

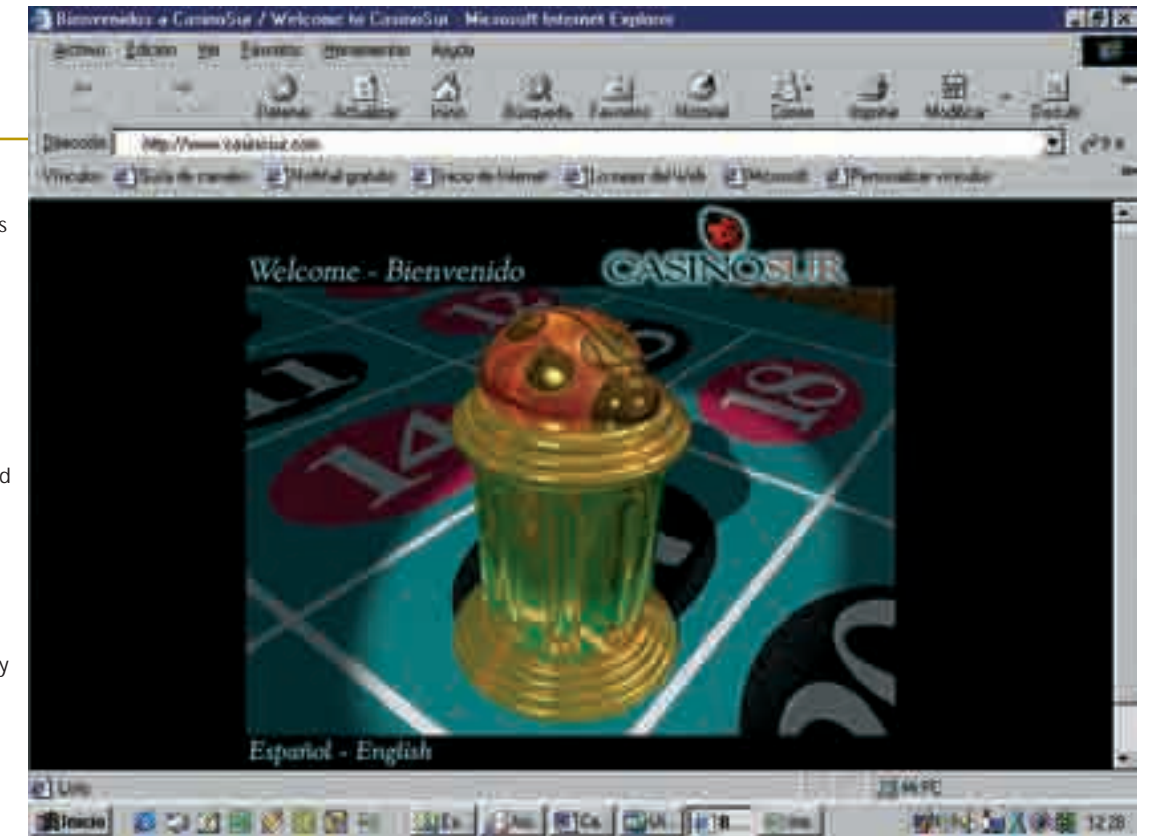
DIZZYING INCREASE IN THE NUMBER OF ONLINE CASINOS

INTERNET GAMING

\$60,000 MILLION WILL BE PLAYED IN INTERNET GAMING IN 2005



2005 marked the 10th anniversary of the first online Casinos. Over these ten years, the number of online Casinos has risen dizzyingly, in spite of the reluctance of some players to gamble with them, due to a perceived lack of security in Internet transactions. One solution to this problem could be to grant licences for online Casinos to operators of land-based Casinos.



The main difference between online Casinos and traditional gaming establishments lies in the fact that online Casinos are open 24 hours a day, 7 days a week, with no restrictions as regards legislation, opening and closing hours or client access conditions. Traditional Casinos are subject to rigorous control by government authorities, while many online Casino gamers would like to see greater control and surveillance. The growth in the number of gaming websites over recent years has been tremendous. Just put the words "online Casino" into Google and you will get over 34 million hits.

- There are three types of Internet Casinos:
- those which require you to download and install a program before playing
 - those which operate in JAVA, which require no specific program in order to access the games
 - those which use HTML code, which require no program to be installed

According to a recent study by financial advisory company Merrill Lynch, the online gaming industry should continue to grow over the coming decade, going from takings of \$4.8 billion in 2002 to an estimated figure of \$187.7 billion for 2015.



