

THE BUSINESS YEAR OF THE GAUSELMANN GROUP
2018



GAUSELMANN GROUP



KEY FIGURES OF THE GAUSELMANN GROUP

in EUR million	2017	2018
Revenues of all group entities (cumulative)	2,926	3,603
Revenues (fully consolidated)	2,037	2,414
– of which in Germany	937	1,036
– of which international	1,100	1,378
Equity and equity investments	865	1,008
Investments	229	309
Workplaces at year's end (full-time equivalents)	12,480	13,395
– of which in Germany	10,765	11,762
– of which international	7,225	7,808
– of which temporary employment	5,255	5,587
– of which apprentices and trainees	444	506
	220	228

We are an internationally active family-owned company, committed to providing leisure-time entertainment and the best in gaming fun with small stakes and prizes, holding true to our motto "More than a game".

Our core competences – games content, technology and operating – enable us to offer top-quality games anywhere it is permitted and at any time based on the respective legislative framework.




We stand for responsible gaming – the latest insights into prevention and consumer protection flow continually into our product range.



Alongside our products, our employees play a major role in ensuring that our entire offering sets the highest benchmarks.

GAUSELMANN GROUP



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As a business enterprise, we are – like any other company – driven by numbers. Measured against the most important key figures, the 2018 business year was a good one:

- Sales increased. Cumulative sales of all group entities grew to 3.6 billion euros – a significant increase of over 23 per cent.
- Fully consolidated sales were up by 377 million euros, or 18 per cent, to 2.4 billion euros.
- Internationalisation, or emancipation from the important home market of Germany, continued apace, with the share of international sales increasing from 54 per cent to 57 per cent year-on-year.
- Our financial strength was reinforced. Equity for the first time exceeded the 1 billion euro mark, corresponding to an equity ratio of over 63 per cent.
- Continuous capital expenditure was the key to success. In the 2018 business year, we invested 309 million euros in a successful future – the highest amount yet in the company's 62-year history.
- Hand in hand with this, the number of employees rose to total 13,395 games makers across the entire Gauselmann Group.

These excellent figures are not a foregone conclusion, as we find ourselves – nationally and internationally – in a market environment characterised by ever stricter legal restrictions. The negative market trend continued, particularly in our important home market of Germany.

Thus, implementation of the new Gaming Ordinance and the corresponding state arcade laws in Germany, accompanied by a decline in the number of gaming arcades and installation sites, continues to occupy us. In our opinion, these completely excessive restrictions are disproportionate and run counter to the legal channelling mandate of the state for commercial gaming, as they drive players onto the black market of Internet gaming.

In Germany, we were also legally required to convert all gaming machines on the market, as many as 240,000 of them altogether, to the new Technical Directive 5.0 by the 11 November 2018 deadline: the new gaming machines in compliance with TD 5.0, which are much less attractive for players, were introduced in two versions (V) 1 and 2 approved by the Physikalisch-Technische Bundesanstalt (PTB). The legislator has provided for the possibility to roll out machines during the transition period for which the technical restrictions have not yet been fully implemented (V1). This is intended to enable a 'smoother transition', especially for gamers.

We were one of the very few manufacturers to sell these machines, which proved to be extremely successful and brought us additional market shares. While the challenge in terms of logistics and human resources was enormous, it was successfully overcome. This success was also made possible thanks to the incredible dedication of our employees, who chalked up over 100,000 overtime hours.



Armin Gauselmann

Paul Gauselmann

Compared to commercial gaming, casino business in Germany developed very positively in 2018. This is true of our own casinos and investments as well as of machine sales to all German casinos. Our machines can now be found in nearly all of the almost 70 casinos in Germany, and sales figures are also on the rise internationally. We would particularly like to highlight the outstanding development of the Merkur Spielbanken Sachsen-Anhalt, which operate the most modern casinos in Germany. Thus, following the two existing locations in Leuna-Günthersdorf and Magdeburg, we opened a third location in Halle at the end of 2018. In addition, at the beginning of 2019 we succeeded in acquiring a stake in the Spielbanken Mainz, Trier and Bad Ems, bringing the number of German casinos in our portfolio to ten.

The group's international growth can be described as nothing short of phenomenal. With our international sales brand Merkur Gaming, our XTiP, Cashpoint and Betcenter sports betting brands, as well as the MERKUR Casino International casino brand, we successfully tapped into new markets, for example in Serbia and Spain, or expanded existing ones and reported substantial growth in foreign sales.

Effective from 1 January 2018, we signed up football world champion Lukas Podolski as brand ambassador, who since then has been the face of our German sports betting brand XTiP and has additionally boosted our efforts in this segment. We are continuing in our endeavours to catch up with the quantitative market leaders and have already come a long way towards this goal. The situation with regard to the legal opening-up of the sports betting market, which currently is merely tolerated, is completely unsatisfactory.

Another segment earmarked for further growth is online gaming. Activities here focus on developing bespoke games, adapting and marketing the existing games portfolio and on operating our own online casinos in regulated markets.

This brings us to the core of our business activities: games! At as many as 13 game design studios around the globe – from Australia to Las Vegas – new games ideas are born, developed and made ready-for-market on a daily basis. These wonderful games are the reason why every day millions of people play at our machines, visit our gaming arcades and casinos or enjoy good entertainment on their PC, tablet or mobile phone.

Looking back, we are very satisfied with the developments in our three business segments in the 2018 financial year.

The relevant details are set out in the following sections:


- Research, development and production
- Merkur (games, gaming machines, payment systems)
- Gaming operations (gaming arcades, casinos, cruise ship casinos, online casinos)
- Sports betting

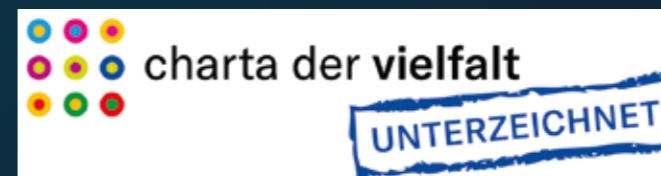
We owe this positive result across all business segments uniquely to the creativity and commitment of each and every employee of the Gauselmann Group, to whom I wish to express my sincere thanks on behalf of the entire entrepreneurial family. They guarantee that the products and services of the Gauselmann Group meet the highest quality standards. This is also evidenced by the numerous awards and prizes that our company received, of which we are very proud. We will briefly present some of them in this report.

The acquisition of the naming rights of the Düsseldorf multifunctional arena, which has been called MERKUR SPIEL-ARENA since August 2018, attracted considerable media attention. The naming rights are part of a long-term partnership between the Gauselmann Group and the municipal arena operating company D.LIVE. The sponsoring also includes the outdoor branding of the arena as well as promotion of numerous Düsseldorf clubs, institutions and athletes. At the end of 2018, we also participated in the

purchase of the SchücoArena in Bielefeld in a bid to help the Armenia Bielefeld football club back onto a stable footing after a turbulent period both financially and on the pitch. Two partnerships that fit, because the Gauselmann Group has actively supported professional and amateur sports for years – which in addition to promoting sport has the additional benefit of promoting the company's image.

Yours sincerely,





DIVERSITY CHARTER

The diversity charter (Charta der Vielfalt) is a corporate initiative to promote diversity in companies and institutions and one in which we participate out of conviction. The initiative aims to promote the recognition, appreciation and integration of diversity into Germany's business culture and create a working environment free of biases. Within the Gauselmann Group, we employ people from 90 different countries, whose different experiences, values and skills make an important contribution to the positive (further) development of our corporation.



“Nothing is as constant as change’ – this motto is truer than ever for the research, development and production department. Thanks to our highly qualified employees, not only are we able to keep pace with the rapid developments on the international gaming market, we also anticipate future trends and actively help to shape them by developing creative games and cabinets.”

Dr Werner Schroer,
Management Board member, Technology

Innovative products are the basis for the success of the Gauselmann Group and the engine for the group’s dynamic and continuous growth. In order to meet its customers’ diverse needs, the group has 24 development sites worldwide, nine of them in Germany and a total of 15 in the UK, Austria, India, Australia, Spain, the US and Malta. These teams are specialised in developing and producing games and cabinets as well as applications and system solutions for the group’s land-based and online markets. Their challenge lies in identifying current trends and translating them into attractive products in line with country-specific gaming preferences and legislation.

The number of employees in the research and development department grew by 81 during the 2018 financial year. Thus, at the end of the reporting year 853 Gauselmann Group employees were engaged in the development disciplines game design, software, hardware, industrial design, mechanical construction, quality assurance as well as brand and industrial property rights.

The heart and link between the international development sites is located at adp Gauselmann GmbH (adp), which develops almost all basic technologies for the group. adp’s headquarters are in Lübbecke in Eastern Westphalia, but the company also has sites in Berlin and Euskirchen. For adp, the past business year was dominated by the conversion of all gaming machines on the market in Germany to comply with the new Technical Directive 5.0. How smooth or hard this transition was for machine operators and players depended to a large extent on the version of the directive (V) 1 or 2 chosen: while V1 machines can still be freely accessed, V2 machines require an activation medium. adp had decided early on to go with V1 for as long as possible and in 2016 had secured 19 of the 23 V1-type approvals issued.

