

ANNUAL REPORT 2018



SZERENCSEJÁTÉK ZRT.

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LETTER FROM THE CEO 01.



Dear Reader!



the year 2018 was a year of records for Szerencsejáték Zrt. since the net sales revenues (HUF 491.1 billion) and contributions to public expenditures (HUF 105.3 billion) as well as the profit after tax (HUF 21.6 billion) all exceeded the result of the past years. Our players took home a total of net HUF 319.3 billion in winnings. If we compare the years 2010 and 2018, our revenues have grown threefold. This would not have been possible without the almost 1700 well-qualified and dedicated employees, sales partners, the numerous innovative solutions implemented in betting, the wide range of scratch cards, the international and national lottery games, the always reliable drawing system and most importantly the trust that players have in our products and services.

The national company offering gambling and betting services has done its best in 2018 to earn this trust. In line with international standards, the Company provided high quality, fast and player-focused services not only through its national network of points of sale, but also on its state-of-the-art online platforms. As a responsible gambling operator our aim is to ensure the highest quality real gaming experience for a variety of generations, while all the time keeping our social responsibility in focus. Szerencsejáték Zrt. is a state-owned company and as such thrives to assist as much as possible in raising awareness of social good causes which otherwise would receive less attention from the wider public.

Apart from the experience gained through playing, the excitement offered by betting and the record winnings, our customers came away with the feeling of content that in 2018 they supported good causes again. Revenues from the "Nagykarácsony" scratch card in 2017 and 2018 were used towards creating inclusive playgrounds that offered the joy of playing for everyone no matter what their disabilities were. The good news is that the programme continues in 2019, too. Everyone at Szerencsejáték Zrt. works to ensure that all aspects of their activity fit into the social norms in which we operate, while our social responsibility focuses on providing responsible gambling and betting services and running business as a responsible company. We are fully aware of the fact that the operation of the Company has its risks to society for gambling and betting have their inherent risks. We feel responsible for our environment, we protect our players, and ensure fair treatment for our employees. The public is regularly informed about the activities of the Company, for example, in the form of this integrated report.

The Company regularly supports community sport, cultural, educational, health and other programmes within the framework of donations and sponsorship agreements, almost half of the

gambling tax payable is earmarked for community purposes that are defined by law. The list does not end here; the value created and the responsibility taken by the Company affects many segments of Hungarian society. We are proud of our charity scratch card sales network that employs people with reduced capacity to work and has been an integral part and substantial contributor to our success for more than 15 years and is available in 70 towns and villages countrywide. We are also proud of our ever more and more colourful prevention programmes that reach an increasing number of students every year with the aim of maintaining the mental health of our children and teenagers.

To me it is important that Szerencsejáték Zrt. has been recognised on several occasions as a workplace setting good examples for other employees while contributing to the national economy substantially. In November 2018 we had the honour of having been granted the title of Best Workplace of Hungary for the second time in a row, and that year we were awarded the Family Friendly certification again. We are particularly proud and content that we were found worthy of the Disability Friendly Workplace Award for the fourth time in a row in 2017. The award is a sign of our efforts to help the integration of people with reduced capacity to work who often find that the labour market is not yet open enough for them, and thus we set a positive direction for the general attitude of the society towards them. These awards and certificates confirm that we are on the right track and they push us to work even harder in that direction.

The trust people put in Szerencsejáték Zrt. is one of the vital component of our success, and it can only remain intact if we continue to ensure that our operation is transparent, we fully comply with the regulations, we guarantee the payment of all winnings, and as a responsible gambling and betting service provider we continue to mitigate the risks of gambling addiction, while still providing entertainment for players and create value for the more general public.

Our mission is to set a good example for other large companies in Hungary in the field of social responsibility now and in the future. Our integrated report of the year 2018 gives an overview of what we have done for providing entertainment and creating value, while it provides a glimpse of the road we plan to take in 2019.

Dr. Gábor Czepek
Chief Executive Officer

About the report

Szerencsejáték Zrt. has been regularly publishing integrated reports to provide information on its annual performance since 2011. The target group of our reports has been defined to include players, employees and representatives of the press and the media. The report has been redesigned on several occasions in the past few years: In 2015 we switched to the GRI G4 reporting guidelines which were the latest at the time, then as a result of modifications made to the standard in 2018, the Company continued reporting according the so-called GRI Standard.

Our reporting process follows the method adopted in 2018. As the first step, we examined the available internal documents, studies, reports, media analyses, press reviews and benchmark research to identify the economic, social and environmental topics of material interest to our stakeholders. Then we ranked them by their impact on our stakeholders and by their relevance to our Company with the help of an internal working group, which was then validated by the management with the help and under the supervision of external sustainability experts in order to promote objectivity. Then the list of topics defined as material was reviewed and approved by the management.

The reporting process:



COMPANY PROFILE 02.



SZERENCSEJÁTÉK ZRT.

Szerencsejáték Zrt. is the national gambling and betting service provider of Hungary with a mission to create value

It has the exclusive right to sell draw games and pari-mutuel bets in the territory of Hungary. It also has the licence to organise fixed odds sports betting. The Company conducts gaming operations solely in Hungary. With its headquarters in Budapest, it pursues its commercial activities in five sales regions: Budapest, North Transdanubia, Miskolc, Pécs and Szeged.

The state permanently holds 100% of the shares in the Company, meaning that Szerencsejáték Zrt. is in state sole proprietorship. Up until July 2018 the owner's rights and responsibilities were exercised by the Minister responsible for State Property, who performed these duties through the Hungarian National Asset Management Ltd. (Magyar Nemzeti Vagyonkezelő Zrt., or MNV Zrt. for short), then after August 2018 this task was assumed by the Minister without portfolio responsible for State Property.

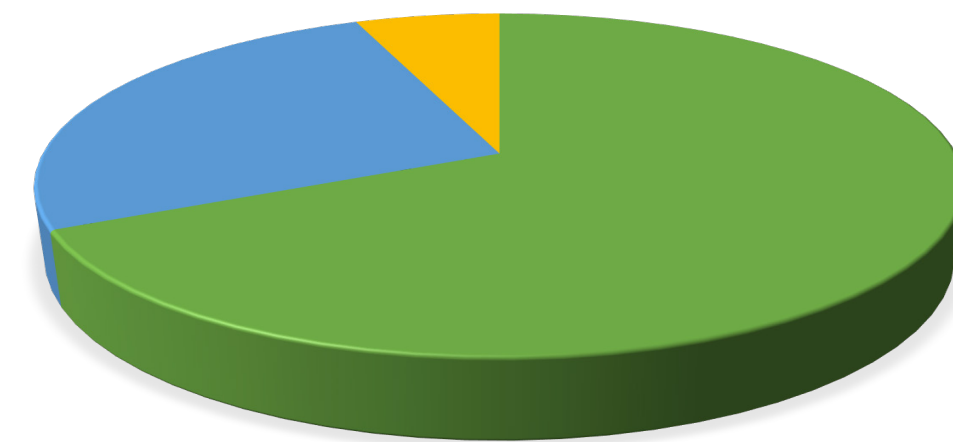
Szerencsejáték Zrt. in figures:

| | 2016 | 2017 | 2018 |
|----------------------------------|---------|---------|---------|
| Number of employees | 1 615 | 1 652 | 1 728 |
| Gaming revenue (million HUF) | 385 464 | 435 832 | 490 384 |
| Number of tickets sold (million) | 1 813 | 1 999 | 2 208 |
| Number of own points of sale | 391 | 407 | 407 |
| Other (partner) points of sale | 7 114 | 7 253 | 7 205 |

Main activities

Gambling is a popular and widespread form of entertainment that has been around for a long time: three quarters of the adult Hungarian population buy our products with varying degrees of regularity

Our players:



- Where? 79.3% in lottery shops
 - How often? 50% once a week, 11% more than once a week
 - What? 4.43 million people play 5/90 lottery, 3.82 million people by scratch cards,
 - Who? 46% of the players are men, 54% are women, 28% of the players are above 60.
- (Kutatópont, 2018, Tracking research)

Due to its extensive countrywide sales network, widely known and popular products, and effective communications, Szerencsejáték Zrt. plays a key role in shaping betting habits in Hungary.

OUR PRODUCTS

- Draw games: Ötöslottó (5/90 lottery), Hatoslottó (6/45 lottery), Scandinavian Lottery, Eurojackpot, Joker, Keno, Luxor, Putto, scratch cards
- Fixed odds sports betting: Tippmix, TippmixPro (remote game of chance)
- Other games: Kincsem+ Tuti, Trainers' Leagues
- Pari-mutuel betting games: Toto Pools, Goal Toto



We are fully aware that games of chance cannot be considered standard commercial products since they can pose a threat to public health, public order and public safety because of the high risk of addiction. Due to the unique features of the industry, our primary duty is to minimise any potential harm, to protect the vulnerable groups (primarily the youth) and first of all to implement preventive measures.

In order to shape betting habits, we co-operate with governmental and supervisory bodies, as well as medical institutions and treatment centres specialised in the psychological effects of gambling. Additionally, we support

special publications and programs that help people by raising awareness of the early signs of gambling addiction, and that effectively facilitate prevention among schoolchildren.

We strive to maintain a balance between successfully managing the public assets entrusted to the care of Szerencsejáték Zrt., contributing to public expenditure and taking responsibility for the society and our players.

OUR MISSION

The strategic mission of our Company is to offer experience and to create value.

Our new strategic targets focus on our players, together with our guiding principle which is to meet the demand of Hungarian people for gaming experience at the highest possible standard through constant product and service developments.

OUR VALUES

Our core values include responsible gaming, excellent product and service quality, customer orientation, reliability and social responsibility, which together form the foundation of sustainable and moderate growth.

BUSINESS OBJECTIVES

Our business is run with the objective of ensuring sustainable growth, cost efficient management, technological development for the future, and of enhancing customer experience and creating true social values, all these based on responsible gambling and betting services. Another key business policy objective is to maintain and expand our co-operation with other European lottery companies.

Inter-organisational cooperation, memberships

Szerencsejáték Zrt. has been a member of the recognised international umbrella organisation of the gaming industry, the EL (European Lotteries) and the WLA (World Lottery Association) for decades. Our activities comply with common gaming principles, which are founded upon responsible gambling and betting services and information security standards. We regularly participate in the professional programmes of these organisations in order to learn and adopt the best industry methods and practices. As a member of the European Lotteries our aim is knowledge sharing, to participate in European platforms, and to jointly monitor the betting events of lotteries. We are regular members of four of the working groups – Sport, Safety, Knowledge Sharing and Legal – that play a key role in the professional activities of the European Lotteries. Through such memberships we

have the chance to exchange information, but also to be involved in organising the key programmes of the EL. Szerencsejáték Zrt. is a founding member of the Global Lottery Monitoring System (GLMS), a non-profit organisation established by 27 EL and WLA members in 2015 with the main objective of protecting the integrity of gambling and betting on sporting events, and combat frauds in sports betting. Our Company is also a recognised member of Matchinfo, the association of lottery operators engaged in fixed odds sports betting.

Maintaining and expanding our cooperation with European lottery operators and making joint efforts against disintegration tendencies remained our key business objectives.

International relations

Szerencsejáték Zrt. maintains ties with similar state-owned companies in several other countries. The purpose of such relationship is to exchange information and knowledge, and to learn about international good practices and experience. Incoming inquiries typically include business offers and co-operation initiatives

by state-owned lottery operators, such as the Betsnap game development by the Austrian Lottery Company, the international co-operation related to the daily fantasy sport game of the Danish Lottery Company, or the review of the development concepts of the Eurojackpot.



International recognition

Our Company has been working as a responsible gambling operator since 2010, while gambling and betting services have been provided since 2012 in full compliance with the principles of the standards developed based on international best practices. Since we aim to comply with the standards and guidelines developed by the European Lotteries and the World Lottery

Association, we submit ourselves to a certification procedure every 3 years. We were awarded with the EL Responsible Gaming Certificate in 2010, 2013 and were found worthy of it in May 2016 for the third time. This certificate also served as a basis for WLA to recognise us as a responsible gaming operator in December 2016. Both certificates are valid until 2019.

In 2018 Szerencsejáték Zrt. holds the following international certificates:

- EL-Responsible Gaming Standards, valid until May 2019
- WLA-Responsible Gaming Framework, valid until December 2019
- WLA-Security Control Standards, valid until 2 September 2021
- ISO 27001 Information Security Management System, valid until 1 July 2021.

Similarly to the practices in other European countries, the profits of state-organised gambling significantly contribute to financing sports nationwide. By buying sports associations' media rights, Szerencsejáték Zrt. took a direct institutional role in promoting the success of high-priority

sports. In 2018 the rights and concessions owned by the Company in relation to sports activities, sports competitions and the competition system extended to include basketball, handball, water polo as well as ice hockey.

Portfolio

The Company owns 100% of the shares of two companies, Szerencsejáték Service Nonprofit Kft., which is responsible for sponsorships and public donations, and

Belvárosi Kaszinó Kft. This latter has been inactive since 2015.

Principles of corporate governance and management

Reliable operation is the key to the successful operation of Szerencsejáték Zrt. Our corporate governance principles, which ensure transparency, the optimal degree of regulation and strict compliance with the law, provide a firm foundation for maintaining the trust of our players and partners. As the national lottery company

of Hungary, it is our duty to provide the general public with opportunities for safe, moderate and at the same time state-of-the-art games of chance offering the joy of playing and entertainment.

Sustainable development

We have been committed to operating responsibly and sustainably for many years. Since 2010, the Corporate Social Responsibility Department, a separate organisa-

tional unit, has been in charge of coordinating and operating these activities.

Legal compliance

Abiding with the law is a basic, inescapable principle for our Company. Each element of our activities is fully compliant with the effective Hungarian and EU regulations. As a result, we only offer lawfully and safely organised, strictly regulated, fair games, we behave reasonably to-

wards our lawfully operating competitors and we take actions against illegal gambling. Our operations and sales network are regularly audited by the Gambling Supervision Board.



Ethical and transparent business

Szerencsejáték Zrt. believes it is essential that its employees enter and remain in employment in legal certainty. This is facilitated by our Collective Bargaining Agreement, which clearly defines the rights and obligations of the employer and the employees. In 2018, the Collective Bargaining Agreement applied to all the employees of the Company, except for the President-CEO and the deputy CEO.

The Collective Bargaining Agreement is a bilateral contract that can only be modified with the agreement of the Trade Union. The Trade Union and the Works Council represent the interests of employees in negotiating terms and conditions of work, and in defining wages and benefits, and they also ensure that opinions of employees are communicated to the management.

An Ethics Committee with permanent members was set up in 2007 to ensure compliance with the ethical rules and to clarify ethical issues, if any. The Committee prepares a report for the CEO every year, and the Code of Ethics, available on the intranet of the Company, helps

employees with ethics related questions. The purpose of the Code of Ethics is to inform the public and to define the rules for ethical behaviour to be followed by employees, to assist them in compliance, and to protect company employees from arbitrary measures by the employer or from being held liable unreasonably, and also from being involved in attempts of abuse. The Code of Ethics also declares that a person who in good faith reports a suspected act of abuse or the risk it potentially involves, may not be discriminated against. In 2018 no proceedings for ethical misconducts were initiated based on employee report.

