

SZERENCSEJÁTÉK ZRT.
ANNUAL REPORT 2014

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**LETTER FROM
THE CHIEF
EXECUTIVE OFFICER**

Dear Reader,

I am honoured to have the opportunity to greet you.

In the summer of 2015 I took over the leadership of Szerencsejáték Zrt. from Dr. Kálmán Szentpétery, who had managed the company for five years. He left behind a commercially successful corporation with high standards of operating which has received a great number of awards and widespread recognition. He was head of the company throughout 2014, so these great results may be attributed to him and, over and above, to all the employees of Szerencsejáték Zrt. I hereby wish to extend to them my sincerest congratulations.

Over the last few years, Szerencsejáték Zrt. has beaten a long list of records in terms of revenue and in many other ways. 2014 did not prove different. The company posted total sales revenue of over 303.8 billion HUF. What factors might have contributed to this upward trend?

What really helped us to achieve better business results was a long series of developments that all took place last year. From among these, joining the international lottery game Eurojackpot stands out as a major contributor. Besides this achievement, bookmakers' bets, Tippmix and TippmixPro did very well, and the massively accumulating pick-5 lotto also made a significant contribution to these excellent results.

In my opinion, we sincerely need the dedication shown by a team of over 1500 staff members, the hard work done by those at the end of the supply chain, as well as our enthusiastic leaders and background partners, who continue to deliver better results year after year. In addition, we must not fail to have a smoothly operating, well-kept portfolio or well-chosen, proven development projects and tasks, and we must offer a quality service to players. These goals must be accomplished behind the scenes.

Based on feedback from players and public opinion, **our core asset is trust**. It is the unbroken confidence in our company and our widely known games that will establish our future success. Retaining and, possibly, further developing this trust is a great responsibility. And what must we do to gain the trust of our players? We must operate transparently, which means making draws in an open way and, also, gladly welcoming anyone who is interested in watching a draw for themselves. Furthermore, we are making operational data of public interest more widely available than before. In 2014 we restructured our website, where you will find more about this topic under the heading "About us" on the main menu (<http://rolunk.szerencsejatek.hu/>). The results speak for themselves. In June 2015 Transparency International released a report entitled "Hungarian state companies' transparency and data disclosure practices", which ranks Szerencsejáték Zrt. first on a composite index.



Apart from reliability, we consider **sustainable development** to be one of our core values. In the life of Szerencsejáték Zrt., this is a strategic direction that not only appears in our corporate responsibility programmes, but which is closely related to our core activity (namely, gaming), and which also permeates our day-to-day operations. Another fundamental principle of our company is to pay more attention to raising awareness about the risks of gambling addiction and prevention and treatment options, as well as to providing education about related programmes and initiatives. As a result of this effort, we have launched a model programme called "Gaming within limits", which draws the attention of senior primary school and secondary school age children to the risks of problem gambling. We have also targeted the 18-24-year-old segment with responsible gaming messages through our participation in university days and summer festivals.

Earning and maintaining the trust of players and fostering sustainable development are the two core values of Szerencsejáték Zrt. My colleagues and I will be ready in the future to keep on attaining these outstanding business successes and to further promoting these two values.

Since 2011 Szerencsejáték Zrt. has been using the CSR approach as a tool for reporting on its operations. In 2012 we were one of the first Hungarian companies to adopt an integrated reporting format to present business and CSR results at the same time. When preparing our results, we follow the GRI (Global Reporting Initiative) criteria that require reports to be transparent and internationally comparable. This year we transitioned from using G3 to G4 guideline. One key change in this regard is that readers must be properly informed to be able to identify topics of material interest to the company.

With full knowledge of the facts above, I wish you all enjoyable reading and studying of this report.

Sincerely,
Dr. Márton Braun
Chairman-CEO
Budapest, August 2015



As the national lottery company of Hungary, Szerencsejáték Zrt. has the exclusive right by law to sell prize draw games (pick-5 lotto, pick-6 lotto, Scandinavian Lotto, Joker, Keno, Luxor, Putto and scratch cards) and pari-mutuel bets (Toto Pools, Goal Toto) across the territory of the country; furthermore, it has the sole licence for organising bookmaker betting (Tippmix, TippmixPro). It only conducts gaming activities in Hungary, and its operations are based in four sales regions: Budapest, Miskolc, Pécs and Szeged. Its corporate headquarters are in Budapest.

COMPANY DESCRIPTION

SZERENCSEJÁTÉK ZRT. IN NUMBERS

	2012	2013	2014
Employees	1 486	1 509	1 542
Gambling revenue (million HUF)	212 790	243 343	303 802
Lottery entries (million purchases)	1 238	1 430	1 855
Points of sale: Own	451	455	453
Points of sale: Partners	5 672	6 060	6 424

In accordance with the current regulations pertaining to the Company, the state has a permanent 100% interest in the company, meaning that Szerencsejáték Zrt. is fully owned by the Hungarian state. Owner-

ship rights are the responsibilities that are exercised by the Minister of State Property, who performs these duties through Hungarian National Asset Management Ltd. (Magyar Nemzeti Vagyonkezelő Zrt.)

Our mission and values

At Szerencsejáték Zrt., our mission is to meet the gambling entertainment needs of the adult Hungarian population in a professional way within the boundaries of responsible gaming and, in the meantime, contribute to financing national public expenditure as well as to the process of social value creation.

Our core values are sustainable and moderate growth, responsible gaming, provision of an excellent product and service quality, customer orientation, reliability and social responsibility.

Gambling is a popular and widespread form of entertainment: **three quarters of the adult Hungarian population** buy our products in varying degrees of regularity. However, it is important to keep in mind that our products cannot be considered normal commercial products. If overdone, gambling may become an addiction, and the risk inherent in compulsive gambling will, in turn, pose a menace to public health, public peace as well as public safety. The risk is further increased by the globalisation of the gaming market and the increase in cross-border betting, which calls for firm government action against illegal gambling operators, primarily in the interests of protecting high-risk

groups (e.g., youth). The fact that potentially massive revenues for government budgets are lost through illegal gambling cannot be ignored. The national lottery company is responsible for providing opportunities for safe and moderate betting by keeping up with technological advances.

The company is aware of its monopolistic position in most of the Hungarian gaming market and **recognises its responsibility** to shape betting habits in the country. It strives to maintain a balance between satisfying players' entertainment needs, mitigating risks to public peace, public health and society, and generating taxes and profit.

In the communication related to our games, we provide players with accurate information and give them a true picture of their chances of winning. We never suggest that prizes can substitute for income earned from work, and we never encourage our players to spend money beyond their means.

In order to sustain a socially controlled gaming market, we co-operate with other institutions that are interested in shaping betting habits, governmental and supervisory organs, research institutions that examine the psychological effects of gambling, along with health care institutions.

INTER-ORGANISATIONAL CO-OPERATION, MEMBERSHIPS

Szerencsejáték Zrt. is a member of the **European Lotteries** and **World Lottery Association**. We participate in the professional programmes of these organisations in order to learn and adopt the best industry methods and procedures. We regard as guidance the commonly developed value system that has a focus on the promotion of a diverse set of societal values.

Currently, the Hungarian gambling industry does not have a relevant professional organisation of its own. However, we have commit-

ted ourselves to co-operating with a number of organisations, all of which we are connected to through different features of our business. We have kept in close touch with the **Hungarian Advertising Self-Regulatory Board** (Önszabályzó Reklám Testület, or ÖRT for short) for several years. We always advertise according to their guidelines. Our company is a member of the **Hungarian Donors Forum** (Magyar Adományozói Fórum), and we take part in chairing and in promoting good practise among companies.

PORTFOLIO

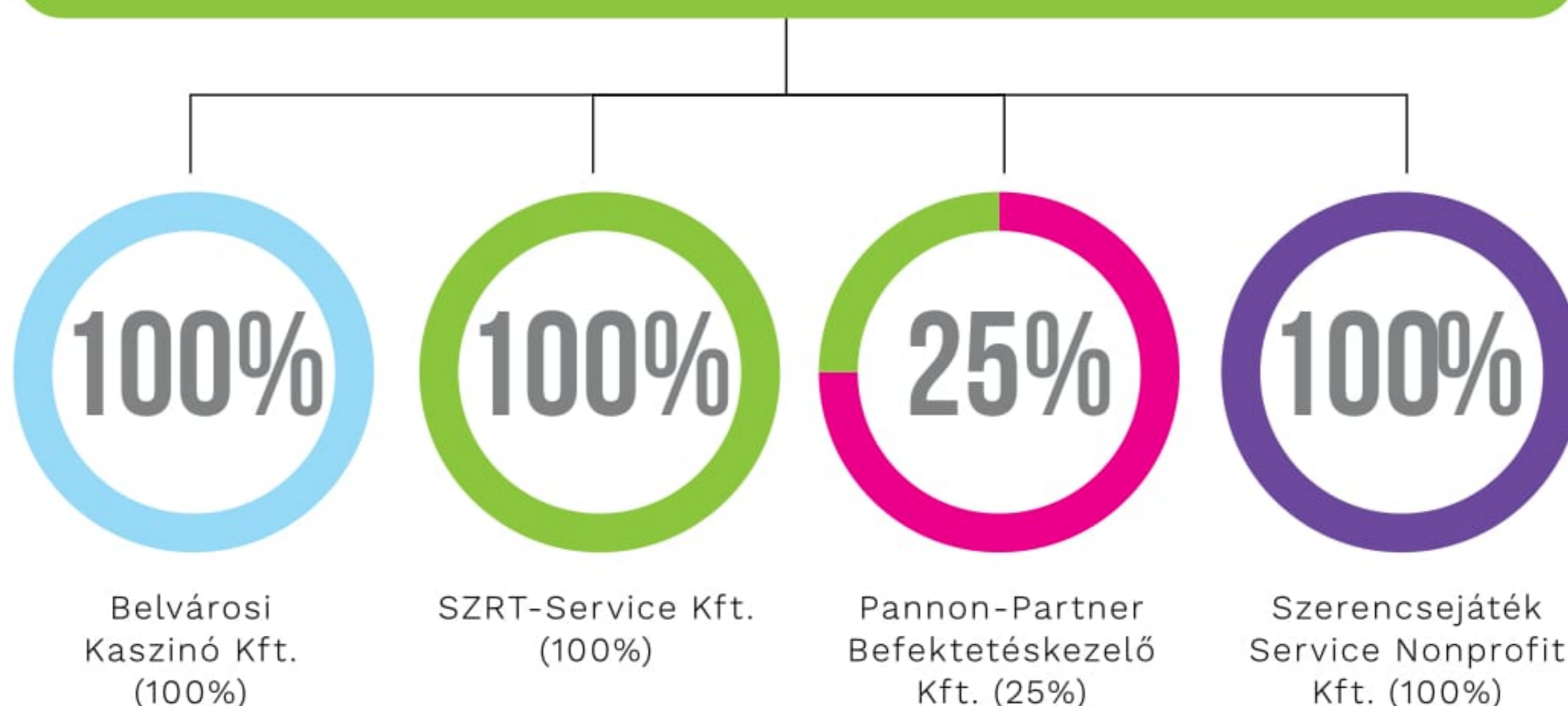
In 2014, Szerencsejáték Zrt. had 100% ownership of Belvárosi Kaszinó Kft., a company that operates the Tropicana Casino in the capital, and SZRT-Service Kft., a corporation with no business activity. Furthermore, it had a 25% minority ownership in Pannon-Partner Befektetéskezelő Kft., a company which owns the casino concession in Sopron and which is the founder of Soproni Casino Kft., the operator of the casino in Sopron. Szerencsejáték Zrt. founded Szerencsejáték Service Nonprofit Kft. in December

2014. Szerencsejáték Service Nonprofit Kft. was established for the purposes of advertising and offering sponsorship and public donations separately from Szerencsejáték Zrt. through the involvement of an independent advisory board.