Thus, in the 2018 conversion year, the development of V1 products was already completed (except for rectifying minor defects after the market launch), so that demand concentrated on production, sales and service. Consequently, in 2018 the development team focused on

creating V2 products, which may only be operated exclusively from January 2021. Particular attention was given here to new game systems for the M-MOTION curved cabinet rolled out in 2018, which, thanks to its 43-inch curved touchscreen in ultra-HD resolution, allows the display of unconventional game content.

Apart from new amusement machines and games, the adp development team was concerned in 2018 with products aimed at youth and player protection. This issue is gaining increasing importance in Germany and internationally and is accompanied by growing requirements with regard to admission control and age checks in arcades and gastronomy businesses. adp has marketed the PLAY SAFE (formerly FACE CHECK) admission control system since 2016, which allows barred players or guests who appear to be underage to be identified reliably, anonymously and data-efficiently. In the reporting year, the system was extended by a new product variant for the German gastronomy market: PLAY

SAFE Compact combines face recognition with a document-based solution and can be installed anywhere at the venue.

Buoyed by the success in Germany, admission controls with age verification were installed on a test basis at a number of Welcome Break motorway service stations in the UK in 2018, under the name Eye Go. From the customer perspective, the test was very successful and is to be extended to a further 35 sites in 2019.

The nine development studios in Germany include edict eGaming GmbH (edict) based in Hamburg and MEGA Spielgeräte GmbH (MEGA) in Limburg. edict develops turnkey system platforms and adapts Merkur slot machine games for the online casino market. In the reporting year, edict developed a new Unified Automated Deployment System that can fully automatically update or set up customer systems in just 30 minutes. MEGA primarily creates jackpot systems, multigame lines and games with



additional stakes. In 2018, the company developed the add-on feature BANK SAFE for the M-BOX TRIO, as well as the M-POT add-on monitor on which the draws and results of the adjacent gaming machines can be displayed.

The company Geldwechsel- und Sicherheitstechnik GmbH (GeWeTe) and the HESS Group (HESS) also have their own development teams in Germany. Both Gauselmann subsidiaries specialise in the development, production and distribution of money management system solutions. GeWeTe from Mechernich developed a new money-exchange machine for the casino market in 2018: the Cash-Center-Premium with a 27-inch LCD touchscreen can be hooked up to almost every casino management system in the world and delivers solutions for all requirements in connection with casino operation. HESS, with headquarters in Magstadt, further developed the CoinIn coin pay-in machine family and the TopCoin OEM module in 2018, which will in future provide the basic technologies for the new OEM components business segment.

The Euro Payment Group GmbH (EPG), which has its headquarters in Frankfurt am Main, specialises in accredited and customisable online payment options under the umbrella of the Gauselmann Group. Following certification as an E-Money Institution in January 2018, EPG started to develop and program its own e-Wallet, which is designed to make deposits and withdrawals from an e-money account as comfortable as possible.

Additional development sites of the Gauselmann Group are located around the world, from the neighbouring country of Austria to India and Australia. While the group's product portfolio focuses on multigamers, in some countries players prefer longer-lasting entertainment through a single game. For these markets, dedicated single games are developed, which are highly complex to develop, as they contain significantly more graphics and hidden gimmicks.



The game Hexenkessel was developed especially for mobile devices

This is the area of expertise of Sunshine Games LLC based in Las Vegas. The game design team there specialises in the development of single games for the US market and other international markets. In 2018, development work on around ten game systems was successfully concluded, including Amulet of the Pharaoh, Taco Tuesday and Striking Fortunes. Creation of almost 20 new game and jackpot systems also got under way, including Big Wheel Deal, Jewels of the Nile and Rapid Thunder. To protect the creativity and innovative strength of the games developed by Sunshine Games, patents were filed for around 40 inventions in 2018.

In the UK, the subsidiary Blueprint Gaming Limited (Blueprint), with headquarters in Newark, ranks among the five leading multi-platform developers and providers of digital games. These are also available on over 100,000 land-based gaming machines in the UK, Germany and Italy. Blueprint specialises in the development of 'bonus games', where 40 games are linked via a jackpot system. Blueprint developed and successfully rolled out over 50 games in the European online gaming market in 2018. The game systems Fishin' Frenzy and Eye of Horus were also customised for the adp cabinets, which further enhanced the performance of the B3 machines.

Both Blueprint and the British Gauselmann subsidiary Praesepe Group (Praesepe) as well as REGAL Gaming and Leisure (REGAL) are networked with the server-based gaming system MARS, developed by adp. This system helps to optimise business processes by connecting all machines in an arcade or pub with a common server, thus enabling central administration and control. Currently, more than 12,000 machines in the UK are connected to the MARS system, with a strong upward trend for 2019. New developments were initiated in 2018 aimed at deploying MARS in other countries in



Games highlights in 2018

future, above all in Spain. In cooperation with the Casinos segment, adp also began further development of MARS into a casino floor management system.

The Gauselmann Group also operates two game design studios in India, both in New Delhi: Merkur Gaming India Pvt. Limited (Merkur

Gaming India) and Lucky Nugget Gaming Pvt. Limited (Lucky Nugget). Apart from classic slot machine games, Merkur Gaming India also creates mobile applications and further developed the Merkur Helper in 2018. This is a service app for machine operators in Germany which provides them with round-the-clock information, technical advice and other useful tips.

In addition to developing video graphics (in cooperation with other game design studios) and 'conventional' games, Lucky Nugget is involved in researching new technologies. Here, the focus is on 3D animations and virtual reality as well as the associated question of whether and how these trendsetting technologies can be integrated into new games in a user-friendly manner. In 2018, the Lucky Nugget development team achieved significant progress and presented the first prototypes within the company.

In Gerasdorf, Austria, the Gauselmann subsidiary Cashpoint Solutions (Cashpoint) develops integrated solutions for the land-based and Internet-based sports betting market. In 2018, Cashpoint introduced a new user interface in Germany for all platforms of the company's own XTIP sports betting brand, which is based on an even faster and more powerful programming logic. In addition, the app and home page

now feature a new filter function that makes it possible to conveniently display over 100,000 different betting variants. In 2019, the new user interface will be introduced at sports betting terminals in the other B2C markets Austria, Denmark, Belgium and Poland.

Research, development and production can look back on a very productive 2018 financial year, in which many projects were successfully initiated and implemented. The next year holds new challenges in store. One of the largest and most demanding tasks will be to combine the different system platforms of the Gauselmann subsidiaries Cashpoint, edict and EPG in a common platform in order to offer all services from a single source. In addition, two new companies have been strengthening the Gauselmann Group's online gaming capabilities since 2019:

firstly, the London-based development studio Project, under the umbrella of Blueprint, is expanding the games offering for the British gaming market; secondly, the newly founded development studio Bee Cool Gaming, based in Raaba-Grambach, Austria, is concentrating entirely on the creation of online games.

The development of games as a core competence of the Gauselmann Group must be further strengthened moving forward, because ultimately all activities of the group serve one major goal: to offer customers all over the world the best entertainment with innovative and varied games.



Cabinet highlights in 2018



THE GOONIES™



GAME OF THE YEAR

Innovative products are the basis of our success and the engine for our dynamic and continuous growth. Worldwide, 13 game design teams are engaged in developing and implementing trend-setting games content for the land-based and online markets in which we operate. And with great success: for example, the licensed slot game *The Goonies™*, developed in 2018 by our Blueprint Gaming subsidiary in cooperation with Warner Bros. Consumer Products, was crowned Game of the Year 2019 at this year's Gaming Intelligence Awards.



"For all companies in the Merkur business segment, the 2018 business year was largely dominated by the Technical Directive 5.0 and its implications for the industry. However, thanks to foresight, the right products and a comprehensive range of services, we were able to master this challenge so successfully that both our market share and domestic sales revenue continued to grow in 2018. Sales revenue outside Germany also increased."

Jürgen Stühmeyer,
Management Board member, Merkur Sales

Sales of games and amusement and gaming machines worldwide

Germany

adp Gauselmann GmbH

The development, production and sales of amusement machines and games are handled by the Gauselmann Group under the umbrella of adp Gauselmann GmbH. With its headquarters in Espelkamp/Lübbecke, Eastern Westphalia, the company positioned itself as the market leader in the German gaming market from as early as 1984.

In the 2018 business year, the difficult political environment in Germany and the resulting legal restrictions continued to dominate adp's business activities.

The current State Treaty on Gaming in conjunction with the resulting state arcade laws necessitated the closure of further concessions and led to a reduction in the number of machines. Moreover, as of 11 November 2018, all gaming machines must comply with the new Technical

Directive (TD) 5.0, which prescribes extensive changes in terms of machine technology and handling. This meant all machines in the market had to be either upgraded or replaced by the deadline.