Our company also defines requirements about ethical and transparent business operating processes for itself. These cover the topics of compliant behaviour, data security and confidentiality, ethical relations with players and efforts to reduce the risk of abuse and misuse. The Code of Ethics is regularly reviewed by the Company at least every three years. The Code of Ethics in effect since 1 February 2015 was reviewed and updated in 2018.

determined by the Memorandum of Association. The Chief Executive Officer (CEO) is responsible for the company's operative leadership, and shall always perform their duties in compliance with the legal regulations, the Memorandum of Association and the resolutions issued by the General Meeting and the Board of Directors.

The Company's executive body is the Board of Directors, which has the exclusive authority to make decisions about the issues listed in the Memorandum of Association. The Company's executive body is supervised by the Supervisory Board, one-third of the members in the Supervisory Board are employee representatives. The duties and responsibilities of the Supervisory Board are

LEADERSHIP IN 2018

| Name | Position |
|------------------|---|
| DR. GÁBOR CZEPEK | Chief Executive Officer (from 18 December 2018) |
| DR. MÁRTON BRAUN | former President-CEO (until 18 December 2018) |

MEMBERS OF THE BOARD OF DIRECTORS IN 2018

| Name | Position |
|------------------------|---|
| Dr. Marcell Biró | President of the Board of Directors (from 1 September 2018) |
| Dr. Márton Braun | former President of the Board of Directors (until 31 August 2018) |
| Dr. Gábor Czepek | member of the Board of Directors (from 18 December 2018) |
| Dr. Márton Braun | former member of the Board of Directors (between 1 September 2018 and 17 December 2018) |
| Dr. Katalin Hársvölgyi | member of the Board of Directors |
| Dr. Alex Bozóky | member of the Board of Directors (from 18 August 2018) |
| Dr. Róbert Répássy | member of the Board of Directors (from 18 August 2018) |
| Dr. Nóra Zámbó | member of the Board of Directors (from 18 August 2018) |
| László Gáspár Koszorús | former member of the Board of Directors (until 17 August 2018) |
| Dr. Zsolt Péter | former member of the Board of Directors (until 17 August 2018) |
| Dr. Ferenc Rác | former member of the Board of Directors (until 17 August 2018) |
| Dr. Nóra Turós | former member of the Board of Directors (until 17 August 2018) |

SENIOR MANAGEMENT OF THE NATIONAL LOTTERY OPERATOR

Management



Stakeholders and their engagement

| MEMBERS OF THE SUPERVISORY BOARD IN 2018 | |
|--|--|
| Name | Position |
| Eszter Kiss-Hegyí | Chair of the Supervisory Board (from 18 August 2018) |
| Zsolt Incze | former Chair of the Supervisory Board (until 17 August 2018) |
| István Knapp | member of the Supervisory Board |
| Dr. Anita Bozóky (Dr. Anita Milis) | former member of the Supervisory Board (between 18 August 2018 and 17 December 2018) |
| Dr. Gergely Ákos Kuczora | former member of the Supervisory Board (until 17 August 2018) |
| Gyula Mucsi | member of the Supervisory Board |
| Dr. Roland Juhász | member of the Supervisory Board (from 7 February 2018) |

The Company defined two main groups of stakeholders: external and internal stakeholders. Internal stakeholder means the Owner, the Board of Directors, the Supervisory Board, the senior management and the employees. Employees were further divided into sub-groups (see the chapter Our employees): employees directly supporting sales (regional representatives), employees directly involved in sales (sales staff) and employees working in administration.

External stakeholder means legislators, authorities, media, industrial organisations, organisations dealing with prevention and addiction, organisations dealing with the disabled, NGOs, competitors, suppliers, players, gam-

bling addicts and their relatives, minors and their parents, teachers and sales partners.

We consider it essential to identify and obtain a realistic picture of the interests of the various parties. This also enables us to maximise their commitment and social capital, while minimizing conflicts and protecting the interests of vulnerable groups.

These stakeholders are categorised according to two distinct features: one is the influence of the stakeholders on the Company, and the other one is their dependency on it.

| STAKEHOLDER INFLUENCE ON THE COMPANY | | | |
|---------------------------------------|------|---|---|
| | | Low | High |
| Stakeholder dependency on the company | High | NGOs, organisations that deal with prevention and addiction, gambling addicts, addicts' relatives | players, employees, management, sales partners |
| | Low | minors, the parents of minors, teachers, competitors, the natural environment | owner, Board of Directors, Supervisory Board, legislators, authorities, media, professional organisations, industrial organisations, suppliers, organisations dealing with the disabled |

Communication with stakeholders is regular or ad hoc depending on the particular stakeholder group, the nature of the relationship or the topic.

Supplier relations

Szerencsejáték Zrt. offers jobs and income sources to thousands of retailers participating in the sales of our games and the people employed by our sales partner. Pursuant to the service contracts concluded with our sales partners, we expect them to employ their terminal operators legally, and to offer such employees training. However, salaries and benefits paid by our partners are not regulated separately, they are governed by the general requirements stipulated by the law. We have no influence over how our international supplier partners employ their employees, although the industry has high standards in this regard; therefore, no legal or human rights issues are expected to arise.

Our partners supplying the IT systems required for the distribution of our programmes are our priority among our large suppliers. Given the specific nature of our products, there are relatively few global service providers acknowledged by the international gambling market. Among these few are Scientific Games (SG), whose Hungarian subsidiary our company has been cooper-

ating with for more than 20 years, despite a change in ownership. As one of the results of such cooperation, event management has become safer and simpler after the integration of the Szerencsejáték Zrt. online betting service, the Tippmixpro into the AEGIS system supplied by our partner, while the game administration tasks were also migrated into the same system.

We order our scratch cards from three big scratch card producers: Scientific Games International (SGI), IGT Corporation and Pollard Banknote. The producers must meet strict quality, security and environment related criteria specified by our Company. Apart from the giant international companies mentioned above, we mainly collaborate with domestic suppliers.

Our high-value contracts include agreements concerning purchases of telecommunications equipment, public utility services, creative design, the production of programmes, media buying and market research. The infrastructural improvement of lottery shops was launched



in cooperation with Antenna Hungária Zrt. As a result of the public procurement procedure conducted by MNV Zrt., electricity and gas supply for our central buildings is ensured by MNV Partner Zrt. From 2016 on, our main insurance contracts have been concluded with Generali Biztosító Zrt.

The Company published a call for tender for planning, production and printing tasks related to its media planning and purchasing, and also marketing communication activities, for the supply of promotional and business

gifts, for PR and communication consultation services and event planning tasks during the period between August 2018 and December 2019. The tender conducted with the approval of the owner was awarded to New Land Média Kft. and Lounge Design Szolgáltató Kft., and we also entered into a framework agreement with Kutatópont Kft. (with the permission of the National Office of Communications (NKOH)) with respect to market research tasks.

NATIONAL OFFICE OF COMMUNICATIONS (NKOH)

The organisation was set up based on the provisions of Government Decree No. 247/2014. (X.1.) with the aim of performing Government communications tasks in a

cost-efficient manner. Its competence covers the budgetary organs managed or supervised by the Government, as well as state-owned companies in which the Hungarian State holds a majority interest. These entities can obtain communication services associated with, or facilitating the performance of their public duties through the central public procurement system.

The lawful operation of our main domestic supplier partners is guaranteed by the fact that the contracts are concluded under the supervision of the Minister without

portfolio responsible for state property and exercising the owner's right and obligations, and the NKOH.



EMPLOYEES AND THEIR MOTIVATION

03.



SZERENCSEJÁTÉK ZRT.

In 2018 the average statistical headcount at Szerencsejáték Zrt. was 1,686 persons, while the end-of-the-year closing headcount was 1,728. 915 of the average statistical headcount worked at points of sale, 168 of them worked as charity scratch card sellers. The average statistical number of sales support and back office staff, together with the senior management, was 771 on average. 469 people worked part-time at our Company in 2018 which is more than one fourth of the average statistical headcount.

Employee satisfaction and motivation based profitability requires well-established professional and human support, appropriate working environment, equal opportunities and work-life balance. The three-year wage growth agreement concluded with the Trade Union can most probably help us retain employees who have extensive professional experience in the gambling sector and keep our appeal to new recruits; replacing key employees would involve large unplanned expenses and operational risk. We need to focus on creating and ensuring learning and training opportunities since only highly skilled employees can keep up with and use the rapid developments in technology efficiently to the benefit of our Company.

The Company considers maintaining employee commitment a key factor; therefore the management believes it important that employees are regularly informed about the objectives and the results of the Company. The company intranet is one of the most effective means to do so. The intranet provides up-to-date company news and organisational information, as well as the policy governing our operation. However, communication at the Company is bidirectional, which means that employees may also communicate their comments on how the operation of the Company can be improved: They can use the "suggestion box" platform on the intranet to submit their suggestions on different topics (such as games, service, sales, workplace processes).

According to the key principle of our management, every employee should be aware of and should understand the objectives of the Company. Therefore the performance assessment system defines business plan based revenue targets for the sales staff, while administrative staff is given (company, team and individual) targets to be achieved in each quarter together with the specific individual assessment aspect.

Changes in headcount

| AVERAGE STATISTICAL HEADCOUNT IN 2018 | | | |
|---|-------------|-------------|-------------|
| | 2016 | 2017 | 2018 |
| administrative staff (including managers) | 710 | 733 | 771 |
| lottery shop staff | 733 | 749 | 747 |
| charity scratch card sellers | 172 | 170 | 168 |
| total | 1615 | 1652 | 1686 |

BASED ON THE CLOSING HEADCOUNT IN 2018

| Area | Category | F - full-time P - part-time | Headcount /number of people/ | |
|------------------------------|----------------------------------|--------------------------------|------------------------------|----|
| Pécs Sales Region | Administrative staff | T | 30 | |
| | Lottery shop staff | R | 86 | |
| | | T | 62 | |
| Manager | T | 3 | | |
| | Szeged Sales Region | Administrative staff | T | 30 |
| | | Lottery shop staff | R | 54 |
| T | | | 67 | |
| Manager | T | 3 | | |
| | Miskolc Sales Region | Administrative staff | R | 2 |
| | | Lottery shop staff | T | 31 |
| R | | | 40 | |
| Manager | T | 109 | | |
| | T | 3 | | |
| | Budapest Sales Region | Administrative staff | T | 31 |
| Lottery shop staff | | R | 48 | |
| | | T | 157 | |
| Manager | T | 3 | | |
| | North Transdanubia Sales Region | Administrative staff | T | 29 |
| | | Lottery shop staff | R | 35 |
| T | | | 86 | |
| Manager | T | 3 | | |
| | Chief Executive Officer's Office | Administrative staff | R | 33 |
| | | T | 550 | |
| Manager | | | T | 63 |
| Charity scratch card sellers | Charity scratch card sellers | R | 170 | |
| | | T | | |
| Total | | | 1728 | |



| BASED ON THE CLOSING HEADCOUNT IN 2018 | HEADCOUNT (NUMBER OF PEOPLE) |
|---|------------------------------|
| Managers | 78 |
| men | 48 |
| women | 30 |
| Administrative staff | 736 |
| men | 388 |
| women | 348 |
| Lottery shop staff | 744 |
| men | 125 |
| women | 619 |
| Charity scratch card sellers | 170 |
| men | 37 |
| women | 133 |
| Total | 1728 |

As for salaries, we follow the principle of equal treatment of men and women, full-time and part-time employees as well as people with reduced capacity for work. Offering performance-related pay is a good practice in sales-related positions: sales staff receives a part of their salaries in the form of performance-related pay, while administrative staff is given financial incentives based on the profitability of the company.

The Company is well-known for paying much attention to providing its employees with welfare and social benefits. We offer the same benefits to part-time employees as those granted to full-time employees, on a proportionate

basis. Our employees can select their fringe benefits from the "cafeteria" system (e.g. voluntary health fund services, voluntary pension contributions, Erzsébet vouchers, Széchenyi Recreation Card, local travel passes, cash benefits and home loan repayments) up to an annually defined limit according to their personal needs (living circumstances, consumption habits, state of health, etc.). Employees may also use health care services offered as part of the service financing health insurance package; furthermore, social benefits and funeral aid are also offered by the Company in addition to the "cafeteria" system.

Training and development

Our employees receive training as specified in the Professional Training Policy. The most complex training is given to those who work in sales, as they must hold a valid exam certificate in the fields of terminal handling, rules of procedure, money and valuables handling and security. Their training is supplemented with refresher exams and skill-developing training courses, and they also have to participate in a training that ends with an exam before a new product is launched. Responsible gambling and betting services are the focus areas of all training and examination materials.

In order to properly serve customers living with disabilities, sensitising trainings are held for sales staff. A total of 76 people from the staff took part in such sensitising trainings in 2018. A three-year contract was signed with Salva Vita Foundation, the professional implementer of the programme, in 2015. Pursuant to the contract all our lottery shop employees would receive training during this period; however, the schedule may change subject to other training obligations of the sales staff.

We seek to harmonise the duties related to a job with the professional development needs of the company and the employee alike. For instance, the sales staff of lottery shops may receive on-the-job training in the regional centres for sales promotion positions. We also encourage the advancement of employees who have already gained experience in the Company by signing study contracts with them and supporting them in the training they need to undertake more challenging jobs.

International professional conferences also provide our employees with great opportunities to learn about the "good practices" of foreign lottery companies, and to build and strengthen corporate relations. We see it as an important and positive improvement that the Company has been offered a membership in the working committee of the European Lotteries (EL) in honour of its contribution to the professional work of the international community, and also that one of our colleagues has been asked to join the Security Working Group. So now our Company is represented in four working groups of the European Lotteries, we are directly involved in the work of the Sports, Knowledge Sharing, Legal and Security groups. Our colleagues gave two presentations at the European Knowledge Sharing conference of the EL, and several presentations at the training held for the sales team of the Polish national lottery operator Totalizator Sportowy in Budapest in May 2018. Szerencsejáték Zrt. also contributed to the work of the international community as the host of the security conference of the EL in Budapest.



Charity sales network

As a responsible employer, Szerencsejáték Zrt. is committed to employing people with reduced capacity to work who live in Hungary. In 2003, we set up a scratch card sales network that primarily employs people with reduced capacity to work. We consider the tasks related to the network to be part of our societal mission, with which we can set an example for other companies. With the network we offer a chance to work for people whose health problems have not allowed them to work for years now, and as a result they experienced negative changes in their earlier successful life.

The scratch card sales network employed almost 180 people in 2018 of which 150 people had reduced capacity to work. This number represents almost 11% of the total employee headcount at the Company. Such high percentage is unique among companies operating in the competitive market, what is even more impressive is that the Company received no state subsidy to finance employment under open market condition. Our scratch card stalls are typically found in supermarkets, department stores and health care institutions in 125 locations countrywide.

Our employees work at permanent locations with set opening hours. They perform responsible commercial activities requiring significant professional knowledge which also limits the disability categories from which we can select our employees. We can only employ people who have completed their studies at least at an elementary level, and are capable to work independently and possess the basic knowledge of mathematics required for handling money and valuables. In 2018 our charity network employed people limited in their movements, with hearing impairment and permanent health damage, they all work in fully accessible and ergonomically adequate environment.

