US in search of work and the economy is heavily reliant on the migrant workers to send money home.

Some 17 per cent of the population live below the poverty line and average annual income can range from M\$26,000 in an urbanised area of Mexico to just M\$8,000 in rural areas a few miles away.

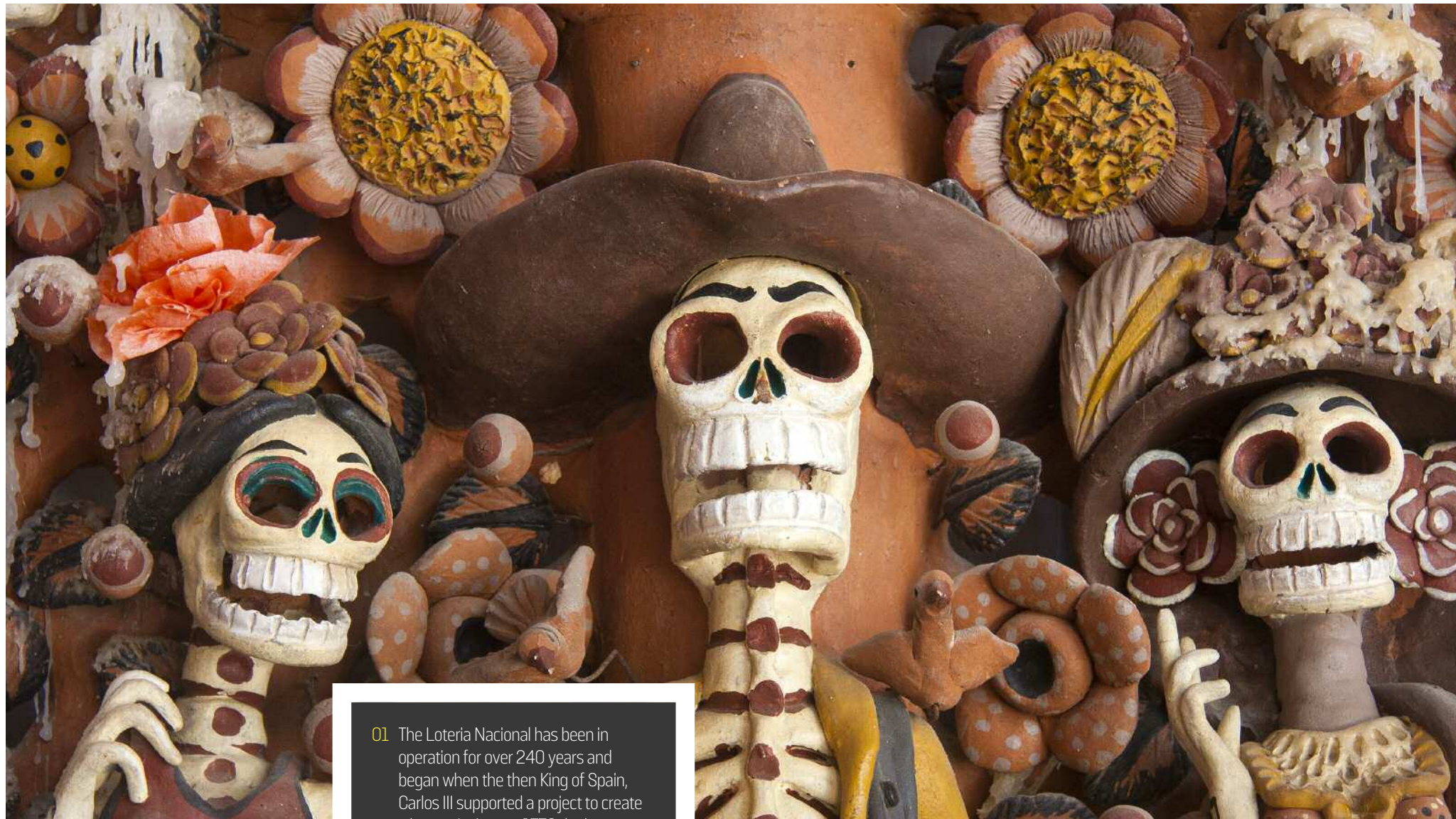
There are daily minimum wage levels set annually by law and these differ in the municipalities and range between M\$54.47 (US\$5.45) to M\$57.46 (US\$5.75).

Today, Mexico has free trade agreements with over 50 countries. It is the largest North American auto producing nation and surpassed Canada and the US whilst the Big Three (General Motors, Ford and Chrysler) have all been operating out of Mexico since the 1930s whilst Volkswagen and Nissan built plants in the 1960s.

The country is also a major oil producer and exporter and although production has fallen over the last few years about one third of government revenue comes from this industry.

Mexico today is witnessing a renewed economic growth after just two per cent increase over the last decade. In 2011 and 2012 it saw a GDP growth of around four per cent. GDP in 2012 grew by 3.9 per cent whilst total foreign investment also grew by 50 per cent last year to US\$92.9bn. Unemployment is around 4.5 per cent.

Mexico has a free market economy and has a mixture of modern and outmoded industry and agriculture which



01 The Lotería Nacional has been in operation for over 240 years and began when the then King of Spain, Carlos III supported a project to create a lottery. In August 1770 the lottery was launched and it was the first in Latin American and called the Real Lotería General de la Nueva España with the first draw held in May 1771. The proceeds were awarded to an orphanage called Hospicio de Pobres and this continues today.

02 Intralot's operating system is fully integrated with Sorteo's proprietary technology platform, the Digital Orchid Lottery Gaming Platform, which is the exclusively licensed platform for all lottery products and distributors in Mexico.

in Mexican TV and had firm links with PRI.

With limited competition there are high prices for mobile and broadband services which are apparently between 26 and 31 per cent higher than OECD averages

today is increasingly dominated by the private sector. The country has long failed to take advantage of its many assets particularly those big energy reserves, a growing middle class and access to the American market. Mexicans have always paid much more for goods such as phone calls, medicine and airfares.

However, since December 2012, new President Nieto is the young face of the old political party (PRI) and he claims times have changed and he is now ready to take on the telecommunications sector and break up the power of the dominant companies. He also plans to reform the country's tax code to cut down on evasion and also enable the country's state owned oil monopoly to form joint ventures with foreign companies.

In March this year Nieto presented a long awaited telecommunication reform which aims to tackle the US\$30bn a year industry which is currently dominated by three players – American Movil which is owned by Carlos Slim who holds around 75 per cent of the mobile and fixed telephone market plus Grupo Televisa (60 per cent market share) and newcomer TV Azteca (30 per cent market share) who are major players in the television sector. Televisa at one time had a virtual monopoly

leaving Mexico with one of the lowest telecom penetration rates.

Under the reform a new regulator will be initiated (Instituto Federal de Telecomunicaciones) which will have responsibility for ensuring fair competition in the sector and granting media concessions. It will also allow foreign investments into the TV and radio sector.

Meanwhile Mexico reports the 23rd highest tourism based income in the world and the highest in Latin America with the vast majority of tourists coming from the US and Canada.

In 2011 a total of 190 million national and international tourists visited Mexico of which 22.7 million were foreign tourists a growth of 3.7 per cent on the previous year.

BE IN IT TO WIN IT

There are two main state owned lottery companies in Mexico – the Lotería Nacional and Pronosticos – which between them have combined sales of over US\$1.5bn.

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During the independence war two lotteries were then created – one for the capital and another for the states. Today the lottery is called the Lotería Nacional para la Asistencia Pública and offers eight traditional lottery games with annual sales of around US\$450m. The Lotería Nacional has around 3,500 retail agents and over 10,000 street sellers.

Last year Intralot and Sorteo Games announced a five year agreement to roll out innovative products for the national lottery giving Intralot its entry into the Mexican market.

Sorteo Games, which has offices in San Diego and Mexico City, is a leading provider of internet lottery systems and services in Latin America and currently holds two national lottery systems and distribution licences and operates the leading government regulated national

01 OPERATOR PROFILE: CODERE

The largest operator in Mexico is Codere which has been present in the Mexican market since 1998. In terms of EBITA (€103.2m) Mexico is now its second largest market after Argentina (€160.6 million) and it is estimated that revenues could eventually overtake those made in Argentina where the company has a very strong presence in bingo halls in the province of Buenos Aires.

The company was founded in 1980 by the Martínez Sampedro family, a group running leisure and recreational facilities and the Franco brothers, owners of Recreativos Franco, one of the largest slot machine manufacturers in Spain. Initially Codere's operations were focused around Madrid but after consolidating its presence in the slot machine business in Spain, Codere initiated its expansion in Latin America and started diversifying its activities into other areas such as bingos, betting shops and casinos.

Gradually the company has moved into some of the key markets in Latin America and Codere has been extremely shrewd when it comes to developing its operation in emerging markets in the region such as Colombia and Panama which have since seen a boom in gaming. It is also present in smaller markets such as Uruguay via the racino at the Maroñas National Racetrack. In addition it is also now one of the only sports betting operators in Brazil as it has signed agreements with the Jockey Club Brasileiro and the Rio Grande do Sul Jockey Club. This puts it in a very good position as the Brazilian gaming market has proven extremely difficult when it comes to getting a foothold in the gaming market.

Codere operates in Mexico in association with two groups that are leaders in the domestic market: Grupo Caliente and Compañía Interamericana de Entretenimiento (CIE).

The first new product to be deployed was Keno in which Intralot provided the technology platform, terminals and services.

lottery electronic lottery terminals in Mexico.

It has had interests in Mexico since 2002 and has integrated all games from the two lotteries onto a single technological platform replacing pre-printed tickets with real time on-demand tickets.

The first new gaming product to be deployed was Intralot's Keno game in December last year and Intralot has provided the technology platform, terminals and operational services. In addition Sorteo will use the Keno terminals to cross sell other lottery games.

Intralot's operating system is fully integrated with Sorteo's proprietary technology platform, the Digital Orchid Lottery Gaming Platform, which is the exclusively licensed platform for all lottery products and distributors in Mexico.

Bob Betros, COO of Sorteo Games said: "The introduction of Keno, a totally new game to most Mexicans, is going quite well and growing in the Lotería Nacional retail shops. Customers of these lottery shops are already purchasing traditional lottery products and have been receptive to the new game and its continuous drawings every five minutes.