Despite these testing conditions, adp nevertheless increased sales in 2018 compared to the previous year. One key success factor here was the forward-looking and customer-oriented implementation of the new Gaming Ordinance. In order to make the transition as smooth as possible for both operators and players, adp decided for the time being not to switch over exclusively to Version 2 (V2) of TD 5.0, but to also offer a range of product solutions in compliance with Version 1 (V1). For this, the company foresightedly secured 19 of the 23 issued V1-type approvals back in 2016. The Eastern Westphalian company began developing corresponding products in November 2014, once the content of TD 5.0 became known.



Consequently, in 2018 adp was able to offer its customers a wide range of products for gaming arcades and the gastronomy sector: from cabinets that already formed part of the product portfolio and could be converted to comply with TD 5.0 V1 by the 11 November deadline, to machine editions available exclusively in TD 5.0 V1 models, as well as four product innovations that comply with TD 5.0 V2. These were the M-MOTION featuring a curved upright 43-inch touchscreen with ultra-HD resolution, the M-BOX Buzzer in an M-BOX TRIO cabinet, the slimline HIGHLINE upright machine (54 cm wide) with two 23.8-inch screens and the first SMARTLINE wall-mounted machine with full-HD resolution for the gastronomy sector. Both the M-MOTION and the M-BOX Buzzer are the first of their kind for the German arcade market.

The adp products in compliance with TD 5.0 were rolled out from May 2018. As the company was the only manufacturer to hold appropriate licences for gaming machines in compliance with TR 4.1, adp continued to sell machines comply-

ing with this Gaming Ordinance through to the third quarter of the 2018 business year. All adp machines that complied with TD 4.1, whether newly delivered or already on the market, were TD 5.0-capable, so that they could be converted without problems by the 11 November deadline. Since products that are compliant with TD 5.0 V1, by contrast with products compliant with TD 5.0 V2, do not require any means of identification to activate the gaming machines and therefore continue to allow barrier-free gaming, these were far more well received in the market than products that comply with TD 5.0 V2.

The M-BOX TRIO with three full-HD high-resolution 27-inch screens and the M-BOX with its classic two screens were particularly successful in 2018, with the M-BOX TRIO SEVEN and the M-BOX EXPLOSION proving especially popular. By the end of 2018, the M-BOX HOT EDITION 2, the M-BOX RACE EDITION 2 and the M-BOX PRINCE EDITION 2 were in fact completely sold out.



The high demand for adp's products is also reflected in the company's market shares in 2018: strong gains in the arcades segment and a stable market share in the gastronomy segment allowed adp to further strengthen its position as market leader.

The company leveraged its technological edge not only to develop and produce amusement machines and games, but also to further enhance the PLAY SAFE face recognition system (formerly FACE CHECK) for the protection of players and minors in cooperation with the company Cognitec. With the PLAY SAFE family, adp is responding to the challenges linked to admission and age controls as well as blacklists at its venues. The system allows barred players or guests who appear to be underage to be identified reliably. In 2018, adp extended the system by the addition of the new PLAY SAFE Compact product variant for the gastronomy sector, which works with both face recognition and a document-based solution.

All Gauselmann Group products – both for national and international markets – are 'made in Germany' at the adp production plant in Lübbecke. The sports betting terminals for the sports betting business segment are also manufactured here in compliance with the highest production standards and certified to the internationally applicable DIN EN ISO 9001:2015 standard. adp has also been endorsed with the DIN EN ISO 14001:2015, ISO 50001 2011 and BS OHSAS 18001:2007 certificates, which attest to globally recognised standards in the fields of environmental management, energy management and occupational health and safety management.

adp strengthens its product brands through targeted brand management. For example, recognition of the M-BOX and "Merkur Magie" brands was continuously expanded on various marketing channels in 2018: from promotional articles to point-of-sale, brand websites, apps and social media.

To ensure its products and services are at the cutting edge of the market, adp has fostered close customer relationships for many decades. In order to strengthen these valuable relationships, representatives from the Gauselmann Group have met up twice a year since 1992 for a working group meeting with 100 key account customers in the Merkur Advisory Board. In addition, the Gauselmann Group founded the Technical Merkur Advisory Board in 2011, which has 30 important customers as members and also convenes twice a year. The regular exchange with its customers, combined with efficient processes in the areas of market research and sales, enable adp to identify consumer trends early on and have a large number of product innovations ready to supply the market. The current product portfolio is presented to customers several times a year at trade fairs. The company's biggest product exhibition is the industry summit, which is traditionally held in September. In 2018, the event was moved forward to May to allow customers a preview of adp's TD 5.0-compliant product solutions prior to the directive coming into force. The 2018 industry summit was the company's most successful to date.

Customers and staff are kept up-to-date with developments in the gaming industry not only at events, but also online: on the adp portal (www.adp-gauselmann.de) and the Merkur Insider platform (www.merkur-insider.de) the Lübbecke-based company provides a vivid description of its products and services. The adp portal is currently undergoing an update, which will be completed by mid-2019.

In the 2019 financial year, adp is anticipating high demand for TD 5.0 V1 machines in the first two to three quarters, with correspondingly stable sales revenue towards the end of the year. To enable it to supply the market with high-performance innovations compliant with TD 5.0 V2 from the end of 2020 and moving into 2021, adp will continue to focus intensively on the development of innovative product solutions.



The 2018 industry summit: Paul Gauselmann is pleased about a successful industry summit with star guest Helene Fischer

adp merkur service

As the service provider of the Gauselmann Group, adp merkur service offers its customers competent product support. With comprehensive technical customer service, the service technician network, the 'free & easy' maintenance service and broad-based telephone support, the company offers practical, competent and solution-oriented advice and assistance. The experts from adp merkur service keep customers abreast of the latest developments in adp machine technology via regular training courses and a wide range of seminars and product information events.

Since 2015, adp merkur service has also been busy preparing for TD 5.0. The company organised numerous TD 5.0 training courses throughout Germany in 2018 in order to comprehensively prepare arcade operators and their service personnel for the new Gaming Ordinance. A total of almost 6,500 participants were trained in over 130 seminars Germany-wide. A dedicated telephone hotline was also installed, which offered customers professional advice on TD 5.0 almost 24/7. On the final weekend (10-11 November), some 250 employees from various areas of the company were on call around the clock to assist customers with implementing the required changes by the deadline. Over 1,000 machines were converted on that weekend alone, new machines were delivered and numerous conversion kits supplied. In total, well in excess of 100,000 machines were converted.

Alongside its extensive service offering, adp merkur service develops practice-oriented solutions in the area of modern money processing technology, including the Merkur Dispenser banknote recycler that marked its tenth anniversary in 2018. Since the switchover to TD 5.0, the banknote recycler has played an even more important role in the field of money management, since the new Gaming Ordinance has created an even greater demand for small banknotes in gaming machines. The Merkur Dispenser absorbs this additional workload without problems, thanks to its functional reliability. More than 150,000 Merkur Dispensers are currently in use in the market nationally and internationally. The banknote recycler is perfectly complemented by the Safeguard Scale Hopper precision scale for coins, which is also a proprietary development and therefore represents another of the company's USPs.

The MerkurNET in-house networking system enables operators to safely import, store and archive machine data. Stakes, winnings and cash contents are regularly logged and can be exported via the system while the machine is in operation. MerkurNET can also be used to read out the machine status. With the final changeover to TD 5.0 at the end of 2020/beginning of 2021, and the additional complexity involved, operators will become increasingly dependent on interconnected systems.

Another useful tool provided by adp merkur service is the Merkur Helper app. In 2018, the service app received an update, which included integration of a separate TD 5.0 domain into the app. The Merkur Helper can, among other things, also be used to order replacement parts and view program status as well as technical information.

Gauselmann Großhandel

As the sales organisation of adp, Gauselmann Großhandel is responsible for the marketing and sales of adp products. Staff at 11 branch locations throughout Germany personally advise customers on the products and all matters relating to slot machine games. To assist with the changeover to TD 5.0, information points were set up in the branches in 2018 to provide customers with information on the new gaming regulations. The fifth Gaming Ordinance was also a focus in 2018 at the Gauselmann Großhandel in-house exhibitions traditionally held at the branches each spring and autumn. Employees from Gauselmann Großhandel also supported adp merkur service with the conversion of gaming machines from the TD 4.1 standard to TD 5.0, as well as with machine acceptance.

Schneider Automaten

In addition to Gauselmann Großhandel, the Schneider Automaten subsidiary with its eight branch offices throughout Germany is another important sales branch for the products manufactured by adp. The wholesale company also trades with amusement and gaming machines as well as accessories produced by other manufacturers. In 2018, Schneider Automaten presented its broad product range at in-house exhibitions at the beginning of the year and in the spring and autumn. In preparation for TD 5.0, Schneider Automaten also organised workshops dealing with the new Gaming Ordinance and like Gauselmann Großhandel set up information points at its branches.



Merkur Freizeit Leasing

The manufacturer financing company Merkur Freizeit Leasing GmbH (MFL) offers its customers a wide range of services, from attractive rental and leasing concepts to the licensing of Merkur Ideal games packages and insurance concepts. As a leading financial services provider in the coin-op machine industry, MFL is firmly established in the market. Through its close cooperation with other Gauselmann subsidiaries, customers benefit from a hand-in-hand concept. MFL offers its customers a further advantage with the Merkur sun bonus scheme, which is very well received.