Our Company has earned the Disability Friendly Workplace title for its disability employment programme, while as a token of our commitment to the issue, we remained a member of the Employers' Forum for Equal Opportunities (Munkáltatók Esélyegyenlőségi Fóruma) in 2018 and as such we had the opportunity to share our good employment practice with other companies.

Collective Bargaining Agreement

Szerencsejáték Zrt. believes it essential that its employees establish and maintain their employment status in legal certainty which is also facilitated by the Collective Bargaining Agreement. The Collective Bargaining Agreement clearly defines the rights and obligations of both the employer and the employees (save for employees under Section 208 of the Labour Code). The Collective Bargaining Agreement is a bilateral contract that can only be modified with the agreement of the Trade Union; therefore annual modifications are always the result of lengthy preparatory work and several negotiations. The Trade Union and the Works Council represent the interests of employees in negotiating terms and conditions of work, and in defining wages and benefits, and they also ensure that opinion of employees are communicated to the management.

At Szerencsejáték Zrt. the Collective Bargaining Agreement regulates the rights and obligations arising from the employment, the ways such rights and obligations can be exercised and shall be complied with, and the communication system between the employer and the employees. The Ethics Committee of the Company was set up in 2007, and since then it has been at the disposal of the employees in issues relating to ethics. No report was submitted to the committee in 2018; therefore no proceedings were initiated either. In addition, the Code of Ethics, which is available both in hard copy and electronically on the intranet helps employees understand ethical issues arising at the workplace. (Self-regulation is also present in another area, namely in responsible gaming and ethical marketing and sales activities.)

Safety at work

We pay special attention to creating and ensuring healthy working conditions for all employees. All our employees – regardless of their position – have to attend work safety trainings where they learn about the theory and practice of safe and healthy work. We have our specific security policy for sales staff, which regulates and defines the measures to be taken in the case of extraordinary events (e.g. robberies). There are also security devices and equipment in place which assist in preventing and managing such extraordinary events, as a result of which no occupational illnesses or death caused by work-related and road accidents

were reported to the Company in 2018. The number of work-related and road accidents involving employees was limited, these employees were unable to work due to such work-related and road accidents for only 0.13% of the total number of days worked (15 employees).

The Company offers its employees a health care service package through Medicover Hospital and the specialised medical services in order to maintain good health for employees and to treat illnesses effectively and swiftly.



| TYPES OF WORK-RELATED ACCIDENTS | | | | |
|-------------------------------------|--|---|--|--|
| | Number of people involved in work-related and road accidents in 2018 | Number of work days lost due to accidents in 2018 | Number of days worked in 2018 ³ | The rate of time lost due to accidents compared to days worked in 2018 |
| work-related accidents ¹ | 7 | 62 | 363 785 | 0,0170% |
| road accidents ² | 8 | 406 | 363 785 | 0,1116% |
| total | 15 | 468 | 363 785 | 0,1286% |

| | |
|--|---|
| Occupational illnesses in 2018 ⁴ (number of people) | 0 |
| Number of death caused by work-related and road accidents in 2018 (number of people) | 0 |

¹ Work-related accident means an accident that occurs in relation to work during working hours while working.

² Road accident means an accident that occurs while travelling to or from work on the shortest available route without unreasonable detours.

³ Working time shall be defined in the number of work days because time lost due to accidents should be registered as work days pursuant to the applicable Social Security Act.

⁴ Work-related illness means an illness caused by the special risk posed by the relevant occupation.

Apart from physical health, mental well-being is another important issue, and maintaining it is our priority. It is of vital importance that our employees are aware of the risks related to gambling addiction, and the ways such addictions can be prevented and treated. With this in

view, we address this issue from time to time on the Intranet. In addition, we offer our sales staff annual tests to examine to what extent they are affected by gambling addiction, and if they are at risk of becoming addicted.

Human rights awareness

Every member of our security staff at the Company receive the following human rights trainings:

- rights related to baggage and clothing search,
- privacy rights,
- access related rights,
- work-life balance.

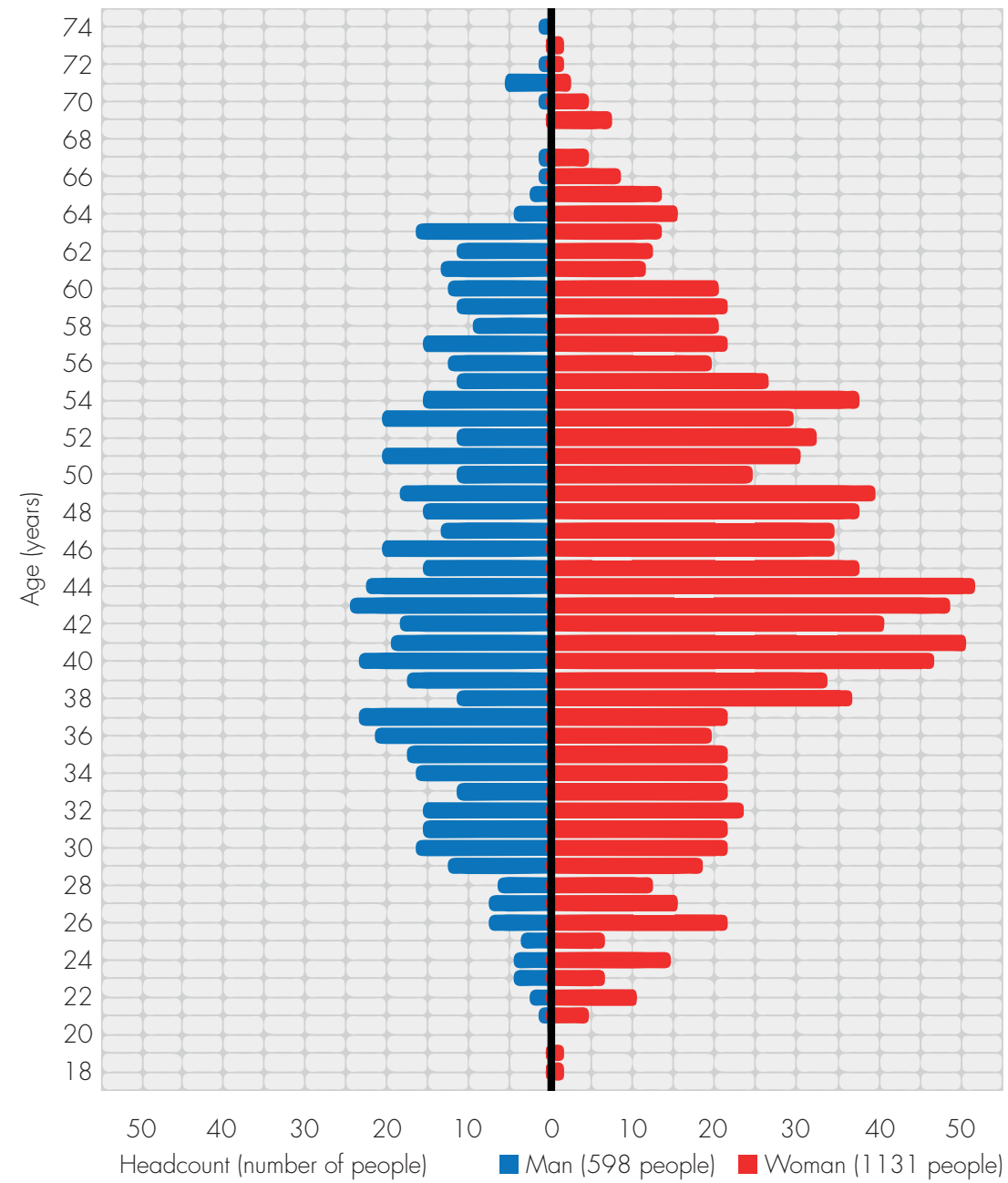
Employees returning to work after maternity leave are offered the option to work part-time. With this Szerencsejáték Zrt. wishes to help them cope with the increased burden of their current phase in life and balance out work and life. Our regular and already traditional recreational programmes organised for employees and their family (meeting Santa Clause, children's day and company sports day) have the purpose of reducing the distance between private life and work.

Employee age groups and proportion of genders

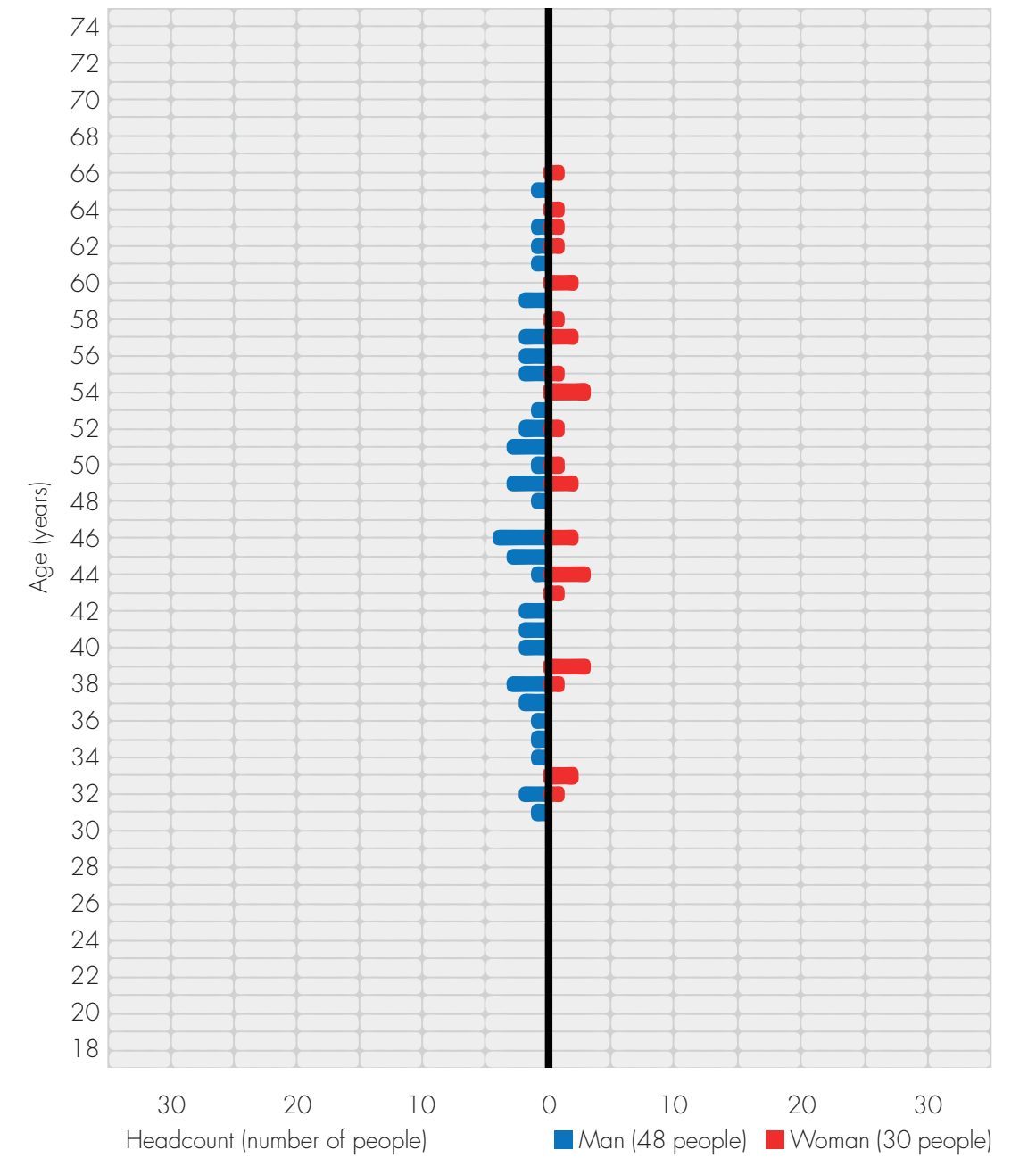
The Company has more men working in administration, both in managerial and non-managerial positions, than women, whereas in the sales network more employees are women.