"We are seeing lower sales and slow growth in our

restaurant and cantina locations which is mostly due to the fact that the marketing and advertising campaigns have not yet been launched to the public."

This follows a deal also made last year when Australian lottery firm Jumbo Interactive signed an agreement with Sorteo Games to develop an online gaming solution for the lottery in Mexico. Jumbo has invested US\$2m into the scheme which will then enable them to sell tickets for draws via the internet and mobiles for the Lotería Nacional and Pronosticos.

Jumbo Interactive Ltd is an Australian online lottery business which began in 2000 when it sold its first lottery ticket on the internet. In 2005 it entered the national lottery market with the acquisition of TMS Global Services and developed the OzLotteries.com website, which is now the backbone of its business.

The company also operates Jumbo Studios which is a suite of digital lottery sales and marketing products and the Lottery Results Network which is a chain of websites giving players results to their favourite lotteries in the UK, Australia, USA, South Africa, Canada and New Zealand.

Jumbo has managed to quadruple internet lottery sales in Australia over the last four years from A\$25m to A\$100m by using its own in-house internet lottery software. Jumbo saw total revenues of A\$24m last year.

The deal with Sorteo Games signed in November last year gives Jumbo the right to sell official Lotería Nacional and Pronosticos lotteries in Mexico via the internet and mobile. Jumbo also acquired six per cent of the share capital in Sorteo Games. The agreement means Jumbo will now integrate its technology with Sorteo



01 Pronosticos para la Asistencia Publica is the other national lottery in Mexico and this has been running for about 30 years and was established in 1978 as a sport betting company initially to enable Mexicans to bet on the World Cup in Argentina. It has however grown quickly and been automated in recent years and today has sales of around US\$760m.

02 Televisa is the largest multimedia company in Latin America which was founded in 1950 with the emergence of the first channel for Mexico called XHTV Canal 4 and with the concession it meant Mexico became the first Latin American country with its own television.

Game's distribution platform and become an official internet retailer of products.

The strategy is to primarily build a customer database of Mexican players using similar techniques used in Australia and Jumbo will also open an office in Mexico City. Mario Ramirez, Commercial Director of Loteria Nacional said: "With a population of over 110 million and 40 million on the internet there is enormous potential to grow the Mexican lottery market with our internet lottery software and interactive marketing skills."

Sorteo is now in the next stage of its plans for expansion in Mexico and Latin America and Jumbo will help provide the additional technological solutions for all other lotteries and countries Sorteo enters into.

Mr Betros said: "We operate the direct online portal and wireless products for Loteria Nacional. With no marketing campaigns the site has signed up over 130,000 user accounts and sold over M\$33m in lottery tickets. The online portal which is being built by Jumbo will be ready to launch soon."

Meanwhile in June last year Sorteo saw the successful roll out of the wireless Agent Lottery Terminals (ALT) and first ever print on-demand National Lottery draw tickets. Pre-printed tickets have traditionally been sold through lottery agents at fixed locations and by lottery agents who operate as street sellers without a physical location.

The majority of tickets are sold by street sellers where the typical distribution and sale of tickets involve the

pre-printing of the ticket followed by physical distribution through distributors and sub distributors without any networked system. Unsold tickets are returned to the Loteria Nacional.

Sorteo automated the pre-print system with the introduction of ALTs to enable sellers to print real time tickets on demand. The roll out began in October 2011 and today there some 1,000 terminals had been deployed with an expected 3,200 in total by the end of this year. ALTs will also be offered at some 2,000 retail outlets and lotto shops.

The combined sales for both lotteries last year reached US\$1.5bn and this is projected to top \$3bn by 2016.

02 OPERATOR PROFILE: CODERE AND CALIENTE

Codere has been providing gaming management services and hall development services since 1997 for Caliente. In 2010 Codere and Caliente signed an agreement which consisted of the restructuring of approximately \$121m of debt of Caliente through the acquisition by Codere of a share of its gaming operations. Today Codere holds 67.3% of the capital in five Caliente licensees that operate a total of 44 gambling establishments in Mexico.

Agua Caliente Racetrack is a greyhound racing and former horse track based in Tijuana, Baja California which opened back in 1929.

Mr Betros added: "The project growth in the lottery market in Mexico is attributed to a very intense process of modernisation by the National Lottery and Pronosticos Deportivos consisting of new direct to consumer electronic distribution systems, new commercial points of sales and the introduction of new electronic games.

"We are now working on several new initiatives with Loteria Nacional. One is the deployment of a network of electronic lottery gaming machines to offer all instant electronic games on self serve machines at retail locations. Secondly we are connecting our Print on Demand ALT network to the networks of major retailers who will sell the tickets on their own in-store POS terminals and thirdly we are working closely with the Loteria Nacional on strategy to merge Pronosticos and Loteria Nacional into one entity with one integrated platform."

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In 2006 the company was permitted to run lotteries as well as sports betting and today has instant tickets, lottos, number games and lotteries. GTech has provided its lottery products and services to Pronosticos in a contract which began in 1987 and lasts until September 2014. This includes the operation and maintenance of the online central system and network and its 11,000 online terminal base. Tickets are also sold via 7,200 retail agents.

In 2008 some 470 Soriana (leading convenience store in Mexico) locations installed lottery sales points whilst it also expanded into the mobile phone sector with sales of lottery pre-paid phone cards now available.

These two lottery companies enjoyed a virtual monopoly of the lottery market until 2007 when Televisa launched its lottery games under the brand Multijuegos which enabled customers to purchase tickets at terminals around the country in convenience stores, petrol stations and supermarkets. Today it has around 5,300

online lottery terminals across Mexico. The entry was part of the media giants' move into the bingo, book-making and gaming business and it was estimated that the company would pull in around \$175m in revenues during the first year of its lottery business.

Televisa is the largest multimedia company in Latin America which was founded in 1950 with the emergence of the first channel for Mexico called XHTV Canal 4 and with the concession it meant Mexico became the first Latin American country with its own television.

The company grew and also its aim to create a multimedia corporation and Televisa now has an involvement in publishing, TV broadcasting, pay-television networks, cable and telecommunications. The company saw group net sales of M\$63.8m.

When it launched its lottery business, Scientific Games came on board with Televisa to run the lottery system which came under its subsidiary called Apuestas Internacionales SA with an investment of \$70m from Televisa for the new venture.

However just two years down the road in July 2009, Scientific Games terminated its contract after significant losses even though the contract ran until 2013. During the first quarter of 2008 Scientific Games announced a loss of \$2.8m caused by the Televisa Mexican lottery contract. It seems Televisa's predictions for its Multijuegos were not as lucrative as expected.

However Televisa soldiered on and today Apuesta Internacionales operates bingo parlours and online lottery via two brands:

- Play City Casino. This began in 2005 and has 25 locations in Mexico which operate electronic terminals, sports betting and bingo. Each have an average of 285 bingo machines.

- Sorteos del Trebol. This is a brand operating number games and instant raffles with 5,300 points of sale. Games include Superlotto and sports pools GanaGol. In 2011 Sorteos del Trebol introduced the new Superlotto Ganamas which surpassed the Superlotto game. Meanwhile GanaGol, an online sports betting game, has generated growth of around 51 per cent in number of players since it was launched in 2010.

TRACK RECORDS

When the Great Depression and prohibition descended on the United States the horse racing industry was already suffering. After a series of race fixing scandals the sport crumbled and from 300 racetracks at the turn of the century this dwindled to just 25 by 1905.



- 01 In 1933 California legalised betting on horse racing and the Americans disappeared and bet on home turf at the new state of the art Santa Anita Park which had opened near Los Angeles. As such the Agua Caliente track began to lose money in the 1950s on thoroughbreds but still managed to make money from the foreign book, dog races and its Sunday racing.
- 02 Mexico's horse racing industry has also been badly affected by violence escalating from drugs wars and often breeders and owners fix races to avoid any conflict. Many Mexican breeders have moved their operations to the US for not only safety but also to enable them to buy horses with better bloodlines.



The Royal Yak offers a gaming, music and food area with more than 700 gaming terminals and five Rolling Dados tables.

Of course “one man's loss is another man's gain” as they say and just across the border Mexico's Tijuana in turn became a betting haven as Americans eagerly hot footed it into Mexico to place their bets. And the Agua Caliente Racetrack was the place to go.

Agua Caliente Racetrack is a greyhound racing and former horse racing track based in Tijuana, Baja California which opened back in 1929 just a year after the Agua Caliente Casino and Hotel had opened. It is operated by Grupo Caliente.

Back in its day the lavish resort on the border was popular among Americans and in particular the elite, who

couldn't gamble in the US and the Sunday racing programme was a huge pull.

It was closed in 1935 when gambling was outlawed by President Lazaro Cardenas until 1947 when the gaming law was put into place.

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Things got tough in the 1960s when its flamboyant executive director John Alessio was charged with tax evasion and jailed and also the population explosion in Southern California meant major traffic queues in San Diego across the Tijuana border.

A fire in 1971 destroyed the original Caliente grandstand

and then two years after the fire California also introduced Sunday racing and the one thing that made Agua Caliente unique was soon available elsewhere. The newly built Caliente opened in 1974 and in the 1980s thoroughbred racing gradually disappeared.

Today it is the only greyhound racing track in Mexico and offers ten weekly performances and more than 6,500 races per year.

Its operator, Grupo Caliente, was founded in 1915 and began by offering betting on live thoroughbred racing to its customers. The first 'Libro Foraneo' or Foreign Book (the name give to sports betting operations in Mexico) began in 1948.

Today, Caliente operates casinos, bingo halls, sports betting, greyhound racing and simulcast horse racing. The company is active in more than 15 countries in Latin American and Europe and is Mexico's largest sport betting company with 29 sports betting locations in Mexico.

In 1998 Grupo Caliente started a strategic alliance with Codere to introduce bingo into Mexico. Today the race-track hosts an entertainment centre with more than 900 electronic bingo machines followed by slot machines which were added a few years later.

The company also operates other locations such as a private school, the Hotel Pueblo Amigo (and Plaza Casino), Parque Zoologico in Tijuana and a travel agency.