Under the motto 'More possibilities – more flexibility – more performance', MFL constantly strives to adapt its products to current market requirements. In 2018, the market was dominated by TD 5.0: every rental machine on the company's books had to be replaced or converted to comply with the new directive. Thus, in the fourth quarter of 2018 alone, well over 100,000 TD 4.1-compliant games packages had to be withdrawn from the portfolio and replaced by an analogue number of TD 5.0 games packages. MFL completed the exchange on schedule by the 11 November deadline.

International operations

Gaming fun with stakes and prizes is not just a phenomenon of a specific culture, but enjoys popularity around the world. What form gaming takes, however, differs from continent to continent and from country to country: in Asia, Eastern Europe, the Netherlands and Germany, highly volatile game systems with a higher risk and greater prospects of winning predominate, whereas in Western Europe, North America and South Africa players prefer low-volatile games with lower risk and longer game lengths. In South America, on the other hand, games with both high and low volatility are popular. One of the core competences of the Gauselmann Group is the capability to analyse these country-specific gaming preferences and translate them into relevant products.

The Gauselmann Group markets its games and machines in international markets under the international development and sales brand Merkur Gaming as well as via the Spanish sales organisation Merkur Dosniha S.L., both under the umbrella of adp Gauselmann GmbH (adp). In the UK, the Blueprint Gaming Group (Blueprint) is responsible for development and sales activities in the land-based and online markets. Together, they cover all of the major gaming markets around the world and offer a broad-based product portfolio geared to the country-specific playing habits and the laws and regulations in the respective target markets.

In Spain, in addition to the company's headquarters in Mallorca, the Merkur Dosniha sales company operates sales offices in Murcia and Madrid as well as logistics centres in Murcia and Barcelona. In 2018, Merkur Dosniha recorded a very successful business year, in which the M-BOX multigamer that was rolled out a year earlier became the best-selling Merkur cabinet.

One of the most successful games in the land-based market was Magic Mirror, developed by Gauselmann subsidiary Stella International Spielgeräte GmbH. In 2019, Merkur Dosniha will present new products, including the G-Box developed for the Spanish gastronomy market, and also intends to make inroads into the Spanish casino market.

In the UK, the Gauselmann Group markets its products through the Blueprint subsidiary based in Newark. Blueprint develops and distributes games for the land-based market that are currently available in over 100,000 gaming machines in the UK, Italy and Germany. Furthermore, Blueprint ranks among the top five British multi-platform developers and providers of digital games and sells game systems from Merkur and other third-party vendors for the land-based and online markets in the B2B segment. The company successfully reinforced its position in the British pub and arcade market and was also granted first licences for the category B1 casino market. The Alphastar and Genie multigamer cabinets developed especially for the UK market were the top-selling cabinets in the 2018 reporting year. Eye of Horus and Fishin' Frenzy were among the most popular games in British arcades, betting shops, bingo halls and pubs.

adp operates national subsidiaries under the name Merkur Gaming in the Netherlands, Poland, Romania, Serbia and South Africa, as well as on the American continent in Peru, Mexico, Argentina and Colombia. In cooperation with Merkur Gaming, adp is also responsible for the development and sales activities on cruise ships and in the German casinos. At the end of the reporting year, Merkur Gaming had 780 employees on its payroll.



Merkur Gaming significantly expanded its market share in a number of target countries in 2018, accounting for one-third of adp's total sales. In addition to the Avantgarde Trio multigamer, the game systems Convertus Aurum, Zentaurus, Multi Wild Red, Fishin' Frenzy and Fruitinator were the international top-selling products. The Allegro and Allegro+ curved cabinets with their uninterrupted 43-inch touchscreens in ultra-HD resolution, along with the compact G-Box multigamer developed especially for the gastronomy market, also celebrated their first successes in the international gaming market.

Merkur Gaming was again present at the industry's most important international trade fairs in 2018, where it took the opportunity to showcase the latest games and cabinets, establish and foster contacts to customers, as well as to increase international awareness of the brand over the long term. Merkur Gaming made its

biggest trade fair appearances at the Global Gaming Expo (G2E) in Las Vegas and ICE in London. The latter is the most important fair for the international gaming industry. Here, Merkur Gaming presented itself at a joint stand with seven other Gauselmann subsidiaries. On an area of 2,000 square metres, visitors had the opportunity to familiarise themselves in depth with the group's full gaming portfolio, from arcades to sports betting and cash-handling activities. Merkur Gaming also attended a number of other regional trade fairs in Western and Eastern Europe, North and South America, as well as Africa and Asia.



International trade fair appearances are a guarantee of success for Merkur Gaming (left: Paul Gauselmann, centre: Jürgen Stühmeyer)

In the Netherlands, the Merkur Gaming Netherlands national subsidiary substantially expanded its market share in its second year of operations. This business success is to a large extent attributable to the M-BOX as the top-selling gaming machine in the entire Dutch arcade market, as well as to the Games Unlimited classic game line. Also rolled out in the reporting year, the G-Box notched up important successes in the Dutch gastronomy market.

In the still relatively young high-street market in Romania, sales activities are the responsibility of the Merkur Gaming Romania national company based in Bucharest, which can also look back on a highly satisfactory business year in 2018. Romania is an important growth market for Merkur Gaming. The company therefore used 2018 to prepare for the subsequent year, in which it plans to roll out new products developed exclusively for Romanian players and to tap into the Romanian gastronomy market. Merkur Gaming also succeeded in consolidating its market position in Bulgaria in 2018. In addition to the latest HD game systems above all the Avantgarde and Avantgarde Trio multi-gamers contributed to this success. Despite further licensing procedures in the reporting year, Merkur Gaming is confident for 2019 and anticipates continued growth in the Bulgarian market.

*Athanasios "Sakis" Isaakidis,
Chief Executive Officer Merkur
Gaming International*



Along with Romania and Bulgaria, Poland is one of the prospectively important markets going forward. Since 2018, activities in this market have been the responsibility of the Merkur Gaming Poland national company with headquarters in Warsaw. A year previously, new gaming legislation came into force that opened the door for Merkur Gaming to the Polish gaming market. In 2018, Merkur Gaming was the only manufacturer to supply 600 machines to the gaming arcades and lotto shops of state-owned provider Totalizator Sportowy.

Merkur Gaming is not only represented internationally; since 2016, it has also counted German casinos among its customers. Convincing products such as the M-BOX and the M-BOX Trio in particular have helped Merkur Gaming massively expand its presence over the past two years and win all German casinos as regular customers in 2018.



*Charles Hiten,
Chief Executive Officer
Merkur Gaming Americas*

In Latin America, new installations enabled Merkur Gaming to further expand its market share in 2018, with the Avantgarde Trio and Evostar Trio, along with the Zentaurus game system, proving to be the strongest performers. The most successful target markets were Peru and Mexico, although the still young national company in Argentina also chalked up notable successes and made first inroads into the neighbouring countries of Uruguay and Paraguay. In Colombia, Merkur Gaming faced stricter legal requirements, but despite these, business developed positively for the year as a whole.

Full market entry in the USA is planned for 2019. In preparation for this, test machines were installed in several arcades in Southern Florida in the reporting year in order to trial the technical capacity of the Linux-based games platforms. Networked jackpot systems enjoy widespread popularity in North America. However, since these do not form part of Merkur Gaming's product portfolio, the group's own Sunshine Games development studio has developed

bonus games with a jackpot-similar function. While these do not have a networked jackpot platform, they nevertheless give guests the feeling of playing with jackpot odds. This completely novel product concept will be presented in the second quarter of 2019.

The Gauselmann Group can look back on a very successful year for international land-based business in 2018. Thanks to numerous games and cabinet innovations, coupled with entry into promising new markets, the group's international sales arm was able to further expand the company's presence. Solid growth is again expected for 2019 on the back of newly developed game systems, jackpot solutions and cabinets 'made in Germany'.

Online casino solutions and online games

Online gaming is one of the most important growth markets within the gaming industry and holds enormous potential for market participants. Over the next five years, the online gaming market is expected to grow by ten per cent each year.

The Gauselmann Group has been active on the world's major regulated and licensed online gaming markets since 2008. The offering includes the development and marketing of online casino solutions as well as online games. Since 2018, this area of online gaming has been part of the Merkur business segment. Operation of the company's own casinos, on the other hand, is the remit of the gaming operations business segment.

Development and marketing of Gauselmann's online casino solutions and online games is carried out by the sales teams of adp Gauselmann GmbH, edict eGaming GmbH and Blueprint Gaming Limited. In 2018, the company also founded the game design studio Bee Cool Gaming GmbH with headquarters in Raaba-Grambach, Austria, which will go into operation in 2019 and will specifically focus on the development of online games.

