

The Republic of Cyprus Integrated Casino Resort

Licensing update

27 July 2015

Ministry of Energy, Commerce, Industry and Tourism
Republic of Cyprus

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1 Introduction

The Government of the Republic of Cyprus assigned the Ministry of Energy, Commerce, Industry and Tourism (“MECIT”), to proceed with the process of licensing a single Integrated Casino Resort (“ICR”) that will be the leading ICR in Europe and amongst the best in the world.

On 21 July 2015, the Law to Regulate the Establishment, Operation, Function, Control and Supervision of Casinos and Related Matters of 2015 (the “Law”) was enacted by Parliament, providing for the operation and regulation of a casino and casino games in the casino, to establish the Republic of Cyprus Casino Gaming Commission (“CGC”), to provide for its functions and powers and for matters connected therewith and to authorise and regulate an ICR in the Republic of Cyprus. An updated draft of the Regulations made under Section 13 of the Law (the “Regulations”) is expected to be available upon the launch of the licensing process in September 2015.

This document outlines a summary of the scheme and its stated aims and objectives, along with an outline of the planned licensing procedure for the license to develop and operate an ICR in the Republic of Cyprus that will commence in September 2015.

2 Objectives for the licensing of an Integrated Casino Resort

The strategic objectives of the Government of the Republic of Cyprus for the licensing of an ICR are outlined below.

The primary objectives of Government policy and the Law are to control, limit and strictly regulate casino gaming in the Republic of Cyprus, to combat criminal activity in gaming and channel consumers wishing to game at a casino away from illegal and unregulated establishments, and to protect consumers, minors and the vulnerable.

These primary objectives are reflected and supported within the key strategic objectives of the Government.

Key strategic objectives:

- **Limit casino gaming in a regulated manner that protects the vulnerable**
 - Limit casino gaming to a small number of highly regulated locations;
 - Combat criminal activity in gaming;
 - Respond to social concerns; and
 - Protect against problem and underage gambling.
- **Promote tourism growth**
 - Enrich Cypriot tourism “product” through additional tourist attractions, which would attract meetings, incentives, conventions and exhibitions alongside recreational visitation;
 - Improve inbound tourism statistics in terms of arrivals, average stay, average spending, etc.; and
 - Address the seasonality problem of Cyprus tourism industry by attracting visitors throughout the year.
- **Capture economic benefit**
 - Generate fiscal revenues;
 - Support associated industries;
 - Generate employment; and
 - Ensure a robust framework to prevent fraud and money laundering.
- **Attract inward capital investment**
 - Attract foreign investment into Cyprus; and
 - Promote development.

The ICR shall consist of a combination of integrated facilities, activities and premises which exist under a plan prepared by the operator and proposed during the licensing process and which has been approved and licensed by the CGC. The premises shall be developed and operated by the operator, and shall include, inter alia, a casino of international standards, a hotel or hotels of international standards and other activities and facilities.

The international standard hotel or hotels shall exceed the requirements for a five star hotel as these are determined by the Hotel and Tourist Accommodation laws and regulations and shall offer in total at least 500 luxury rooms. The world class casino shall include at least 100 gaming tables and 1000 gaming machines. Should the operator wish to install more than 200 gaming tables and/or 2000 gaming machines, approval from the CGC shall be required. For the purposes of the limitations on gaming tables and gaming machines, electronic table games shall be classified as gaming tables.

Other activities and facilities are not prescribed but should aim to develop the ICR's proposition in a manner that best supports the strategic objectives of the Government. Examples of such other facilities include, but are not limited to, conference and meeting facilities, convention facilities, paid for attractions, complementary attractions, sports facilities, sports venues, entertainment venues, tourist facilities, retail and dining facilities and recreational amenities. Interested Candidates are left free to propose such blend of facilities and attractions in accordance with their business model and what they consider best suited for the purposes of the Cyprus Integrated Casino Resort.

3 Description of licensing scope

Candidates should be prepared to deliver the development and operation of the ICR on a scale comparable to that of global leading ICRs and work with the Government to establish the Republic of Cyprus as one of Europe's premier tourist destinations.

This intention should be considered in the context of the strategic objectives of the Republic of Cyprus as outlined in section 2 of this document and the summary of key policies below that represent the underlying components of the Law and corresponding Regulations.