ON LINE CASINOS



In general, the countries which have been quickest to regulate online gaming are what we know as "tax havens", where most of the servers are located. This is the case of the Virgin Islands, Curaçao, Granada, San Kitts, the Cook Islands, Gibraltar, Costa Rica, Belize, Antigua and Barbuda, Trinidad and the Turks and Caicos Islands, some of the few places where licences for Internet Casinos are currently granted, and whose economies have benefited from the golden egg of virtual gaming.

Two years ago, the European Court of Justice ruled that European Union States could block foreign access to its gaming markets, but only to protect citizens, not to defend state gaming monopolies.

Among EU member States, the UK leads the forecasts for on-line business this year, with €840 million, followed by France, with €640 million; Germany, with €540 million; Italy, with €500 million and Spain, with €300 million.

Another outstanding case is Malta, one of the most open countries as regards Internet gaming legislation, one of the first to control and grant a licence for a gaming portal to a private company.

www.EUVegas.com, operated by World Match, became the first online Casino with government authorisation from an EU member State.

This government backing guarantees transparency, security and fair play, unlike Casinos located in tax havens, where guaranteeing these aspects is much more difficult, leading to possible problems for gamers.



Recently, Online Gaming Regulation and Assurance (eCOGRA), which controls the efficient operation of virtual Casinos, grouped 53 online Casinos in an initiative to grant players protection and confidentiality, in addition to international control standards. The motto of eCOGRA, "Play It Safe", identifies Casinos which have satisfactorily passed inspections. It is granted by three independent directors of the eCOGRA board, entrusted with controlling the operational activities of the organisation.



Another special case in Europe is Liechtenstein, where online gaming is authorised, albeit subject to legal conditions very similar to those which govern non-virtual gaming in land-based Casinos, and which are included in its national legislation. Other countries which have legalised Internet gaming are Australia, Finland, Venezuela and the Dominican Republic. Unlike the USA, where this activity is banned, in spite of the large number of gamers in the country. In states such as Nevada, Internet gaming is typified as an offence, to defend the interests of Las Vegas Casinos, whereas in



other states, such as Louisiana, Illinois and Texas, administrative sanctions are applied. According to information made available by the Accounts Office of the US Government, in the last two years over 5 million accounts were opened with betting sites; in 2003 online gaming led to profits of some \$4,000 million.

One case which focused international attention was the long-running stand-off between the USA and Antigua regarding online gaming. On 11 April last, this conflict finally came to an end, when the World Trade Organisation (WTO) published a report stating that certain US laws ran contrary to agreements between the USA and Antigua and Barbuda.

In the end, the USA was unable to achieve its intention of stopping the small Caribbean nation from offering Internet gaming to citizens in the USA.

Dr Errol Cort, Antigua and Barbuda's Finance and Economy Minister, had this to say, "We are very pleased with this WTO decision in our favour. I am fully satisfied that we have done all we could to reach a concerted solution to this controversy with the USA. Our delegation proposed a series of innovative changes to help eliminate US worries as regards online gaming".

The number of online gamers is set to keep increasing, with a massive expected increase of almost 50% this year, making the total more than 7 million.

A recent study carried out by MECN, the Media and Entertainment Consultancy Network, found that poker will be the main online gaming offer over the next 2 or 3 years. Many experts consider that the annual volume of the worldwide online poker market will reach over \$4,000 million in the next two or three years.

The same study calculates that approximately over \$60,000 million will be gambled worldwide in 2005, and that the market will become more complicated in the future. Player winnings will drop and competition will increase, forcing operators to find new strategies, such as the creation of wide spreading poker networks and the participation of big names, such as Ladbrokes.

The report also finds that the market with the greatest potential future is the European market. This is already obvious in the UK, for example, where online gaming is very popular.

A recent survey carried out by the Casino www.888.com shows that the number of British citizens betting online has increased over sixfold in the last year.

This Internet Casino already has over 13 million members, compared to 2002, when it ended the year with less than 3 million.