The core markets are Spain, the UK, Romania, Scandinavia and Croatia. Market entry into Latin America is planned for 2019. In addition, the number of connected online operators accessing Gauselmann games is expected to almost double by the end of the financial year. Due to the ongoing lack of regulation on the German market, the company is unable to take up business activities here despite high demand. Nevertheless, the Gauselmann Group is predicting a successful business year in 2019.

edict eGaming GmbH

edict eGaming GmbH (edict), with its registered office in Hamburg, specialises in the development and sales of turnkey games platforms and games for the online casino market. Apart from pure software licensing, the company provides extensive technical services for its customers. The software specialist sells its products exclusively in the B2B segment. The online casino portals of the Gauselmann Group are also operated using edict products, among others.

From its central development location in Germany, the company's business activities extend to the global online casino market with a focus on the licensed European markets. In 2018, the trend towards regulating online casino offerings continued, with only a few European markets still upholding the ban on online gaming. Since edict, unlike many of its competitors, is licensed almost all over Europe, it can offer its products and further reinforce its position in all regulated markets.



edict entered the South American market in 2018. A local data centre has already been set up and can be put into operation as soon as it has been licensed by the Kahnawake Gambling Commission. In addition, edict developed a 'unified automated deployment' that significantly lowers system administration costs.

Sales and technical services are provided by affiliated companies in Malta and the Isle of Man, which have all been issued the required gaming licences. The Malta Gaming Authority issued a new gaming regulation in 2018, which means that a lot of existing edict customers had to relocate from the Isle of Man to Malta and the contracts had to be renegotiated and drawn up accordingly.

Due to the difficult underlying conditions, the company was unable to maintain its 2017 sales level in the 2018 financial year. edict is confident the development of non-European markets and the expansion of sales activities will again lead to a positive business trend in 2019.

Blueprint Gaming Limited

In the UK, Blueprint Gaming Limited (Blueprint) based in Newark is one of the five leading multi-platform developers and providers of digital games (online and mobile). These are also available on over 100,000 gaming machines in the UK, Germany and Italy. Furthermore, in addition to its own games, the company sells games from Merkur, RTG and other third-party vendors for the land-based and online markets in the B2B segment.

Blueprint successfully sells its products throughout Europe, with its main business activities focused on the UK, Scandinavia and Italy. The markets in Italy and Denmark were added in 2018. The export ratio was 25 per cent. Entry into the Swedish market is planned for 2019. The company is licensed by the UK Gambling Commission and the Alderney Gambling Control Commission to develop and provide online games.

One of Blueprint's main USPs is the development of 'bonus games', where 40 games are linked via a jackpot system. In the 2018 financial year, Blueprint introduced a bonus scheme for its customers, modernised its promotion platform and launched 50 new games. Blueprint's Buffalo Rising Megaways™ video slot game received the Game of the Year 2018 award from the online magazine Gaming Intelligence. The company was rewarded for the work invested with sales growth of 70 per cent in the online segment. Twenty new employees were added to the payroll in 2018, bringing the total number to 66.

On 7 February 2019, the multi-platform developer reinforced its development capacities and product portfolio through the takeover of the London-based design studio Project. For the 2019 financial year, Blueprint expects further growth in the UK and other European countries.

Cash and ticketing activities

The Gauselmann Group has been successful in the field of money management systems with its subsidiaries GeWeTe and HESS Cash Systems for many years. Both companies specialise in the development, production and sales of money-changing and payment systems.

While GeWeTe has focused for over 25 years on the production of money-changing systems, in particular for gaming arcades, casinos and sports betting shops in national and increasingly also international markets, the long-established company HESS, drawing on its 130-year history, develops coin-processing self-service solutions for retailers, banks and savings banks as well as payment systems for energy suppliers, the public sector and other branches of industry.

GeWeTe

With more than 60,000 installed systems worldwide and an unparalleled product portfolio, Gauselmann's GeWeTe (Geldwechsel- und Sicherheitstechnik GmbH) subsidiary based in Mechernich is one of the world's leading companies in the field of cash-handling systems.

GeWeTe has been developing, manufacturing and selling money-changing machines, pay stations and ticket machines since 1993. In Germany, the company is the uncontested market leader in the arcades segment with a market share of just above 70 per cent, and is also a major supplier in the field of automated pay stations and ticket systems.

The Mechernich development and production site near Cologne currently employs around 120 people. A further 15 work at GeWeTe's branches in the UK, Spain and Italy.

GeWeTe stands for customised automated pay stations known for their high functionality, flexibility, reliability and security. Thanks to a modular range of software and hardware products, GeWeTe's systems can meet every conceivable requirement – regardless of whether issuing tokens, tickets, coupons or vouchers, for using turnstiles or with a customer-specific webshop interface, whether for accepting, dispensing or recycling coins or banknotes, using pay cards, or for reading, writing or issuing chip cards.

GeWeTe also ranks internationally among the top experts in the field of cash-handling systems. Innovations made in Mechernich by GeWeTe can in the meantime be found all over Europe.

Fears that customers in the most important German sales market, the gaming arcade segment, might be less willing to invest as a result of the prohibitive legal restrictions, thus leading to a drop in sales, were not confirmed in the past financial year. Contrary to its own forecasts, GeWeTe was able to significantly increase sales, not only in Germany but also in other markets. Keeping pace with this growth, GeWeTe also made additions to its headcount at the company's headquarters in Mechernich as well as at the branches outside Germany.

The highest international sales growth in the past year was recorded in the UK and Spain. Outside of the arcade segment in Germany, cash-handling systems for car washes, developed in 2016, made their first noteworthy contributions to sales.

GeWeTe's money-changing systems are still found predominantly in gaming arcades and casinos, where, thanks to their outstanding quality and security features, perfect operation



Happy faces: managing directors Aristidis Tsikouras (left) and Dr Jörg Bewersdorff celebrate a successful event on the occasion of GeWeTe's 25th anniversary

is guaranteed. However, besides arcades, the cutting-edge technology is also suitable for many other operating environments where cards or cash are used, allowing GeWeTe to continue to tap into new areas of business in 2018. Flexible development and production processes coupled with customised solution management are among GeWeTe's particular strengths. Whatever the quantity, design or other bespoke specifications, the products manufactured by GeWeTe in Mechernich are custom-made in line with customers' requirements, and each piece is crafted by hand.

Apart from gaming arcades, casinos on shore and at sea, for example on cruise liners and sports betting shops, the company increasingly made inroads into areas outside of the gaming market, for example in large department stores, swimming pools, shopping centres, libraries, campsites, railway stations, laundrettes, car washes and public transport services. Wherever services have to be paid for by card or in cash, modern cash-handling systems are the

ideal solution for secure and customer-oriented handling and processing of service-related payments.

No other competitor worldwide is able to offer such a comprehensive range of money-changing systems and pay stations. For locations that operate with cash and for locations that work with TITO – the ticket-in and ticket-out procedure – or the cashless method, from a small-change machine that changes notes into coins to the high-end PC-controlled Maxi Cash Recycler that counts, validates and sorts bulk coins and recycles them for further use, the diversity of solutions for modern and secure cash-handling make GeWeTe an ideal partner in this segment.





Proprietary hardware and software development competence maximises GeWeTe's flexibility to quickly implement customised solutions, giving the company a decisive advantage over its competitors. Especially in price-sensitive markets, this essential business skill has in the past often given GeWeTe a leading edge over its low-cost rivals.

To provide strategic impetus and further strengthen its competitive position, GeWeTe has developed a 'low-cost machine' in order to open up interesting new sales markets especially in Eastern Europe moving forward.

GeWeTe innovations also ideally support the operating activities of numerous Gauselmann Group subsidiaries. The systems are installed primarily in the German branches of MERKUR Casino, in the Merkur Spielbanken Sachsen-Anhalt and the entertainment centres of CASINO MERKUR International in other European countries.

Furthermore, the XTiP and Cashpoint subsidiaries use the GeWeTe automated pay stations for sports betting. The British arcade chain Cashino/Praesepe and the current six MERKUR Mare ship casinos have likewise installed products made in Mechnich by GeWeTe.

For 2019, money-changing and security technology specialist GeWeTe anticipates a noticeable decline in the German gaming arcade market. In the sports betting segment, by contrast, the market leader from Mechnich is projecting a significant increase in sales, with several important betting providers having successfully been won over to the GeWeTe system.

Outside the gaming industry, particularly in the cash-handling segment for car washes, there are also signs of a continued positive development in 2019. GeWeTe is anticipating further growth opportunities with its innovations in the field of automated pay stations, which are ideally suited for installation in department store chains and shopping centres.

As the primary goal for 2019, cash-handling expert GeWeTe has focused its activities on the continued successful acquisition of new OEM and sales partners as well as on opening up new sales markets through innovative product developments and a flexible, customer-oriented product range in Germany and abroad.

HES Group

Founded in 1885, the HESS Group specialises in the development, production and marketing of high-quality money-processing system solutions 'made in Germany'. The coin-handling specialist has gained a firm foothold on the market with its products and solutions centred around coin and cash-handling for banks and retail companies, as well as payment systems for public institutions. The long-established corporate group is made up of HESS Cash Systems GmbH & Co. KG with headquarters in Magstadt, and two subsidiaries HESS Schweiz AG in Bern and HESS Austria GmbH with locations in Gratkorn and Linz. The company has a total of 252 employees.