Age pyramid of active staff

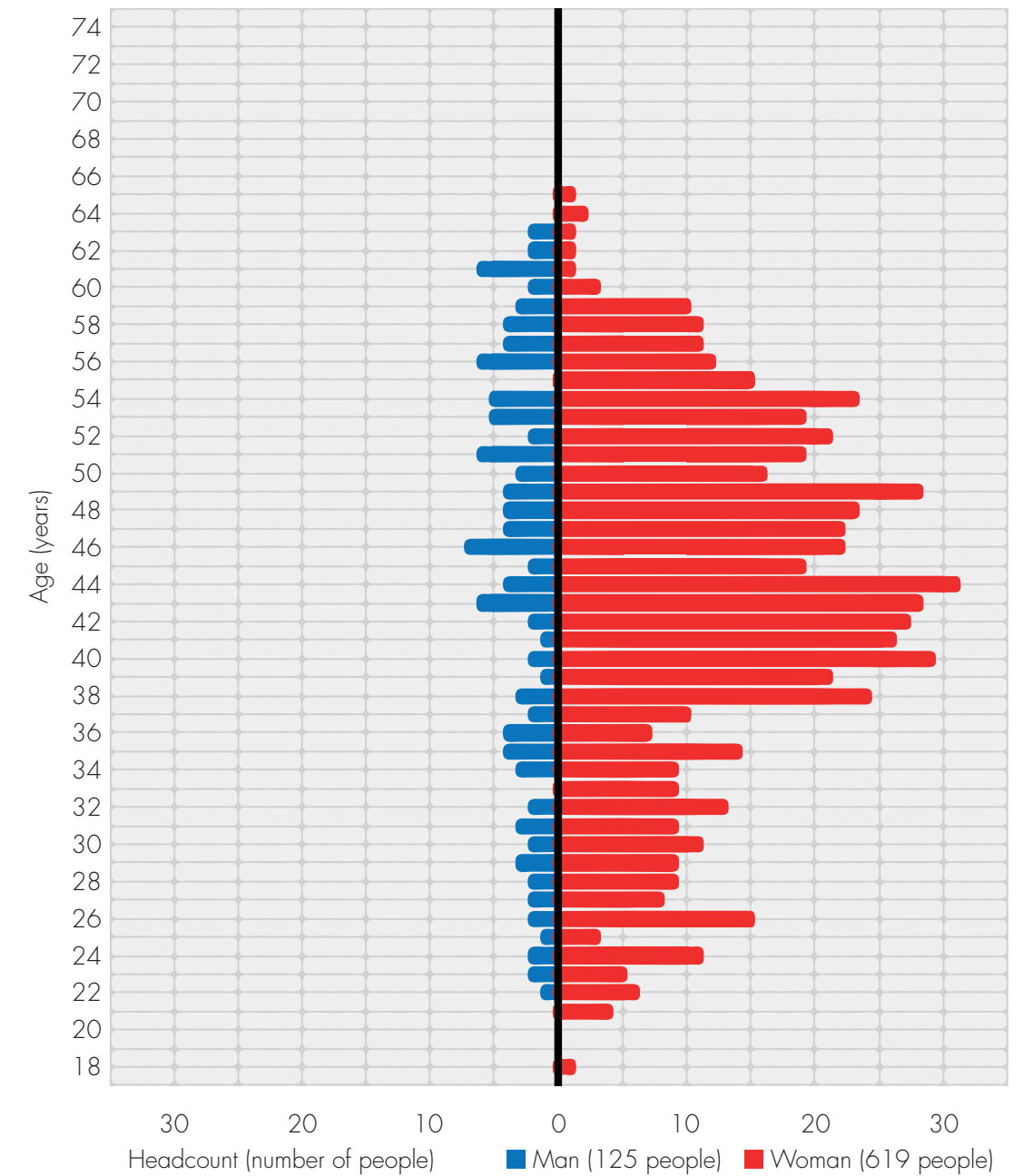
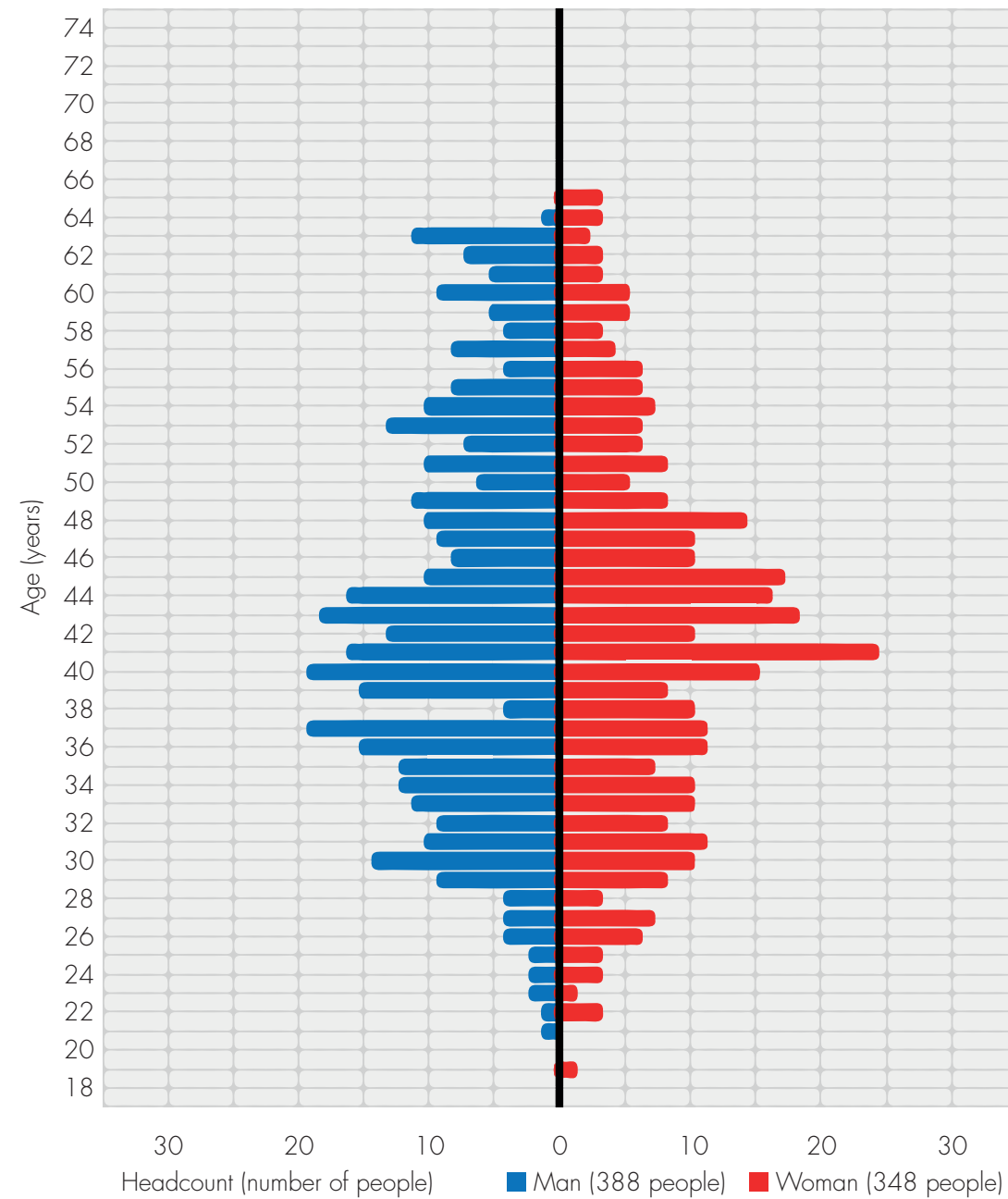


Age pyramid of active managerial staff

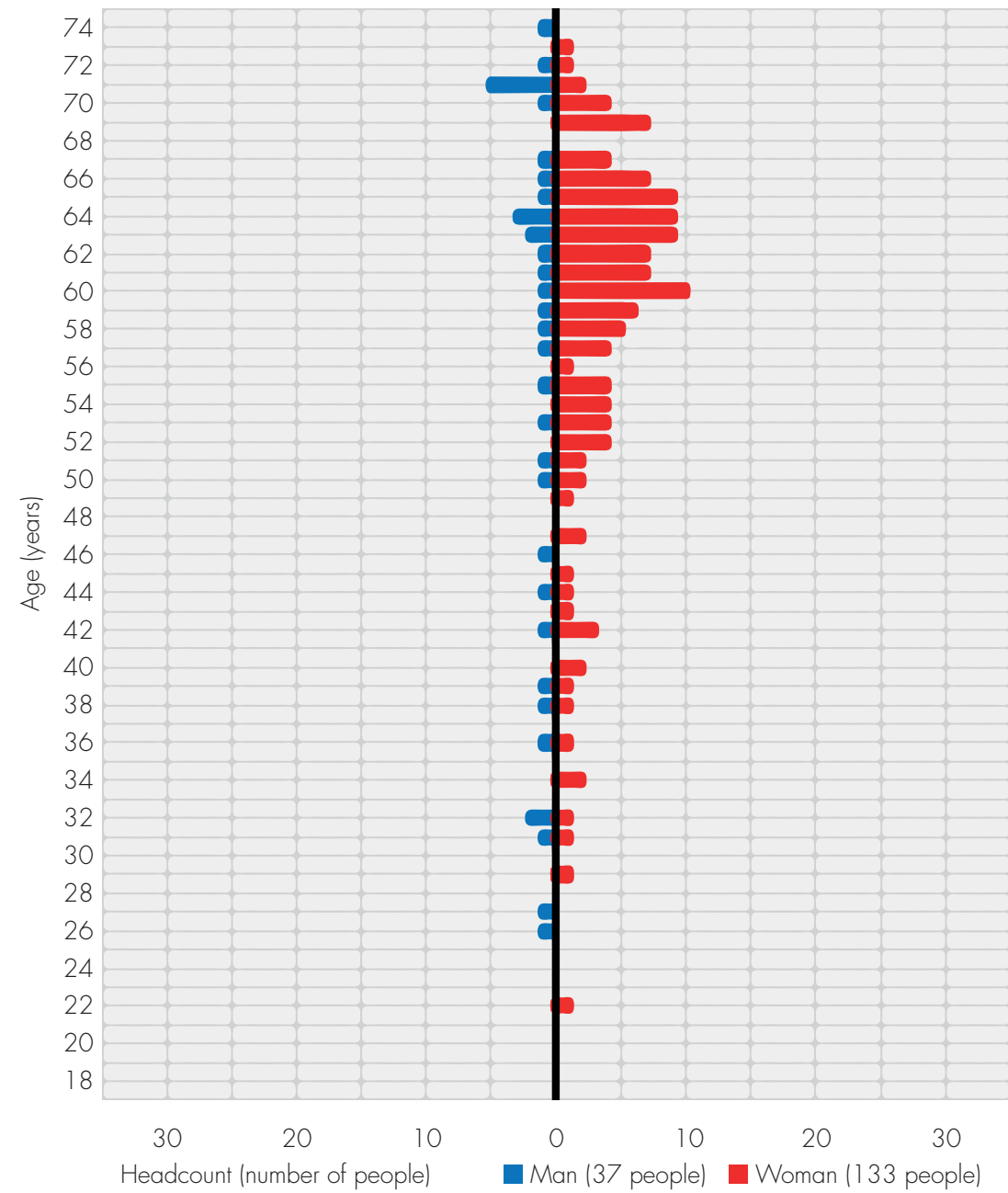


Age pyramid of active non-managerial staff at HQ

Age pyramid of active staff in lottery shops



Age pyramid of active charity scratch card sellers



INDUSTRY REGULATION

04.



SZERENCSEJÁTÉK ZRT.

There is no sector-specific EU legislation in the field of gambling services; therefore EU countries are autonomous in the way they organise their gambling services. According to the recommendations of the European Commission, EU Member States are encouraged to ensure high-level protection for consumers, vulnerable

players and minors through the adoption of measures with regard to online gambling and related services. As reflected in the legal practices of the European Court of Justice, the involvement of national game organisers in protecting players is generally favourably received.

The prevention of money laundering is considered a regulatory field of high significance in the gambling industry. The relevant new (4th) EU Directive adopted in 2015 had to be transposed by all Member States into their national law and applied in the field of gambling by 2017 as well. To ensure compliance with Act LIII of 2017 on the Prevention and Combating of Money Laundering and Terrorist Financing, we concluded a contract in 2018 on the so-called compliance/partner monitoring/PEP service. Additionally, to comply with the same act and the relevant regulations (in particular Act LI of 2017 on the Implementation of Financial and Proprietary Restrictive Measures ordered by the European Union and the UN Security Council and the related implementation decrees), we have extended the support of the Software Authentication Control System for one more year since the programme is key to the operation of the Tippmixpro game.

International trends are characterised by increasing demand for faster-paced, thus riskier games; such trends are fostered by the spread of new electronic communication devices and illegal online gambling. While national lottery companies promote the provision of services on a national level, profit-oriented private enterprises aim to abuse the advantage offered by cross-border

services in taxation. Unlike our online competitors, Szerencsejáték Zrt. is committed to contribute to the funding of public expenses, and so nearly two thirds of the net revenues from gaming are returned to state budget in the form of taxes, fees, contributions.

Hungarian regulatory environment

In Hungary, games of chance are regulated by Act XXXIV of 1991 on Gambling Operations and its implementation decree. However, the regulatory environment is far from being stable, and adjusting to the changes has been a constant challenge for Szerencsejáték Zrt. The

Company is trying to expand the scope of its activities to provide high quality service in the Hungarian gambling market, but at the same time it is also committed to assist the renewal of the regulatory background with its knowledge and experience.

The national gambling operator is up against direct competition in the market of online betting, but the illegal competition in drawing games and scratch cards has emerged, as well. However, despite the ban the illegal and blocked websites listed on the website of the Gambling Supervision Board continue to be available through alternative routes.

The importance of responsible gambling operations was acknowledged by the government in 2015 when Government Decree 329/2015 (XI.10.) on the detailed rules of responsible gambling operations was adopted. In 2018 we achieved compliance with the requirements stipulated by the decree, and based on the decision of the Authorisation Department of the Gambling Supervision Board the Company was deemed a responsible gambling operator.

The Government Decree also stipulates that signs and stickers with the player protection green number shall be displayed at the sales points in clearly visible places, and

each sales point further shall provide players with copies of the player protection notice and supply lists issued by the Gambling Supervision Board. Additionally, in line with the Government Decree, some of the measures we previously applied voluntarily as a responsible gambling operator were incorporated into the gaming plan and the terms and conditions of participation.

Information security at Szerencsejáték Zrt. also follows the methodology prescribed by international regulations, and it complies with the requirements of the WLA Standard (World Lottery Association Security Control Standard) specific to gambling. Compliance is certified by the relevant certificates which are maintained through annual reviews and renewal audits conducted at the Company every three years.

In 2018 the Company and our products have not been subject to suspicion of legal non-compliance, and so no negative ruling has been adopted against us in this regard.

RECOMMENDED RESPONSIBLE GAME OPERATOR CERTIFICATE

Game operators who meet the criteria stipulated in Section 22 of Government Decree 329/2015(XI.10.) may apply for the recommended responsible game operator certificate. The game operator is then permitted to display and use the certification on its website, at its sales points, in its advertisements and commercial communications together with the company name or the name used as a gaming operator, and also the logo for a period of one year

Structure of the legal gambling market

Based on its net gaming revenues, Szerencsejáték Zrt. had a share of 82% in the legal gambling market in 2018, with the remaining legal players of major importance in the market being the Hungarian casinos. Pursu-

ant to the Gambling Act businesses with a fixed casino licence may also operate online casinos. In 2018 there were two such websites.



Security

The internal risk assessment drafted by the company in 2017 to prevent and combat money laundering and terrorist financing is revised every year. This assessment considers the corruption risk related to games provided by the company in an indirect manner. Based on the overall industry and country-specific risks, Hungary is classified as "medium/low" for financial risk when the country was assessed along the six key indicators that are also used by the UK Gambling Commission as reference. Hungary is the 24th lowest rating of the 219 countries assessed and rated based on the factors like money laundering and terrorist financing risks, international sanctions, corruption risk, government related risk, drug trafficking and financial transparency. The representative of the CEO of Szerencsejáték Zrt. is a member of the National Platform combating the prohibited influencing of sporting events (Government Decree 1609/2018 (XI.27.)). The Platform monitors and coordinates actions against the prohibited influencing of sporting events, and it also analyses unusual and suspicious betting related to sporting events held within the territory of Hungary. There is close

cooperation between our Company and the special unit of the National Bureau of Investigation (Nemzeti Nyomozó Iroda, NNI) in combating sport related corruption. In addition, the purpose of the CEO Directive 83/2012 on the Company Security Policy of Szerencsejáték Zrt. is to regulate the prevention of and combating illegal conduct, the justification of police reports filed in case of suspicion, and to define security requirements and tasks, and also the rules of procedure applicable to analysing identified cases. In order to mitigate human risk within the Company, people working in senior position and in sensitive position are required to hold a national security expert opinion certifying their risk-free status. CEO Directive 2/2016 regulates internal procedures, and defines the tasks and positions which grant the relevant person a right to receive or use data to be protected, and in regard to which the relevant person is more exposed to illegal influencing and threat.

Outstanding results on international level

According to a survey by the European Lotteries, the rate of the contributions paid by a gambling operator towards community expenses as compared to the net gaming revenues may be the best sign of the efficiency and the social value creating capacity of a national

gambling operator. In this comparison, Szerencsejáték Zrt. with its rate of almost two thirds was found to be above the average of similar companies in other EU Member States.

Monitoring in sales

Since the betting related services offered by the national lottery operator are considered risky for money laundering purposes, the process includes several control points which serve to increase security. The games Tippmix, Toto and Goal toto, and also Tippmixpro each require a different approach: while in case of the former client vetting is required when the winning is at least HUF 600.000, the latter requires such client vetting already when the business relationship is established (upon registration and continuously monitoring player activity). The complexity of the task and the strict rules of man-

agement are illustrated by the fact that the Company implements enhanced client vetting in all cases. Client vetting includes, but is not limited to the verification if the player is deemed a prominent public figure, if he performs public duties, or if he is a close relative of or is in close relation with such person. Financial transactions and betting actions of prominent public figures are managed with particular attention, with special emphasis on ensuring that such transactions and actions are monitored.



