

Serbia & Montenegro

After Slovenia, Croatia, Macedonia and Bosnia and Herzegovina were recognised as independent states in 1992, Serbia and Montenegro declared a new Federal Republic of Yugoslavia. Under the leadership of President Milosevic various military intervention efforts were made to unit ethnic Serbs in neighbouring republics into a Greater Serbia. These actions led to an all out war and Yugoslavia being ousted from the UN in 1992. However the campaign continued until 1995 and further fighting in the late 1990s. Milosevic was replaced during Federal elections in 2000 and in 2001 the country's suspension from the UN was lifted and two years later a restructuring programme of the country began and it became a loose federation of two republics called Serbia and Montenegro. In June, Serbia declared it was the successor state to the union of Serbia and Montenegro following a referendum. The regions economy suffered severely in the 1990s thanks to mismanagement, economic sanctions and damage during the NATO air strikes.

However, an aggressive market reform programme was introduced and Serbia faced its debts. Montenegro separated itself from federal control and Serbia now has its own central bank, uses the euro instead of Yugoslav Dinar and manages its own budget.

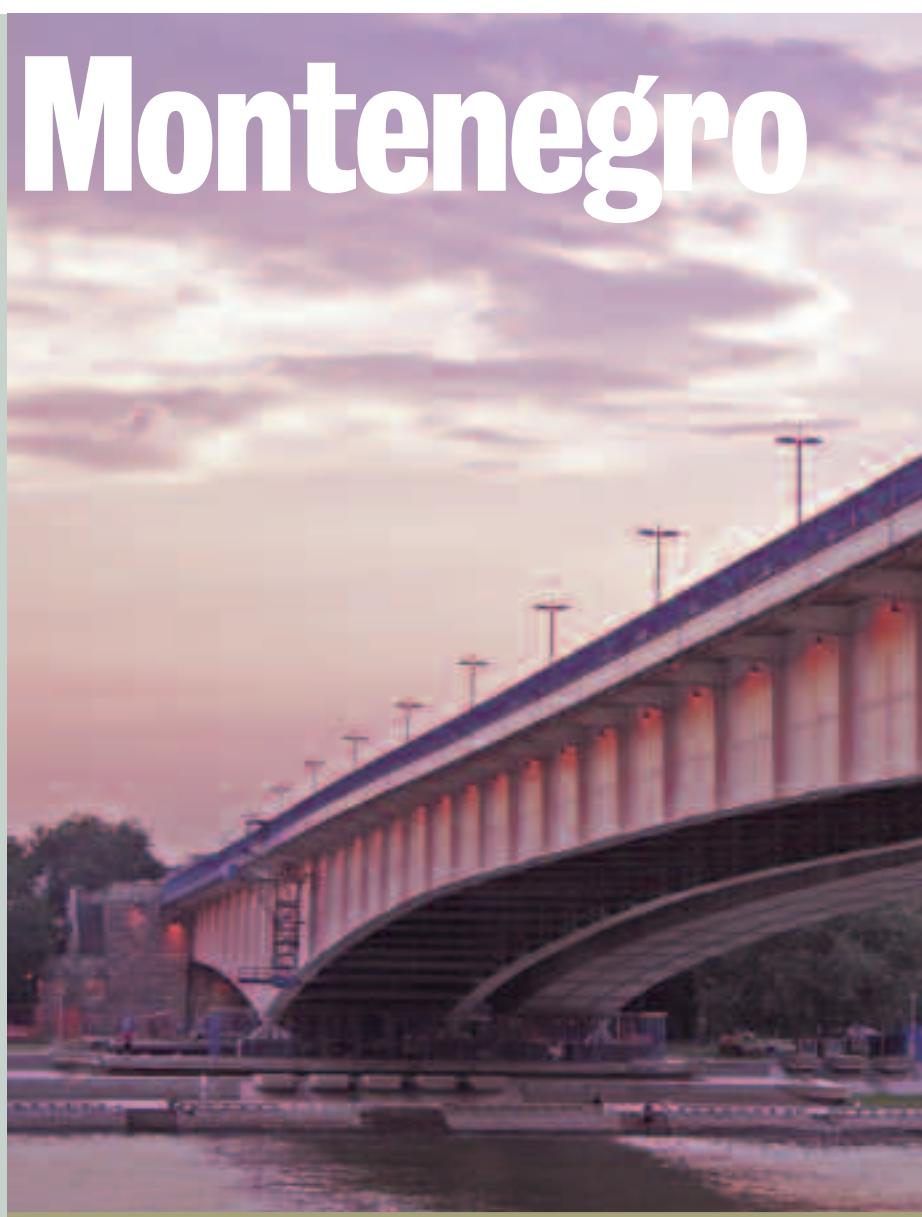
The complexity of Serbia and Montenegro's political relationships, slow process in privatisation and substantial foreign trade deficit are just a few things which still hold back the economy. The country is surrounded by Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Macedonia and Romania and has a population of 10.8 million.