ICR key policy overview

To support the successful licensing of a single ICR which meets the strategic objectives of the Government the following policy decisions have been enshrined in the law:

- A single ICR will be licensed and the operator will be given a 15 year exclusivity period commencing from the date of the grant of the license, during which the Government shall not grant another casino license in the Republic of Cyprus (Law, section 15(1));
- The ICR must be world class and include not only a resort hotel and casino, but a blend of attractions and activities so as to be internationally recognised (Law, section 4);
- The ICR will only be permitted to offer casino table games and gaming machines under the legislation. A minimum of 100 tables and 1,000 gaming machines are required and a maximum of 200 tables and 2,000 machines may be installed without further CGC consent (Law, section 4);
- Sports betting, lotteries, horseracing and online gaming are not included as part of the legislation and shall continue to be addressed by existing legislation;
- The operator will have the option to develop, in addition to the ICR, up to four satellite casino premises, in districts other than the one where the ICR will be located. Each will be licensed for the operation of up to 50 gaming machines per location. One of these locations may exercise an additional option to operate up to 5 gaming tables. Each satellite casino premises will be individually approved and licensed by the CGC following an application by the operator and justification on their contribution to the objectives of the law. The satellite casino premises must further be operated by the ICR operator in a way to be considered supportive to the operation of the main resort (Law, section 16);
- The term of the license will be 30 years, renewable from year 12 for a further term (Law, sections 24 and 25);
- The selection of site for the integrated casino resort will be left to the unrestricted choice of the operator interested in obtaining the license. The ICR can be established on private land only (Law, section 4);
- With respect to the planning, construction and development of the integrated casino resort, the Council of Ministers is granted the necessary powers and competence to issue the required permits for the development of the ICR and waive or vary existing planning law (Law, section 99);
- The CGC will be formed as an independent agency of the Government and be responsible for regulation, audit, casino tax collection and civil enforcement (Law, sections 9 and 10);

- The gaming duty rate will be 15% of gross gaming revenue and cannot be increased during the exclusivity period. No deductibles will be allowable against gaming duty (other than an allowance for free play) and a single rate will be applied on all casino gaming activity including casino games and gaming machines (Law, section 80);
- The Steering Committee will perform comprehensive due diligence on the operating license applicant and its significant shareholders (10% if a publicly listed company and 5% if a private company, natural person shareholders or other), key management, contractors, suppliers and associated persons, prior to granting the license (Law, sections 20, 21 and 22);
- Smoking and alcoholic beverages will be permitted on the gaming floor (Law, section 34, Regulations);
- The minimum age for admission to casino gaming shall be 21. Persons under that age may pass through the gaming floor on a designated path but shall not be allowed to attend gaming positions (Law, section 39(2));
- The resort may operate 24 hours per day, seven days per week (Law, section 33(1));
- There will be no entrance fee or membership requirements without the prior written approval of CGC (Law, section 35);
- EU compliant AML procedures are required at all times (Regulations);
- Credit for gaming is not forbidden.
- Junkets and junket operators are permitted but must be licensed and are regulated by the CGC (Law, section 43, Regulations);
- Complimentaries will be permitted (free or discounted travel, accommodation, food and beverage and entertainment offered to casino guests), but will be defined, restricted and reported as set out in the Regulations (Law, section 42, Regulations);
- Advertising will be permitted, for the integrated casino resort, both within and outside Cyprus, in accordance with the requirements in the Regulations and other applicable advertising law. Marketing and advertising must be consistent with promoting the integrated casino resort as a whole, and not the gaming activities on a standalone basis (Law, section 65, Regulations);
- Responsible gaming will be closely monitored. Policies and practices to deal with problem gambling and support responsible gaming by customers shall be required of the operator as defined by the Law and set out in more detail in the Regulations. The operator will be required to have policies and a programme of responsible gaming measures approved and monitored by the CGC (Law, section 66, Regulations); and
- The CGC will monitor and enforce non-criminal enforcement of the gaming licence requirements, and will be empowered to investigate the integrated casino resort license holder, hold hearings and impose administrative sanctions for breach of the Act, Regulations and ICR license (Law, section 9).