CREATING
ECONOMIC VALUE
05.



SZERENCSEJÁTÉK ZRT.

Innovation and continuous technological revival play an ever increasing role in the operation of Szerencsejáték Zrt. The project aimed at replacing our central sales system and terminals was completed in 2015, and due to the new so-called AEGIS system, we have been able to implement numerous developments designed to increase competitiveness and enhance gaming experience over the past few years. At the end of 2018, we

had 4504 points of sale equipped with a total of 4989 active terminals, thus the population coverage is nearly 1,957 people per terminal. We had 3107 points of sale which only sold scratch cards, so at the end of the period there were a total of 7611 points of sale where our products were available to the players.

2018 was again a year full of outstanding results for Szerencsejáték Zrt.: Our gambling revenues amounted to HUF 490.4 billion, which was HUF 54.6 billion more than last year, while our profit after tax was another record amounting to HUF 21.58 billion. In 2018 the Company contributed HUF 108.2 billion to financing community expenses which is again a record high amount.

For further details concerning economic value creation, please refer to the section entitled 'Balance sheet and profit and loss statement' in the Annexes.

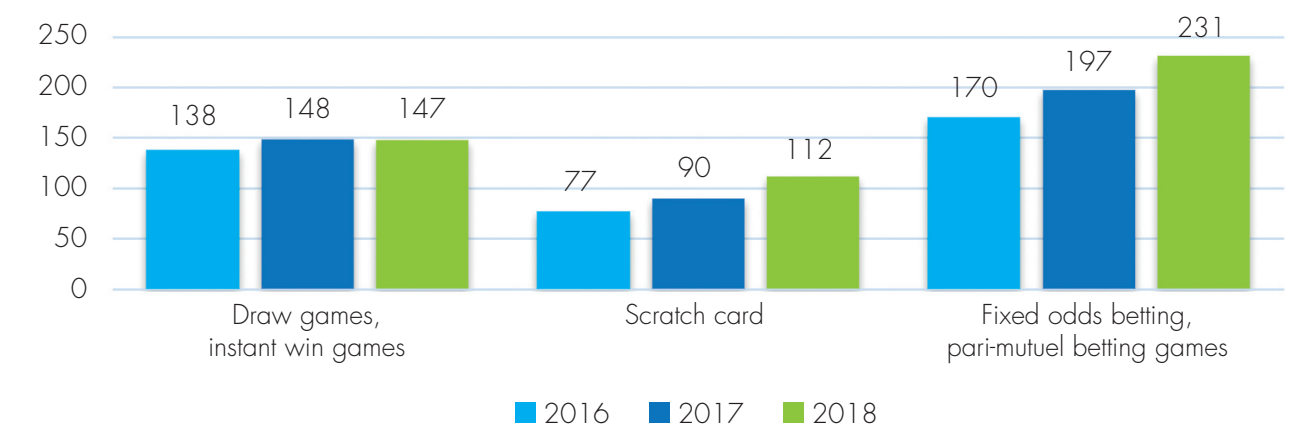
Our products and their availability

We offer a wide selection of games according to price as well as type, so that everybody can find an attractive way to play. In 2018 our product range included 12 regularly organised individual games; in addition, we distributed 13 to 17 types of scratch cards at any one time during the year. In order to gain a perspective on how our product range is viewed we monitor each segment; and our research concluded that most of the people who play with our scratch cards (80%) found the selection of cards satisfactory. The number of people playing with our products has not changed for years. Our market research shows that 75% of the adult population plays some kind of game of chances, about 99% of these people use the products offered by Szerencsejáték Zrt. Another important aspect is that in 2018 just as in the past few years none of the games within our range qualify as a high-risk game since the Company meets all the criteria defined for low and medium risk product ranges year after year. Compared to 2017, the willingness to gamble has increased in case of

scratch cards and betting, while in case of draw games it decreased slightly. The increasing popularity of sports betting is the result of the continuous expansion of the range of products offered (increasing number of sports events on which people can bet and expanding market), continuous IT developments, non-stop live betting events, and also the IT developments scheduled for the duration of the Football World Cup, the Champions' League and the UEFA European League. The revenue rate of the scratch cards in 2018 was close to that of the draw games, and our seasonal scratch cards were just as popular as those permanently on offer.

In 2018 we also offered two other, a product and service not ours: the possibility to top up mobile phones and to participate in the Kincsem+ Tuti horse race betting organised by Magyar Lóversenyfogatást Szervező Kft. (MLFSZ Kft.) were available all through our sales network.

Gambling revenues of key game categories (billion HUF)



The highest winning of the year was paid out in Ötöslottó (5/90 lottery), when in Week 38 one single player won the top prize of HUF 1.846 billion with a single ticket. Players in three of our games also won prizes of more than a billion Hungarian forints: there were two billionaire winners in the Ötöslottó (5/90 lottery) draw, one each in the Hatoslottó (6/45 lottery) and in the Eurojackpot. In the latter case only six of the seven numbers played by the player were drawn, yet the 5+1 numbers were still worth gross EUR 4.673 million, which was almost net HUF 1.3 billion. In Week 15 the Scandinavian lottery had its highest winning in 2018 when a single full number ticket collected a net amount exceeding HUF 519 million. Of the players playing Ötöslottó (5/90 lottery) 1090 people became millionaires in 2018, and the draw games paid out winnings to a total of 3000 lucky players.

According to our data, demand has continued to shift towards scratch cards in the higher price category, so almost half of the gambling revenues (47.1%) came from betting, while the remaining amount was brought in by draw games and scratch cards.

Our extensive sales network ensures a countrywide coverage, according to the end-of-year data the 7611 points of sale are partly managed by the Company itself, while the majority of these points of sale are managed by our sales partners. 4504 of the points have a terminal, the others only sell scratch cards. In 2018 we had 282 Company-operated lottery shops and 125 charity points of sale. 21 lottery shops have been fully renovated during the year, and 12 charity sales partners received stalls that were new in their image and design.

Our most important sales partners are Magyar Posta Zrt. with its 2600 points of sale and Magyar Lapterjesztő Zrt. with its 340 points of sale. Apart from these two operators, our partners include a variety of businesses with diverse business profiles with more than 4200 points of sale.

In addition to the traditional physical points of sale, our products are available through interactive channels (on the Internet, via text messaging and through OTP ATMs) as well. In developing new sales channels the key consideration is that customers should be able to access our games as easy as possible.



Horizon Programme – Sales modernisation strategic programme

Within the framework of the Horizon Programme we implemented a project in 2017 and 2018 which was aimed at further enhancing customer experience and increasing the efficiency of network communication. The two-year strategic programme was successfully completed with the expected results.

The developments implemented in year 2017 included the installation of digital platforms in our own lottery shops to display results, the implementation of animated event monitoring during live broadcasts, and the extension of

the group of content providers. In 2018 we developed a complex business concept package for the Football World Cup based on the previously implemented digital solutions, we upgraded TippmixTV with new content (more video broadcast of live events) and new channels, and we managed to complete our grand project before the start of the world cup which allowed betting offers to be superimposed on sporting event broadcasts. Furthermore, the free wifi available in our lottery shops was upgraded to be suitable for transferring sales offers, and we expanded the self-service options of the games.

Corporate CRM System

At the end of 2015 we launched a comprehensive corporate customer management (CRM) programme in order to gain a deeper understanding of our players and to serve them better.

Phase I of the CRM Programme ended at the end of 2017, once the Game Card, the Data Warehouse (DWH) and the Campaign Management System was implemented, and the basic infrastructure required for the customer focused sales activity delivered, and we laid the foundations for the further improvement of customer service and sales efficiency.

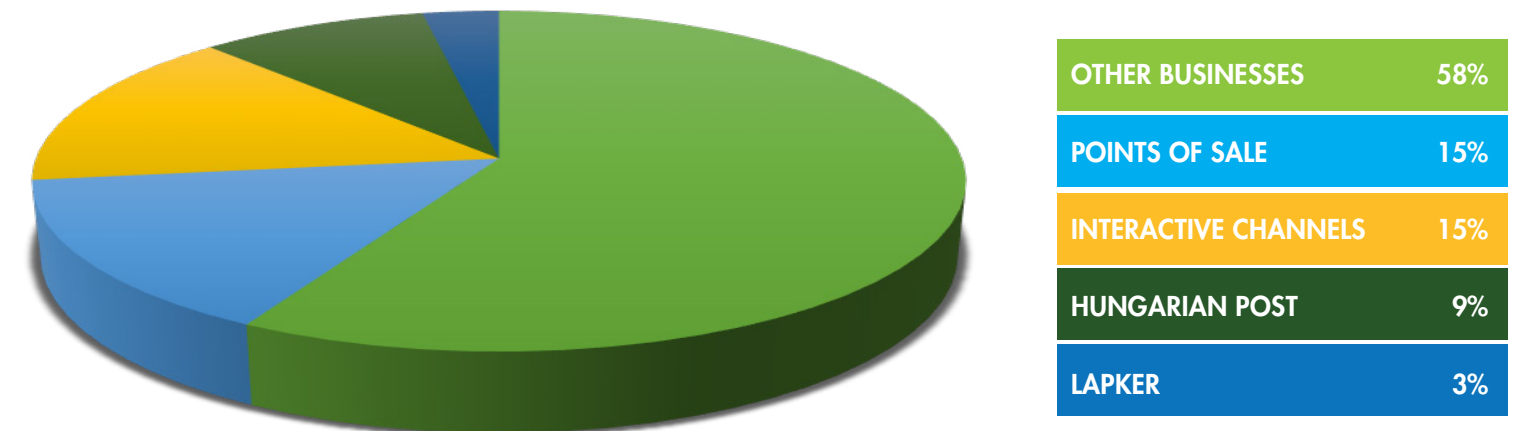
As part of Phase II of the CRM Programme we have developed the concept for the implementation of a new campaign channel by the end of 2018. Following the implementation of the channel we can contact our players holding a Game Card with targeted offers within the sales network, while a deeper analysis on a larger group of data allows us to create tailored offers, to organise more precisely targeted campaigns and to prevent gambling addiction more effectively and to orient people affected by gambling addiction towards modern and efficient help.

The Game Card was introduced by Szerencsejáték Zrt. on 18 December 2017. Players can apply for it voluntarily and free of charge in the lottery shops operated by the Company. The offers and benefits guaranteed by the Game Card are designed by the national lottery operator so that they appeal to as many players and betters as possible.

Game Cards offer numerous comfort and safety functions as well:

- automatic transfer of winnings (small value winnings),
- storing and managing favourite gambling slips,
- comfort services available online (limit modification, tracking transactions),
- email notifications,
- enhanced security when collecting winnings,
- setting game limits.

With the introduction of the card, Szerencsejáték Zrt. as a responsible gambling operator allows its players to limit the amount they want to spend on playing. By setting their own limits players themselves decide the daily, weekly or monthly shopping or loss limits which they can modify, increase or even remove as needed.



Our sales network is regularly audited by the Gambling Supervision Board. The basis of our operations: players' trust



SUPERVISED DRAWS 06.



The integrity and authenticity of the draws is of utmost importance to ensure the trust which serves as a basis for our operation. Our draws are public, anyone who is interested can verify in person that our processes are conducted in compliance with the strict rules. Apart from the opportunity open to anyone to attend, the Gambling Supervision Board also supervises our draws. Representatives of the board have supervised a total of 300 draws in person in 2018, no complaints have been filed.

Our drawing machines are licensed and calibrated by the Metrology Authority (Metrológiai Hatóság, formerly known as Országos Mérésügyi Hivatal). The machines

are calibrated biannually, and within the framework of the calibration process they are subjected to hundreds of test draws where the mathematically randomised nature of the winning numbers and the devices are all assessed. The process involves the physical inspection of the number balls, like measuring their diameter, checking their colour and if they can be squeezed or otherwise soak up water. Once the inspection is completed, the balls are delivered to Szerencsejáték Zrt. in a sealed box. The seal on the box can only be broken and the devices can only be put to use in the presence of a notary public. Following the draw, the notary public puts the balls back in the box and seals the box again.

DRAWING COMMITTEE

Draws are attended by a Drawing Committee. The duty of the committee is to ensure that all requirements related to personnel and technical conditions are met, the rules are observed and complied with, the draws are conducted in a secure manner, and that all results are delivered to the HQ of Szerencsejáték Zrt. where they are further processed. The Drawing Committee will decide on how to proceed if any irregularity is identified during the draw. As a rule, in such a (fortunately very rare) case, the substitute drawing machines and ball set, which are required to be at the site of the draw and may be deployed in a short time, are used

Data security

Guaranteed data security is essential to the sales process. Maintaining trust is of high importance for our Company, we cannot allow any systemic errors. Terminals operated at the points of sale transfer the gambling and betting data to the central system, then backup is made of the data stored there. The stored betting data are locked online before the draw; after they are locked with a timestamp by an independent qualified service provider operating according to international standards. Betting data are authenticated with the highest level of signature and authentication methods stipulated by the law. Processes and

systems related to our products have been subject to ISO 27001 and WLA SCS information security audits since 2012. The validity of our certificates, which also serve to meet the operation condition of the Eurojackpot draw game, were renewed based on our flawless performance at the ISO/WLA renewal audit in 2018. We continued to expand the standardised identity and access management (hereinafter the IAM) system and the technology preventing data leakage (DLP) to ensure that our operation continues to be even more conscious and secure.

Szerencsejáték Zrt. is committed to taking all the necessary measures to prevent unauthorised access to the data and information that might be linked to the business of organising gambling services, and to ensure the integrity and safety of all such data and information. With this in mind, Szerencsejáték Zrt. hosted the EL-WLA Security and Integrity Seminar with the motto "Cyber Challenges Everywhere" in autumn 2018. The seminar was attended by the representatives of lottery operators from almost 40 countries.

Topics discussed at the seminar included technological development; accelerating digitalisation which leaves no company unaffected anywhere in the world; customer habits and expectations, in particular the needs of the younger generations; and all the factors that represent new security-related challenges for online services

Action against online fraud

Our Company is committed to maintain the integrity of online games and to prevent any fraud. Our specialised team set up specifically for this purpose when Tippmixpro was introduced works in close co-operation with the contracted financial institutions and telecommunication service providers. Should the completed client vetting confirm that the player is indeed party in a fraud, that player will be disqualified pursuant to the rules in effect, its registration will be blocked, and legal action may also be taken depending on the nature of the fraud.

Registrations are verified according to several checklist items stipulated in the Money Laundering Act (Act LIII of 2017 on the Prevention and Combating of Money Laundering and Terrorist Financing). About one fourth of the Tippmixpro registrations are checked manually to see if the client is a prominent public figure or if it is on the sanction list. In 2018 13,101 registrations were verified manually in compliance with the legal requirements related to the prevention of money laundering

Guaranteed payment of winnings

Szerencsejáték Zrt. guarantees the payment of rightful winnings. Winnings may be collected by players within the period defined by the law and the terms and conditions of participation. Should the winner fail to collect the prize, whether it is small or large, the uncollected winning will be recycled primarily through separate draws, but it may also be used to increase the prize pool (funding)

and to round up the amount of the winnings. We allow players who are registered online to collect smaller prizes through automatic transfer. In 2018 customer supervisors conducted manual checks and authorised the payment of winnings in more than 38,000 occasions.