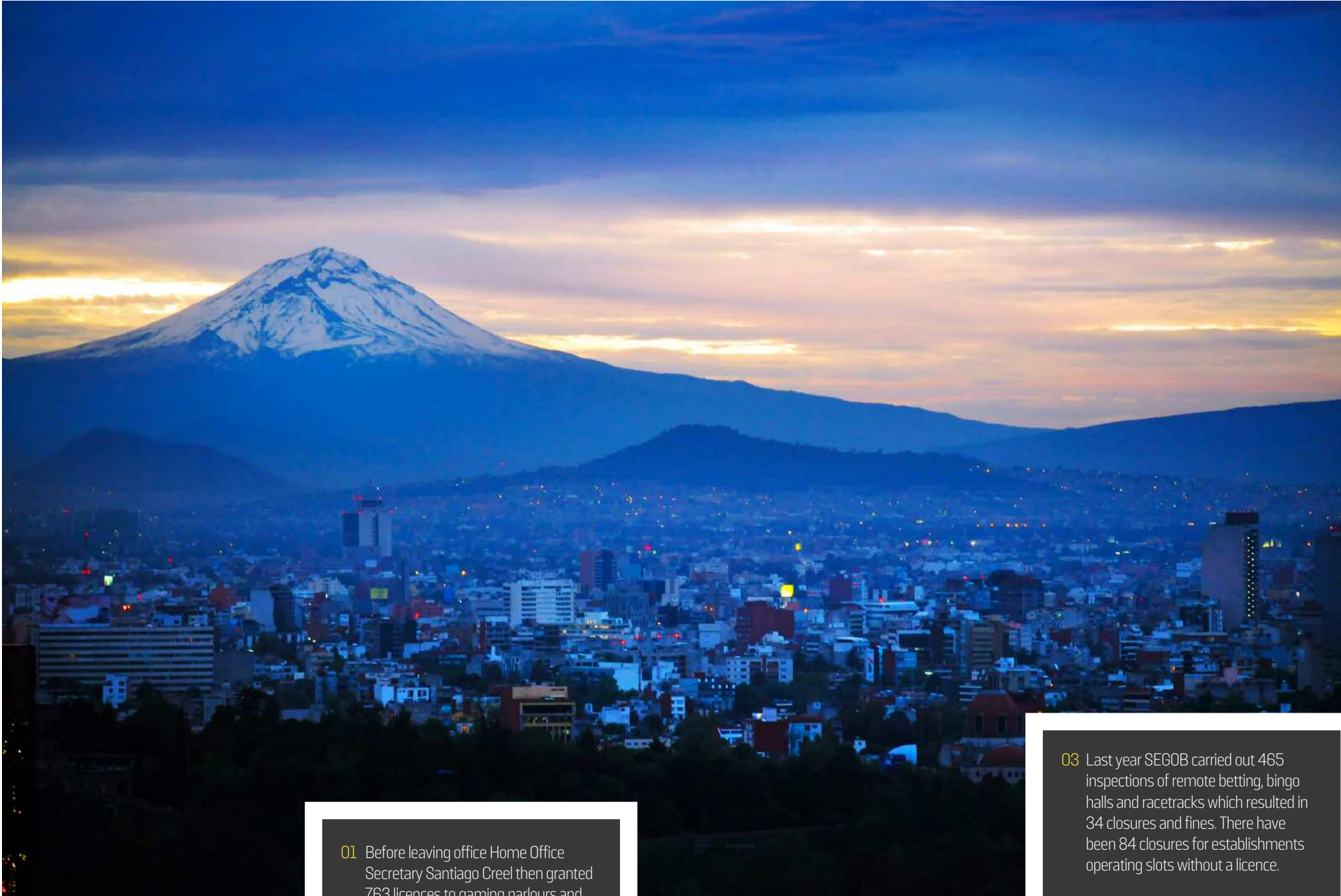
In 2007 the Caliente soccer stadium opened at the resort and became the official home of the Club Tijuana Xoloitzcuintles de Caliente and the stadium had a capacity for 13,000 visitors and by final construction 33,000.

In 2008 Grupo Caliente completely renovated the race-track and the company has since also developed a tote system and since 1994 has offered a line of products and services to individual racetracks along with race and sports books in Latin America and Europe. The service

03 OPERATOR PROFILE: CODERE AND COMPAÑÍA INTERAMERICANA DE ENTRETENIMIENTO

Codere's other partner in the area is CIE. Codere has been working with CIE since 1999 when both companies signed a joint venture agreement where Codere would develop and run its bingo halls and sports betting shops. In 2007 Codere acquired 49% of CIE's betting arm, ICELA (Impulsora de Centros de Entretenimiento de las Américas), a licensee that operates 52 gambling establishments nationwide. In 2012 Codere and CIE signed another agreement where CODERE signed a purchase option with CIE to acquire an additional 35.8% of ICELA in return for €158m, which makes CODERE the majority stockholder with a 84.8% share

Codere's associations with both Caliente and CIE now make Codere the largest local gaming operator in Mexico. Combined Codere is now involved in 94 establishments nationwide. Combined they house 19,571 gaming terminals. These gaming halls are spread throughout Mexico and are located in major cities such as Mexico City, Monterrey, Guadalajara, Veracruz, Puebla, Cuernavaca, Leon and Cancun, among many others. Combined Codere runs 89 gaming halls, 78 betting locations and one racetrack.



Presidents have tried to legalise gambling – in 1989 a Tijuana company was granted permission to offer sports betting.

consists of a real time communication link between Caliente's betting system and other establishments. Caliente Race and Sports book is an entertainment centre where bettors can wager on various horse races, greyhound events and other sporting events. Caliente's total income for betting sector totalled M\$2.2bn last year.

- 01 Before leaving office Home Office Secretary Santiago Creel then granted 763 licences to gaming parlours and most contested were the 65 licences dished out to Televisa which other large operating groups such as Caliente have stated as unfair.
- 02 Operators are given a licence for 25 years although two companies have unlimited licences which include Espectaculos Deportivos Fronton and Comercial de Juegos de la Frontera. In addition Grupo Caliente has a 25 year licence has an unlimited number of licences for establishments it can operate.

Meanwhile Mexico's second racetrack opened several years after Agua Caliente. The Hipodromo de las Americas began with an idea by Italian Bruno Pagliai who wanted to build a racetrack in Las Vegas but was refused permission. He took his idea to California where he was also refused permission.

Then after he discovered the only racetrack at the time in Mexico was in Tijuana he focused his sights on this country and had the backing of a horse racing enthusiast President at the time, Manual Avila Camacho, who approved the concession.

In March 1943 on land owned by the Ministry of Defence the 60 hectare racecourse was built in Mexico City. In the 1990s the racetrack closed and later re-opened in 1997

- 03 Last year SEGOB carried out 465 inspections of remote betting, bingo halls and racetracks which resulted in 34 closures and fines. There have been 84 closures for establishments operating slots without a licence.

and the concession was given to Corporacion Interamericana de Entretenimiento (CIE) for 25 years, renewable for a further 25 years through its affiliate company Administradora Mexicana de Hipodromo (AMH).

The racetrack is made up of 52 hectares and can receive up to 20,000 visitors with over 2,000 parking areas. The oval has a total length of 1,408 metres and a capacity of up to 14 horses per race.

In 2011 the racetrack held 1,784 horse races and saw 429,000 visitors to the 49 races held.

Today, it is the only thoroughbred and quarter horse race track in the country and has an 11 month season

STATE	GAMING FACILITIES	STATE	GAMING FACILITIES
Baja California	43	City of Mexico	37
Baja California Sur	5	State of Mexico	28
Sonora	24	Hidalgo	3
Chihuahua	11	Veracruz	17
Sinaloa	17	Queretaro	4
Durango	3	Aguascalientes	2
Coahuila	11	Tlaxcala	0
Nayarit	1	Guerrero	6
Zacatecas	0	Puebla	11
Nueva Leon	34	Oaxaca	0
Jalisco	30	Chiapas	3
San Luis Potosi	3	Tabasco	6
Tamaulipas	4	Campeche	6
Michuacan	1	Yucatan	8
Colima	7	Quintana Roo	6
Guanajuato	14		

Gamblers can legally bet on horse racing, dog racing, bullfighting, cockfighting, Jai Alai, sports, bingo lotteries and scratchcards.

with races from Friday to Sunday. It has stables for 1,500 horses, restaurants, the Jockey Club and the Royal Yak gaming zone.

The Royal Yak offers a gaming area, music and food in a comfortable area in the racetrack which has more than 700 gaming terminals, five Rolling Dados tables (a game unique to Mexico) and 100 terminals for Inter Yak.

CIE is a leading entertainment company in Latin America and divided into three divisions – CIE Las Americas, CIE Commercial and CIE Entertainment. The company is involved in various sectors from theatre, exhibitions and sporting events and it also has strategic alliances with Televisa, Ticketmaster Corporation and Codere. They also operate 51 sports betting locations in the country.

CIE Las Americas includes the Hipodromo operation in Mexico City, the theme park Granja Las Americas, Sports Book y Yak and an exhibition centre. It also has businesses in the US, Colombia, Argentina, Chile and Brazil.

Today, the horse and dog racing sector is governed by the Comision Nacional de Carreras de Caballos y Galgos founded in 1974 and they issue the licences to participate in the racing for all sectors from trainers to vets.

There are actually nine licences available for the operation of horse and dog racing tracks although the others have failed to operate.

The Asociacion para el Desarrollo y Fomento de la

Hipica Mexicana was created in 1999 to help look after the sector and currently holds seminars, congresses and symposiums all relative to horse racing and breeding. The sector employs some 2,000 people.