Nevertheless, this report only contains non-consolidated financial data about Szerencsejáték Zrt. itself. The method of compilation of the report is detailed in the section "About the report".

SZERENCSEJÁTÉK ZRT.'S PORTFOLIO

SZERENCSEJÁTÉK ZRT.



CORPORATE GOVERNANCE, MANAGEMENT

Trust plays a key role in shaping public perceptions about our company. To build and maintain trust, we need to use corporate governance principles as a firm foundation to ensure transparency, an optimal degree of regulation and a way of operating that conforms to legal rules and other criteria.

As the national lottery company of Hungary, Szerencsejáték Zrt. is responsible for **providing opportunities for safe and moderate betting** in the country by keeping up with the most recent technological advances. The corporate strategy of the company is to diversify its activities in a prudent manner and, by minimizing risks, adhere to government regulations and satisfy the interests of the owner.

SUSTAINABLE DEVELOPMENT

We have long been committed to **operating responsibly and sustainably**, the goals of which are defined among our core values. As of 2010, the Corporate Social Responsibility Department, a separate organisational unit, has been in operation at Szerencsejáték Zrt. In 2014 the CEO of our company, as well as

the leaders of several large Hungarian companies, signed the Business Council for Sustainable Development Hungary's (BCSDH) recommendation for business leaders, which interprets sustainability in a complex way. By doing so, he reaffirmed his commitment to sustainable development.

LEGAL COMPLIANCE

For Szerencsejáték Zrt., abiding with the law is a basic, inescapable requirement. Even our **Code of Ethics** stipulates that the activities of the company must fully comply with relevant Hungarian and EU regulations. As a result, we only offer fair and legal games, we take action against illegal gambling, and we behave reasonably towards our competitors.

Our games are properly regulated, and they are also fairly and safely organised. Szerencsejáték Zrt. is hardly ever involved in any

legal disputes or lawsuits with regard to the claiming of prizes. Thus, these disputes have practically no consequences for us.

NAV Gaming Inspectorate regularly audits our operations and our network, which is made up of nearly 6,900 points of sale. The results of these audits are discussed in detail in the section entitled "Economic value creation".

SUSTAINABLE AND ETHICAL BUSINESS OPERATION

Szerencsejáték Zrt. believes it is essential that its employees establish and maintain their employment status in legal security. This is facilitated by the **Collective Agreement**, which clearly defines the rights and duties of employers and employees. All of the employees of the company, except the Chairman-CEO and the deputy CEO, fall within its scope.

A Collective Agreement is a bilateral contract that can be modified by the management only with the agreement of the Trade Union. The Trade Union and the Works Council represent employees' rights when establishing working conditions and negotiating wages and benefits, and they also ensure that their opinions are made known to the management.

Since 2007 the **Ethics Committee** has been at employees' disposal to help clarify any ethical issues.

As of 1st January 2014, a new **Code of Ethics** came into operation. Based on the Model Code of Ethics published by Hungarian National Asset Management Ltd. in the form of a recommendation, the new Code was drawn up with special consideration to our organisational characteristics. All employees are obligated to read it and abide by the rules stated therein, which they must all confirm in writing.

With regard to company employees, the Code of Ethics is designed to:

- define a set of rules for ethical behaviour that apply to them,
- provide them with assistance in complying with these rules,
- inform the public about behaviours that employees can be expected to demonstrate,

- protect them from attempts to involve them in corrupt practices, from arbitrary measures which may be taken by their employers, and from being held responsible for reasons that are unjustifiable.

The Code declares that a person who reports in good faith a suspected act of corruption or the risk it potentially involves can be put at no disadvantage.

Our company defines specifications about ethical and transparent business operating processes for itself. They include the topics of law abidance, data security and confidentiality, ethical relations with players and efforts to reduce the risk of corrupt practices.

The code of ethics is reviewed by the company on a regular - at least triennial - basis. In order to enforce the rules of ethics, the company can request guidance from an Ethics Committee with permanent members, which is tasked with preparing annual reports for the Chairman-CEO. In 2014, based on reports, no ethics-related proceedings were necessary.

The code of ethics is public and can be read on our webpage, where we also disclose data of public interest. Following the guidelines of Transparency International Hungary (TIH), and after examination of the findings of their survey on the transparency of Hungarian state companies, we undertook to make even more data publically available by the first half of 2015 to increase corporate transparency. This data includes information about basic procurement principles, anti-corruption guidelines and risk management principles and guidelines. When the TIH report came out, the result of our development was apparent: in June 2015 an index was released with the title "Hungarian state companies' transparency and data disclosure practices", which ranked Szerencsejáték Zrt. in first place on a composite index.

OUR MANAGEMENT IN 2014

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. (From 23th March, 2015 onwards, the Memorandum of Association shall be called the Rules

of Association.) The Chief Executive Officer (CEO) is responsible for the company's operative leadership and is also the Chairman of the Board. The CEO is always appointed by Hungarian National Asset Management Ltd., which is entitled to exercise ownership rights.

Name	Position
Dr. Kálmán Szentpétery	Chairman of the Board of Directors
Károly Attila Kollár	Member of the Board of Directors
Csaba Nánásy	Member of the Board of Directors
Marianna Sebők	Member of the Board of Directors

SUPERVISORY BOARD

The company's executive body is supervised by the Supervisory Board, one-third of whose members are employee representatives. The duties and responsibilities of the Supervisory

Board are determined by the Memorandum of Association and the Rules of Procedure for the Supervisory Board.

Name	Position
Zsolt István Incze	Chairman of the Supervisory Board
Dr. Edit Varga	Member of the Supervisory Board (until 30th September 2014)
Gyula Mucsi	Member of the Supervisory Board
Kornélia Kaiser	Member of the Supervisory Board (until 30th September 2014)
István Knapp	Member of the Supervisory Board
Dr. Nóra Turós	Member of the Supervisory Board (from 20th October 2014)
Dr. Gergely Ákos Kuczora	Member of the Supervisory Board (from 20th October 2014)

LEADERS OF OUR ORGANISATION

Chief Executive Officers shall always perform their duties within the scope of legal regulations, the Articles of Association and the resolutions issued by the General Meeting and the Board of Directors. They shall also act on behalf of the company and exercise ownership rights at members' meetings of subsid-

aries according to the conditions defined in the Memorandum of Association.

In our organisation, operational business processes are carried out in six independent directorates. The Deputy Chief Executive Officer is also leader of the Directorate-General for Economic and Financial Affairs.

Name	Position
Dr. Kálmán Szentpétery	Chairman - Chief Executive Officer
Éva Szabóné Horváth	Deputy Chief Executive Officer
Ádám Balogh	Director of Marketing and Communications
Zoltán Cselovszki	Director of Sales and Game Organisation
László Dankó	Director of Security
Dr. Edina Horváth	Director of Legal Affairs and Control
Ábel Knuth	Director of Information Technology

STAKEHOLDERS AND THEIR INVOLVEMENT

In order to gain a realistic picture of what the most recent impacts and interactions are and what factors influence our corporate operations, we lay great emphasis on determining precisely who our stakeholders are and also on periodically revising the scope of the stakeholders we are engaged with. When planning a project, we invariably specify who the stakeholders of the particular project are and what level of dependency and influence they have on the company.

We have defined the groups below as the stakeholders of the company: owner, legislators and authorities, media, industrial organisations, organisations that deal with prevention and addiction, NGOs (non-governmental organisations), competitors, suppliers, players, gambling addicts, minors, employees, and sales partners. They are prioritised 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 ASSESSMENT AND PRIORITISATION

		Stakeholder influence on the company	
		low	high
Stakeholder dependency on the company	high	<ul style="list-style-type: none"> • NGOs • organisations that deal with prevention and addiction • gambling addicts 	<ul style="list-style-type: none"> • players • employees • sales partners
	low	<ul style="list-style-type: none"> • minors • competitors • the natural environment 	<ul style="list-style-type: none"> • owner • legislators and authorities • media • professional organisations • industrial organisations • suppliers

Communication with stakeholders takes place by means of regular and ad hoc dialogues tailored to the particular stakeholder group, depending on the nature of the relationship or the topic. You can read more about

this in the section of this report that deals with individual stakeholder groups (players, employees, local communities, suppliers, the environment) and in the Appendices.

STRICT INDUSTRIAL REGULATION

We undertake our activities under conditions strictly regulated by law and in a sector traditionally controlled by the government. This fundamentally defines our stakeholder rela-

tionships. The regulations serve, on the one hand, to protect players (our core stakeholder group) and, on the other hand, to maintain control over public revenues.

REGULATORY CONTRADICTIONS IN THE EUROPEAN ONLINE GAMBLING MARKET

The legally contradictory practices of online betting agencies are a major concern for the European gambling market.

Even though online betting agencies may have gambling licences in member countries or regional tax havens that offer them favourable tax conditions, they mainly function in countries where their activities are legally prohibited and their operations are not transparent to regulatory authorities of the host countries. Accordingly, they have an advantage over local providers regarding taxation, and they also have more resources to further their business interests.

In a recommendation adopted in mid-2014, the European Commission encouraged EU member states to ensure the high-level protection of consumers, players and minors through the adoption of principles for online gambling services as well as for responsible advertising and sponsorship of those services. The Hungarian Remote Gambling Act, in force since November 2014, lays the basis for effective action against illegal operators and their Hungarian collaborators.

CHANGES IN THE DOMESTIC REGULATORY ENVIRONMENT; ACTION AGAINST ILLEGAL BETTING AGENCIES

The volatile regulation of the domestic gambling market poses a **risk** to our company's operations. Due to frequent amendments, the operative Gambling Act (Act No. XXXIV of 1991) is structurally difficult to apply. As a result, Szerencsejáték Zrt. has had to face the continuing challenge of having to adapt to a changing regulatory and legal environment. To provide a high standard of service to the domestic gambling market, the company is striving to broaden its range of activities, and it is also committed to contributing to reforming the regulatory background with its expert knowledge.

During the year, amendments to the regulations allowed us to start organizing international games, which resulted in the launch of **Euro-jackpot**, an international numbers game.

In November 2014 Parliament accepted an amendment stipulating that remote **sports**

betting can be organised solely by the national gaming company and **casino games** only by domestic operators who possess a casino licence. As of the middle of the year, NAV Gaming Inspectorate has repeatedly blocked for 90 days the operation of numerous online betting agencies that were found to be operating without a licence.

The transformation of the casino market has brought about significant changes in the regulatory environment. In 2015, based on the amendment, licences can be granted to a greater number of casinos than before, but to a maximum of 11 in total, which shall be proportionally divided according to territory. Since Szerencsejáték Zrt. was not granted a concession, we were forced to modify our earlier plans to open casinos.

ECONOMIC VALUE CREATION

Between 2011 and 2014, Szerencsejáték Zrt., the state-owned company that had previously sought to operate in a stable and risk-free way, preserved its core values and went on to become a dynamically developing, innovative enterprise. To maintain the competitiveness of its services, the company is now going through a process of intensive technological development. The development of the central sales system, which is expected to conclude this year, will serve as a basis for further improving the quality of our services. As part of this development project, our full range of games will be made available on the Internet and via mobile phones. As a result of our innovative approach, our lottery offices are being modernised and redesigned, our customer relations are being developed, and by updating our administrative processes, we are moving towards the creation of paperless offices.