Winner anonymity

Winnings are paid out with the utmost care and discretion, data of winners are processed confidentially. Online terminals operating at points of sale only display the exact amount upon reading the winning receipt if the amount of the winning exceeds HUF 200,000 (or HUF 400,000 for priority points of sale). Data of the winner are processed

by all points of sale staff in full compliance with the provisions of the GDPR. When winnings are collected, only the designated staff members (2-3 people) are permitted to be in attendance on behalf of Szerencsejáték Zrt. who are all bound by confidentiality.

Complaint handling

We received 463 reports from players in 2018, of the 463 reports 456 were treated as complaints (the remaining seven reports contained positive comments on the operation of the Company). 73 of the 456 complaints investigated were found grounded, and the relevant immediate actions have been taken by the Company, while the remaining 383 complaints have been dismissed. 378 of the dismissed complaints were successfully closed without having to involve a third party authority, and with the players accepting the information provided upon completing the investigation. There was a total of five dismissed complaints that were escalated and relevant authority proceedings were initiated. Four cases were filed with the conciliation committee of the locally competent chamber of commerce and industry, and one case with the competent government office

which acted as a consumer protection authority. The proceedings before the consumer protection authority were closed in the year in question with the dismissal of the complaint, and of the four cases before the conciliation committees three were also dismissed. In the fourth conciliation committee proceedings, the decision adopted condemned the company; therefore a suit was filed within the period of time permitted by the law before the competent court for the resolution to be invalidated. The case is currently in the preliminary phase.

It must be noted that the Company regularly surveys customer satisfaction by monitoring the customer satisfaction index and the so-called NPS (Net Promoter Score) index of the quarterly Tracking research.



RESPONSIBLE GAMBLING OPERATION AND PREVENTION

07.



SZERENCSEJÁTÉK ZRT.

Responsible gambling operation is the core element of our corporate social responsibility policy, and as such it is fundamental in defining all aspects of our operation from planning to sales. Szerencsejáték Zrt. as a state-owned enterprise is fully aware of its social responsibility and therefore it also focuses on researching, preventing and treating gambling addiction. As a testimony of our commitment, in 2010 we successfully joined the responsible gaming programme of the European Lotteries, an organisation of the European state-owned gambling operators. We obtained the responsible gaming certificate from the European Lotteries as the first company in the Central Eastern European region. The certificate is regularly renewed every three years. We were awarded the responsible gambling operator title by the World Lottery Association (WLA) in January 2011, and since then we have succeeded in repeatedly

obtaining the title in 2014 and 2016 for our long-term responsible gambling operations. As responsible gambling operator we have been operating a prevention programme for schools for years now in co-operation with the Hungarian Interchurch Aid under the title "Gaming within Limits". In addition to this, we also have a website for parents and educators. The purpose of the website called "Hogyan mondjam el neked?" (in English: "How should I tell you this?") is prevention and education.

For more information on how someone becomes a gambling addict, on symptoms and available cures for gambling addiction, please visit our websites:

Website: www.maradjonjatek.hu
www.szerencsejatek.hu

Responsible sales system

All points of sale with a terminal is audited on a quarterly basis, while our partners selling only scratch cards are audited at least once every six months. In 2018 the sales regions conducted 59,899 audits, and the Points of Sale Audit De-

partment conducted 2,881 audits, which gave us a total of 62,780 audits. Audits identified irregularities in 194 cases which means defect rate of 0.3% compared to the number of audits (see the table below for the itemized list).

| AUDIT ASPECTS | |
|---|------------|
| Mandatory sticker (persons under 18 are not permitted to gamble, excessive gambling may cause mental health problems, and may lead to addiction, payment of winnings, ask the shop assistant for the terms and conditions of participation, and the player protection notice, ELTE Help Hotline for Gambling) | 11 |
| Player protection green number sticker/notice | 37 |
| ELTE Help Hotline for Gambling - poster | 53 |
| "Keep it a game!" (in Hungarian: Maradjon játékl!) publication | 3 |
| List of institutions providing player protection-related support | 4 |
| General notice on player protection measures by the Gambling Supervision Board | 35 |
| Warning to players (about player protection notices) | 51 |
| Total | 194 |

Protection of minors

- We do not sell games of chance to persons under 18 years of age and do not target minors with advertising.
- In co-operation with the Hungarian Interchurch Aid, we have launched a prevention model programme called "Gaming within Limits" for elementary and secondary school students. The efforts of the programme were acknowledged by the National Institute for Health Development in 2015. For more information visit: www.segelyszervezet.hu/hu/jatek-hatarokkal
- Our prevention website called "Hogyan mondjam el neked" was launched in January 2018 with the purpose of supporting groups that play the most important role in the development of self-recognition of children between the ages 0 to 10, so that they can establish communication with the children that effectively and truly helps. Another mission of the website is to create the language and culture of talking about

addiction between parents and children, teachers and students, adults and youth. Experts agree that the most effective way to prevent and reduce the risk of addiction is to raise children and youth who are capable of joyful activities, who can be with others and can cope with failure. This is where the website with articles from renowned and experienced professionals in parenting and child education (psychologists, addiction consultants, educators, special needs educators, child psychodrama instructors) can help, and in the section "Hova fordulj?" (Whom should I contact?) a regularly updated list of professional institutions dealing with addictions can be found.

For more information visit:
www.hogyanmondjamelneked.hu



Gaming within Limits (The period of 2017 and 2018)

Prevention programme item



- Number of schools: 12
- Number of sessions (o number of people per club): 150 special classes with form teacher, 144 leisure club sessions
- Number of students reached: 462
- Number of small private schools: 11
- Number of teachers in preparatory trainings: 22
- Number of children who participated in prevention programmes at small private schools: 160
- Number of sessions at small private schools: 132



Integration programme item



- 7 locations
- Number of contacts (aggregate number of sessions with all the people served, visitors, participants of individual processes): 902
- Presentations at professional and other forums: 87
- Number of new inquiries in person: 365
- Number of new inquiries over the phone and electronically: 230
- Number of referrals: 227



Dissemination (summer camp)



- Media camp in 3 venues
- Number of students reached: 18 Orosháza, 22 Sopron, 17 Debrecen = 57
- 3 short films produced



Player support and protection

Self-restriction

The online gaming system of Szerencsejáték Zrt. and the Game Card allows more and more players to define the amount they wish to spend on gaming themselves. There are functions available with which players can set the spending limit on the relevant game, and then the system will not allow the player to exceed such a limit. It is not obligatory to use the control function, the Company as a responsible gambling operator offers the option to players for consideration on a voluntary basis.

Website: www.bet.szerencsejatek.hu/informaciok/a-jatekszenvedelyrol

Player protection register

The purpose of the player protection register kept by the Gambling Supervision Board is to protect those under judicial restriction and major self-restriction. With the help of the register, a player may at their own discretion deliver major self-restriction statements pursuant to which they can be denied access to casinos and card halls, to remote gambling and registration and login into on-line casino game sites between the start and end dates defined.

Website: www.szf.gov.hu

Phone: +36 1550 2500

Hungarian community of Gamblers Anonymous

The Gamblers Anonymous is a fellowship of men and women who share their experience, strength and hope with each other that they may solve their common problem and help others to recover from a gambling problem. The only requirement for membership is a desire to stop gambling. There are no dues or fees for Gamblers Anonymous membership, they are self-supporting through their own contributions.

Website: www.gamblersanonymous.hu

Email: ga@gamblersanonymous.hu



ELTE Help Hotline for Gambling

A group of experts at Eötvös Loránd University (ELTE), working with Szerencsejáték Zrt. from the start, offers help under complete anonymity and secrecy for manag-

Telephone number: +36 1 411 6778

ing problems and critical situations related to gambling. The hotline receives calls between 3 p.m. and 7 p.m. on weekdays via the following phone number:

Email: szerencse@ppk.elte.hu

“Gaming within Limits” programme – Info Points

Szerencsejáték Zrt., the Hungarian Interchurch Aid and Humánium Kft. together launched a programme in 2012 which has established info points all over the country that apply model practices and methodology both in prevention and treatment. These point are capable to providing complex help to people affected by gambling addiction. The model programme is a complex pro-

gramme in approaching the problem of addiction from the aspect of prevention, integration and dissemination.

As a result of the long years of co-operation between Szerencsejáték Zrt. and the organisation, those affected can ask for help in the following towns and at the info points:

Budapest, Országbíró u. 16.
Phone: +36 1 320 8253

Orosháza, Mikszáth K. u. 2.
Phone: +36 30862 0066

Debrecen, Rákóczi u. 7.
Phone: + 36 30 633 7931

Sopron, Balfi út 31.
Phone: +36 30827 7010

Miskolc, Leszih A. u. 4.
Phone: +36 46 561227

Szolnok, Tófenék út 17.
Phone: +36 56 378460

Kaposvár, Pécsi u. 52.
Phone: +36 30726 4409

Website: www.segelyszervezet.hu/hu/jatek-hatarokkal

Employee protection

All employees and sales partners participate in a training on responsible gaming and they also need to take an

exam, plus our sales staff is encouraged to take a gambling addiction self-test on an annual basis.

Education

We regularly conduct surveys on how gambling affects society, and research to explore and collect addiction data, and the results of these surveys and research are communicated to our players.

Players receive assistance in getting to know the Terms and Conditions of Participation as a result of which they will become aware of the risks and they can make more

responsible decisions. Leaflets and infovideos on the topic are also available.

The purpose of the leaflets “Maradjon játék” (in English: Keep it a game!) available at our points of sale is to raise awareness of how problem gambling develops, what the symptoms and treatment methods are.

Professional co-operations

We have an agreement with the Pro Psychologia Fund that operates the ELTE Help Hotline for Gambling which we renewed in 2018. Pursuant to the agreement professionals offer a pre-defined monthly capacity to help those battling with problem gambling and their family members, they can be contacted via email, phone or in person. Also in co-operation with the Hungarian

Interchurch Aid (Magyar Ökumenikus Segélyszervezet - MÖS) we have been making serious efforts to help gambling addicts and their family members, in addition to the school prevention programmes. We have therapy groups for gambling addicts and relatives in Debrecen, Miskolc, Csepel and Szolnok.

Means of disseminating information

The leaflet “Maradjon játék!” (in English: Keep it a game) contains practical information on the topic, and is available at all points of sale. In addition to this, we as a responsible gambling operator use stickers that prohibit gambling and betting for persons under 18, and signs warning about the risk of developing an addiction. Our network inspectors regularly check if these means of disseminating information are in place, and that they are clearly visible, and the inspectors apply sanctions if the required information carriers are missing.

In addition to the leaflet “Maradjon játék!” (in English: Keep it a game!), we also offer information on the web-

site www.maradjonjatek.hu, and publish gambling addiction related news on the website of Szerencsejáték Zrt.

The leaflets and videos about the games continue to ensure that players are aware of the particular features of each game, the winning odds, and that with this knowledge in mind they can decide what amount to gamble and how much to gamble.

To this end, we renewed our subscription of the globally used GAM-GaRD software.



Research

Each and every product is introduced on the market after a market research which is part of the regime of rules and standards applicable to responsible gaming. During the development phase, every game is assessed based on the internationally and widely renowned GSI Standards and with the help of the GAM-GaRD risk analysis software. The system assesses games and their characteristics based on ten strictly objective parameters, and then games are allocated to one of the three risk categories. The primary purpose of the assessment is to identify the psychological impact the game may have on potential players and to define the size of the risk to which the vulnerable groups of the society face. The GAM-GaRD methodology allows us to identify high risk games already in the concept development phase, if based on the methodology we find that the risk involved in the game

to be developed does not fit in with the principles of our Company, the management submits a suggestion for limiting the risk, thus the above principle is already applied among the development principles. The games deemed high risk games by the programme that fully follows the aspects of social responsibility, will not be introduced. Our Company uses precise measurements (PGSI market research questions) to find and identify the rate of the problematic players within the target group of the game under development.

The findings of the research we conducted in 2018 among the Hungarian population with respect to problem gambling have confirmed our presumption that the young generation (persons under 18) are particularly vulnerable and exposed to the risk of problem gambling.

Rules of responsible advertising

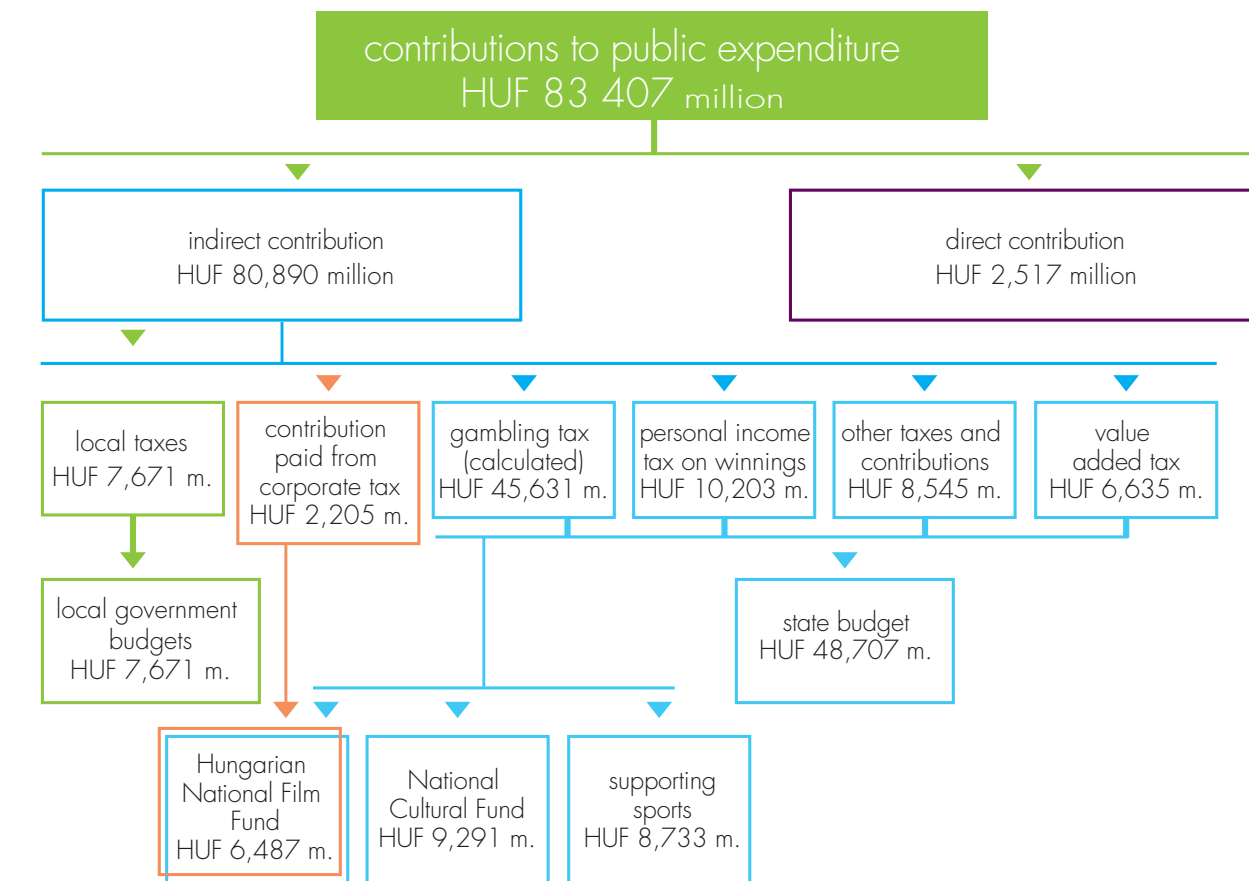
Our Company is expressly particular about not to pursue marketing activities targeted to people under the age of 18. We do not advertise in media or streams that are targeted to minors. These principles are always observed by our Company in media planning, and communication and media agencies working with us are expected to comply with these principles. The online platforms that allow displayed advertisements to be filtered by age, only visitors above 18 are shown our advertisements. As

to the content of the advertisements, every new creative concept is submitted to the Self Regulatory Advertisement Board for review, and they will decide if the concept meets the requirements set out in the Ethical Code of Advertisement and Sponsorship of Szerencsejáték Zrt. and the Hungarian Code of Advertising Ethics. The sign of age limitation of 18 years is always displayed on marketing materials produced for the purpose of product communication.