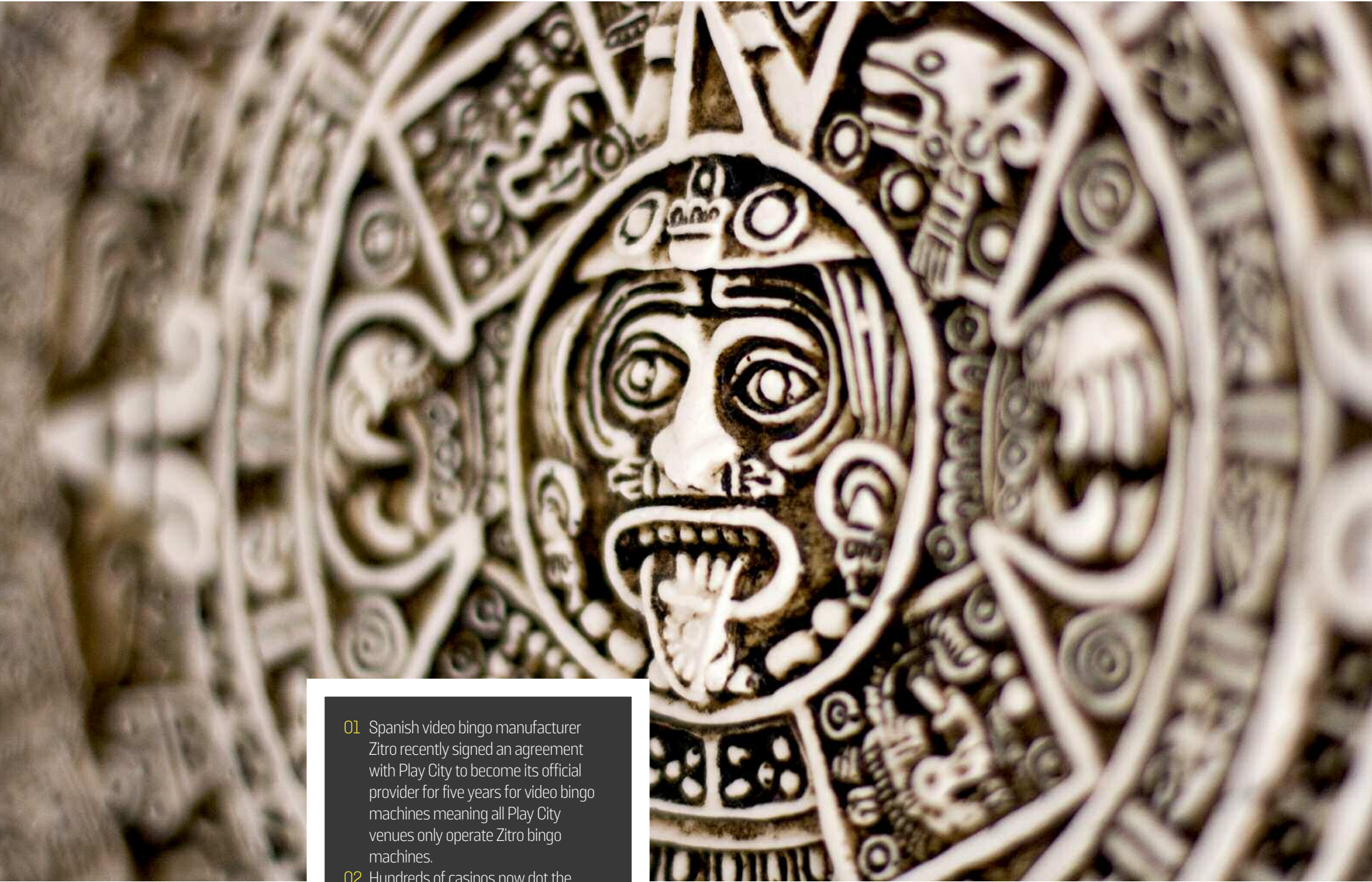
The horse racing industry has been in decline over the last few years and today wagering is mostly done via simulcast from the US. Mexico's horse racing industry has also been badly affected by violence escalating from drugs wars and often breeders and owners fix races to avoid any conflict. Many Mexican breeders have moved their operations to the US for not only safety but also to enable them to buy horses with better bloodlines.

In June last year reports filtered through of members of Mexico's Zetas cartel who were laundering money through the breeding and racing of quarter horses in the US.

THE LEGAL SIDE TO GAMBLING
Gambling in Mexico predates the Aztec civilization and French style casinos began to arrive in the 19th century and it was only the rise of the government under Lazaro Cardenas in 1935 that saw the gambling industry prohibited and forced to close its doors.

In 1947 a federal law was passed which banned most types of gambling (except lotteries and bingo) and today the Mexican gaming industry is still governed by this antiquated Ley Federal de Juegos y Sorteos (Federal Law of Gaming and Raffles) 1947 which prohibits gambling and games of chance throughout the country. Games which are permitted are dominoes, dice, bowling, billiards, bowling, lottery, raffles, horse racing, dog racing, cockfighting, remote betting and bingo. Games which can appear in casinos are authorised by the Government Secretary (SEGOB) and include the betting on the outcome of 'foreign books' or 'sports betting centres' and traditional or electronic forms of bingo. There's a tough penalty of three month to three years imprisonment or a fine of \$500 to \$10,000 for illegal operations.

Despite this illegal gambling was rife. Slot parlours were



opened by those who defied the law whilst others took court injunctions defending their constitutional rights and bingo and slot halls arrived in their droves.

In the latter half of the 20th century various presidents tried to legalise gambling and in 1989 a Tijuana based company was granted permission to offer sports betting. However it wasn't until Vicente Fox took office in 2000 that things really began to change and although he failed to overturn the 1947 gaming law there were some adaptations to the law.

In 2004 a new amendment called The Regulation of the Federal Gaming and Raffles Law, was added to the law by Vicente Fox which although did not permit fully fledged casinos it did pave the way for sports betting, slots halls and bingo parlours and in 2005 the first Racinos were permitted which offered pari-mutuel betting plus casino style slots. It also gave SEGOB the

- 01 Spanish video bingo manufacturer Zitro recently signed an agreement with Play City to become its official provider for five years for video bingo machines meaning all Play City venues only operate Zitro bingo machines.
- 02 Hundreds of casinos now dot the Mexican cities and the majority operate under court protections from 'friendly' judges who ease the pain of any comeback. It is said that the politicians are wary of introducing laws to legalise gaming fearing an end to back-handers and also that global companies may enter the market and dominate.

responsibility for granting licences.

Before leaving office Home Office Secretary Santiago Creel then granted 763 licences to gaming parlours and most contested were the 65 licences dished out to Televisa which other large operating groups such as

Caliente have stated as unfair. Today gamblers can legally bet on horse racing, dog racing, bullfighting, cockfighting, Jai Alai, sports, bingo lotteries and scratchcards. There is still a huge amount of grey area where gambling in concerned however.

Although sport betting has been legal for some time it is only recently that the bookmaking industry has become regulated and organised. Wagers can be made on national and international events and there are three main gaming companies who operate sports betting including Grupo Caliente, CIE and Apuestas Internacionales (Televisa).

Today there are a total of 31 companies with permission from SEGOB and the Direccion General de Juegos y Sorteos (DGJS) which governs the gaming sector. These have been granted permission to operate gaming facilities in Mexico.

There are a total of 681 establishments which have permission to operate gaming facilities (usually sports books and bingo parlours combined) of which 349 are open and 361 have not opened their facility. The 361 unopened are establishments which cannot open without state permission from the municipalities.

The largest number of concessions were granted during the six year administration of Carlos Salinas de Gortari between 1988-1994 when he approved 14 concessions which allowed 296 permits for casinos or gaming establishments. This equalled the total number of permissions granted in 12 years from 2000 to 2012 by Vincente Fox and Calderon with 234 centres opened in total.

There are today an estimated 120,000 machines in the market although some say there is potential for double that figure if the remaining centres opened. The industry grew by around 10 per cent last year to M\$3.7bn. But

04 OPERATOR PROFILE: GRUPO TELEvisa

Grupo Televisa is the largest multimedia mass media company in Latin America and the Spanish-speaking world. The company first entered the Mexican gaming market in 2005 via its betting arm Apuestas Internacionales. In 2005 the company was granted the right to operate 65 bingo halls and 65 sports betting centres gaming centres in 28 Mexican states with licences lasting for 25 years.

It opened its first gaming parlour in the state of Puebla in 2008. The granting of so many licences and for so long caused immediate controversy also given the fact that there was no limit on the number of slot machines which would be permitted in the new Apuesta run establishments. In addition Apuestas Internacionales Televisa has the advantage over its rivals as it is able to promote its gaming services through its TV channels.

Today the company runs 25 betting centres in Mexico under brand name PlayCity which house slot machines and offer sports betting on the premises. These establishments also house bars and restaurants. There are four Play City casinos in the capital with the remaining 21 located throughout 13 different Mexican states. Televisa also operates live draw games in its 5,300 Sorteos del Trébol outlets which are dotted throughout the nation.

despite hints that the law will change nothing has happened to date.

Meanwhile the 349 legal businesses which operate in Mexico received 600,000 visitors between January and April alone and the number of visitors increased by 50 per cent in the first quarter of 2012 compared to the same period last year.

By the end of 2012 some two million visitors went to these centres and it is reported that 65 per cent are women and another large percentage are elderly.

Other companies registered with permission to operate include Atracciones y Emociones Vallarta (Megawin), Megasport, Operadora Cantabria and Promociones e Inversiones de Guerrero.

There are however many question marks over the legitimacy of some of the operating names behind the licences. It seems there are some who pass on their operating licence without informing SEGOB whilst other merely 'gain' their licence but do not open any facility.

For example Cesta Punta has been 'operating' since 1989 a dog racing track in Ciudad Juarez. The company has permission to operate nine centres but to date none have been opened even though they renewed their permission in 2011 and 2012.

Codere signed an agreement with Scientific Games's Global Draw for the introduction of 500 new gaming machines at some 90 gaming halls.

Meanwhile with foreign investment a huge part of the Mexican gaming sector Spanish company Codere is the largest operator and they currently operate around one quarter of establishments in the country.

Codere has been in the Mexican market since 1998 and entered with agreements with CIE and Grupo Caliente to operate casinos. Since 2010 it has had a 67.3 per cent stake with Caliente in five licensees operating a total of 44 gaming establishments. The remainder is held by Caliente.

In 2007 Codere acquired 49 per cent of the company Centros de Entretenimiento de las Americas (ICELA) which currently operates 51 remote betting centres in the country and the racetrack in Mexico City. The remainder was held by CIE.

In 2012 Codere then acquired an additional 35.8 per cent making Codere the majority stockholder with 84.8 per cent meaning the company is the largest local gaming operator in Mexico.

Today Codere runs a total of 94 gaming halls equivalent to 26.9 per cent of the 349 establishments currently operating and has over 19,500 EBTs in the market and revenues of €427.2m.