Innovation shows up in our financial results. In 2014, **revenue** reached a record high 303.8 billion HUF, which exceeded that of 2013 by 24.8 percent. The company sold 1,855 million **entries**, setting a new record. Our profit before taxation was 23.4 billion HUF, from which we paid the owner 15 billion HUF in dividends. Our balance sheet profit amounted to almost

6 billion HUF. (You can find further details about this in the "Profit and loss account and balance sheet" section of the Appendices). What contributed to these impressive results was a growing demand for fast-paced games (bookmaker bets, scratch cards and Putto) and the sales-generating effect of our newly launched games and technological developments.

In 2014 the Hungarian economy grew by 3.6 percent, to which - on the expenditure side - dynamic growth in investment and an increase in household consumption contributed. As a consequence of favourable market trends, the CPI (consumption price index) remained stable, and annual inflation dipped into the negative (-0.2 percent). Retail sales increased year-on-year by 5.2 percent. Three-quarters of the adult population take an interest in playing the national lottery. The number of wage-earners and the size of their incomes affect the demand for games of chance. The adult population of Hungary spend an estimated monthly average of 3,000 HUF per capita on gambling.

OUR PRODUCTS AND THEIR AVAILABILITY

We were offering a range of 12 individual games at the end of 2014 and a collection of 18 types of scratch card during the year (10-12 of these scratch cards in circulation at any one time). In October we joined the international lottery game Eurojackpot, which is organised by 31 lottery companies in 16 European countries, now including Szerencsejáték Zrt.

We offer a **wide selection of games** according to price as well as type, so everybody can find an interesting way to entertain themselves.

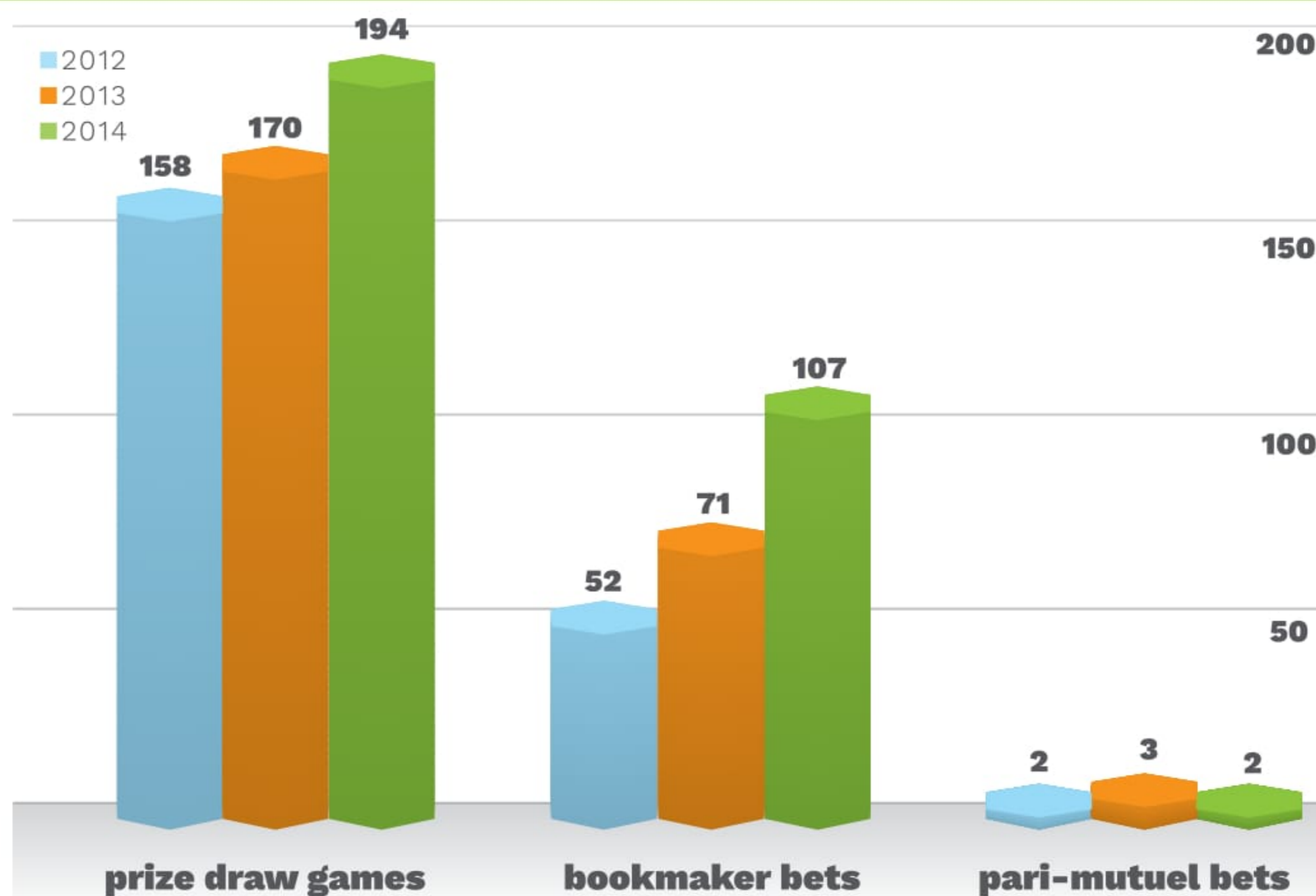
One unique feature of the domestic market is that there is a dynamically growing demand for bookmaker bets, fast-paced games and scratch cards, whereas pari-mutuel bets are dropping in popularity. The demand for numbers games, especially the traditional types of lottery, remains stable while the

revenue-increasing effect of major high-value prizes is decreasing. This was the justification for Szerencsejáték Zrt. to take advantage of the opportunity to join an international lottery game which gives outstanding prizes.

In Europe, there are currently three lottery games that are jointly organised by the lottery companies of several countries. The youngest one is Eurojackpot, which started in 2012. Szerencsejáték Zrt., together with lottery companies from the Visegrad four, was invited to join this game in 2013. As a result of successful preparation, we joined the others in organising the game in October 2014.

Within the framework of an international agreement, in 2014 the lottery companies of the Visegrad four issued a combined scratch card, known as the "Winning Four" (Nyerő Négyes) in Hungary.

GAMING REVENUE ACCORDING TO CORE GAME GROUPS (BILLION HUF)



The sales of numbers games are significantly influenced by so-called **roll-up**. If there is no single winner in a prize category in a particular week, then the potential winnings from the prize pool that falls into the given category will "roll over" and proportionally increase the prize pool of the same category the following week. The roll-up of the pick-5 lotto is the most publicly visible. In practice, however, it is

only the prizes from the primary prize division that roll up because, due to the great number of lottery entries bought before a draw, there is a winner from the secondary division after virtually every draw.

In 2014, in the pick-5 lottery there was a roll-up of over a billion HUF on three occasions. The value of the highest prize was more than 3 billion HUF.

Our extensive sales network ensures countrywide coverage, and our products are available through interactive channels (on the Internet, via text messaging, through cash points and by telephone). 2014 also saw a significant increase in the number of entries bought through these means. Our "Smart Lottery" (Okoslottó) application is gaining in popularity too.

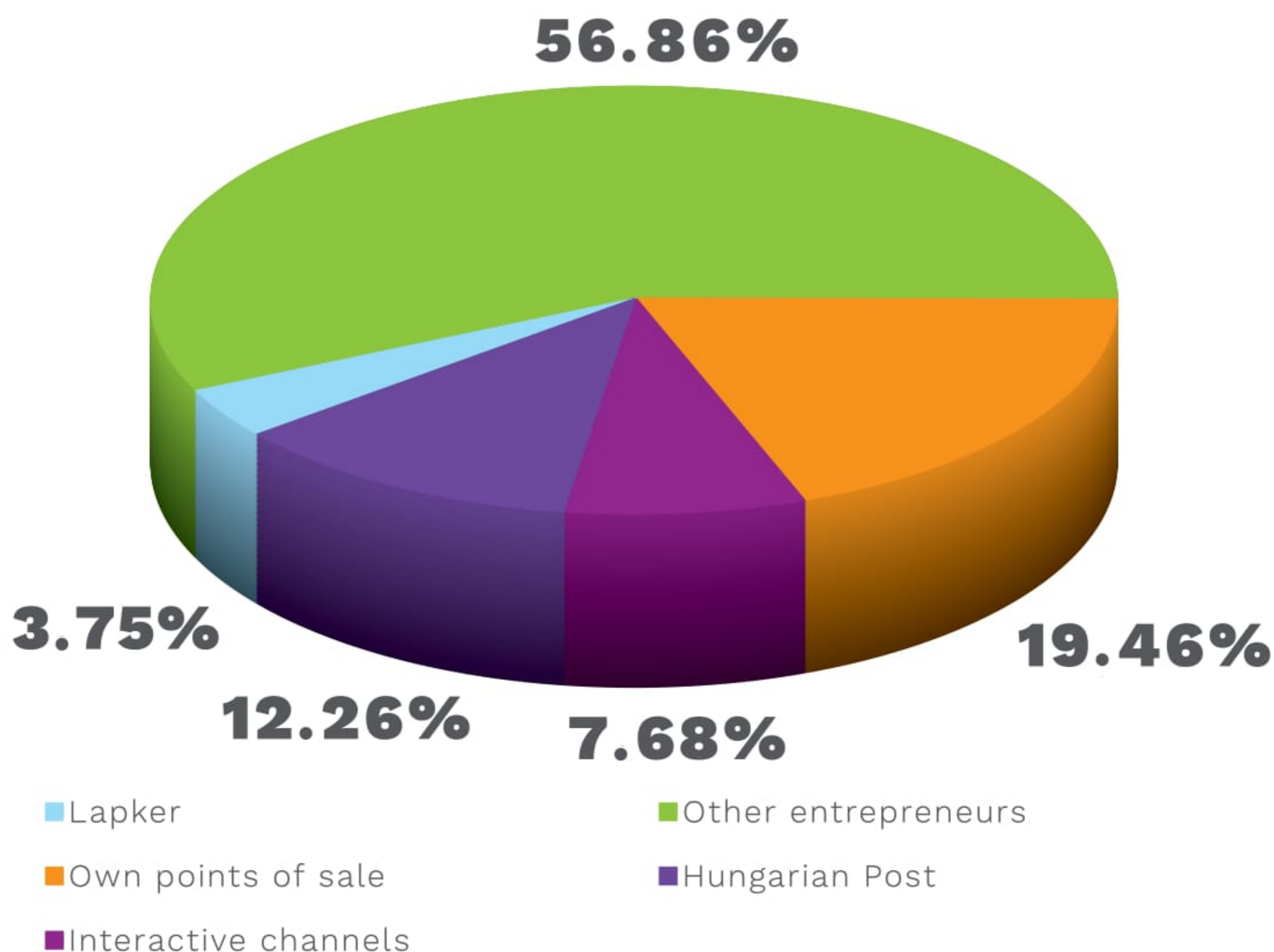
The major consideration we have when developing our sales channels is that they should be within the easiest possible reach of our customers. The network which connects roughly 6,900 points of sale, 4,450 of which are equipped with terminals, is operated partly by Szerencsejáték Zrt. itself and its sales partners.

Szerencsejáték Zrt. is primarily represented by its own shops, which are present in all big towns. In 2014 we had a total of **281 lottery**

agencies of our own. During the year, several lottery agencies in the capital city and in the country were renovated as well as redesigned. In 43 places, we installed a monitor system which displays results and gives information about prizes.