ON LINE CASINOS

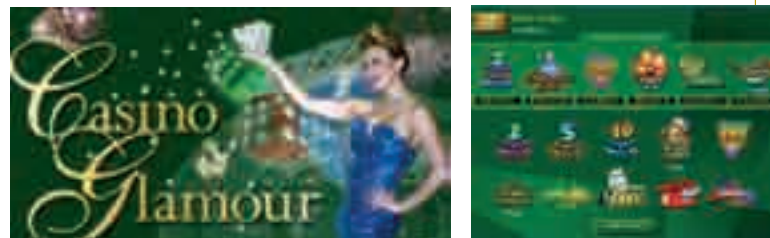
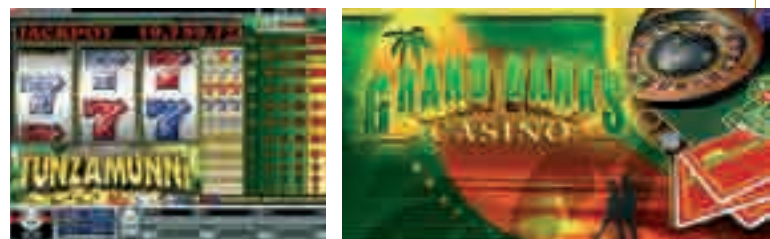


The success of online gaming in the UK has led to Government efforts to increase taxes on online betting and gaming transactions. Last year, these activities contributed \$13.6 million to state coffers, out of total takings of \$4,500 million, according to a report made public by the National Audit. "Normal" bookies paid over \$600 million out of total takings of \$60,000 million, a much higher percentage.

The surge in online poker is also documented in a report made public by Dresdner Kleinwort Wasserstein, which calculates that the electronic poker market is expected to double its revenues this year, up to \$2,800 million dollars, an increase well over the 22% forecast for all Internet gaming, and 4.3% for land-based Casinos.

www.ParadisePoker.com, for example, hosts over 600 hands of poker a minute, 900,000 per day. Revenue from online poker amounted to \$1,400 million dollars in 2004, out of a total of \$9,000 million dollars for the virtual Casino industry. Last February, the largest Internet poker website in the world, www.partypoker.com, which is operated by iGlobalMedia, revealed that it is considering the largest Stock Market float in three years, approximately stg£3,000 million. The agencies which analysed the accounts of the group, based in Gibraltar, noted that in 2004 its earnings before tax and depreciation amounted to more than \$350 million dollars. Another detail that underlines the growing importance of online

poker is the setting up of www.escaleradecolor.com, operated by St. Enodoc Holdings Limited. It is the first poker school aimed at the Spanish market, an initiative that will soon be extended to other European countries.



In Spain, recent data published by the Commission for the Telecommunications Market indicates that the number of visits to and the amount of money spent on online gaming pages increases daily. In the first quarter of 2004 these pages handled over



Presidential table Brussels 2005



GREF meeting Brussels 2005

120,000 bank transactions and a non-quantified number of visitors, who spent over €12 million. The average value of each transaction is €100. In comparison, recent data suggests that average spending per online player could be more than the average spending of visitors to conventional Spanish Casinos, €88.59 per person.

In spite of the forecasts for growth in Internet gaming, there have also been cases of online Casinos which have had to close due to economic problems.

One example is Harrah's which closed down its UK online gaming site after announcing losses of \$9.3 million last year, making it the second Las Vegas operation to fail in its incursion on the European online gaming market. The first was MGM Mirage, which closed its online gaming site for European customers in 2003 due to the prohibition on online gaming in the USA.

Other countries, such as New Zealand, have increased online gaming control. A new law allows interactive betting over the Internet, cell phones and television, but only through the Lotteries Commission and TAB. It also allows New Zealand citizens to bet at Internet sites located outside the country.

In short, although these figures regarding the evolution of online gaming for the coming years may be accurate, it is also true that it is of the utmost necessity to increase government control over these sites, to give players the necessary security in their transactions.

Obviously, controlling Internet activity is also going to be difficult, as evidenced by the well-known phrase always uttered at meetings of the Gaming Regulators European Forum, GREF, "you can't hold back the tide". For a long time, the members of this body, who meet annually, have not been able to reach an agreement about online gaming.

In addition to the problem of harmonising standards acceptable to the majority, almost none of them is an expert on Internet gaming. At this rate, it will be a long time before the EU can bring out regulations applicable to all its member States. The idea should concentrate on responsible gaming as another leisure option, but with the necessary national and international controls to eliminate fraud and to increase the tax revenue of companies that operate Internet Casinos.



Participants at the GREF meeting Oslo 2004