According to the Ministry of Finance of the Republic of Montenegro there are 48 registered slot clubs in the region with a total of 502 slot machines and 23 electronic roulettes within these slot clubs.

Payouts for slot machines must not be less than 80 per cent of the total amount gambled and the Ministry of Finance budget incomes for all games of chance for 2005 was 1.763.091,59 euros. The current Law on Games of Chance for Montenegro covers all games operated in casinos and betting shops, slot machines, lottery industry, bingo, keno, video lottery and Toto. The law includes the following points:

- Only legal entities (joint stock companies and limited liability companies) with head offices in Montenegro have the right to organise special games of chance.
- Casino licences will be granted by the government to legal entities via a public tender announced in the daily newspapers. Licences are granted for 10 years.
- The casino concessionaire must have a fixed capital of 300,000 euros registered in the Commercial Court throughout the validity of the licence.
- Casino operators must also have a daily 'risk-deposit' in the cash box of not less than 50,000 euros for five tables and 20,000 euros for every additional five tables.
- Casino concessionaires pay an annual fixed fee of 50,000 euros per casino for each licence granted plus a monthly variable fee calculated from takings.
- There must a minimum of five tables within a casino for games with balls, dice or cards.
- Licences for operating games of chance in slot clubs, betting and tombola are granted on the basis of requests submitted to the authorities for a period of three years.

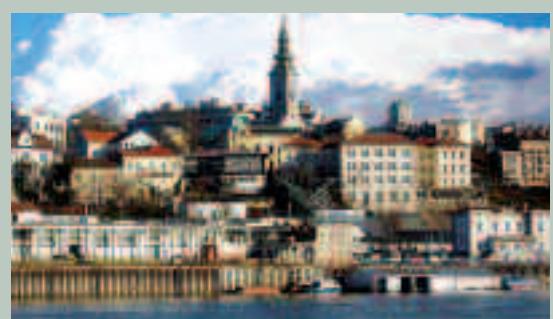
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- Slot club operators must have a fixed capital of 75,000 euros registered with the court for each operation.
- They must also have a 'risk-deposit' of 25,000 euros for each three slot clubs and 2,000 euros for every extra slot club following. This must last during the period of the licence and 30 days afterwards.
- Slot club concessionaries pay a monthly fixed fee of 50 euros per slot machine and a 10 per cent monthly variable tax calculated on takings. Local communities can also add their own taxes and operators must pay up to 20 euros (depending on the community) per slot machine.
- Slot clubs must have a minimum of 10 slots machines and be a minimum of 35sq.m. in size.
- Operators must have the slots connected to an online monitoring system.

Meanwhile the Serbian games of chance Act includes games such as lottery, sports betting, lotto, keno and slot machines. The act includes the following points:

- Games of chance operated in gaming facilities can only be organised by licensed bodies within the Serbian territory and registered for gambling and betting facilities.
- The government will issue a maximum of 10 licences for operating games of chance in casinos for 10 years.
- Licences for casinos will be granted to companies who meet all the relevant requirements including those with a capital stock of not less than 1,000,000 euros.
- A minimum deposit of 300,000 euros or bank guarantee for each casino to be held during the licence period.
- Casino operators will pay a total of 28 per cent tax on gaming incomes.



The Kingdom of Serbs, Croats, and Slovenes was formed in 1918; its name was changed to Yugoslavia in 1929. Occupation by Nazi Germany in 1941 was resisted by various paramilitary bands that fought each other as well as the invaders. The group headed by Josip Tito took full control of Yugoslavia upon German expulsion in 1945. Although Communist, his new government and its successors (he died in 1980) managed to steer their own path between the Warsaw Pact nations and the West for the next four and a half decades. In the early 1990s, Tito Yugoslavia began to unravel along ethnic lines: Slovenia, Croatia, Macedonia, and Bosnia and Herzegovina were recognised as independent states in 1992. The remaining republics of Serbia and Montenegro declared a new Federal Republic of Yugoslavia (FRY) in April 1992 and, under President Slobodan Milosevic, Serbia led various military intervention efforts to unite ethnic Serbs in neighbouring republics into a 'Greater Serbia.' These actions led to Yugoslavia being ousted from the UN in 1992, but Serbia continued its campaign until signing the Dayton Peace Accords in 1995. In 1998-99, massive expulsions by FRY forces and Serb paramilitaries of ethnic Albanians living in Kosovo provoked an international response, including the NATO bombing of Belgrade and the stationing of a NATO-led force (KFOR), in Kosovo. In 2001, the country's suspension from the UN was lifted, and it was once more accepted into UN organizations under the name of the Federal Republic of Yugoslavia. In February 2003 lawmakers restructured the country into a loose federation of two republics called Serbia and Montenegro.