Our most significant partners are Hungarian Post, with over 2,600 points of sale, and Lapker, with over 400 points of sale. Apart from these two operators, among our partners there are a variety of businesses with diverse business profiles that are responsible for over 3,400 of our points of sale. It is important to note that many National Tobacco Shops also sell our products. During the year, a lot of tobacco shop owners requested a terminal. Due to the optimisation of our sales network, we could offer most of them contracts for sales of only scratch cards, so the number of points which sell only scratch cards increased by over 300.

CONTRIBUTION OF INDIVIDUAL SECTORS TO REVENUE (2014)



Szerencsejáték Zrt. provides job opportunities and sources of income for thousands of retailers, who co-operate in selling its games, as well as for about 12,000 people, who are employed by its sales partners. We sign entrepreneurial contracts with our sales partners and define the requirements for the legal employment of terminal operators, whom

they must also provide with opportunities for training. Our company offers participation in two training courses at a symbolic cost or, to some priority partners, free of charge. The wages and benefits paid by our partners are not separately regulated. There are relevant statutory provisions pertaining to them.

Contracts with our partners currently do not contain an obligation to accept our company's Code of Ethics. During the "**Socially Responsible Employer**" audit in December 2014, we undertook to implement a recommendation for development with regard to making a summary of the Code of Ethics available to our sales partners, which specifies what we consider to be the essential requirements for this group.

NAV Gaming Inspectorate regularly audits our sales network. In 2014, they imposed fines on our company only six times. Only on one oc-

casion did they discover a mistake that had been directly committed by the company. This concerned a dispute with regard to the payment of a prize, which qualified as a divergence from the approved game plan (we were fined 350,000 HUF). On the other occasions default penalties were levied on our partners for not adequately communicating, for using the wrong thermal paper and for serving a person under 18 on one occasion. Total penalties amounted to 1,250,000 HUF. After settling such payments, we always charge the expenses incurred by a partner's default to their account.

FINES, PENALTIES (THOUSAND HUF)



CESSATION OF CASINO ACTIVITIES, AT A PROFIT

Belvárosi Kaszinó Kft. generated outstanding revenue. Its profit before taxation amounted to 3.1 billion HUF (after-tax profit of 2.5 billion HUF). Furthermore, it paid 2.4 billion HUF gambling tax into the central budget. As 2013 witnessed no withdrawal of dividends, in 2014 as much as 4.8 billion HUF was paid out in dividends. During the four-year period between 2011 and 2014, when the casino company was 100% owned by the state, it earned a total of 6.3 billion HUF before taxation and made payments of 6.7 billion HUF in gambling taxes and concession fees.

The clientele of **Casino Sopron Kft.** mainly consist of Austrian guests who live near the Hungarian border. The company closed 2014

with a gambling tax base of 2.7 billion HUF and a pre-tax profit of 752 million HUF. In agreement with the majority owner, a payment of 720 million HUF was made in dividends, from which Szerencsejáték Zrt. received a share in proportion to its ownership of Pannon Partner Kft.

The gambling licence of **Belvárosi Kaszinó Kft.** expired on 31st December, 2014. On this date, the casino company terminated its business activities. The concession agreement of Casino Sopron Kft. is valid until 31st December, 2015.



Since its establishment, Szerencsejáték Zrt. has enjoyed the confidence of the domestic gambling community. We regularly survey players' opinions about the company. The confidence index for the company, which is based on the reliability of draws, the trust placed in data handling and the payment of prizes, as well as the availability of data concerning the company, was 74 percent in the fourth quarter of 2014 among those surveyed. We would love to improve this result in the future.

**THE BASIS
OF OUR OPERATION:
PLAYERS' TRUST**

Besides these confidence-building elements which we regularly measure and which can have a direct impact on business, there are numerous other factors that can indirectly contribute to the strengthening and even weakening of our corporate reputation. Most important among these are our responsible gaming practices and the commitment of our employees, both of which will be discussed in detail in later sections of this report. We also touch upon our community investments,

our supply partners and the environmental impacts of the company as further material aspects.

Reliability is the guiding principle of our company. As a result of being a state-owned company, we are responsible for offering safe and legal gaming opportunities to the adult Hungarian population. Since 2012 we have subjected our systems to ISO 27001 and WLA SCS information security audits.

SUPERVISED DRAWS

To preserve the confidence of our players, we consider it crucially important that the fairness and **transparency of draws** are unquestionable. Although it regularly occurs to some players that draws can be manipulated, such accusations lack all legal foundation. Of course, our draws are made in public, so anybody who is interested can observe our strict security regulations for themselves. Employees of NAV Gaming Inspectorate inspected a total of 108 draws in person on 38 occasions in 2014, and no objections were raised.

Our drawing equipment is licensed and authenticated by the National Metrology Institute (Metrológiai Hatóság, formerly known as: Országos Mérésügyi Hivatal). The verification

procedure takes place twice a year. During verification, hundreds of trial draws are conducted to examine the authenticity of our equipment and to ensure that winning numbers are selected on a purely mathematically random basis. During this procedure, even the physical properties of the numbered balls - such as their diameter, their colour, whether they can be pressed together or perhaps wetted - come under scrutiny. Following the inspections, each ball is affixed with a seal and handed over to us. The affixed seals can only be broken and the drawing equipment used in the presence of a public notary who has been assigned to a particular draw. After each draw, the public notary in charge will reseal the set of numbered balls.

SAFE DATA-HANDLING

Guaranteeing data security is essential to our sales process. If one single system error were to occur, it would shake public confidence in our company to its foundations.

The terminals that operate at our points of sale and lottery agencies transmit betting and gambling data to a central system. Back-up copies are made of the data that is stored in the central system. The betting data that has been stored is then locked online 15 mi-

minutes before the draw: a trusted third-party provider that operates in accordance with international standards locks the data using a timestamp. The authentication of betting data is ensured through use of the highest level legally prescribed signatures and other verification methods. A draw is always followed by an examination of the authenticity of the betting data, which is done in co-operation with an assigned public notary and randomly checked by the NAV Gaming Inspectorate.

GUARANTEED PAYMENT OF PRIZES

As a state-owned company that belongs to Hungarian National Asset Management Ltd., we guarantee payment of prizes. Players have the opportunity to collect their winnings at intervals specified by the law and the rules of participation. If a winner does not appear (whether to collect a low or high value prize), the unclaimed prize is rolled back, mainly by

means of separate draws, but it may also be used to increase the size of a prize pool (donation) as well as to round up the value of prizes.

We allow players who are registered online to collect smaller prizes through automated transfer.

WINNER ANONYMITY

The **payment of prizes** is a sensitive as well as a confidential issue. We handle our clients' data discreetly, which is particularly important in the case when large prizes are won (prizes of above 200,000 HUF). The online terminals at our points of sale never display the exact amounts when reading receipts of confirmation but only indicate that a particular player has won a large or special prize. Winners' data is always handled as confiden-

tial business information by our sales staff at all of our points of sale.

When large winnings are collected, only exclusively assigned sales staff (2-3 people) may be in attendance on behalf of Szerencsejáték Zrt. Very few of our employees, who have all been sworn to secrecy, know the identities of winners.



Responsible gaming refers to all the activities we consciously undertake that go beyond legal compliance by means of which we strive to protect players from the adverse consequences of excess gambling – even though most of the games we offer are not dangerously addictive. Szerencsejáték Zrt. regards responsible gaming as a strategic goal that its employees contribute towards while doing their day-to-day work. Our activities meet the responsible gaming requirements defined by international lottery associations (EL, WLA).

RESPONSIBLE GAMING AND PREVENTION

BASIC PRINCIPLES

- We regularly conduct research to measure the social impacts of gambling.
- In the course of game development, we always carry out a preliminary risk assessment of both our newly developed products that are due to be launched and old products which have been renewed.
- We pay special attention to raising awareness about the risks of gambling addiction and prevention and treatment options.
- We never sell games of chance to under-eighteens, and we do not target minors with our advertising activities.
- We help our players get acquainted with our Rules of Participation. By learning about the risks involved, they can make more responsible decisions.
- Through our electronic channels players are given the opportunity to define their own restrictions on playing (and to exclude themselves from playing entirely) and to specify when warnings are provided.
- We forbid our sales staff from selling games of chance on credit and entering into agreements about splitting prizes.

PARTNER CO-OPERATION

In 2014 we renewed our agreement with the National Institute for Quality and Organisational Development in Healthcare and Medicines ("Gyógyszerészeti és Egészségügyi Minőség- és Szervezetfejlesztési Intézet", or GYEMSZI for short). As a result, on the website of the institute the subpage dedicated to gambling addiction (www.eski.hu/jatekfuggoseg/) and the so-called "**Dr.Info**" service (www.dr.info.hu/drinfo) continue to be available. We have also signed a contract with

Pro Psychologia Foundation, the operator of **ELTE's emergency line for players**, so they can provide help to people affected by problem gambling and their family members by e-mail, telephone or in person.

Our relationship with The Hungarian Advertising Self-Regulatory Board dates back a long time. We always involve them as an external consultant in the creative planning process of our advertisements.

PRODUCT INFORMATION, EDUCATION

Guide booklets and videos about game rules ensure that players can make themselves familiar with the features and odds of winning certain games. When Eurojackpot was introduced in 2014, we published a guide booklet entitled "How to play Eurojackpot", and we also made an informational video about our new, international game as a sequel to the "Lottery Academy" series.

When required, our information publication "**Let it remain a game**" is available to all play-

ers at all of our points of sale. Points of sale always put up warning notices such as "People under the age of 18 are not allowed to participate in gambling", and "If overdone, gambling can cause psychological problems and lead to addiction".

Apart from the "Let it remain a game" booklet, we supply information on the webpage of www.maradjonjatek.hu, and we also publish news related to gambling addiction on Szerencsejáték Zrt.'s own internet site.

PREVENTION PROGRAMMES

GAMING WITHIN LIMITS

In 2012 Hungarian Interchurch Aid (Magyar Ökumenikus Segélyszervezet, or MÖS for short) and Szerencsejáték Zrt. launched a **model prevention programme** with the fundamental aim of drawing the attention of senior primary school and secondary school age children to the risks of gambling. The preventive element of our model programme, which goes by the name of **“Gaming within Limits”** (Játék határokkal), is being supplemented with group counselling sessions for gambling addicts and their relations.

In 2014 the programme was rolled out in four schools in Debrecen. In March we called for poster entries, and over 60 posters were submitted. We displayed them at an exhibition, combined with an award-giving ceremony.

In the summer of 2014, on the basis of previous practice that had already proved of value, we organised a one-week summer camp for student participants of the programme. 15 youngsters explored the topic of gambling through games and conversations. In July

2014 the programme “Gaming within Limits” was exhibited in the Debrecen Campus Festival with its own thematic tent, where it reached nearly 400 young people.

The closing conference, which presented the findings of the two-year model project, took place in Debrecen in October with the participation of 100 pedagogues, social workers, and other interested visitors.

Appraisal of the model programme “Gaming within Limits” over these two years clearly shows that it was successful. Measurements that were carried out indicate that there was a 20% increase in knowledge about the risks of gambling. As a result of the sessions, too, there was a 10% increase in recognition of the risks of frequent gambling and a 5% increase in that of occasional gambling among the participants of the prevention programmes.

At the end of the year we decided to expand the programme, so we will continue our work at ten venues in 2015-2016.

HANGING GARDEN

Our prevention activities took a new direction last year. Besides targeting primary and secondary school students, in 2014 we went on to target messages about responsible gaming to 18-24-year-olds, who are also considered high-risk in terms of problem gambling.