Community investments, sponsorships

The majority of the gambling tax payable on our products is used for community goals as is defined by law. Thus, the gambling tax reaches the actual recipients indirectly, through dedicated financial funds. Based on the payments made in 2018, 90% of the Ötös-lottó (5/90 lottery), i.e. more than HUF 9.5 billion went

to the National Cultural Fund, 80% of the Hatoslottó (6/45 lottery), i.e. almost HUF 4.2 billion went to the Hungarian National Film Fund, and pursuant to the Sports Act HUF 11.1 billion was paid into the funds of the national sports movement.



The national gambling operator supports community sports, cultural, educational, health related and other programmes in the form of donations and sponsorship agreements (through Szerencsejáték Service Nonprofit

Kft.). In 2018 1.9% of the net gaming revenue of the Company, i.e. HUF 2,900 million were used for donation and sponsoring purposes based on the owner's resolution.



“A játék összeköt!” (in English: Gaming connects us) – “Nagykarácsony” scratch card

The revenues from the “Nagykarácsony” scratch card issued at the end of 2017 were used to create so-called inclusive playgrounds in three towns (Budapest, Veszprém and Miskolc) within the framework of the Gaming Connects Us programme in cooperation with the National Council of Associations of Persons with Disabilities (FESZT). These playgrounds allow children with disabilities to play with children without disabilities at the same place which will clearly have a positive impact on the attitude

of children to disability as motto of the programme illustrates: “It is not what divides us that is important, but what connects us.”

Following the opening of the first three playgrounds, the management of Company decided to continue the programme in 2018; the Company agreed to build and open five new playgrounds in 2019.

“Adj egy ötöst!” (in English: Give me a five!)

At the end of 2015 a trilateral cooperation agreement was signed between the National Council of Associations of Persons with Disabilities (FESZT), a Hungarian umbrella organisation representing the largest number of people living with disabilities, the National Organization of Spanish blind people (ONCE) and our Company. The aim of the agreement is to promote the social integration of people living with disabilities in the following four areas:

- raising social awareness of disabilities,
- employing disabled persons,
- sponsorship,
- exchange of best international and national practices.

One of the important sub-projects is developed based on the findings of ONCE under the title “Development of a school programme based on empirical knowledge and emotional involvement causing a positive shift in attitudes towards disabilities, and professional support”. The programme was launched at the beginning of 2017 under the name “Adj egy ötöst!” (in English: Give me a five). The target group of the initiative consists of higher elementary and secondary students (between the age of 11 and 19), and their schools. The purpose of the programme is to raise children’s awareness to people living with disabilities through personal meetings and experience, in the hope that as a result their attitude towards disabilities will be influenced by joint experience and fun, rather than prejudice.



ENVIRONMENTAL IMPACTS 08.



SZERENCSEJÁTÉK ZRT.

Conserving our natural environment is a top priority for the Company. The technology used for distributing games of chance represents no harm to the environment, and during procurement the Company favours materials produced in an environment friendly manner, and we also ensure that waste is collected selectively. Employees of the Company also volunteer to participate in organised programmes that aim at protecting the environment.

It is one of our strategic objective to improve environmental awareness related to business operations:

We use an increasing amount of recycled paper; ensure that unwanted, scrapped electronic equipment, spent batteries and accessories are collected and disposed of in a professional manner; the selective waste collection system in place in our HQs in Csalogány utca and Fehér út proves this trend.

Within the framework of our environment and energy efficiency project, several lottery shops have undergone some renovation work: replacement of outdated lights with modern ones, replacement of doors and windows, and installation of modern heating system. The AC units at the HQ in Csalogány utca have been replaced, and a new compressor has been installed; furthermore, the heating system in the office building on Fehér út has been modernized.

We have purchased electric vehicles to cut the emission of the post run operated between our office buildings in Budapest.

Due to the increasing popularity of transmitting betting tickets through the touchscreen self-service function available in the lottery shops or via tippmix.hu, the use of

bet slips dropped by 16.9% compared to the previous year, while sales revenue grew dynamically. This result is expected to improve once the function is extended to include all the games by the end of the year, consequently our environmental footprint will continue to shrink in the future.

We use an electronic document management system to reduce the amount of paper used in our offices. Furthermore, we have an electronic platform, the Sales Support Page in place which has been set up to communicate with our sales partners electronically thereby further reducing paper use.

Our scratch cards are printed on materials from responsible and sustainable forest farming. Our contracted scratch card printing partners possess the relevant environmental certifications, and the (water based and UV treated) paints and packaging they use are all environmentally friendly. The scratch cards are completely and fully reusable.

In 2018 there were no cases where remediation was required or where emission limits were exceeded, therefore the Company did not have to pay environmental fines or penalties, and was not subjected to any other (non pecuniary) sanctions either. We pay an air pollution charges on the pollutants emitted by the boilers. Water, electricity and gas consumption increased in 2018 as compared to previous years due to the extended heating period and the increase in the volume of operating area.

The companies commissioned by us for production purposes charge us the environmental product charge, thus this continues to be booked indirectly as an environmental expense incurred by Szerencsejáték Zrt.



ENVIRONMENTAL PRESSURE INDICATORS

| Use of paper (kg) | 2015 | 2016 | 2017 | 2018 |
|--|----------------|---------------|---------------|---------------|
| Office paper | 33 680 | 35 460 | 26 792 | 33 300 |
| Of which: Environment friendly paper | 520 | 490 | 560 | 32 152 |
| Printing paper | 19 182 | 28 991 | 13 799 | 26 617 |
| Total | 52 862 | 55 667 | 41 151 | 59 917 |
| Electricity consumption | 2015 | 2016 | 2017 | 2018 |
| (GJ) | 17 901 | 16 916 | 16 297 | 17 309 |
| Gas consumption | 2015 | 2016 | 2017 | 2018 |
| (GJ) | 11 935 | 11 891 | 11 733 | 15 590 |
| Water consumption | 2015 | 2016 | 2017 | 2018 |
| (m3) | 11 909 | 12 360 | 12 587 | 14 103 |
| Volume of waste collected selectively (kg) | 2015 | 2016 | 2017 | 2018 |
| Paper waste | 86 820 | 59 117 | 46 133 | 73 300 |
| PET bottle | 640 | 1450 | 2145 | 1665 |
| Other waste collected selectively | 16 839 | 20 047 | 41 710 | 11 789 |
| Total | 104 299 | 80 614 | 89 988 | 86 763 |
| CO2 emission (tons) | 2015 | 2016 | 2017 | 2018 |
| Indirect | 1773 | 1715 | 1652 | 1838 |
| Direct | 602 | 861 | 662 | 792 |
| Environmental costs (thousand HUF) | 2015 | 2016 | 2017 | 2018 |
| Fine, penalty | 0 | 0 | 0 | 0 |
| Air pollution charge | 9 | 9 | 18 | 19 |
| Environmental product fee | 56 173 | 57 965 | 60 990 | 85 854 |

ANNEXES

09.



SZERENCSEJÁTÉK ZRT.

THE TABLE BELOW CONTAINS THE LIST OF MATERIAL ASPECTS IN 2018

| Material aspect | Indicators | Page number | Direct impact on external stakeholders |
|---|---|------------------------|--|
| ECONOMIC | | | |
| Hungarian and EU regulation of the industry | Risk management: G4-45 | 10-11 | Regulators Sales partners Players Owner |
| Product portfolio | G4-4 | 5. | Játékosok |
| Innovation | Innovative solutions implemented | 6., 12., 15., 18., 21. | Players Sales partners |
| Creating Economic Value | G4-EC1 | 12. | Owner |
| Company reputation | Risk management: G4-45 | 8-9. | Owner |
| Corporate governance, management | G4-34 | 7-9. | Owner |
| Ratings, certifications | G4-15 | 6. | Players Sales partners |
| Supplier Relations | Suppliers: G4-12 | 39. | Supplier partners |
| International cooperations | Memberships: G4-16 Stakeholders: G4-27 | 6. | Players |
| Ethical and transparent business | G4-15 Ethics: G4-56, G4-57, G4-58 | 7. | Players Sales partners |
| State ownership | G4-7 | 5. | Regulators |
| Total winnings paid out, rollover | Prizes exceeding 1 billion HUF | 13. | Players Owner Sales partners |
| Legal compliance | Environmental: G4-EN29 | 42 | Players |
| Data security, protection of personal data | Data security: G4-PR8 | 18 | Players Sales partners |

| | | | |
|---|--|--------------|------------------------------------|
| Action against illegal gambling | Ethics: G4-56, G4-57, G4-58 Stakeholders: G4-27 | 11. | Players Owner Sales partners |
| Macroeconomic factors affecting disposable income | Risk management: G4-45, G4-46, G4-47 | 12. | Players |
| Fair market conduct | Ethics: G4-56, G4-57, G4-58 | 7 | Players Sales partners |
| Reliability | Risk management: G4-45, Ethics: G4-56, G4-57, G4-58 Stakeholders: G4-27 | 7., 17., 21. | Players |
| INTERNAL AND SOCIAL | | | |
| Internal innovation, or-organisational culture | Values, etc.: G4-56 | 27-30 | |
| Impact on employment | Employment: G4-10, | 15, | |
| Recognition and career opportunities | Career: G4-LA10. G4-LA11 | 28 | |
| Training and development | Career: G4-LA10. G4-LA11 | 28 | |
| Benefits and incentive scheme | Benefits: G4-LA2 | 28 | |
| Safety at work | Proportion of employees who have attended training related to the topic | 30. | |
| Equal treatment, equal opportunities | Discrimination: G4-HR3 | 28-29. | |
| Employing the disadvantaged | Equal opportunities: G4-LA13 | 29. | |
| Protecting employee rights | G4-11 | 7. | |
| Work-life balance and work-related stress | Employment: G4-10, | 30. | |



| EXTERNAL AND SOCIAL | | | |
|---|---|--------|--------------------------------|
| Customer trust | Customer satisfaction: G4-PR5 | 16-18 | Players |
| Product availability and marketing | G4-8 | 14, 22 | Players |
| Product information, lucidity of communication | Product information: G4-PR3, G4-PR4 | 22 | Players |
| Responsible gaming, protection of minors | Customer health: G4-PR1 | 20-25 | Players Sales partners |
| Local community investments, support | Local communities: G4-SO1 | 32-37 | Society |
| Responsible employment in the value chain | G4-EC8 | 15 | Sales partners |
| ENVIRONMENTAL | | | |
| Using environmentally friendly technologies and environmentally friendly methods of operation (priorities: reduced paper use, climate protection) | Product: G4-EN27 Legal compliance: G4-EN29 | 40-42. | Society Natural environment |

Reporting period: 2018 calendar year
 Date of last report: November 2018 (GRI "in accordance core" – basic)
 Reporting cycle: annual
 GRI application level: "in accordance core" – basic
 The report has not been certified by third party partners.

The scope of the report includes all points of sale owned by Szerencsejáték Zrt. and the HQ office building. The report does not apply to other organisations within our portfolio. Material aspects mean the aspects that define the short term and long term success of the Company; therefore internal stakeholders are not differentiated based on how they are affected by these aspects.

Types of dialogue with specific stakeholder groups

| Stakeholder group | Specific Stakeholders | Type of dialogue |
|--------------------------------------|--|--|
| Entity exercising the owner's rights | The Minister without portfolio in charge of national assets | Internal Audit Report (annual) Report on the fulfilment of the Founding Declaration (semiannual) Report on the activities of the Supervisory Board (annual) Balance sheet and profit and loss statement (monthly) Annual forecast figures (semi-annual) |
| Players | Customers who purchase our Company's products | Points of sale communication: educational leaflets Internet (website, Facebook, YouTube) Regular research Draws (daily) Gambling news ("SzerencseHíradó") Customer service (telephone, e-mail and post) Public reports "History of gambling" exhibition (seasonal) |
| Employees | All company employees (administrative and sales) | Trade Union Works Council Ethics Committee Intranet Printed newsletters (monthly) CEO Directives Internal employee satisfaction survey (annual) Regular training courses Corporate events (Christmas party, sports day, Santa Claus party, Children's Day events, Women's Day) Shop managers' forum Trade show/open house days Annual report (annual) Performance appraisals Volunteer programmes |
| Suppliers | Our company's large, industry-specific suppliers (IT developers of our sales system, lottery ticket and scratch card manufacturers) and other supplying partners | International trade events Audits |



| | | |
|--|--|---|
| Sales partners | Entrepreneurs, Magyar Posta Zrt., Lapker Zrt. | Partner meetings |
| Gambling addicts | Persons affected by any kind of gambling addiction | Educational materials (POS) Website sub-page dedicated to the problem of gambling Problem of gambling TV spots In-depth interviews "Gaming within limits" model prevention project group sessions |
| Minors | People under the age of 18 (stakeholders and others alike) | Research (focus groups) Model school-based prevention programme |
| Media | National and regional | Annual report Website press page |
| Authorities and organisations co-operating in regulatory affairs | NAV Gambling Supervision Board, Gambling Supervision operating as an independent government agency since July 2017, National Metrology Institute, National Office of Communications, Hungarian Advertising Self-Regulatory Board | Official correspondence, gambling licences, operational control |
| Legislators | Parliament, the Government, the Ministry for National Economy, Ministry of National Development, the Minister without portfolio in charge of national assets | Expert inputs |
| Non-governmental organisations | Organisations supported by or co-operating with our Company | Trade events Audits Volunteer programmes |
| Industrial organisations | Other participants of the international and Hungarian gambling market | European Lotteries events World Lottery Association events Regular professional seminars, working groups Audits |
| Organisations dealing with prevention and addiction | Trade organisations and experts cooperating with our Company | Professional round-table discussions Conferences Presentations Professional co-operation in research projects In-depth interviews |