- Operators of slot machines must hold a capital stock of not less than 150,000 euros and have a registered deposit of 300 euros for each gaming device for the period of the licence.
- A licence to operate gaming machines will last for three years.
- Slot operators will pay an approval fee of 180 euros per year for each game installed plus a 35 euros per month advance fee as tax. Any operator who turns over more than 12,000 euros a year shall also pay five per cent tax on any sum over that amount.
- All game operators must link each gaming machine to the governments computer monitoring network

CASINO MARKET

There are a total of seven casinos in Serbia and Montenegro. Five of these are located in the Serbian capital Belgrade and two are in Budva, Montenegro. The

largest casino is the Alexander Casino in the Metropol Hotel in Belgrade. Following the introduction of the new Gaming Act released in 2004, licences for a maximum of 10 casinos have now been granted. A government resolution passed in September 2005 has since awarded one licence for the city of Belgrade and a further four licences outside the capital by the end of 2008. Serbia is keen to develop its casino market in a bid to boost funds for structural economic reform. The government hopes that Serbia will receive a positive assessment of the feasibility study for their accession to the European Union. The Serbian Ministry of Finance, Mladjan Dinkic, announced that he is pushing for more substantial financing for culture and sport and aims to collect as much as possible from games of chance. According to Mr. Dinkic the funds collected from betting shops, slot bars and Loto will be used for social care, sports,

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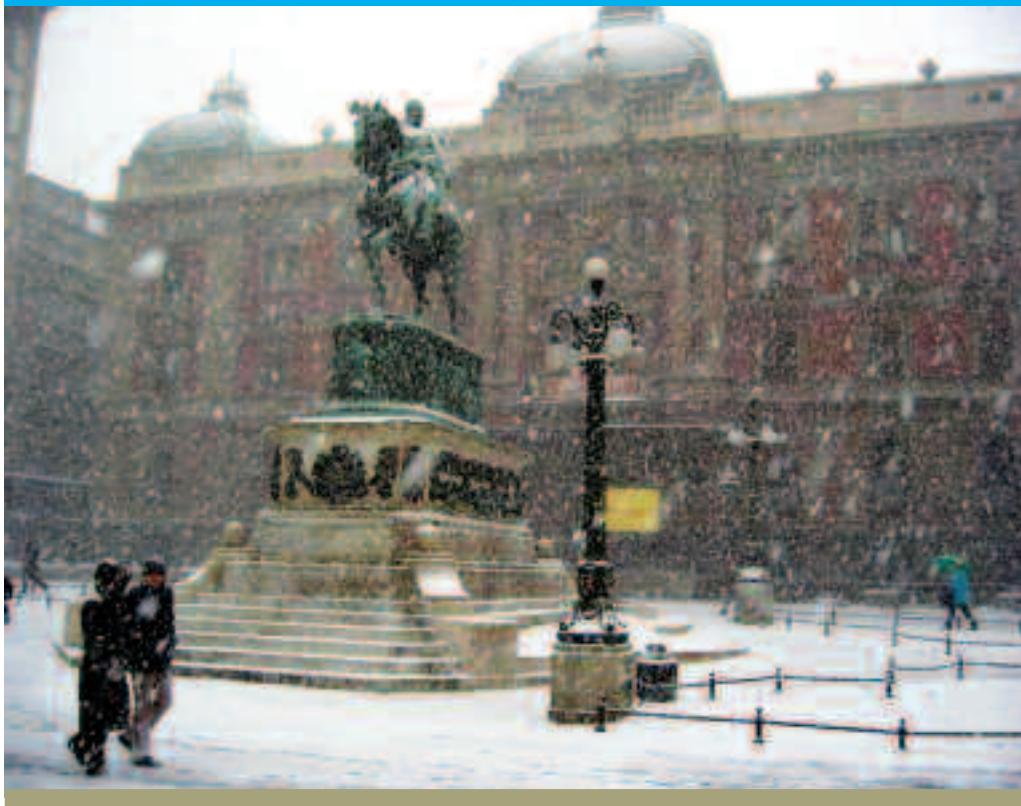
local self government and Red Cross activities. The new Belgrade casino will be operated by Casinos Austria International who is partnered in this project with Serbian National Lottery Company and Club Hotel Casino Loutraki in Greece. Investment in this project is said to be worth 30m euros. The casino is due to open in 2007 and initial plans foresee an extensive gaming area to include 20 gaming tables and 150 slots. There will also be a restaurant and bar facilities. CAI already operates 72 casinos in 16 countries and eight casinos on cruise liners. In 2004, the two entities posted revenues of 996m euros. CAI CEO Paul Herzfeld said: "We are highly delighted with this award. The new casino will be a valuable asset for Belgrade's economy and will play a key role in establishing the casino industry in this new and dynamic market."