We participated in university open days and festivals aimed at youngsters at five different venues (both in Budapest and in the country). We dealt with the topic of addiction in a playful manner. Young attendants could familiarise themselves with the risks of particular games in a so-called **“Hanging Garden”** (Függőkert). In addition, two guest lecturers,

Dr. Imre Csernus and Dr. Gábor Zacher, well-known media figures, talked to attendants about the topic. The programme series, which proved successful at all venues, came to an end in September, by which time we had succeeded in addressing a total of 2,100 festival-goers. The employees of ELTE’s emergency line promoted our thematic programme by making themselves personally available to anyone who showed an interest in our stand.



Gaming is an activity that requires a degree of specialised knowledge. Therefore, we consider it of paramount importance to retain our highly-skilled employees who have considerable professional experience. Accordingly, it is essential that we offer them proper working conditions and equal opportunities, we pay special attention to their work-life balance, we pay them adequate wages and benefits and we also facilitate our employees' professional development by offering them opportunities for further training.

OUR EMPLOYEES AND THEIR MOTIVATION

By the end of 2014, we had more than 1,500 employees, most of whom worked in sales.

CHANGES IN NUMBER OF EMPLOYEES

	2012	2013	2014
managers	65	69	71
men	39	42	43
women	26	27	28
administrative employees	555	560	581
men	277	281	294
women	278	279	287
lottery ticket agency employees	699	707	723
men	114	116	114
women	585	591	609
scratch card sales assistants	167	173	167
men	37	38	37
women	130	135	130
Total	1 486	1 509	1 542

When we determine the salary and remuneration we offer to employees, the basic principle we follow is the need to ensure **equal treat-**

ment. The ratio of the basic salary paid to men compared to women had improved in this direction by 2014.

RATIO OF BASIC SALARY PAID TO MEN VS. WOMEN (MEN/WOMEN)

	2012	2013	2014
Managers	113%	112%	112%
Administrative employees	105%	107%	103%
Lottery ticket agency employees	100%	100%	100%
Scratch card sales assistants	100%	100%	100%

Szerencsejáték Zrt. has always paid close attention to the welfare and social care of its employees.

Performance is assessed in two ways: for some (typically sales-related) jobs, a part of

our employees' salary comes in the form of performance-related pay; for others, financial incentives are based on the profitability of the company.

MEASURES IN THE EQUAL OPPORTUNITIES PLAN:

- part-time employment
- increasing accessibility
- improving the working environment
- providing traineeship opportunities for the children of employees
- providing information to those about to retire, the socially needy, expectant mothers and the disabled
- legal counselling
- counselling about financial literacy

We pay the same benefits to part-time employees as full-time employees, on a proportionate basis. In 2014 our company employed **420 part-time employees**, which was more than a quarter of total employee headcount.

Our employees can select their fringe benefits from the “cafeteria” system (Erzsébet vouchers, voluntary health fund services, voluntary pension contributions, Széchenyi Recreation Card, local travel passes and mortgage repayments) up to an annually defined limit according to their personal demands (living circumstances, consumption habits, state of health, etc.). As of spring 2014, employees have been able to have healthcare services as part of our service-financing health insurance package.

Awards and recognition are given to the best performers of the year at the year-end event, which have a long tradition. In addition to recognition and praises at the regional and directorate level and from the CEO, a commemora-

tive medal “For luck” and various honours such as “Excellent partner”, “Volunteer of the year” and “Young talent of the year” are conferred.

We consider it of great importance to define the duties and requirements of jobs in a way that they correspond to necessary qualifications and competencies which, in turn, harmonise with our organisation’s and employees’ needs for professional development. We do not prepare career plans for our employees although we have a couple of minor standard-practice career paths which clearly show the prospective direction for advancement within the company. Thus, an employee who works in a lottery agency as a sales assistant has the opportunity to be transferred to a regional centre to help organise sales. Having gained considerable experience at our company, our employees are incentivised to advance to other, more challenging jobs by being awarded support for the completion of necessary training courses or by being offered study contracts.

TRAINING AND DEVELOPMENT

The training of employees for jobs that require special knowledge takes place in compliance with our **Code of Professional Training**.

The most complex form of training is received by our sales staff. In accordance with their employment contracts, they must pass a valid exam about the handling of sales terminals and issues related to working practices, money and value management, along with safety and security. In addition to the basic training and exam, they sit for exams to renew their certificates, do skills training and – before the launch of a new product – participate in a course that ends with an exam. One of the major education priorities in 2014 was to prepare staff to sell Eurojackpot entries.

The integration of career-starters who are employed as administrative staff is sometimes facilitated within the framework of **internship programmes** which offer our new hires fresh insight into the operation of our company, the scope of activities of specific directorates and sales processes.

All our employees are regularly involved in training about responsible gaming.

International professional conferences also provide good opportunities for many of our employees to get acquainted with the good practices of foreign lottery companies, and to build and deepen relations.

EMPLOYING DISADVANTAGED PEOPLE

As a responsible employer, Szerencsejáték Zrt. considers it crucial to address social issues. Hence, in 2003 we started to implement a scratch **card sales system** that employs people with a reduced capacity for work. The network, which has already expanded to include 170 persons, helps with the social integration of employees. We consider the tasks related to the establishment, operation and development of our scratch card sales network to be part of our societal mission which we can use as an example to other companies. In recognition of our efforts, we are proud to have been awarded a “**Disability-friendly workplace**” certificate for many years.

Players can meet our employees at more than 100 venues all across the country. Counters which sell scratch cards are typically located at the entrance halls of grocery stores, department stores and health care institutions.

In 2014 we expanded our ticket sales network to include two new groups of disabled people (the deaf and the hard-of-hearing). Within the framework of a pilot programme, we employed two hearing-impaired people for half a year whom we can now welcome as our permanent employees due to this successful partnership. Prior to their joining, we organised a sensitivity training course for the employees who would be working with them.

OCCUPATIONAL SAFETY

All our employees – regardless of their roles – attend educational events about **work safety**. We have our own security guidelines, which stipulate how sales staff should proceed in the case of extraordinary events (e.g. robberies). We also guarantee the protection and handling of extraordinary events with security devices such as time-lock protected multi-safes, strong boxes and banknote checking devices.

We pay special attention to creating healthy working conditions. We recognise the importance of both labour safety and occupational health, with priority given to work which requires the use of a computer screen. Once every two years our company subsidises the supply of protective glasses for employees who work in front of monitors.

Maintaining our employees’ mental well-being is just as important a task as preserving their physical health. We therefore consider it of cardinal importance to vigorously raise awareness of the risks posed by addictions to gambling, as well as of prevention and treatment options. In order to foster such intense awareness, from time to time we seek to address this issue on the Intranet and in newsletters about gambling (“Szerencselevelék”). In addition, we provide opportunities for our sales staff to be tested on a yearly basis to examine to what extent they are affected by problem gambling and if they are at risk of becoming addicted.

WORK-LIFE BALANCE

We organise events for our employees and their close families so as to soften the sharp boundaries that often exist between work and private life. Such events include our Santa Claus' festivities, the Children's Day programme series, which is held at several venues in numerous regions across the country, as well as the corporate sports day. Our company's holiday resort in Leányfalu offers our employees recreational opportunities at a discount. Our cafeteria system also supports participation in recreational activities.

Employees who have returned from maternity leave are ensured jobs, often part-time at their own request.

Our employees can also take part in stress management training which is held on demand. In 2014 we organised some such training events, most of which were attended by individuals working in customer service.

INTERNAL DEVELOPMENT

In our organisation, which is basically hierarchically structured and which employs a significant number of employees, internal development takes place within the framework of **high-priority working tasks** and **strategic projects** that are approved by the directorate concerned in order to facilitate workflow and improve efficiency. We strive to make our operations transparent to everyone by using extremely clear rules.

In 2014, our Intranet, which is one of the most important internal communication tools, was renewed. Apart from communicating the major news and events of company life, it has now become a suitable platform for collaborative work as a result of this development.

To get better acquainted with the work of various professional fields, we organised a professional day in 2014, by which time our colleagues gained deeper insight into the work done in the Odds Centre and "the Studio", which houses the draws.

2014 was the first year we participated in the "**Video at work**" (Munkahelyi Videó, or MuVi for short) campaign, organised by AON-Hewitt. It is primarily designed to give Hungarian enterprises the opportunity and motivation to open their doors and present themselves as employers. The short film introducing Szerencsejáték Zrt. was awarded a special prize by the professional jury.



Two-thirds of the gambling tax on state-run games is earmarked for community goals that are defined by law. According to payments we made in 2014, 90 percent of the gambling tax on the pick-5 lotto (which amounts to 11 billion HUF) went to the Hungarian National Cultural Fund while 80 percent of the gambling tax on the pick-6 lotto (4.3 billion HUF) contributed to the Hungarian National Film Fund. Additionally, our company made two contributions to the Hungarian National Film Fund in 2014 at the behest of our owner: a total of 1.1 billion HUF (deductible from corporate tax), and a supplementary 157 million HUF on another occasion.

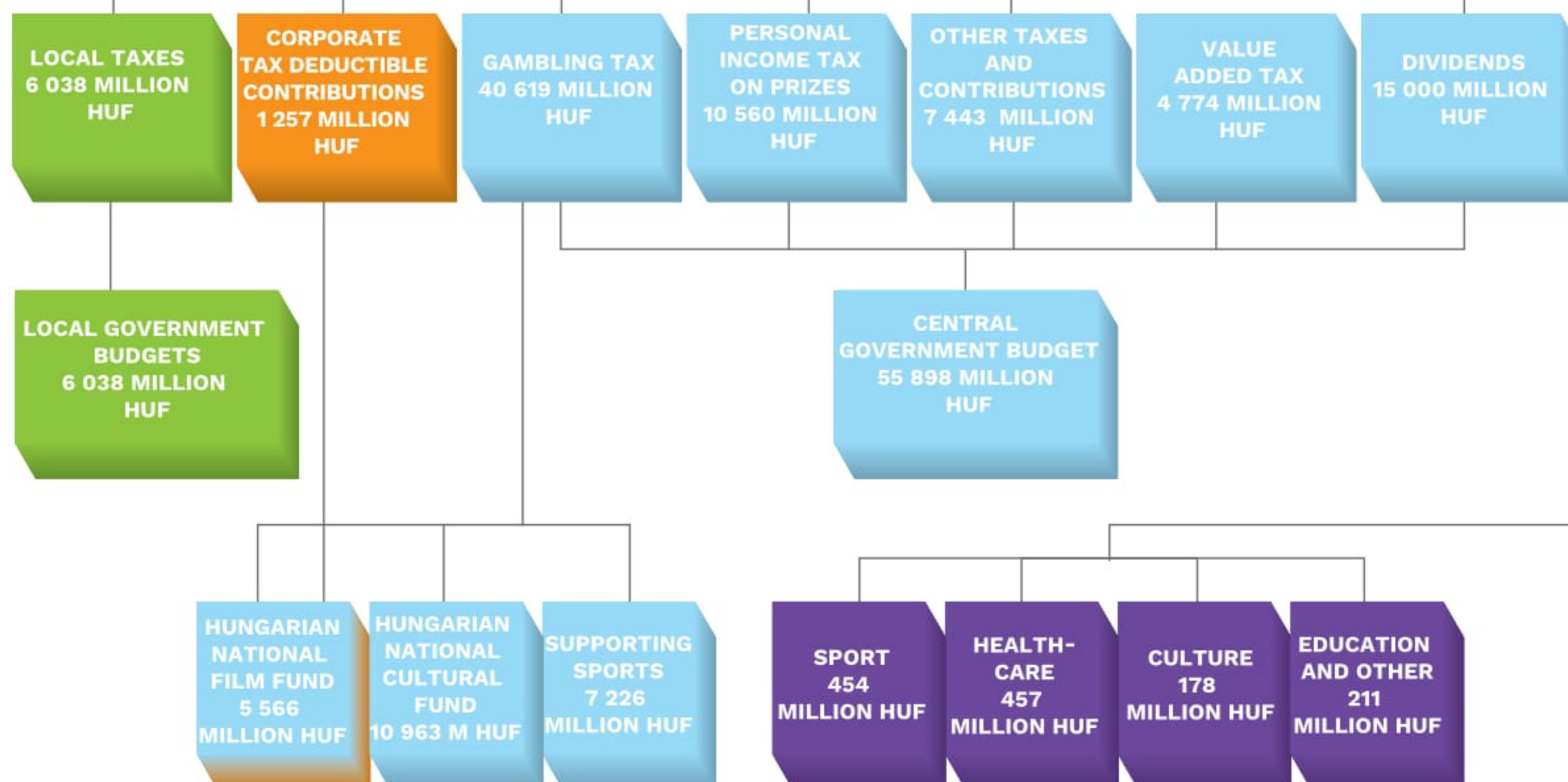
In accordance with the law on sports, 7.2 million HUF from the gambling tax on state-run games goes to supporting national sports movements through the central government budget. Our company exerts no influence over the use of government expenditure.