The main sales markets are in Germany, Austria, Switzerland and France, although the company is also active in 25 other countries around the world, including Australia and New Zealand as well as Scandinavia and the Arab world. In 2018, Chile and the United Arab Emirates were added to the list and systems were supplied for the first time to Abu Dhabi and Dubai. The HESS Group's export share in 2018 was around 41 per cent.

HES products and original equipment manufacturer (OEM) assemblies are characterised by innovation, high quality, availability and durability. All new products are developed on HESS' proprietary software and hardware platforms and go through the entire product life cycle – from development to production and finally service – within the company. HESS provides all-round customer service and support through

multi-year maintenance and service level agreements. This sets the company apart from its competitors, most of whom outsource their service department to external providers.

HES' product range in the cash-handling segment includes coin pay-in machines, coin-roll dispensers, deposit systems and OEM products that are used in the self-service areas of banks as well as in the retail sector. Thanks to its intensive development work and compliance with various guidelines (including Regulation [EC] No. 1338/2001), the HESS Group has attained market leadership in the field of cash-handling. In 2018, the company was successfully recertified by Deutsche Bundesbank and is listed as a strategic online partner for data centres.

With the ongoing development of the CoinIn pay-in machine family and the TopCoin OEM module, HESS set major standards in the national and international market in 2018 and delivered the basic technology for the new OEM assemblies business segment, leading to exclusive strategic partnerships with the internationally operating ATM manufacturers Diebold Nixdorf, NCR and KEBA.

HES solutions are found in many banks and savings banks



Payment systems is another business segment of the HESS Group that underpins the company's success and diversification. In 2018, the company expanded its product range in this area to include a kiosk system and stationary and mobile payment/POS terminals, positioning itself as a commercial network provider. With these innovations, HESS is responding to the diverse requirements of the market and offering its customers individually tailored product solutions. In total, the company has over 600 active installations at local government offices, libraries and energy suppliers.

The 2019 financial year is expected to develop positively. HESS will continue to focus on solutions for the banking and retailing core markets. According to recent studies cash is and will remain the most widely used means of payment worldwide in terms of the number of transactions carried out. HESS therefore expects demand in this segment to remain at a high level going forward.

Along with increasing digitalisation, the company will launch new solutions for the banking and retailing segments in 2019 that will combine traditional cash solutions and electronic methods of payment. These new service offerings will spawn new business models for HESS.

Initial installations of a HESS coin-roll dispenser with smartphone payment function have already been successfully tested in the market and, in the next phase, will be equipped with proprietary central business logic software for payment processing.

The HESS Group believes that it is well-positioned for the coming years and expects to develop the marketing of its proprietary HESS self-service machines in Germany and abroad at a steady pace and consolidate its partnerships with internationally active ATM manufacturers in the OEM business.

Financial services

The role of online services is becoming increasingly important in all areas of modern life, with online payment transactions also continuously growing worldwide. As an interface between payment providers and online retailers, Euro Payment Group (EPG) offers globally secure, accredited and customisable online payment options.

Euro Payment Group

EPG is a payment services provider that operates in the areas of online payment and gateway services. The company has its headquarters in the financial metropolis of Frankfurt am Main and has been part of the Gauselmann Group since 2014. On behalf of its customers, EPG coordinates and authenticates all processes related to the interfacing of payment methods and the processing of payment transactions.

In 2018, EPG concentrated on developing its existing sales activities and opening up new markets. The company expanded its sales team and focused on targeted marketing measures in the online gaming sector, such as appearances at national and international gaming and digital entertainment trade fairs. The strategy proved successful, and resulted in EPG establishing contacts in the Asian, South American and Indian markets. South America and India in particular offer promising growth opportunities in the digital entertainment sector.

Furthermore, EPG added various payment methods to its product portfolio for use in existing and new markets, including the cryptocurrency bitcoin. With this offering, EPG is responding to the high demand for bitcoins as a payment option, especially in the online sports betting and

online gaming segments. The payment service provider also offers the traditional payment methods by credit card and online transfers as well as other alternative payment methods popular in the gaming industry.

EPG's extensive efforts to attain the next level of licensing as an EMI (E-Money Institution) were rewarded in January 2018. Since then, EPG has belonged to the group of electronic money companies. In order to make deposits and withdrawals from an e-money account as easy and convenient as possible for customers, EPG develops and programs its own e-Wallet.

EPG plans to use its EMI licence and generate first transactions and sales revenues with its proprietary e-Wallet in the 2019 financial year. In the as yet untapped new markets, the intention is to first develop sales activities, acquire customers and establish partnerships.





BRANDS OF THE CENTURY AND MOST POPULAR GAMING ARCADES

Our MERKUR Casino subsidiary ranks among the Brands of the Century, and is thus one of the 200 or so brands in Germany that are deemed exemplary in their respective product category. Since the first venue opened in Delmenhorst 1974, MERKUR Casino has evolved into a brand that is synonymous with gaming arcades in Germany.

This is a sentiment that is also shared by our customers: in 2018, MERKUR Casino's gaming arcades were voted 'Germany's most popular arcades' for the fourth time in a row. In the nationwide survey, we took first place with our MERKUR casinos both in the overall ranking and earned the accolade 'very good' in each of the five individual categories. For most people, when they think of gaming arcades, the first thing that comes to mind is the laughing MERKUR sun. We can think of no greater honour.



“For decades, our outstanding staff have been our guarantee of success. This again became evident in the past business year during the changeover to TD 5.0. The process was a huge challenge for the entire industry, but our employees mastered this tour de force with flying colours, providing us with a strong competitive edge.”

Dieter Kuhlmann,
Management Board member,
gaming operations

Gaming arcades and the gastronomy sector

Germany

Even 45 years after the ‘invention’ of modern gaming arcades by company founder Paul Gauselmann, MERKUR Casino continues to focus on the four success factors ‘unique atmosphere’, ‘innovative products and games’, ‘best service’ and ‘qualified personnel’. Paul Gauselmann paved the way with the opening of the first proprietary arcade in Delmenhorst in 1974. Thus, again in 2018, MERKUR Casino was able to secure its position as industry frontrunner. However, the ongoing restrictive regulatory framework in Germany made it considerably more difficult to expand via new locations, so that as in 2017 the company continued to rely on the acquisition of arcades from competitors. In the past financial year, the company operated 295 arcades (2017: 279). The portfolio also includes a total of 18 arcades operated by the companies Gustav Lauser GmbH (Gustav Lauser) and E. Duske GmbH & Co. KG (Duske), in which MERKUR Casino holds an interest. The number of employees in 2018 grew to over 3,700 (2016: over 3,600). In addition to the enactment of the state arcade laws

and implementing acts in the individual federal states, the conversion of gaming machines to comply with the new Technical Directive (TD) 5.0 had a major impact in the past financial year, so that the operating result was lower than in the previous year.

Due to the entry into force of the First State Treaty amending the State Treaty on Gaming (‘First Amended Interstate Gambling Treaty’, First GlüÄndStV), the number of gaming arcades had to be reduced to a single concession as of July 2017 and again in the 2018 financial year, resulting in the closure of a number of concessions. In many instances, this will take place gradually up to 2021. The statutory provisions also stipulated a reduction in the number of gaming machines. MERKUR Casino operated arcades in 15 federal states in 2018, with varying repercussions arising from the state arcade laws and implementing acts. In Bavaria and Rhineland-Palatinate, for example, it was only permitted to install 48 gaming machines

per location, which meant that 20 concessions have had to be closed in Bavaria since July 2017. In Rhineland-Palatinate, four concessions had to be closed with effect from 1 July 2017. The number of machines also had to be reduced in Hamburg to eight gaming machines per concession. MERKUR Casino had to close as many as 47 concessions across Germany in the past business year.

In many instances, the company filed applications for hardship case authorisations so as to avoid having to close concessions or withdraw from the market completely. For example, in Baden-Württemberg hardship approvals with varying time limits were granted for several arcades. Additional hardship case authorisations were announced for venues in Bremen and Bremerhaven as well as in Schleswig-Holstein. In Berlin, a decision was still pending and in Saxony the applications were rejected for both locations. MERKUR Casino lodged appeals against this ruling. However, preliminary legal protection proceedings were rejected, with the result that both branches had to be reduced down to a single concession. With the exception of two venues, which were each granted a licence for a single concession, all hardship applications in Hamburg were rejected. In a second-instance appeal filed before the Hamburg Higher Administrative Court, the company received a negative

ruling in respect of one location in July 2018, which had repercussions for the other venues. Consequently, 16 out of 18 concessions will have to be closed. By year’s end, the company had received the closing order for one arcade. The company received indulgences and permits for several venues in Baden-Württemberg, Bavaria, Hesse, Lower Saxony, North Rhine-Westphalia, Rhineland-Palatinate, Saxony-Anhalt, Brandenburg and Thuringia.

The implementation of Technical Directive 5.0 had a particularly devastating effect on the company’s business year. This meant that the entire pool of machines in MERKUR Casinos had to be converted or replaced with new machines that comply with TD 5.0 by the 11 November deadline. In total, nearly 8,500 gaming machines in the MERKUR Casinos were converted and around 1,500 new TD 5.0-compliant machines installed. In order to manage the logistical and organisational challenges this involved, MERKUR Casino started converting machines from the middle of 2018. Initial evaluations showed that the TD 5.0 regulations clearly failed to meet the expectations of customers in the arcades and led them to migrate elsewhere – especially to unregulated online casinos abroad.