Last year SEGOB carried out 465 inspections of remote betting, bingo halls and racetracks which resulted in 34 closures and fines. There have been 84 closures for establishments operating slots without a licence.

The gaming parlours are located throughout the country although Baja California has the most establishments with 43 followed by the Federal District with 37. The largest operators include Grupo Caliente with 26 betting shops and bingo halls, Apuestas Internacionales (Televisa) with 22 betting shops and bingo halls and CIE with 51 betting shops and bingo halls.



In 2004 the company also acquired Promojuegos de Mexico and the following year obtained permission to operate 10 remote betting centres and bingo parlours and currently has nine open which operate under the name of Bingo 777.

Late last year Codere signed an agreement with Scientific Games Corporation's Global Draw for the introduction of 500 new gaming machines at some 90 gaming halls. Global Draw terminals had previously been placed at the Hippodrome and will now extend to the AMH venues.

The new game 'Blade' will be installed and two of Global Draw's games are exclusive to Codere.

Juan Jose Rivas Soberon, Chief Games Office at Codere said: "The Global Draw terminals have always worked very well in the halls of AMH and we are confident that we will continue incorporating Codere's other rooms."

Meanwhile Femalamex, Grupo Inverjuego and Mio Games are also fused with the Spanish company whilst

Operadora Megasport has capital coming in from Venezuela and has a licence for 30 remote betting shops in 14 states.

GRUPO CALIENTE is the biggest name and it's a recognised brand in Southern California and the US towns which border Mexico. The company has around 174 Race and Sports Book OTB places inside Mexico and also runs locations in Austria, Brazil, Ecuador, Panama, Paraguay, Peru, Uruguay, Venezuela and the Caribbean.

Full card racing programmes from over 50 tracks in the US are also carried out yearly by Caliente and they also have broadcast agreements with the tracks inside the UK, Australia, Panama and Uruguay.

They also offer a betting service via telephone and internet and they operate 26 sports betting locations in Baja California of which 20 are in Tijuana alone and these locations are very popular with US customers and make up around 15 per cent of Caliente's profits.

Caliente has 26 bingo halls also in operation as part of

their gaming facilities. The company made an alliance with Codere in 1998 to develop its bingo locations and introduced electronic bingo machines.

The company has recently introduced new stand alone point of sale betting terminals which enable players to place a wager on horse racing or major sports events and these can be located in any venue such as pubs, sports bar and restaurants.

CIE also has permission to operate up to 65 betting shops in Mexico of which 51 are currently open in 20 states under the name of Sports Book and Yak (a slang word for bingo) with the majority again are located in hotspots such as Cancun and Tijuana.

CIE has had a joint venture agreement with Codere in the gaming industry in Mexcio since 1999 through a network of remote sports betting shops and today Codere has an 84.8 per cent share in the company.

Sports Book and Yak are two new concepts and are entertainment centres offering gaming, food, and drinks

- 01
- It is said that Exciting Games was unable to get its own federal gaming permit and did so under another firm. But in January this year the Interior Ministry claims it had detected 'irregularities' in the issuing of casino permits in 2012 particularly with companies Producciones Moviles and Exciting Games – both former operators of EMEX.
- 02
- Last month the local council in Monterrey closed nine casinos regarding irregularities with fire regulations. The municipality now wants to change its law banning gaming centres under building laws which would basically not permit them to be constructed. The closed casinos are Caliente Valle Oriente, Caliente Gonzalitos, California, YAK Plaza Cumbres, Caliente Garza Sada, YAK Valle Oriente, Miravalle, Folliatti and Crystal Palace.

and horse racing betting on national and international races, greyhound and other sports betting.

Meanwhile TELEVISAS' Apuestas Internacionales division was granted permission to operate 65 betting shops and bingo parlours with a 25 year licence which expires in 2030. Today the gaming halls are run under the Play City brand and the company has 22 centres currently operating in 14 states. The company saw total income of M\$794m last year.

Spanish video bingo manufacturer Zitro recently signed an agreement with Play City to become its official provider for five years for video bingo machines meaning all Play City venues only operate Zitro bingo machines.

Johnny Ortiz of Zitro said: "This alliance is a union of leadership and we are pleased to join one of the biggest companies in the world."

Some of the games include Wild Rocks and La Catrina which are hugely successful with Mexican players.

OPERATING COMPANY'S PERMISSIONS AND OPERATORS 2012			
COMPANY	NUMBER OF LICENCES FOR: SPORTS BETTING/BINGO PARLOURS	ACTUAL NUMBER IN OPERATION: SPORTS BETTING/BINGO PARLOURS	LICENCE EXPIRY
Administradora Mexicana de Hipodromo (CIE)	1 Racetrack 65 / 65	1 Racetrack & 51 / 51	2022
Apuestas Internacionales (Televisa)	55 / 55	22 / 22	2030
Atracciones y Emociones Vallarta (Megawin)	1 Racetrack 46 / 46	- 26 / 26	2017
Cesta – Punta Deportes	1 Racetrack 9 / 0	- -	2022
Operator Megasport	1 Racetrack 32 / 32	- 32 / 32	2022
Comercial de Juegos de la Frontera	18 / 18	-	unlimited
Comercializadora de Entretenimiento de Chihuahua	60 / 60	-	2030
Divertimex	1 Racetrack 7 / 15	- 7 / 7	2016
El Palacio de los Numeros	36 / 36	21 / 21	2031
Entretenimiento de Mexico (LVFH)	50 / 50	14 / 14	2030
Espectaculos Deportivos de Cancun	1 Fronton (Jai Alai) 4 / 0	1 / 0	2017
Espectaculos Deportivos de Occidente	4	-	2019
Espectaculos Deportivos Fronton Mexico	Football game	Football game	unlimited
Espectaculos Latinoamericanos Deportivos	1 Racetrack 5 / 5	- 2 / 2	2018
Eventos Festivos de Mexico	0 / 20	0 / 1	2030
Exciting Games	7 / 7	6 / 0	2037
Grupo Oceano Haman	10 / 10	3 / 3	2018
Hipodromo de Agua Caliente (Grupo Caliente)	1 Racetrack Unlimited / unlimited	1 Racetrack 26 / 26	2014
Impulsora Geminis	3 / 0	2 / 0	2018
Juega y Juega	18 / 18	4 / 4	2030
Juegos y Sorteos de Jalisco	0 / 35	0 / 3	2037
Libros Foraneos	18 / 18	13 / 13	2015
Mio Games	0 / 2	0 / 2	2030
Operadora Cantabria	25 / 25	18 / 18	2018
Operadora de Apuestas Caliente	1 Racetrack 4 / 4	- 2 / 2	2016
Operadora de Espectaculos Deportivos	1 Racetrack 3 / 0	- 3 / 3	2017
Petolof	7 foreign books	4 foreign books	2023
Producciones Moviles	40 / 40	19 / 19	2037
Promociones e Inversiones de Guerrero (CIRSA)	1 Fronton (Jai Alai) 53 / 53	1 Fronton (jai Alai) 23 / 23	2030
Promojuegos de Mexico (CODERE)	10 / 10	9 / 9	2030
Recreativos Marina	0 / 14	0 / 0	2037

The attack on Casino Royale exposed the dark underside of the Mexican casino industry orchestrated as it was by crime syndicates.

GAMING IN THE BLACK

Casinos in Mexico were first banned back in 1936 by President Cardenas who prohibited most other forms of gambling at the time bar lotteries and bingos. Then in 1947 the Betting and Raffles Law banned them permanently despite several attempts to introduce casino type gaming.

It is said that Mexico could be one of the prosperous economies in Latin America if SEGOB permitted all the 681 gaming licences to open which could in theory bring over M\$5bn into the country.

The tourism sector is crying out for a law and as such most of the casino proposals submitted have been for the Las Vegas resort style casinos for the five star hotels or tourism hotspot locations.

In addition advocates say it would also wipe out the wide proliferation of illegal gaming parlours which operate through the country in a somewhat grey market.

At the moment there are around 60 illegal casinos operating in Mexico which are basically large scale gaming parlours which house everything from slots to gaming tables. They operate under a semi legal loophole in the law which in 2005 permitted the Secretary of State to grant gaming licences. At the time it was estimated there were some 1,200 illegal casinos operating in the country, 2,400 illicit racetracks and 5,000 illegal slot machines.

Ironically the casino industry thrived under the PAN government's control who when they came into power in 2000 promised an end to corruption. However during

G3-247 Report

MEXICO

Vicente Fox's government in 2004 the boundaries were changed and the 1947 law basically ignored. In his foot-steps Calderon then permitted gaming venue licences for bingo, sports betting and slot machines.

Aside from the 349 establishments that operate according to the regulations there are another 58 venues with work with temporary or permanent suspensions. Many of these licences were granted during the last few hours of administration under Calderon and today there are no bills to amend the legislation.

However in February this year there was an approval for the creation of a Special Committee to investigate these permissions granted under the last administration to clarify if they were irregular or not. There is now also a prohibition on the granting of new licences until the investigation is completed.

The industry actually has almost 30 casino permits of which nine are in the hands of Grupo Caliente and about 20 in the hands of 'Casino Czar' Juan Jose. There have been numerous attempts to replace the act and all have failed. In fact there have been 10 proposals in the last 10 years to change the law.

Hundreds of casinos now dot the Mexican cities and the majority operate under court protections from 'friendly' judges who ease the pain of any comeback. It is said that the politicians are wary of introducing laws to legalise gaming fearing an end to back-handers and also that global companies may enter the market and dominate.

Although slots did exist as did table games they were technically illegal. There were around 75,000 gaming machines in operation.

For example it is reported that Roberto Correa Mendez issued permits for 41 new casinos the day he left in 2009 from his position as Assistant General Director of Gaming and Lotteries.

One of the problems with the casinos is that there is no official sign which indicates whether the casino is legal or not. One of the proposals by the associations AIEJA is to have such a notice so the visitors know if the site is legal or not.

It is also estimated that there are over 70,000 slots operating illegally outside grocery stores, pharmacies, kiosks and shops and that winnings can range from US\$4,760 up to US\$9,521 in a month.

The casino industry is pretty much under a blanket of corruption and 'wheeling and dealing' and it's difficult to find out exactly who does what.