COMMUNITY INVESTMENTS AND CONTRIBUTIONS

CONTRIBUTIONS TO PUBLIC EXPENDITURE 86 991 MILLION HUF

INDIRECT CONTRIBUTIONS
(INCLUDING DIVIDENDS)
85 691 MILLION HUF

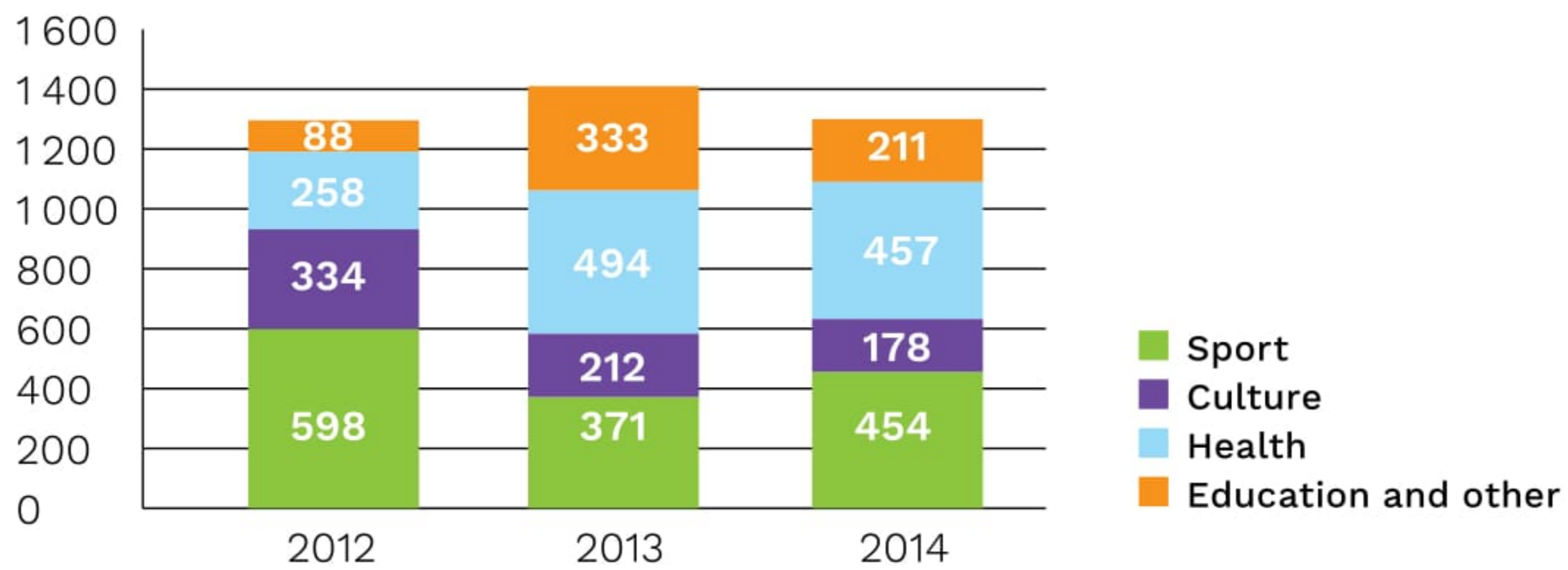
DIRECT CONTRIBUTIONS
(SPONSORSHIP AND DONATIONS)
1 300 MILLION HUF



We are allowed to spend **0.75% of our (estimated)** revenue on donations and sponsorship, as determined by the owner. In 2014, our Chairman-CEO decided on the exact amount of money that would be allocated and the specific causes that would be supported

following the recommendations of an independent advisory board of external experts. As of the beginning of 2015, our support activities come under the scope of authority of Szerencsejáték Service Non-profit Kft., which has only very recently been set up.

INDIRECT CONTRIBUTIONS (MILLION HUF):



In 2014 we made 125 donations and participated in 21 sponsorship deals to support culture, education and other common causes, healthcare and sports as the high-priorities.

We have been co-operating with Hungarian Interchurch Aid for several years to meet requests made by individuals for social support. We always forward the applications for

help we receive to this relief organisation, who then do a thorough background check before deciding on what type of (non-financial) assistance to provide. In 2014 we forwarded the foundation 516 requests, which enabled us to contribute to helping approximately 2000-2500 people who struggle to meet their daily needs.

VOLUNTARY PROGRAMMES

Voluntary activities undertaken by our employees are also treated as part of our social commitment.

At the beginning of 2014 we launched a new type of corporate voluntary programme that goes by the name of “**Contribute**” (Adj bele!) The new feature of the programme means that the employees can put their own or their group’s initiatives into practice in their own selected fields of interest. Certain undertakings are publicly promoted and highlighted on a so-called “wall of promises” to inspire or urge other employees to join.

The “Contribute” programme got our colleagues going from the very beginning. Nearly 110 ideas for activities were received by mid-October, at which time the programme concluded, and most of them - almost 9 out of ten - had by then been successfully implemented. The good deeds included initiating numerous programmes designed to assist animal shelters and children (e.g., the renovation of institutions and donations of clothes) and environmental action programmes, and many employees gave blood.

In consideration of last year’s great successes, we intend to continue the “Contribute”

programme in 2015 with new innovations and by integrating the experiences we have gained from the first year.

As the initiator of a centrally-organised, voluntary food collection program, we joined the Hungarian Food Bank Association (Magyar Élelmiszerbank Egyesület) in November. Within the framework of this activity, twenty of our employees, together with a charity organisation from Vecsés, worked to encourage customers of Tesco in Vecsés to make donations. During this two-day period of voluntary work, we managed to collect 2,245 kg of non-perishable food, which we dispensed among the local needy.

The year-end Christmas charity event has become something of a tradition within our company, so there was no way that 2014 could end without this major, collective corporate programme. This time, collections for charity of personal belongings, clothes and toys for children’s homes were organised in Miskolc, Pécs, Szeged and Budapest. Our employees brought in a great number of new or good quality second-hand gifts for children’s homes and even participated in delivering the items.

TICKETS FOR GOOD CAUSES

Szerencsejáték Zrt. often issues for sale scratch cards, the sales revenue of which is spent on supporting useful community initiatives.

In 2014 we supported the **National Association for the Deaf and Blind** (Siketvakok Or-

szágos Egyesülete) through a 2 million HUF donation from the sales revenue of “Balaton” tickets and “**Camp of Courage Foundation**” (Bátor Tábor Alapítvány) tickets with 6 million HUF from the sales of our “Merry Christmas” (Boldog karácsonyt!) scratch tickets.



Given the nature of our product range, there are relatively few global service providers that can be taken into consideration as IT suppliers, since their activities must relate to our core activities and they must also be acknowledged by the international gambling market. Scientific Games (SG) and GTECH rank among the biggest suppliers of gambling companies on the global market. Both companies have ISO27001 and WLA/SCS information security certificates.

SUPPLIER RELATIONS

The Hungarian subsidiary of SG has been a partner of Szerencsejáték Zrt. for over 20 years. They provide us with IT support for our current central sales system, which is slowly reaching the end of its lifecycle. It was also SG who were awarded the right to supply **our new centralised system**, starting from 2015.

The information technologic supplier (and supporter) of our independent sports betting system (TippmixPro, which was set up in 2013) is GTECH.

Selecting the producers of scratch cards takes place through a separate procedure. Our orders are divided between three **accredited producers of scratch cards**: Scientific Games International (SGI), IGT (formerly known as GTECH) Corporation and Pollard Banknote. During the accreditation process, the producers must meet the following quality and security criteria:

- scratch tickets must be produced in accordance with strict conditions,
- they must have a secure, concealing layer which is easy to scratch off,
- without removing the ticket's scratch covering, you must not be able to tell if the ticket is a winner or not, and
- the tickets must be printed using a closed printing process that is controlled by a computer.

Scratch ticket producers not only pay special attention to maintaining high quality and safe production processes but also to innovation

and environmental consciousness. This latter feature is described under the section "Environmental impacts".

We do not have an impact on the employment practices of international supply partners. However, due to the strict professional standards of this industry, legal and human rights issues do not arise.

Apart from the international companies mentioned above, we collaborate with domestic suppliers, too. We contracted nearly 1,000 domestic supply partners in 2014.

Maintaining a good supply of the most important materials is essential for our points of sale, like the thermal paper rolls which are used for printing receipts or the play slips which support the placing of bets. Out of safety considerations, we contract out manufacturing to two producers, ANY Security Printing Plc. (ANY Biztonsági Nyomda Nyrt.) and Fee Collection Printing Ltd. (Díjbeszedő Nyomda Zrt.). We subject each delivery of goods to IT-based testing.

Further high-value contracts include agreements concerning creative design, programme production, media purchasing, market research, and telecommunications and public utility services.

In our contracts we have not defined the requirements concerning the ethical and legal operation of our supply partners for the time being. However, our Corporate Security Department always checks information about potential partners before we enter into contracts of higher value.



In order to foster sustainable development, environmental considerations must be taken into account even when it comes to developing our internal processes.

ENVIRONMENTAL IMPACTS

The raw material for our scratch cards is sourced from responsible and sustainable forest farms. Commissioned scratch ticket printing presses are all run by certified environmentally responsible publishers who use ink (water-based and UV-cured) and packaging that is environmentally friendly. The ready-made tickets are fully recyclable.

The foil used to manufacture play slip holders contains neither heavy metal nor environmentally harmful substances. Both sides of the ready-made play slip holders are made of multi-layer foil, so in no way can the ink used for printing come into direct contact with users.

In order to cut down on the amount of paper we use in our offices, we introduced an **electronic document management system** in 2014. In another effort to reduce paper use, we created a so-called "Sales Support Page" for our partners and replaced paper-based controlling documents with a tablet-based application. The impact of these developments can only be assessed later.