Interestingly, the CAI licence will be

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>> valid for 10 years and for a period of two years this licence will give the casino the exclusivity to operate live games of chance in the city of Belgrade. In 2008 another licence for live gaming will be issued, but in the meantime CAI will be the only casino to operate live gaming within a perimeter of 30km around the city centre. The other remaining casinos will now lose the title 'casino' and live gaming operations will cease at the end of this year.

CAI's Alexander Kiss, Corporate Head Products & Start Ups said: "The market clearly will respond to the changes that legislation is currently imposing. We feel that now there materialises a great opportunity for an experienced multi national operator in redefining the gaming experience for both local and foreign customers and, by doing so, to become the dominant player in the market. "Other than live gaming, slot machine halls will remain on the scene and compete with our electronic games offer. "Given that by the terms of the new law the existing slot clubs are being deprived of the label 'casino' this term shall be re-defined by CAI's Grand Casino Belgrade as a contemporary and unique entertainment experience centred on gaming. Our future operation shall be embedded to an architectural conception that responds to CAI's claim of being traditionally innovative. The design planned to meet the high local expectations will follow a decent but modern approach. It will be thoughtfully modelled to satisfy the spirit of upscale entertainment in an atmosphere of transparency and integrity. The operation in Serbia shall be shaped in

a way to become a valuable milestone on the way of CAI's sustained expansion into a growing Europe."

Meanwhile casino operator HIT which has an operation in Montenegro has been encouraged by the performance of its Maestral Casino and Hotel in Budva which saw 50 per cent more overnight stays in the first five months of the year. The company believes that the recent decision by Montenegro to become independent of Serbia will only be good for business as tourism is likely to become the country's major source of foreign revenue. Meanwhile Unidesa is currently active in Serbia and deals with the customer directly. The company is just starting with 100 products in the market with a potential customer. Unidesa's Jordi Pedragosa said: "Serbia is right now deeply involved in this new gaming law and the operators will start to move on in the same way as their sister countries."

SERBIA AND MONTENEGRO'S CASINOS PER REGION BELGRADE, SERBIA

There are currently five casinos in Belgrade including the largest, the Alexander Casino with 50 slots and three tables. Others include the Jugoslavija Hotel and Casino with 24 slots, the Ruski Car Casino with two poker games and six tables, the Slavija Lux Hotel with American Roulette, Blackjack, Chemin de Fer and slots and also the Fairplay Casino located in one of Belgrade's oldest hotels Hotel Kasina. The Fairplay Casino opened in January 1994 and includes 12 tables games including Roulette, Blackjack and and two Caribbean poker.

Serbia will stage the first South East European gaming industry exhibition called Gaming Expo Belgrade between February 20-22 2007 at Belgrade Fair. Visit www.see-geb.com for further information.

For a full copy of the Serbian and Montenegro Games of Chance law please contact G3.

Country: Republic of Serbia
Capital: Belgrade
Population: 9,396,411 (2002 census)
Median age: 40.4 years
Male: 39.1 years
Female: 41.7 years

Ethnic groups: Serb 66%, Albanian 17%, Hungarian 3.5%, other 13.5%
Religions: Serbian Orthodox, Muslim, Roman Catholic, Protestant
Languages: Serbian (official nationwide); Romanian, Hungarian, Slovak, Ukrainian, and Croatian (all official in Vojvodina); Albanian (official in Kosovo)

Government type: Republic
National Day, 27 April
Chief of State: President Boris Tadic
Head of Government: Prime Minister Vojislav Kostunica (since 2004)
Cabinet: Federal Ministries act as cabinet
Elections: President elected by direct vote for a five-year term.

BUDVA, MONTENEGRO

There are two casinos located in Montenegro. The Maestral Resort and Casino, which is a large tourist complex in the South Adriatic which is operated by Slovenia's HIT Casinos.

The resort comes with a 180 room hotel and apartments, restaurants, swimming pool and a 368 seat conference hall. The casino includes 120 slot machines and 11 gaming tables including American Roulette, Blackjack, Hit Draw Poker and Mini Punto Banco and two electronic Roulettes.

Also in this region is the Casino Montenegro operated by Dzek Pot LLC in Hotel Crna Gora in Podgorica, the capital of Montenegro with a population of around 200,000. The four star hotel was built in 1953 and renovated in 1986 and has 142 rooms and seven apartments. The licence for this casino was granted in December 2005 although interestingly the Government of Montenegro recently offered its majority stake of shares in the company UTIP Crna Gora AD, which alongside other interests is the owner of the Hotel Crna Gora.