One operator, Exciting Games (Oaxaca Investments LLC), operates six casinos in Mexico and has become a significant player. It is American owned and runs the largest casino in Mexico City.

- 01 The Direccion General de Juegos y Sorteos (DGJS) now runs under the Secretaria de Gobernacion (SEGOB). This department now works under guidelines by the NYCE or Electronics Standardisation and Certification which operates under the guidelines set by the government with the Standard for Bingo Games.
 - 02 "We believe the market should be regulated so that it will stop the proliferation of illegal casinos which are saturating the Mexican market."
- Sara Cano, Product Manager, Sabia Corporation.



It is run by Gordon Burr who claims a rival company started a media hate campaign to say he won last minute favours from the previous government for his operations. In the last administration only four licences were issued to Juegos y Sorteos de Jalisco and Recreativos Marina, Exciting Games and Producciones Moviles.

Exciting Games' showcase casino is Kash Casino which opened in Naucalpan in 2006 and has 830 slots, sports betting, restaurant and live music. Two more followed in Mexico City and smaller casinos in Villahermosa, Puebla and Cuernavaca.

Other Vegas boys have been 'spooked' by stories of corruption and the lack of clear gaming laws.

It is said that Exciting Games was unable to get its own federal gaming permit and did so under another firm. But in January this year the Interior Ministry claims it had detected 'irregularities' in the issuing of casino permits in 2012 particularly with companies Producciones Moviles and Exciting Games – both former operators of EMEX. These two companies have 47 licences between them to operate sports books and bingo.

The main shareholder of Exciting Games, Alfredo Moreno

Quijano, was then arrested for fraud. There is now a legal dispute going on regarding their casino operators which are still open.

Juan Jose Rojas Cardona (known as Pepe) is the owner of EMEX and he is also known as the 'Casino Czar' in Mexico. His brother Arturo is one of the main shareholders of the Casino Royale in Monterrey which hit men targeted in 2011. The shooting and arson attack exposed his somewhat dodgy past as a Mexican fugitive who fled US drug charges back in 1994.

The attack on Casino Royale in Monterrey in August

2011 left 52 people dead and was apparently orchestrated by drug cartels. After the attack on Casino Royale revenues dropped by seven per cent between September and December in 2011 at all casinos in Mexico. Some locations were closed for review by the authorities and also the public were afraid to venture into some venues. In 2011 the casinos took US\$589m which was US\$50m less than the previous year. The fear eventually diminished and the customers returned.

Rojas Cardona has built one of the biggest gambling empires in Mexico and holds around 60 permits to operate casinos. The attack on Casino Royale also exposed

G3-247 Report

MEXICO

MEXICO: Vital Statistics

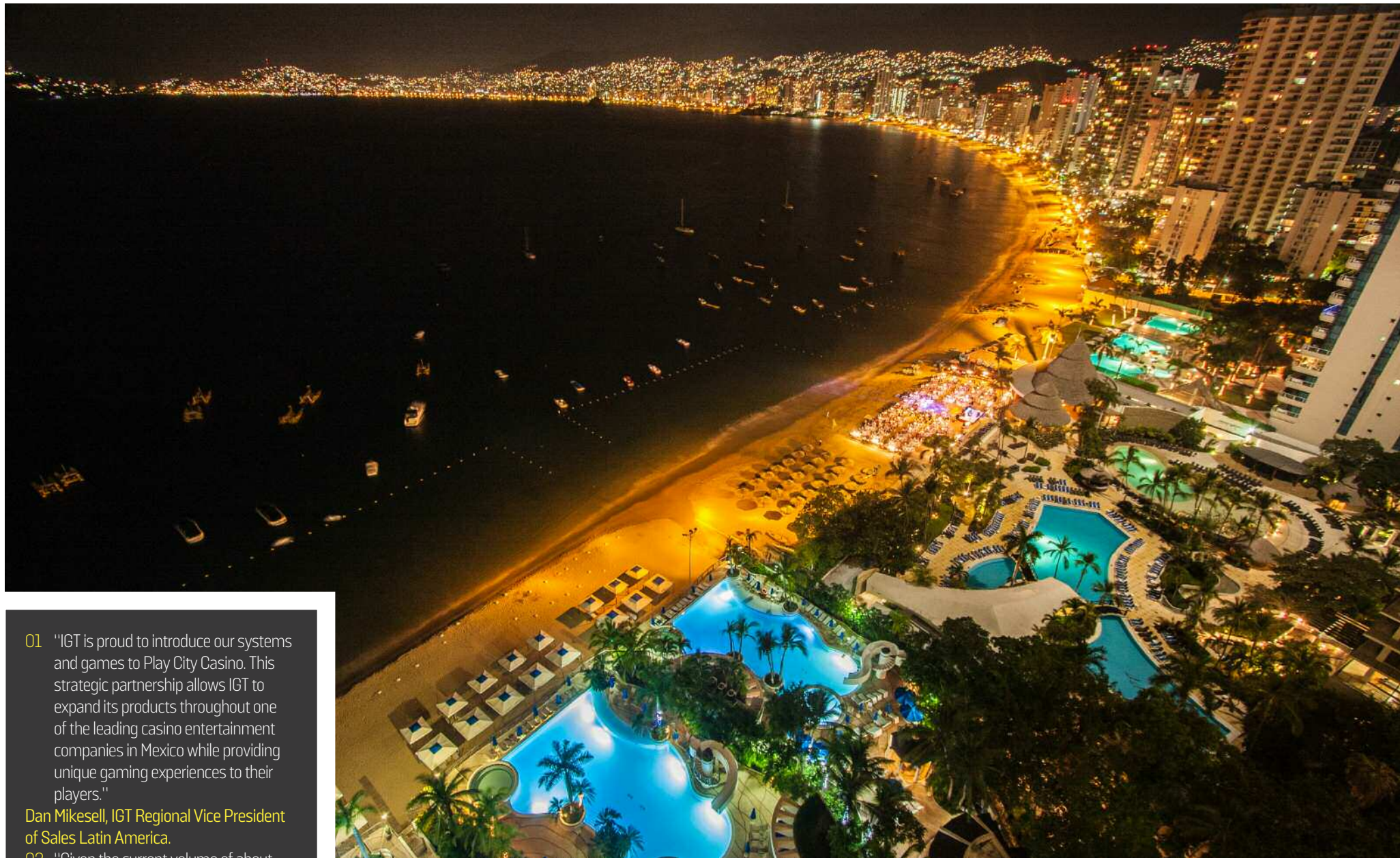
Capital: Mexico City
Population: 116,220,947
Land Area: 1,964,375 sq.km
Median age: 27.4 years
Languages: Spanish (92%), indigenous (5.7%)
Ethnic Groups: Mestizo (60%), Amerindian (30%), white (9%), other (1%)
Currency: Mexican Pesos (MXN)
Government: Federal Republic
Chief of State: President Enrique Peña Nieto
Head of Government: President Enrique Peña Nieto
Elections: President elected by popular vote for a single six year term. Last election was held in July 2012 and next due July 2018

LOTTERY: Loteria Nacional/Pronosticos
LOTTERY RETAILERS: 3,500/7,100
LOTTERY REVENUE: US\$1.5bn (annual sales combined)
RACETRACKS: 1 greyhound and 1 horse racing track.
RACE REVENUE: M\$4.6m
GAMING SALONS: 349 (betting/bingo)
EGMs: 90,000
EGM REVENUE: US\$589m (2011)
TOTAL GAMING GGR: M\$3.7bn

the darker underside of the Mexican casino industry and those arrested say they were pressurising the casino owners for payoffs on behalf of Los Zetas, one of Mexico's two largest crime syndicates.

Cardona has a history of arrests. In the early 2000s he created his first machine slot club Bella Vista in Monterrey. He and his brother Arturo were given a lot of backing and their Las Vegas partnership EMEX Holdings was just one company they set up.

Today Cardonas operates 22 casinos under the Palmas brand and probably a number of others and is one of



01 "IGT is proud to introduce our systems and games to Play City Casino. This strategic partnership allows IGT to expand its products throughout one of the leading casino entertainment companies in Mexico while providing unique gaming experiences to their players."

Dan Mikesell, IGT Regional Vice President of Sales Latin America.

02 "Given the current volume of about 120,000 machines, the potential for 250,000 machines is realistic in this growing market without a doubt. We are certain that we will be successful since we are working with Jose Luis Gonzalez, who has invaluable experience in these markets as a manufacturer and operator."

Thomas Niehenke, COO, Merkur Gaming.

Mexico's biggest operators alongside Play City, Grupo Caliente and Codere.

Sadly the corruption behind this industry goes much deeper than a few pay-offs to drug cartels and the entire industry is built upon a very unstable background and designed so political chiefs can hand out licences as favours enabling casinos to flout the law.

But it seems there is some movement from the government to rid the country of the illegal stigma. Last month the local council in Monterrey closed nine casinos regarding irregularities with fire regulations. The municipality now wants to change its law banning gaming centres under building laws which would basically not permit them to be constructed. The closed casinos are Caliente Valle Oriente, Caliente Gonzalitos, California, YAK Plaza Cumbres, Caliente Garza Sada, YAK Valle Oriente, Miravalle, Folliatti and Crystal Palace.

Meanwhile Sabia Corporation has applied for permits to operate to open 10 gaming halls which is currently being discussed at SEGOB to increase the number of licences from 31 to 32.

There are of course continual talks and rumours about the law changing in Mexico. Apparently the Ministry is currently preparing a 'restructuring' programme of the gaming sector and is eyeing up 50 illegal gaming centres

in the north of the country.

Meanwhile at the moment table games are played in casinos with Caribbean Poker being a big favourite. Slot machines are available and widely played. Video machines are legal but regulated and bingo style and number games are popular. Dice games are legal and multi progressive slots are proving popular in Mexico.

Initially Mexico only permitted Class II machines which are electronic based bingo slot machines (EBT). They have video screens but are modified to comply with the Class II restrictions. There were around 35,000 EBTs at the time in Mexico and although popular with locals are of not much interest to tourists who do not know how to play them.

So the arrival of Class III machines came at time when Mexico was struggling and brought a renewed source of income into empty government coffers.

Many US professional poker players cross the border to gamble in Mexico and Mexicans can also gamble offshore.