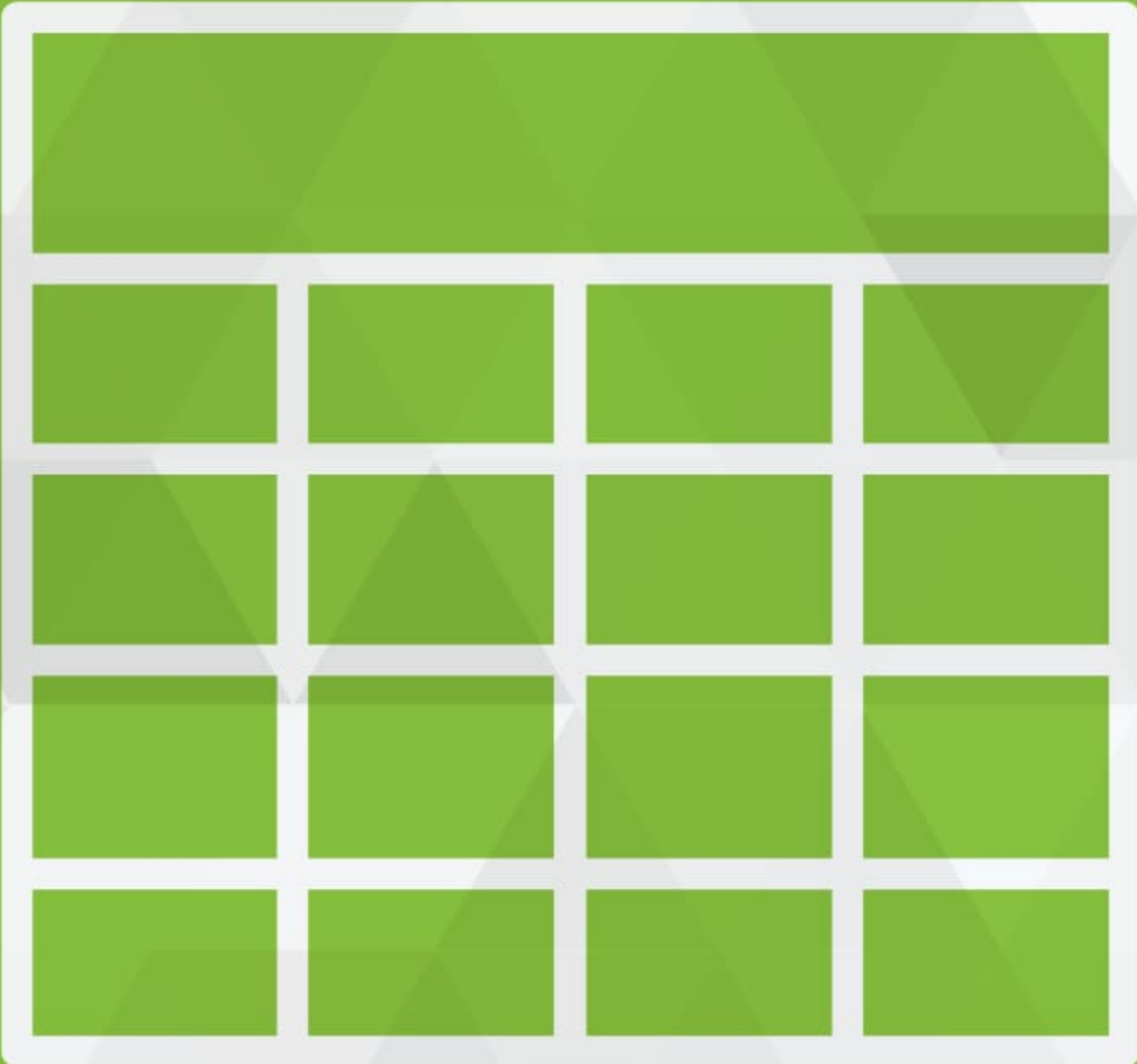
As a result of our colleagues' environmental behaviour, there has been a year-on-year increase in the amount of waste that is selectively collected in our office buildings. Other environmental indicators (CO₂ emissions, electricity use, gas and water consumption)

show a slight decline in performance, which can be attributed, on the one hand, to the transformation of a cooling system in our main computer room and, on the other hand, to the modernisation of several lottery agencies. It is, however, worth pointing out that shifts in the weather can bring about a significant change in these indicators, so it is too early to speak about a negative trend.

Last year there were no cases in which remediation was required, nor did we emit any substances in amounts above threshold limits. Consequently, we paid no environmental fines or penalties, and no other (non-financial) sanctions were imposed on our company. As standard, we pay an "air loading fee" (levegőterhelési díj, or LTD) on the air pollutants that are emitted by boilers.

The production companies we commission always charge us the environmental protection product fee that is levied on them, thus this environmental expense continues to be indirectly incurred by Szerencsejáték Zrt. The product fee paid after marketing vehicles, "Gambling mix" (Szerencsemix) magazines, posters with announcements of results, Rules for Participation, play slips, thermal paper rolls, scratch tickets, and their wooden and foil packaging materials amounted to over 45 million HUF in 2014.

Paper consumed (kg)	2012	2013	2014
	40 130	36 334	36 874
Selective waste (kg)			
Paper waste	33 247	31 398	48 310
PET bottles	718	551	642
Other selective waste	8 535	5 877	25 200
Electricity consumption (GJ)			
	18 018	18 156	17 494
Gas consumption (GJ)			
	12 742	12 972	10 523
Water consumption (m ³)			
	11 540	11 707	11 472
CO ₂ emissions (tons)			
Indirect	1 826	1 840	1 774
Direct	729	742	602
Environmental impacts (thousand HUF)			
Fines and penalties	0	0	0
Air loading fee	14	8	9
Environmental protection product fees	29 114	29 401	45 886



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APPENDICES

ABOUT THE REPORT

Since 2011, Szerencsejáték Zrt. has been publishing CSR report annually to demonstrate its performance. While we had previously prepared our reports following the G3 guidelines of the GRI, our 2014 report was compiled using the newest guidelines. The key change concerning the application of these new principles is that so-called material as-

pects are defined, meaning that, in comparison with former practice, we awarded higher priority to these material aspects as well as to the process of stakeholder engagement. The target group of our 2014 report has been redefined to include players, employees, representatives of the press and the media, and decision-makers that influence regulations.

THE REPORTING PROCESS OF SZERENCSEJÁTÉK ZRT. IN 2014



In the first step of this reporting process, on the basis of internal documents, research studies and projects, media analyses, press reviews and benchmark research that were available, we identified the economic, social and environmental features of material interest to our stakeholders. Subsequently, we classified them by their impact(s) on our stakeholders and by their relevance to our

company. At this stage we first co-operated with an internal working group and we then classified the features of material interest by having them validated by the management and through a process of professional facilitation under the supervision of sustainability experts (through Alternate Advisory Ltd., (Alternate Tanácsadó Kft.). You can see a list of these material aspects in the table below.

ECONOMIC

Material aspect(s)	Indicator(s)	Page No.	Direct impact(s) on external stakeholders
Industrial regulation in Hungary and in the European Union	Risk management: G4-45	8-9., 12.	Regulators Sales partners Players Owner
Product portfolio	G4-4	5.	Players
Innovation	Innovative solutions that have been implemented	14.	Players Sales partners
Economic value creation	G4-EC1	13-16., 29.	Owner
Company reputation	Risk management: G4-45	8-9., 17-18.	Owner
Company governance, management	G4-34	8-10.	Owner
Ratings, certificates	G4-15	7-8., 18., 20.	Players Sales partners
Supplier relations	Suppliers: G4-12	32-33.	Supply partners
International co-operation	Membership: G4-16 Stakeholders: G4-27	7., 14 40-41.	Players
Ethical and transparent business operation	G4-15 Ethics: G4-56, G4-57, G4-58	9. 7-8.	Players Sales partners
State property	G4-7, Corruption: G4-SO4	6., 9-10.	Regulators
Value of prize, roll-up	Prizes of above 1 billion HUF	14.	Players Owner Sales partners
Legal compliance	Environmental protection: G4-EN29 Public policy: G4-SO8	8., 35.	Players
Data security, protection of personal data	Data security: G4-PR8	18-19.	Players Sales partners
Action against illegal gambling	Ethics: G4-56, G4-57, G4-58 Stakeholders: G4-27	9., 12. 40-41.	Sales partners Players Owner
Macro factors affecting spendable income	Risk management: G4-45, G4-46, G4-47	8-9., 13.	Players
Fair market conduct	Ethics: G4-56, G4-57, G4-58 Anti-competitiveness: G4-SO7	6.	Players Sales partners
Reliability	Risk management: G4-45, Ethics: G4-56, G4-57, G4-58 Stakeholders: G4-27	8-9., 18. 40-41.	Players
Performance of casino companies	Risk management: G4-45	8-9., 16	Owner

INTERNAL AND SOCIAL

Material aspect(s)	Indicator(s)	Page No.	Direct impact(s) on external stakeholders
Internal innovation, organisational culture	Values, etc.: G4-56	9., 27.	–
Recognition and career opportunities	Career: G4-LA10. G4-LA11	24-25.	–
Training and development	Career: G4-LA10. G4-LA11	24-25.	–
Benefits and incentive scheme	Benefits: G4-LA2	25.	–
Occupational safety	Proportion of employees that have attended training related to the topic	26.	–
Equal treatment, equal opportunities	Equal opportunities: G4-LA13	24-26.	–
Employing the disadvantaged	Equal opportunities: G4-LA13	24.	–
Protecting employee rights	G4-11	9.	–

EXTERNAL AND SOCIAL

Material aspect(s)	Indicator(s)	Page No.	Direct impact(s) on external stakeholders
Customer confidence	Corruption: G4-SO4 Satisfaction: G4-PR5	9.,17-19.	Players
Product availability and marketing	G4-8	5., 14.	Players
Product information, lucidity of communication	Product information: G4-PR3, G4-PR4	14., 21.	Players
Responsible gaming, protection of minors	Customer health: G4-PR1	20-22.	Players Sales partners
Local community investments, support	Local communities: G4-SO1	28-31.	Society
Responsible employment in the value chain	G4-EC8	15., 33.	Sales partners

ENVIRONMENTAL

Material aspect(s)	Indicator(s)	Page No.	Direct impact(s) on external stakeholders
Using environmentally friendly technologies and environmentally friendly methods of operation (priorities: reduce paper use, climate protection)	Product: G4-EN27 Legal compliance: G4-EN29	35.	Society Natural environment

Reporting period: Calendar year 2014

Date of last report: September 2014 (GRI B)
Reporting cycle: Annual

GRI application level: 'In Accordance – Core'

The level of compliance of this report has not been assured by an external organisation.

The boundary of the report encompasses all points of sale and central office buildings owned by Szerencsejáték Zrt. The activities of other organisations within our portfolio are not covered within the boundaries of the report. However, casino companies are mentioned in the report because of the changes that took place in the regulatory environment in 2014. Material aspects are those high-priority topics that determine the short-term and long-term success of a company. Consequently, in the report we do not differentiate between internal stakeholders in terms of how they are affected by these aspects.