4 Licensing Procedure

The licensing procedure does not fall under the scope of EU Directives on Public Procurement; however, a non-discriminatory and transparent licensing procedure for the grant of an exclusive casino license in the Republic of Cyprus will be followed ensuring the principle of equal treatment is respected. The licensing procedure shall be conducted in accordance with the Law, and in compliance with other relevant EU and Republic of Cyprus laws and regulations.

A Steering Committee prescribed in the Law (section 19) shall administer the licensing procedure and select a suitable operator to develop and operate the ICR.

The Steering Committee will administer the competitive licensing procedure according to the Law and good practice to attract and evaluate suitable candidates for the development and operation of the ICR.

The competitive procedure shall be carried out in two phases to select a candidate capable and willing to develop and operate an ICR in the Republic of Cyprus. The purpose of the first phase is to pre-qualify candidates for participation in the second phase, based on overall financial stability, experience in developing and operating ICRs, understanding of the Cyprus market and vision for the project. In the second phase, an RFP process will be conducted requiring the pre-qualified candidates to submit their comprehensive proposals in order to choose the preferred candidate who will, subject to ratification by the Council of Ministers, be issued the ICR license by the Casino Gaming Commission (“CGC”):

- (a) During the first stage of the procedure (which will be a pre-selection stage), the expression of interest (EOI) is requested from interested persons, openly and following a public announcement. The EOI process will commence in September 2015 with issue of an EOI document to interested parties paying the prescribed fee followed by a 3 month period provided for submissions from interested parties.
 - (i) the Steering Committee will set out the criteria for the pre-selection at the invitation for expression of interest and shall limit the number of pre-selected persons to the three (3) candidates with the highest scores.
 - (ii) the final selection of the pre-selected candidates will be subject to ratification by the Council of Ministers, which may reject any candidate if it deems such candidate unsuitable on public interest or national security grounds as prescribed in the Law (Section 20 (2)).
- (b) During the second stage of the procedure the final pre-selected candidates from the first stage, will be invited by the Steering Committee to participate, by submitting their comprehensive proposals. The second stage of the process will commence immediately following the pre-qualification of candidates from the EOI process. Pre-qualified candidates will be allowed a 3 month period to prepare and submit their comprehensive proposals.

Upon receipt of the comprehensive proposals by the pre-selected candidates, the Steering Committee will select, on the basis of the total score secured by the candidates during the evaluation of the second stage of the procedure, the candidate who secures the highest score (“Selected Candidate”).

The Selected Candidate shall be reviewed by the Steering Committee of its suitability to hold an ICR license. The form of the review and required documentation shall be as prescribed by the Steering Committee and include such investigation and information required by the Law and the Regulations (Law, sections 20, 21 and 22).

The Steering Committee will investigate and assess the suitability of the applicant to be the ICR operator and hold the integrated casino resort license and shall have the power to reject any applicant if it deems the applicant not suitable.

Following approval of suitability, the Selected Candidate will be subject to the ratification of the Council of Ministers, which may reject any Selected Candidate if it deems that any new information on such Selected Candidate render it unsuitable on public interest or national security grounds as prescribed in the Law (section 20 (5)).

Following the ratification by the Council of Ministers the Steering Committee will inform the Selected Candidate about its approval to hold the integrated casino resort license and the CGC shall be instructed to issue such integrated casino resort license and the CGC shall promptly issue such license.

The Steering Committee shall not approve a person to hold an ICR license unless the Steering Committee is satisfied that the applicant, each shareholder holding ten percent (10%) or more of the equity and/or voting rights of the applicant for publicly listed companies and each shareholder holding five percent (5%) or more of the equity and/or voting rights of the applicant for all other shareholders, its management and each associate of the applicant, is a suitable person to be concerned in or associated with the management or operation of the ICR.

It is clarified that for the purposes of participation in the competitive procedure, it is not required for interested parties to be entities incorporated in a Member State of the European Union. However, the Selected Candidate chosen for the award of the license will be requested to fulfil this requirement prior to the award of the license.

Further details will be provided in the Request for Expressions of Interest when issued in September 2015.

Interested economic operators may access the official Greek and unofficial English translation versions of the above-mentioned legislation documents by visiting the website <http://www.mcit.gov.cy>.

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