Although slots did exist as did table games they were technically illegal. There were around 75,000 gaming machines in operation in the 2010 and this increased with the arrival of Class III machines.

The Mexican law has always been, shall we say, ambiguous. Operators have been managing to stretch the limits of the very antiquated 1947 law and operate a host of facilities that really should not be allowed.

The Class II was permitted in the mid 1990s and is basi-

cally an electronic platform for multiple card bingo games. These later evolved to look remarkably like slots machines although bingo was the main game.

The desire for change has been a common request and the industry wanted a 'broader scope' of what the electronic gaming machines offered. Technically they were never prohibited. So with some legal ambiguity and a need for something new the Class III games entered Mexico.

SEGOB gave Class III slot machines the approval in August 2011 and this meant the number of slots which could now enter the market could increase.

Class III basically covers games outside of the Class II category which includes slot machines, blackjack, craps and roulette.

Meanwhile back in 2009 the calls also began for a new Bill governing the licensing procedure. Under the previous legislation only the federal government, through the Ministry of the Interior had the power to grant gaming permits. The new bill made the rules clearer with a newly formed federal gaming commission whilst municipal and state governments were able to give their input on the granting of permits.

The Direccion General de Juegos y Sorteos (DGJS) now runs under the Secretaria de Gobernacion (SEGOB). This department now works under guidelines by the NYCE or Electronics Standardisation and Certification which operates under the guidelines set by the government with the Standard for Bingo Games. NYCE allows manufacturers the possibility of certifying their equipment to meet the governmental standards.

It is not compulsory but is widely recognised and in 2008 NYCE signed a business alliance with GLI to jointly develop testing standards.

The NYCE (Normalizacion y Certificacion Electronica) was founded in 2006 as a testing institute for the sector. They also have the cooperation of the Asociacion de Permissionarios y Proveedores de Juegos y Sorteos (APJISAC).

The NYCE recently launched a new service called Prototype Certification where a document is obtained to ensure that software or model of hardware has been subjected to laboratory tests compiling with the Mexican regulations.

The advantage of this is that manufacturers can demonstrate their prototype system and meet Mexican standards before installation whilst obtaining the right to use the trademark. Alfastreet's roulette table became the first gaming device to be certified by NYCE in Mexico.

Last year GLI gave a course on SAS protocol at the NYCE facilities and this provided information on IT Security in Casinos, Administration of Casinos, Workshops of Mexican Standards and the SAS Protocol to the industry.

Meanwhile BMM TestLabs has been selected by the Verification Versatil to review and certify systems of Authorised Service Providers (PSAs) for both land based and online gaming systems in Mexico.

FUTURE OUTLOOK

So what happens now? The attack on the Monterrey casino increased calls for a change in legislation specifically in the way licences are dished out. Progress however is slow. Although there have been a number of proposals put forward nothing has materialised and things stalled at the end of last year with the elections.

With the PAN party replaced in December with centre-left PRI there is now an aura of uncertainty hanging over the gaming industry in particular. Mexico is expecting some drastic changes although as yet there is no sign of what specifically.

Some say a new gaming control board should be introduced whilst others talk about proposals to restrict licences to one casino per 200,000 inhabitants to evenly distribute the venues.

If the government did pass a law to permit fully fledged casino there could be as many as 500 in the market and these could generate tax revenues of up to \$800m a year.

Sara Cano, Product Manager at Sabia Corporation said: "We believe the market should be regulated so that it will stop the proliferation of illegal casinos which are saturating the Mexican market. According to SEGOB in Mexico there are 31 licensees authorised by the DGJS with 681 establishments with permits to operate. Of these 349 have notice of opening and/or operating and 361 do not have the opening permit required (they cannot open with state and municipality permits). In an irregular situation there are approximately 58 establishments which are operating with provisional suspensions or no licence.

"Sabia Corporation is part of an association in Mexico and is actively involved in the creation of the new Norma Oficial Mexicana de Juegos y Apuestas (Official Mexican Standard of Gaming and Betting) and its new government legislation. In this respect we are involved with the new changes to the laws and we are preparing for compliance.

"At the moment, neither the federal authority nor the special commission of the union congress have announced any changes regarding permits and illegal actions that we have in this important sector.

"We believe that the market should be limited to a number of casinos by state and municipality, the regulation of this industry could be great to attract tourists to this country and that would help to strengthen the casino operations that comply with the law and pay their taxes."

With the market left with so much uncertainty hanging over it this year's ELA trade show held in May was postponed. Of course it doesn't help that the two major associations APJISAC and AIEJA continue to disagree whilst the APJISAC refused to attend last year's ELA event.

The Asociacion de Permissionarios de Juegos y Sorteos (Association of Games and Raffles) APJISAC was founded in 2007 by several companies in Mexico including the Grupo Caliente, CIE, Promojuegos (Codere) and Promociones e Iversiones de Guerrero (CIRSA).



Meanwhile the Asociacion de Permissionarios y Proveedores de la Industria del Entretenimiento y Juego de Apuesta en Mexico (AIEJA) is a civil association for operators, suppliers and licensees in the sector.

Meanwhile some of the casino operators in Mexico include:

- The Caliente Casino inside Tijuana race track. Agua Caliente recently underwent a \$26m upgrade and the venue includes racing, sports books, gaming halls and electronic bingo betting terminals. The Caliente Casino covers 228,000sq.ft and is the largest casino in Mexico.
- Hollywood Casino Entertainment opened in January 2009 in Estanzuela in the city of Monterrey. There are more than 400 slot machines, live shows and promotions and restaurants.
- Casino Revolucion is located in Monterrey in Nuevo Leon and has 90 themed slots, bingo area and sports book, two restaurants.

- 01 One of the first casinos to set up a fully licensed online casino was Palmas casino which was at the time powered by Playtech software offering over 100 games. In 2011 the operators of Palmas Casino – Entretenimiento de Mexico (EMEX) was acquired by Canadian company, Las Vegas from Home.com Entertainment Inc (LVFH) who acquired 99 per cent share in the company to take over its online gaming business under the name of palmasbet.com and palmaspoker.mx alongside its Playboy Casino Cancun and other 22 casinos.
- 02 SPIELO International took on a new Operations Manager in Mexico in 2011. Agustin Nieto now coordinates all Atronic's activities in the country. SPIELO has had presence in the market for some time with success rates with the new Oxygen Cabinet and the performance of Doggie Cash and Magic 5s. Some 230 cabinets were installed at Win&Win Casino operated by Nalibic and Doggie Cash and Magic 5's were installed at Casino Hipodromo de la Americas.

- PringSA is the Mexican arm for Cirsa which operates CasinoLife betting centres and bingo parlours in Mexico. The company has 36 gaming licences and currently operates four casinos – Del Valle, Celava, Hidalgo and Merida. All offer sports books, bingo and slots. There are approximately 12,000 machines per gaming halls with electronic bingo, video slots, reels and multi players operating from 5c.
- Dubain Palace is located in Cancun and is 65,000 sq.ft in size with 400 slots. The venue offers live entertainment three nights a week.
- The Royal Yak Casino is also located in Cancun with 350 electronic slots in four different rooms, restaurants and 110 seater Sports Book area with 35 HD/TVs and a 400 seat bingo arena.
- Casino Palace is in Cancun and offers 200 slots and restaurants.
- In December last year the new Atlantic Casino opened in Boca del Rio in Veracruz by the TTH Gaming and Consultancy group who have been in the Mexican

market since 2010. The casino is located within the Hotel Lois and includes 350 slots, sports book wagering and sports bar. This is the eighth casino for TTH Gaming with others in Monterrey, Queretaro, Guadalupe, Guanajuato, Irapuato, Leon and San Luis Potosi with a total of 2,000 slots in operation. TTH (Tomas Tapies Harrison Gaming) is a casino operator and has been involved with locations in Los Angeles, Panama and Spain including the Casino Revolucion in Monterrey, Sabia Corporation and Steel Gaming.

- Sabia Corporation is based in Panama and the parent company of the DEK brand of Live Game Progressive systems and supplies slots and live games equipment to South American, USA and Eastern Europe. The company owns and operates a casino in Queretaro, Mexico under the Fantastic brand which opened in April 2008 and has 350 machines. The company will open a second Fantastic casino in Leon this year which will hold 300 machines. The company also distributes for the likes of BluBeri, Casino Technology, Magic Dreams and IGS.

Meanwhile there are a host of companies selling into

05 OPERATOR PROFILE: COMPAÑÍA INTERAMERICANA DE ENTRETENIMIENTO (CIE)

Compañía Interamericana de Entretenimiento is Mexico's leading live entertainment group and since 1999 has been the leader of the Latin American entertainment sector. It serves the Spanish and Portuguese-speaking markets in Latin America, the United States, and Spain. Its activities include nearly all aspects of the live entertainment industry, promoting various events such as live music, theatre productions and the management and operation of fairs, shows auditoriums and sporting events.

Before Codere bought 84.8% of CIE the company owned outright betting establishments all over Mexico including those located in popular tourist hotspots such as Cancún and Tijuana. In 2006 the company had 43 sports betting shops and gaming centres in Mexico which received a total of 3 million visitors 50% more when compared to 2005. In addition the company had a large number of slot machines in gaming centres throughout the country.

CIE also fully owned and ran the Hipódromo de las Americas race track in Mexico City. The racetrack first opened in 1943 and having been closed for three years was reopened in 1999 by CIE, through its affiliate company Administradora Mexicana de Hipódromo (AMH). CODERE now participates not only in CIE's gaming terminals, bingo halls and betting establishments, but also in the horse racing complex in Mexico City.

Mexico. Global Gaming Systems was one of the first companies in Mexico to offer high tech equipment for the industry. It has some 10,000 terminals connected in 29 venues which are connected to the Global Management System and 7,000 due to be installed. The company launched Virtual Casino in Mexico last year.

Meanwhile Novomatic's Crown Gaming Mexico was founded in 2010 and operates gaming terminals in the market.

IGT operates over 10,000 video slot machines in Mexico and has its Megalackpot products there plus SBX solutions. The company teamed up in a strategic partnership with Play City last year to provide products and systems such as the SBX Casino Management Solution and IGT Floor Manager.