Gaming arcade management and installations in the bars and restaurants (gastronomy) segment remained important cornerstones of MERKUR Casino's business in 2018. The number of employees in the gastronomy segment rose significantly compared to the previous year. With 'Arcade management exclusive by MERKUR Casino', the company offers a service concept for slot machine operators and actively supports them in the operational management of their arcades. In 2018, MERKUR Casino expanded its involvement in this area to a total of nine companies with 119 venues (2017: 65 venues). In addition, with the msp Group, the Gustav Lauser Group and the Duske Group, MERKUR Casino further strengthened its portfolio for the installation of gaming and amusement machines in restaurants and snack bars as well as in food service areas on motorways. Gustav Lauser and Duske also operate their own arcades. In November 2018, the msp Group took over 17 motorway locations with a total of 38 gaming machines from Bonn-Automaten. The investment in the Gustav Lauser Group was concluded with effect from 1 January 2018, and MERKUR Casino has held an interest in the Duske Group since the fourth quarter of 2018. The companies are being successively integrated into the structures and processes of the Gauselmann sub-

siary. The gastronomy segment and arcade management also felt the negative impact of the changeover to the new TD 5.0, above all in the second half of 2018.

As with MERKUR Casino, the changeover was completed by the deadline. Players also experienced changes to their gaming experience on gaming machines at motorway service stations through the introduction of a remote control with which a staff member activates the machine. The purpose of this is to protect minors. The remote control is a product of adp and is a voluntarily implemented technical solution in this segment.

MERKUR Casino has received numerous prestigious awards over the past years. This success story continued in the year under review and into the 2019 business year. At the beginning of 2019, the company was named Top National Employer by FOCUS-BUSINESS magazine for the fifth time in a row, ranking it among the most popular 1,000 employers from 22 business sectors in Germany. Also in early 2019, MERKUR Casino's arcades won their fourth test victory in the ranking of 'Germany's most popular arcades' (FOCUS-MONEY), taking first place in the overall ranking and earning the accolade 'very good' in

the five individual categories Professionalism, Choice of games, Service, Staff and Atmosphere. MERKUR Casino is also ideally positioned when it comes to employee development – especially for women. This was underscored by the Top Career Prospects for Women award, which was presented to the company by the magazine FOCUS-MONEY in both 2018 and 2019.

The awards underscore the high degree of importance the company attaches to the topics of employee development and training and further education. In 2018, the industry-specific training course, whose initiators include company founder Paul Gauselmann, celebrated its tenth anniversary, initially leading to the two vocational qualifications 'coin-op specialist' or 'coin-op service technician'. This uniform three-year training course as coin-op specialist was introduced in 2016 and had 34 new recruits in 2018. Employees of MERKUR Casino branches who started as lateral entrants were, as in previous years, also able to enrol on the course for the so-called external examination, which the company offers in cooperation with TÜV Rheinland. They are prepared for the final examination as a coin-op specialist at the Chamber of Industry and Commerce (IHK) on a part-time basis. In 2018, 20 candidates were enrolled on the course and will sit their IHK examination in 2019. Another training option offered by the company is in-service training to become a casino service specialist (IHK-approved), which MERKUR Casino implemented in 2010 in cooperation with the IHK-Akademie-Ostwestfalen. In 2018, the 700th graduate received her certificate, and in the course of the business year 93 employees had successfully completed the IHK certificate course. In order to develop the qualifications of new employees early on and at the same time foster a commitment to the company and the industry, regular

kick-off meetings were again held at Schloss Benkhäusen, the Gauselmann Group's training centre, in 2018. In addition, the company also organised regular product training courses and the so-called qualifying campaign. As part of this campaign, employees in various German cities were brought up to speed with current topics and developments in the company and the industry. Moreover, in 2018 new young executives received intensive induction training at the MERKUR Casino Espelkamp flagship store to prepare them for the responsible position of arcade manager further down the line. The topic of player and youth protection have played an important role in all initial and advanced training measures for many years. Employees receive training both through in-house training modules and offerings by external institutions. An extensive range of seminars provided additional training opportunities for executive staff in the past business year. In addition to strengthening and developing their leadership skills, these also focus on dealing with new media and promoting and maintaining a healthy lifestyle. At their own request, managers were also able to participate in individual coaching sessions organised by MERKUR Casino's Personnel Development department.

Health also played an important role in other offerings, including the occupational health management scheme. This and, on request, company integration management after a prolonged absence due to illness were again rated as established standards at MERKUR Casino in 2018. Again in 2018, the company responded successfully to the usual shift and weekend work of arcade staff and service personnel with IT-assisted personnel deployment planning based on the wishes of the employees.



Furthermore, as in previous years, employees were able to call the free employee support hotline (MUT) for expert advice and support in all situations.

The comprehensive employee training and development leads to another success factor at MERKUR Casino: 'best service'. This – just like the other success factor 'unique atmosphere' – can be traced back to the 'invention' of the modern gaming arcade by company founder Paul Gauselmann and was therefore consistently implemented and promoted in 2018. As in previous years, MERKUR Casino relied on modern furnishing concepts for the exclusive arcade interiors, which are devised in Espelkamp by the Creative and Design Development department, taking account of corporate design guidelines.

An innovative product mix that, in addition to state-of-the-art cabinets also includes a wide variety of games, is another pillar of success of the arcades sporting the logo of the laughing MERKUR sun. In this segment, the completed financial year was dominated by the conversion of all gaming machines to comply with TD 5.0. In particular, the additional regulations governing breaks and the changes in the game systems led to customer losses.

As part of its quality assurance, MERKUR Casino has for the past several years undergone regular certification. Since 2015, the headquarters and numerous MERKUR Casino arcades have been certified by TÜV Rheinland in accordance with the "Regelmäßig geprüfte Spielstätte" (Regularly Inspected Gaming Arcade) standard and by TÜV InterCert Saar in line with the current "TÜV-GJSTIC:1116 Geprüfter Jugend- und Spielerschutz" (Verified Youth and Player Protection) standard. The arcade certification is an ongoing process which ensures that all existing branches are recertified in a recurring rhythm and all new venues are promptly certified. This process was continued in 2018. In October 2017, the company-like its affiliated companies adp Gauselmann GmbH and adp merkur service – was certified for its quality management by SGS-TÜV Saar in accordance with the DIN EN ISO 9001:2015 standard.

For MERKUR Casino, the 2019 financial year will continue to be characterised by the implementation of the First Amended Interstate Gambling Treaty (GlüÄndStV) and the corresponding state laws and implementing acts, as well as by the machine conversion as a result of TR 5.0. The reduction of gaming arcades down to a single concession will continue step by step. Substantial cuts will be necessary in particular in Baden-Württemberg and Berlin in the coming years.

The repercussions from the conversion of machines in compliance with TD 5.0 and the associated migration of customers will be felt by the company especially in the first half of 2019. Here, there are fears of losing customers to state-run gaming offerings or to unregulated online gaming. At the same time, the company will also be able to win back some customers and generate new ones. In addition, the number of gaming machines installed in restaurants and snack bars and at motorway service stations will have to be reduced from three to two by the deadline of 11 November 2019. This could have a corresponding negative impact on the business development. Integration of the companies Gustav Lauser and Duske into the

structures and processes of MERKUR Casino will continue in 2019. The consistent implementation and further development of the MERKUR casino success factors will also be continued in 2019. The company in particular intends to step up its activities in the field of training and further education.



International operations

Since the opening of the first Gauselmann Group entertainment centre in Amsterdam in 1986, MERKUR Casino's four success factors on the German market – 'unique atmosphere', 'innovative products and games', 'best service' and 'qualified personnel' – have been integral to the concept of the MERKUR Casino International affiliate. In the 2018 financial year, MERKUR Casino International operated around 357 gaming arcades with in excess of 15,000 machines in Bulgaria, the UK, Croatia, the Netherlands, Serbia, Slovakia, Spain and the Czech Republic. The number of employees increased slightly to 3,830. MERKUR Casino International relies on a brand presence that is embedded in the overall strategy of the Gauselmann Group and takes account of the cultural specificities of the local markets.

The largest and most important markets for MERKUR Casino International in 2018 were the UK, Serbia and the Czech Republic. In the past financial year, the company recorded sales growth in almost all countries. However, the overall business success remained below the previous year's level due to increased expenses in connection with the legislative framework and personnel build-up, as well as costs for expansion. In order to further strategically develop the countries, MERKUR Casino International built up resources and implemented binding structures and processes. In the completed financial year, MERKUR Casino International opened four

new branches on the Spanish mainland in the regions Madrid, Navarra and Cantabria. On the Spanish island of Mallorca, MERKUR Casino International has many years of operating experience – with four venues already up and running.