Gaming revenue

| Revenue (million HUF) | 2016 | 2017 | 2018 |
|-----------------------|----------------|----------------|----------------|
| Betting | 170 078 | 197 493 | 231 086 |
| Toto | 1859 | 1645 | 1560 |
| Goal toto | 61 | 49 | 128 |
| Tippmix | 127 519 | 142 847 | 164 316 |
| TippmixPro | 40 639 | 52 952 | 65 081 |
| Draw games | 113 441 | 122 080 | 119 813 |
| 5/90 lottery | 43 013 | 48 567 | 44 089 |
| 6/45 lottery | 20 663 | 23 003 | 21 867 |
| Joker | 5 576 | 6 912 | 6 559 |
| Keno | 5 732 | 5 592 | 5 729 |
| Luxor | 3 636 | 3 444 | 3 290 |
| Scandinavian lottery | 17 840 | 18 074 | 17 532 |
| Eurojackpot | 16 981 | 16 488 | 20 747 |
| Instant win games | 24 643 | 26 125 | 27 540 |
| Putto | 24 643 | 26 125 | 27 540 |
| Scratch cards | 77 302 | 90 134 | 111 946 |
| Total | 385 464 | 435 832 | 490 384 |



| Net gambling revenue (million HUF) | 2016 | 2017 | 2018 |
|---------------------------------------|----------------|----------------|----------------|
| Betting | 38 301 | 43 633 | 50 453 |
| Toto | 1 006 | 890 | 844 |
| Goal toto | 33 | 26 | 69 |
| Tippmix | 31 477 | 35 034 | 40 373 |
| TippmixPro | 5 785 | 7 684 | 9 166 |
| Draw games | 67 900 | 71 666 | 71 173 |
| 5/90 lottery | 26 145 | 29 164 | 26 476 |
| 6/45 lottery | 12 557 | 13 813 | 13 131 |
| Joker | 3 389 | 4 151 | 3 938 |
| Keno | 3 389 | 2 378 | 3 429 |
| Luxor | 2 153 | 2 039 | 1 948 |
| Scandinavian lottery | 10 258 | 10 393 | 10 081 |
| Eurojackpot | 10 010 | 9 728 | 12 170 |
| Instant win games | 10 495 | 11 097 | 11 808 |
| Putto | 10 495 | 11 097 | 11 808 |
| Scratch cards | 27 043 | 31 148 | 37 628 |
| Total | 143 740 | 157 545 | 171 062 |

Profit and loss account, balance sheet

| PROFIT AND LOSS ACCOUNT | 2016 | 2017 | 2018 |
|---|---------|---------|---------|
| Net domestic sales revenue | 386 366 | 436 679 | 491 127 |
| Of this: gaming revenue | 385 466 | 435 832 | 490 384 |
| Net sales revenue | 386 366 | 436 679 | 491 127 |
| Change in self-produced inventories | 0 | 0 | 0 |
| Capitalised value of self-produced assets | 0 | 0 | 0 |
| Capitalised value of own performance | 0 | 0 | 0 |
| Other income | 120 | 1 208 | 82 |
| Of this: impairment charge reversed | 0 | 0 | 0 |
| Material costs | 3 326 | 3 658 | 4 519 |
| Cost of services used | 53 633 | 58 773 | 64 347 |
| Cost of other services used | 859 | 982 | 1 165 |
| Cost of goods sold | 15 | 33 | 10 |
| Cost of services sold (mediated) | 266 | 280 | 253 |
| Material-type expenses | 58 098 | 63 725 | 70 295 |
| Salaries and wages | 7 784 | 8 922 | 10 212 |
| Other personnel expenses | 2 280 | 2 538 | 2 797 |
| Payroll taxes and contributions | 2 599 | 2 517 | 2 657 |
| Personnel expenses | 12 663 | 13 977 | 15 667 |
| Depreciation | 4 240 | 4 412 | 5 081 |
| Other expenses | 294 393 | 336 336 | 377 800 |
| Of this: impairment charge | 136 | 2 | 50 |
| Gross value of winnings accounted for as expenses | 252 413 | 289 973 | 330 818 |



| OPERATING PROFIT/LOSS | 17 092 | 19 435 | 22 365 |
|---|--------|--------|--------|
| Dividend and profit-sharing received (due) | 0 | 0 | 0 |
| Of this: affiliated undertakings | 0 | 0 | 0 |
| Gains on the sale of equity shares | 0 | 0 | 0 |
| Of this: affiliated undertakings | 0 | 0 | 0 |
| Interest and gains on financial assets | 58 | 153 | 93 |
| Of this: affiliated undertakings | 0 | 0 | 0 |
| Other interest and interest-type incomes received (due) | 250 | 64 | 94 |
| Of this: affiliated undertakings | | | |
| Other income from financial operations | 14 | 14 | 27 |
| Income from financial operations | 322 | 231 | 217 |
| Loss on financial assets | | | |
| Of this: affiliated undertakings | | | |
| Interest and interest-type expenditures | 0 | 1 | 0 |
| Of this: affiliated undertakings | 0 | 0 | 0 |
| Impairment of equity shares, securities and bank deposits | 0 | 0 | 0 |
| Other expenses on financial operations | 37 | 32 | 95 |
| Expenses on financial operations | 37 | 33 | 95 |
| PROFIT/LOSS ON FINANCIAL OPERATIONS | 285 | 198 | 121 |
| PROFIT BEFORE TAXATION | 17 378 | 19 633 | 22 487 |
| Tax payable | 1 384 | 866 | 907 |
| PROFIT/LOSS AFTER TAXATION | 15 993 | 18 767 | 21 580 |

| BALANCE SHEET, ASSETS | 2016 | 2017 | 2018 |
|---|--------|--------|--------|
| FIXED ASSETS | 23 847 | 26 615 | 26 542 |
| Intangible assets | 4 543 | 5 432 | 5 290 |
| Capitalised value of formation and restructuring expenses | 0 | 0 | 0 |
| Capitalised value of research and development | 0 | 0 | 0 |
| Rights and concessions | 4 321 | 4 998 | 4 831 |
| Intellectual property | 223 | 433 | 459 |
| Advance payments on intangible assets | 0 | 0 | 0 |
| Adjustment to the value of intangible assets | 0 | 0 | 0 |
| Tangible assets | 13 236 | 14 005 | 13 684 |
| Land and buildings and related rights | 7 529 | 7 716 | 7 793 |
| Equipment, machinery and vehicles | 3 433 | 3 652 | 3 004 |
| Other equipment, fixtures and vehicles | 1 622 | 2 068 | 1 871 |
| Capital expenditure | 646 | 569 | 1 016 |
| Advance payments on capital expenditure | 0 | 0 | 0 |
| Adjustment to the value of tangible assets | 0 | 0 | 0 |
| Financial fixed assets | 6 067 | 7 178 | 7 568 |
| Long-term investments in affiliated undertakings | 1 003 | 1 003 | 1 003 |
| Long-term loans to affiliated undertakings | 0 | 0 | 0 |
| Other long-term interests | 0 | 0 | 0 |
| Long-term loans to other related undertakings | 0 | 0 | 0 |
| Other long-term loans | 62 | 63 | 74 |
| Long-term debt securities | 5 002 | 6 113 | 6 491 |
| Value adjustment to financial assets | 0 | 0 | 0 |



| | | | |
|---|--------|--------|--------|
| CURRENT ASSETS | 33 344 | 35 200 | 46 865 |
| Inventories | 1 069 | 1 290 | 1 840 |
| Materials | 1 010 | 1 224 | 1 773 |
| Goods | 59 | 66 | 67 |
| Advance payments on inventories | 0 | 0 | 0 |
| Receivables | 5 675 | 5 245 | 4 814 |
| Trade receivables | 1 424 | 3 521 | 3 839 |
| Receivables from affiliated undertakings | 1 | 1 | 2 |
| Receivables from other related undertakings | 0 | 0 | 0 |
| Bills of exchange receivable | 0 | 0 | 0 |
| Other receivables | 4 250 | 1 723 | 972 |
| Securities | 8 536 | 10 286 | 28 861 |
| Shares and interests in affiliated undertakings | 0 | 0 | 0 |
| Other shares and participations | 0 | 0 | 0 |
| Treasury stock | 0 | 0 | 0 |
| Debt securities held for trading | 18 536 | 10 286 | 28 861 |
| Total liquid assets | 8 064 | 18 380 | 11 351 |
| Cash on hand, cheques | 311 | 327 | 445 |
| Bank deposits | 7 753 | 18 052 | 10 906 |

| | | | |
|--------------------------------|--------|--------|--------|
| PREPAYMENTS AND ACCRUED INCOME | 5 229 | 6 904 | 1 909 |
| Accrued revenue | 3 403 | 47 | 418 |
| Pre-paid costs and expenses | 1 826 | 6 857 | 1 490 |
| Deferred expenses | 0 | 0 | 0 |
| TOTAL ASSETS | 62 420 | 68 719 | 75 316 |



| BALANCE SHEET, LIABILITIES AND EQUITY | 2016 | 2017 | 2018 |
|--|--------|--------|--------|
| Equity | 40 097 | 46 364 | 54 944 |
| Subscribed capital | 3 000 | 3 000 | 3 000 |
| Capital reserve | 0 | 0 | 0 |
| Profit reserve | 21 103 | 24 597 | 30 364 |
| Earmarked reserve | 0 | 0 | 0 |
| Valuation reserve | 0 | 0 | 0 |
| Profit/loss after taxation | 15 993 | 18 767 | 21 580 |
| PROVISIONS | 1 010 | 1 017 | 1 015 |
| Provisions for anticipated liabilities | 1010 | 1 017 | 1 015 |
| Provisions for future expenses | 0 | 0 | 0 |
| Other provisions | 0 | 0 | 0 |
| LIABILITIES | 19 558 | 19 228 | 17 453 |
| Subordinated liabilities | 0 | 0 | 0 |
| Long-term liabilities | 0 | 0 | 0 |
| Short term liabilities | 19 558 | 19 228 | 17 453 |
| Short term loans received | 0 | 0 | 0 |
| - of this: convertible bonds | 0 | 0 | 0 |
| Short term credits | 0 | 0 | 0 |
| Advance payments from customers | 649 | 469 | 570 |
| Trade debts | 5 359 | 5 738 | 4 505 |
| Bills of exchange payable | 0 | 0 | 0 |
| Short term liabilities to affiliated undertakings | 1 | 0 | 0 |
| Short term liabilities to other related undertakings | 0 | 0 | 0 |
| Other short term liabilities | 13 550 | 13 021 | 12 378 |
| ACCRUALS AND DEFERRED INCOME | 1 754 | 2 111 | 1 904 |
| Accrued income | 1 164 | 1 474 | 1 064 |
| Deferred cost and expense | 587 | 633 | 836 |
| Deferred income | 3 | 4 | 3 |
| TOTAL LIABILITIES AND EQUITY | 62 420 | 68 719 | 75 316 |

GRI index



| Indicator | Short description | Page number |
|-------------------------------------|--|----------------|
| Strategy and analysis | | |
| G4-1 | Provide a statement about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability | |
| Organizational Profile | | |
| G4-3 | Name of the organisation | |
| G4-4 | Primary brands, products, and/or services | |
| G4-5 | Location of the organization's headquarters | |
| G4-6 | Countries where the organization operates | |
| G4-7 | Nature of ownership and legal form | |
| G4-8 | Markets served | |
| G4-9 | The scale of the organization, including: the total number of employees; net sales revenues; total capitalization broken down in terms of debt and equity; quantity of products or services provided | |
| G4-10 | Total number of employees by employment type, employment contract and region | |
| G4-11 | Percentage of total employees covered by collective bargaining agreements | |
| G4-12 | Describe the organization's supply chain | |
| G4-13 | Any significant changes during the reporting period regarding the organization's size, structure, or ownership | Not applicable |
| Commitments to External Initiatives | | |
| G4-14 | Report how the principle of precautionary approach is applied by the organization | |
| G4-15 | List the charters, principles, or other initiatives to which the organization subscribes or which it endorses | |
| G4-16 | List memberships in associations (such as industry associations) and national or international advocacy organizations | |

| Identified Material Aspects and Boundaries | | |
|--|--|------------------------------|
| G4-17 | a) List all entities included in the organization's consolidated financial statements. b) List any entity included in the organization's consolidated financial statements but not covered by the report | |
| G4-18 | Explain the process for defining the report content | |
| G4-19 | List all the material aspects identified in the process for defining report content. | |
| G4-20 | For each material aspect, we identify the entities or groups of entities for which the aspect is material | |
| G4-21 | For each material aspect, we identify the entities, groups of entities outside the organisation for which the aspect is material | |
| G4-22 | Report the effect of any restatement of information provided in previous reports, and the reasons for such restatements. | Under the relevant indicator |
| G4-23 | Report significant changes from previous reporting periods in the scope, aspect boundaries or measurement method. | No change |
| Stakeholder Engagement | | |
| G4-24 | Provide a list of stakeholder groups engaged by the organization | |
| G4-25 | Report the basis for identification and selection of stakeholders with whom to engage. | |
| G4-26 | Report the organization's approach to stakeholder engagement. | |
| G4-27 | Report key topics and concerns that have been raised through stakeholder engagement. | |
| Report profile | | |
| G4-28 | Reporting period (such as fiscal or calendar year) for information provided | |
| G4-29 | Date of the most recent report | |
| G4-30 | Reporting cycle (such as annual, biennial) | |
| G4-31 | Contact point for questions regarding the report or its contents. | |
| G4-32 | GRI content index | |
| G4-33 | The organization's policy and current practice with regard to seeking external assurance for the report | |

| Governance | | |
|----------------------------------|--|------------------------------|
| G4-34 | Report the governance structure of the organization | |
| G4-45 | Report the highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. | |
| Ethics and Integrity | | |
| G4-56 | Describe the organization's mission, values, standards and norms of behaviour and other principles | |
| G4-57 | Report the internal mechanisms for seeking advice on ethical and lawful behaviour, such as helplines or advice lines. | |
| G4-58 | Report the internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, or suspicion thereof | |
| Governance Approach | | Where the data are presented |
| Economic Performance Indicators | | |
| G4-EC1 | Report the direct economic value generated and distributed (EVG&D) on an accruals basis including revenues, operating costs, employee wages and benefits, donations and other community investments, retained profits, payments to providers of capital and payments to government | |
| G4-EC8 | Report examples of the significant identified positive and negative indirect economic impacts the organization has, indicating their extent | |
| Labour practices and decent work | | |
| G4-LA2 | Benefits provided to full-time and part-time employees, by significant locations of operation | |
| G4-LA10 | Programs for skills management and lifelong learning | |
| G4-LA11 | The percentage of total employees who received a regular performance and career development review | |



| Product Responsibility | | |
|--------------------------------------|---|--|
| G4-PR1 | The percentage of significant product and service categories for which health and safety impacts are assessed for improvement | |
| G4-PR3 | Type of product and service information required by the organization's procedures. The percentage of significant product and service categories subject to such information requirements. | |
| G4-PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes | |
| G4-PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data | |
| Society | | |
| G4-SO1 | The percentage of operations with implemented local community engagement, impact assessments, and development programs | |
| Environmental Performance Indicators | | |
| G4-EN27 | Initiative for mitigating the environmental impacts of products and services | |
| G4-EN29 | Total monetary value of significant fines | |

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Please send your comments or questions to csr@szerencsejatek.hu