SEGOB granted 300 licences to bingo halls and permits gambling companies to operate in Mexico with 'little interference.'

Dan Mikesell, IGT Regional Vice President of Sales for Latin America said: "IGT is proud to introduce our systems and games to Play City Casino. This strategic partnership allows IGT to expand its products throughout one of the leading casino entertainment companies in Mexico while providing unique gaming experiences to their players."

The company entered the Mexican market in 2007 and has created products for the Mexican and Latin American markets specifically.

At the end of last year the Gauselmann Group and long time Spanish partner Jose Luis Gonzales founded the subsidiary Merkur Gaming Mexico which is 51 per cent owned by Gauselmann and headquartered in Mexico City.

The company will now develop the jointly operated network of gaming machine installations which stands at around 1,000 presently with the aim of expanding its business here. The company aims to extend in this market and use this location as a base for other neighbouring casinos markets in Panama and the Caribbean.

COO Thomas Niehenke said: "Given the current volume of about 120,000 machines, the potential for 250,000 machines is realistic in this growing market without a doubt. We are certain that we will be successful since we are working with Jose Luis Gonzalez, who has invaluable experience in these markets as a manufacturer and operator."

Betstone has presented its Cloud based gaming solution to Mexico and has been working in partnership with many operators for the last six years delivering premium content and business intelligence software.

SPIELO International took on a new Operations Manager in Mexico in 2011. Agustin Nieto now coordinates all Atronic's activities in the country. SPIELO has had presence in the market for some time with success rates with the new Oxygen Cabinet and the performance of Doggie Cash and Magic 5s. Some 230 cabinets were installed at Win&Win Casino operated by Nalibic and Doggie Cash and Magic 5's were installed at Casino Hipodromo de la Americas.

GROWTH OF ONLINE GAMING

Mexico is apparently one of the fastest growing internet markets in the world and has the second largest internet user population in Latin America. In 2010 a study revealed that Mexicans spent more than 60 per cent of their time online on communication and entertainment sites.

The increase in internet use between 2005 and 2010 in

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MEXICO

Mexico was apparently almost 94 per cent with around 20.9 million internet users over the age of 18 in 2010.

Many US professional poker players cross the border to gamble in Mexico and Mexicans can also gamble at off-shore gaming web sites and today there are 476 betting sites which can accept play from Mexico such as Bet 365, William Hill, Betfred, Paddy Power etc.

The antiquated 1947 law did of course not consider television, internet and other mobile applications when it devised a gambling law. The calls to change the law need to be applied to cover this sector

However since 2007 licensed land casino operators in Mexico have been permitted to offer internet gambling and various partnership deals have been set up between the casino operators and online firms to facilitate this.

SEGOB granted 300 licences to bingo halls and included a paragraph in the law that will permit online gambling companies to operate in Mexico with 'little inter-

Playtech struck a deal with Grupo Caliente last year which will see the company take on the operator as an gambling software online client.

ference from the government.' This means that many of the regulatory control to ensure safety and responsible gaming are also missing.

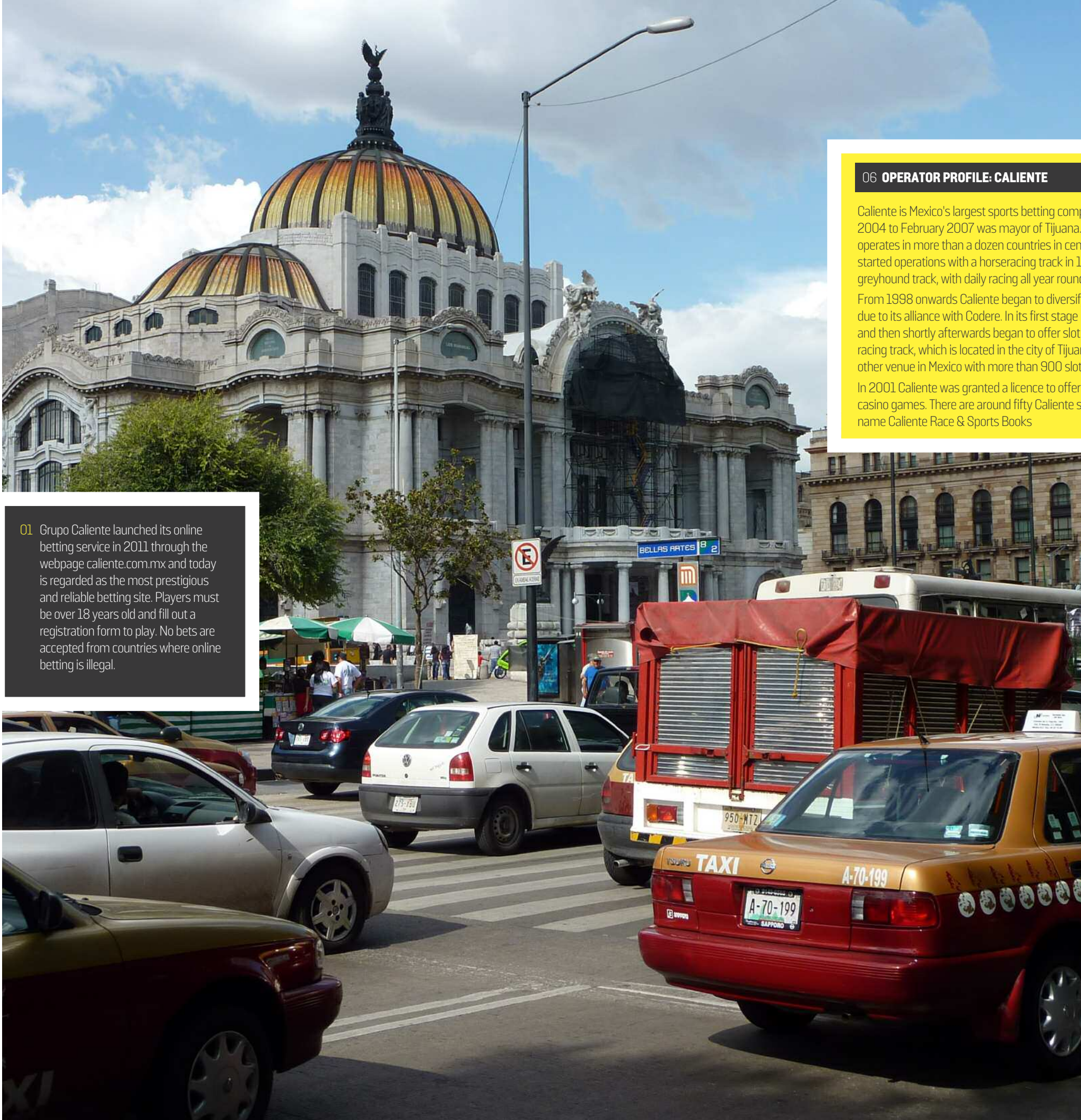
One of the first casinos to set up a fully licensed online casino was Palmas casino which was at the time powered by Playtech software offering over 100 games. In 2011 the operators of Palmas Casino – Entretenimiento de Mexico (EMEX) was acquired by Canadian company, Las Vegas from Home.com Entertainment Inc (LVFH) who acquired 99 per cent share in the company to take over its online gaming business under the name of palmasbet.com and palmaspoker.mx alongside its Playboy Casino Cancun and other 22 casinos.

The palmasbet.com site offers poker, casino games, bingo and sports betting with table games and slots and instant lottery games.

LVFH is the creator of Real Vegas Casino on Facebook and also developed and created the Action Poker Network which was at the time home to over 500,000 players. It provides its own gaming platform.

The partnership with EMEX means that since spring 2011 over 6,000 Mexican residents have wagered real money bets on the Palmasbet poker site. The site is now projecting a cash flow of US\$30,000 to US\$50,000 per month with an estimated revenue of US\$30m a year from operations.

Grupo Caliente launched its online betting service in 2011 through the webpage caliente.com.mx and today



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MEXICO

06 OPERATOR PROFILE: CALIENTE

Caliente is Mexico's largest sports betting company and is owned by Jorge Hank Rhon who from 2004 to February 2007 was mayor of Tijuana. As well as being present in Mexico Caliente also operates in more than a dozen countries in central and South America as well as Europe. Caliente started operations with a horseracing track in 1916 and since 1950 has also operated a greyhound track, with daily racing all year round.

From 1998 onwards Caliente began to diversify the games on offer at its gaming establishments due to its alliance with Codere. In its first stage it introduced traditional bingo to its gaming centres and then shortly afterwards began to offer slot machines on its premise. The Agua Caliente horse racing track, which is located in the city of Tijuana, now houses more slot machines than in any other venue in Mexico with more than 900 slot machines on site.

In 2001 Caliente was granted a licence to offers online sports betting and will soon offer online casino games. There are around fifty Caliente sports betting shops in Mexico which go under the name Caliente Race & Sports Books

is regarded as the most prestigious and reliable betting site. Players must be over 18 years old and fill out a registration form to play. No bets are accepted from countries where online betting is illegal.

Meanwhile, Caliente's telephone betting service emerged back in 1989 as an alternative during a strike action called by the labour union during this year. It is centralised in Mexicali, Baja California and although the conflict with the union was resolved in 1990 the operation was then integrated at Tijuana. In 1993 the service 'Sports Center' was installed and continues to operate from this base today.

Players must be over 18 years and fill out an application form and have an initial cash deposit of \$200. Caliente teamed up with Parlay Entertainment Inc

In March last year Playtech struck a deal with Grupo Caliente which will see the company take on the operator as an online gambling software client. Playtech will supply its complete online casino product including table and slot games plus its branded online slot games based on Marvel super heroes and Hollywood blockbusters.

The casino games will be supported by Playtech's Information Management Solution technology platform. Caliente will operate the venture under the Mexican gaming regulation which covers Mexico and parts of Latin American. Playtech and Caliente will now work to provide services in other Latin American countries.

Also working with Grupo Caliente is Probability Plc who entered into an agreement in 2011 with the company and as such entered the Mexican market. The Probability products will be offered to players in Mexico and other Latin American market via Caliente's gaming licence.

The company has been in business since 2004 and develops mobile entertainment gambling products. The first product was launched in 2004 and was a mobile slot game. As smart phones came to the fore after 2010 further products were developed and the company just launched its revolutionary Slot-o-Matic platform.