TYPES OF DIALOGUE WITH SPECIFIC STAKEHOLDER GROUPS

Stakeholder group(s)	Specific Stakeholder(s)	Type(s) of dialogue
Owner	Hungarian National Asset Management Ltd.	<ul style="list-style-type: none"> - Internal Audit Report (annual) - Report on the fulfilment of the Founding Declaration (biannual) - Report on the activities of the Supervisory Board (annual) - Balance sheet and profit and loss statement (monthly) - Annual forecast figures (biannual)
Players	Customers that purchase our company's games	<ul style="list-style-type: none"> - Points of sale communication: educational leaflets - Internet (website, Facebook, YouTube) - Frequent research studies - 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)	<ul style="list-style-type: none"> - Trade Union - Works Council - Ethics Committee - Intranet - Printed newsletters (monthly) - Chief Executive Officer's instructions - 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 - "Best workplace" survey - Professional/open days - Annual report (annual) - Performance appraisals - Volunteer programmes
Suppliers	Our company's large, specifically industrial suppliers (the IT developers of our sales system, lottery ticket and scratch card manufacturers) and other supply partners	<ul style="list-style-type: none"> -International, professional events and programmes -Audits
Sales partners	Entrepreneurs, Hungarian Post Ltd. (Magyar Posta Zrt.), Lapker Zrt.	<ul style="list-style-type: none"> - Partner meetings - Regular training courses - Web-based sales support

Stakeholder group(s)	Specific Stakeholder(s)	Type(s) of dialogue
Gambling addicts	Persons affected by any kind of gambling addiction	<ul style="list-style-type: none"> - Educational materials (POS) - Website sub-page dedicated to problem gambling - Problem gambling TV spots - In-depth interviews - "Gaming within limits" model prevention project group sessions
Minors	People under the age of 18	<ul style="list-style-type: none"> - Research studies (focus groups) - Model school-based prevention program
Media	National and regional	<ul style="list-style-type: none"> - Annual report - Website press page
Authorities, organisations that co-operate in regulatory affairs	NAV Gaming Inspectorate, National Metrology Institute, Hungarian Advertising Self-Regulatory Board	<ul style="list-style-type: none"> - Official correspondence, gambling licences, operational control
Legislators	Parliament, The government, the Ministry for National Economy	<ul style="list-style-type: none"> - Preparation of expert reports
NGOs (Non-governmental organisations)	Organisations that have been supported by or which have co-operated with our organisation	<ul style="list-style-type: none"> - Professional events and programmes - Audits - Volunteer programmes
Industrial organisations	Other participants on the international and Hungarian gambling market	<ul style="list-style-type: none"> - European Lotteries events - World Lottery Association events - Regular professional seminars, working groups - Audits
Organisations dealing with prevention and addiction	Professional organisations and experts that co-operate with our company	<ul style="list-style-type: none"> - Professional roundtable discussions - Conferences - Presentations - Professional co-operation in research projects - In-depth interviews

PROFIT AND LOSS STATEMENT	2012	2013	2014
	million HUF		
Net domestic sales revenue	213 356	244 016	304 510
Of which: gambling revenue	212 790	243 343	303 802
Net sales revenue	213 356	244 016	304 510
Change in self-produced inventory			
Capitalised value of self-produced assets			
Capitalised value of own performance			
Other revenue	443	166	201
Of which: impairment loss reversal			
Material costs	1 946	2 427	3 059
Value of services used	23 510	26 130	29 592
Value of other services	452	575	666
Cost of goods sold	1	6	16
Value of sold (resold) services	183	201	214
Material expenses	26 092	29 340	33 547
Salaries and wages	5 911	6 299	6 664
Other payments to personnel	1 927	1 953	2 080
Contributions on wages and salaries	2 028	2 108	2 226
Personnel expenses	9 865	10 360	10 970
Depreciation	2 239	2 535	2 988
Other expenses	162 547	187 837	237 129
Of which: impairment loss	93	33	24
Gross value of prizes accounted for as expenses	123 263	146 736	189 923
OPERATING PROFIT (LOSS)	13 056	14 110	20 077
Dividends and profit shares received (receivable)		50	5000
Of which: received from related companies		50	5000
Exchange gains on sales of profit shares			
Of which: received from related companies			
Interest and exchange gains on financial investments		3	11
Of which: received from related companies			
Of which: interest received (receivable)	1 727	986	486
Of which: received from related companies			
Other revenue from financial transactions	6	15	98
Revenue from financial transactions	1 733	1 055	5595
Exchange losses on financial investments			
Of which: given to related companies			
Expenses on interest payable			
Of which: given to related companies			
Impairment loss on profit shares, securities, bank deposits		42	47
Other expenses incurred through financial transactions	79	13	25
Expenses on financial transactions	79	55	72
PROFIT/LOSS ON FINANCIAL TRANSACTIONS	1 654	1 000	5 522
PROFIT/LOSS ON ORDINARY ACTIVITIES	14 710	15 110	25 600
Extraordinary revenue			3
Extraordinary expenses	1 088	2 287	2 165
PROFIT/LOSS ON EXTRAORDINARY EVENTS	-1 088	-2 287	-2 162
PROFIT/LOSS BEFORE TAXATION	13 622	12 823	23 438
Tax payable	2 705	1 149	2 450
Profit/loss after taxation	10 917	11 673	20 988
Retained profit/loss used for payment of dividends and profit shares	6 583		
Dividends and profit shares paid (payable)	17 500	8 500	15 000
BALANCE SHEET PROFIT/LOSS	0	3 173	5 988

BALANCE SHEET, ASSETS	2012	2013	2014
	million HUF		
FIXED ASSETS	13 292	16 169	16 360
Intangible assets	1 423	1 764	1 837
Capitalised value of formation and restructuring expenses			
Capitalised value of research and development			
Rights to assets	1 333	1 678	1 763
Trade-marks, patents and similar assets	90	86	73
Pre-payments for intangible assets			
Value adjustment of intangible assets			
Tangible assets	9 922	12 293	12 642
Property and related rights to assets	6 659	6 680	6 655
Technical equipment, machinery, vehicles	1 863	2 981	3 273
Other equipment, fixtures and fittings, vehicles	713	691	914
Capital work in progress, reconstruction	685	1 941	1 782
Pre-payments for capital work in progress	2		18
Value adjustment of tangible assets			
Long-term financial assets	1 947	2 113	1 881
Long-term investments in related companies	1 894	1 852	1 805
Long-term loans granted to related companies			
Other long-term investments			
Long-term loans granted to other investments			
Other long-term loans	54	57	77
Long-term debt securities		204	
Value adjustment of long-term financial assets			
CURRENT ASSETS	26 725	20 263	32 207
Inventory	692	815	1 157
Materials	650	747	1 111
Goods	42	66	46
Advance payment for inventory		3	
Receivables	13 262	10 274	14 393
Accounts receivable from supply of goods and services (trade debtors)	2 205	2 153	2 490
Receivables from related companies	1	66	5 004
Receivables from other investments			
Bills of exchange receivable			
Other receivables	11 056	8 055	6 899
Securities	11 428	7 847	15 070
Investments in related companies			
Other investments			
Treasury shares, partnership shares			
Debt securities held for trading	11 428	7 847	15 070
Liquid assets	1 343	1 327	1 588
Cash in hand, cheques	258	278	363
Bank deposits	1 085	1 049	1 255
ACCRUED AND DEFERRED ASSETS	1 169	1 043	1 264
Accrued revenue	657	536	811
Pre-paid costs and expenses	513	507	452
Deferred expenses			
ASSETS	41 187	37 475	49 831

BALANCE SHEET, LIABILITIES	2012	2013	2014
	million HUF		
Shareholder equity	8 732	11 905	17 893
Share capital	3 000	3 000	3 000
Capital reserve			
Retained profit (loss)	5 732	5 732	8 905
Non-distributable reserve			
Valuation reserve			
Balance sheet profit/loss	0	3 173	5 988
PROVISIONS	776	763	806
LIABILITIES	30 372	23 264	29 278
Subordinated liabilities			
Long-term liabilities			
Short-term liabilities	30 372	23 264	29 278
Short-term borrowing and loans received:			
of which: convertible bonds			
Short-term credit			
Pre-payments received from debtors	193	251	355
Accounts payable from supply of goods and services (trade creditors)	2 113	3 492	1 447
Bills of exchange payable			
Short-term debt to related companies	11	11	11
Short-term debt on other investments			
Other short-term liabilities	28 055	19 509	27 464
ACCRUED AND DEFERRED LIABILITIES	1 307	1 544	1 854
Pre-paid revenue	812	1 038	1 321
Accrued expenses and costs	495	506	533
Deferred revenue			
LIABILITIES	41 187	37 475	49 831

GRI INDEX

Indicator	Short description	Page number
Strategy and analysis		
G4-1	A statement about the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability.	4.
Organisational profile		
G4-3	The organisation's name	5.
G4-4	Primary brands, products and/or services	5.
G4-5	The location of the organisation's headquarters	5.
G4-6	The countries where the organisation operates	5.
G4-7	The nature of ownership and legal form	6.
G4-8	The markets served	5.
G4-9	The organisation's scale: the number of employees, net revenues, total capitalisation broken down in terms of debt and equity, quantity of products or services provided	24.
G4-10	The total number of workforce by employment type, employment contract and region	6.
G4-11	The percentage of total employees covered by collective bargaining agreements	9.
G4-12	Description of the organisation's supply chain	32-33.
G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership	None
Commitments to external initiatives		
G4-14	The way in which the precautionary principle is addressed by the organisation	6., 12.
G4-15	Charters, principles, or other initiatives to which the organisation subscribes or which it endorses	7., 8.
G4-16	Memberships of associations (e.g., professional/industrial associations) and/or national/international advocacy organisations	7., 8.
Identified Material Aspects and Boundaries		
G4-17	a) All entities included in the organisation's consolidated financial statements b) Any entity not covered by the report but included in the organisation's consolidated financial statements	7.
G4-18	The process for defining the report content.	37.
G4-19	All the material aspects identified in the process for defining report content.	38-39.
G4-20	For each material aspect, all the entities impacted within the organisation	39.
G4-21	For each material aspect, all the stakeholders directly impacted outside the organisation	39.
G4-22	The reasons for any restatements of information provided in previous reports and an explanation about the effect of such restatements	Per indicator
G4-23	Any significant changes from previous reporting periods in the scope, the aspect boundaries or measurement techniques	No change
Stakeholder engagement		
G4-24	A list of stakeholder groups engaged in any form of dialogue with the organisation	11.
G4-25	The basic principles and processes for the selection of stakeholders with whom to engage	11.
G4-26	Description of the organisation's approach to stakeholder engagement	40-41.
G4-27	The key topics and concerns that have been raised through stakeholder engagement	40-41.
Report profile		
G4-28	Defining the reporting period	39.
G4-29	Date of most recent previous report	39.
G4-30	Defining the reporting cycle	39.
G4-31	The contact point for those who wish to ask any questions regarding the report or its contents	47.

Indicator	Short description	Page number
G4-32	GRI Content Index	45-46.
G4-33	Practice with regard to seeking external assurance for the report	39.
Governance		
G4-34	Description of the governance structure of the organisation	10.
G4-45	The highest governance body's role in the identification and management of economic, environmental and social risks and related issues	8-9.
Ethics and integrity		
G4-56	Internal statements about the organisation's mission, values, norms of behaviour and other basic principles	9.
G4-57	The internal mechanisms for seeking advice on ethical and lawful behaviour	9.
G4-58	The internal and external mechanisms for reporting unethical or unlawful behaviour patterns and concerns about them	9.
Governance approach		See description of data
Economic performance indicators		
G4-EC1	The direct economic value generated and distributed including revenues, operating costs, employee wages and benefits, donations, community investments, economic value retained, payments to providers of capital and the government	13-14., 29. 42-44.
G4-EC8	Understanding and describing the significant identified direct economic impacts the organisation has and the significance of these impacts	15., 33.
Labour practices and decent work		
G4-LA2	The benefits of full-time and part-time employees by significant locations of operation.	25.
G4-LA10	Programs for skills management and lifelong learning	25.
G4-LA11	Percentage of employees who receive regular performance and career development reviews	24.
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category	24.
Product responsibility		
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	20-22.
G4-PR3	The types of product and service information required by various related procedures and the percentage of significant products and services subject to such information requirements	14.
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	16.
G4-PR5	Practices in achieving customer satisfaction and their results, including key conclusions of surveys measuring customer satisfaction	17-19.
G4-PR8	Number of substantiated complaints regarding breaches of customer privacy and losses of customer data	18.
Society		
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	28-31.
G4-SO4	Percentage of employees who have received training on the organisation's anti-corruption policies and procedures	9.
Environmental performance indicators		
G4-EN27	Initiatives for the mitigation of environmental impacts of products and services	35.
G4-EN29	Value of significant fines	35.

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