As in previous years, MERKUR Casino International again faced difficult political conditions in some individual countries in the past financial year. In the Czech Republic, not only did the new Gaming Act have a negative impact, but also the amusement tax of 35 per cent on slot machine games and 23 per cent on classic games. Furthermore, MERKUR Casino International is also affected by arcade closures in a number of government districts. Closures were also prescribed by law in Slovakia and Bulgaria, and have in some cases already been implemented. In Bulgaria, for example, two branches had to close in September 2018 due to regulations governing distances to existing and new educational establishments. In Slovakia, the situation for the gaming industry once again deteriorated. In December 2018, the new Gaming Act was passed, under which a new regulation on admission control came into force from the beginning of 2019, requiring all players to identify themselves. From March, the opening times were also reduced by two hours. The licences held by MERKUR Casino International until the end of 2018 were further secured until the end of 2020 through the awarding of new licences. In the UK, Spain, Serbia and Croatia the



respective framework with regard to gaming laws was largely stable in 2018. In Serbia, Balkan Bet, which was integrated in 2017 and has 130 branches, contributed to the significant successful and sustainable growth. In the UK, where the British Gauselmann subsidiary Praesepe operates around 160 gaming arcades, the Future Venues project was launched in 2018, trendsetting the transition to more modern arcades and the safeguarding of the future.

As in the MERKUR Casino affiliate, the company's four success factors are evaluated on an ongoing basis and adapted to the current requirements and the gaming culture in the respective country. The company's employees and continuous further training play an important role in this. In the 2018 business year, the company again offered a range of training courses and product information events, as well as dedicated seminars for management-level staff. This was complemented by best service and the modern, unique interior of the arcades under the logo of the laughing MERKUR sun. State-of-the-art gaming machines round out the profile of the

arcades in the other European countries. Here, the company primarily relied on Gauselmann products, especially in the Netherlands, Spain, the UK and Bulgaria.

As in previous years, MERKUR Casino International will continue to focus in 2019 on systematic expansion and improving earnings, depending on the respective market. In Spain, there are plans to open 19 new venues on the mainland. The company will also expand in Serbia, the Netherlands and Bulgaria. The changes in legislation will impact on the operation of arcades in all markets. More arcades in the UK will be converted to Future Venues in 2019, both optimising the sites and targeting improved earnings.



Operation of casinos

The Gauselmann Group has been active in the casino sector since 2013, and is continuously expanding its presence in this market. In the same year, the Gauselmann Group established Merkur Spielbanken Sachsen-Anhalt GmbH & Co KG, a joint venture with the Swiss Stadtcasino Baden AG. The company won a Europe-wide tender for the licence to operate casinos in the state of Saxony-Anhalt and was granted the licence to operate six public casinos in Saxony-Anhalt in 2014.

Since 2016, the company has held a 40 per cent stake in Spielbank Berlin GmbH & Co. KG, the operating company of Spielbank Berlin. In early 2019, the Gauselmann Group further expanded its involvement in the casino sector: with Gauselmann Spielbanken Beteiligungs GmbH, it has acquired a stake in Spielbank Mainz GmbH & Co. KG and its general partner, Spielbank Mainz Beteiligungs GmbH.

Furthermore, since 2016, the Gauselmann Group has also been operating casinos on the high seas. The company won a tendering procedure for the operation of casinos on cruise ships of Pullmantur Cruises S.L. and manages modern casinos aboard the cruise line's four ships under the brand name CASINO MERKUR MARE. Furthermore, the Gauselmann Group has also established a partnership with TUI Cruises, and now also operates casinos on the new "Mein

Schiff 1" and the new "Mein Schiff 2" under the brand name CASINO MERKUR MARE.

Merkur Spielbanken Sachsen-Anhalt

In January 2015, Merkur Spielbanken Sachsen-Anhalt in Leuna-Günthersdorf celebrated the official opening of Germany's most modern casino, with a second location opening shortly afterwards in Magdeburg in April 2016. In December 2018, the company received the green light for Merkur Spielbank Halle (Saale), which was officially opened in February 2019 with a big celebration. The company holds a licence for three further slot-machine venues. Merkur Spielbanken Sachsen-Anhalt has so far invested around 20 million euros. At all three locations, a wide range of games is offered. These include the latest generation of slots with a varied mix of games, and live games at the main location in Leuna-Günthersdorf featuring the casino 'classics' roulette, blackjack and poker. A stylish atmosphere, first-class customer service as well as campaigns and events are all part of the modern concept.

Merkur Spielbanken Sachsen-Anhalt are a constituent part of the leisure-time offering for the adult population. Within just a few short years, the company has succeeded in establishing this new business segment with its service and



games concept. This was reflected at the end of 2018 in the company's positive business performance, which showed that both sales and visits increased compared to 2017. This was helped in particular by the introduction of new machines 'made by Gauselmann', which added to the locations' appeal.

The company continued the concept of Germany's most modern casinos with the opening of the new Merkur Spielbank in Halle (Saale) in December 2018. A total of 3.6 million euros was invested in this latest venture, which is located in the historic premises of the Congress and Cultural Centre at Franckestraße 1 in Halle (Saale). The new casino covers an area of 800 square metres, with a gaming area of 340 square metres. Players can choose from 84 gaming machines featuring jackpot systems, electronic roulette and blackjack variants as well as the latest generation of Gauselmann slots. Following the example of Leuna-Günthersdorf and Magdeburg, a gastronomic offering and small events – adapted to the local conditions – round off the portfolio of the Merkur Spielbank in Halle. The modern ticketing system that has already proved successful in Leuna-Günthersdorf and Magdeburg is also used in Halle (Saale). This replaces classic cash counters and ensures greater security, convenience and flexibility.

Merkur Spielbanken Sachsen-Anhalt had a total of 94 employees and four trainees in the past financial year. Recruiting suitable employees increasingly proved to be a challenge. Never-

theless, a qualified and competent team was installed and 20 new jobs created. Merkur Spielbanken Sachsen-Anhalt attaches great importance to the continuous training and further education of its employees as well as to job appeal and good working conditions. This is ultimately reflected in high quality service and workflows. In 2018, Merkur Spielbanken Sachsen-Anhalt again implemented various qualifying and training measures for employees and management staff. The issues of youth and player protection continued to play an important role. Numerous new measures were therefore integrated into the social concept in the casino sector, such as the MENTOR system, the 'check card' and the company's own 'safe check' checklist. All of these measures provide innovative support for players and staff.

In addition, Merkur Spielbanken Sachsen-Anhalt was the first casino organisation in Europe to undergo accreditation by the Global Gambling Guidance Group (G4) as early as 2015 – and thus participate in an external review of internal regulations and measures in the area of youth and player protection. The new Merkur Spielbank in Halle (Saale) underwent this accreditation process shortly after it opened and was issued a G4 certificate. The Leuna-Günthersdorf and Magdeburg locations, both of which have been accredited since they opened, were successfully recertified.



Opened in 2018: the new Merkur Spielbank in Halle (Saale).

Spielbank Berlin

In 2018, Spielbank Berlin was in the first year of the new concession granted in 2017 for operating casinos in the German capital. This runs for 15 years from 1 January 2018 until the end of 2032. The general conditions of the concession required that slot-machine games and classic games be offered at all locations. Furthermore, a reduction from five to four venues was stipulated, resulting in the closure of the "Hasenheide" casino location by 31 December 2017. Thus, since the beginning of 2018, Spielbank Berlin has operated the main location at Potsdamer Platz and the three secondary locations at Los-Angeles-Platz (near Ku'damm), in the Ellipse Spandau at Altstädter Ring and at the Television Tower. Business development in 2018 was positive. The main location achieved the highest gross gaming revenues of all German casinos in 2018 and, despite the reduction to four locations, Spielbank Berlin was able to generate higher gross gaming revenues than in 2017. In 2018, Spielbank Berlin was able to consolidate its position as the European hotspot for poker and successfully held major international tournaments.

Targeted information campaigns about the locations and their new games offerings were conducted on-site. At the same time, structural measures were undertaken in the secondary locations to implement the new games offering, and the recruitment and training of the required personnel got underway. The search for new employees proved just as difficult in Berlin as

in Saxony-Anhalt. This prompted the management to introduce a new recruiting system in 2018 to make training as a croupier more attractive.

Spielbank Berlin anticipates further growth for 2019. The focus will be on the main location and enhancing its appeal, as well as on modernising the existing gaming areas, including the technology and equipment. In addition, personnel recruitment will remain a central issue in 2019.

Spielbanken Mainz, Trier and Bad Ems

In early 2019, the Gauselmann Group further expanded its involvement in the casino sector: with Gauselmann Spielbanken Beteiligungs GmbH, it acquired a stake in Spielbank Mainz GmbH & Co. KG and its general partner, Spielbank Mainz Beteiligungs GmbH. Further shareholders are Spielbank Bad Neuenahr GmbH & Co. KG and Novomatic Spielbanken Holding Deutschland GmbH & Co. KG. Spielbanken Mainz, Trier and Bad Ems currently employ around 150 people. The licence to operate these casinos runs until 31 March 2027 and can be extended once for up to five years.

CASINO MERKUR MARE

The Gauselmann Group also increased its involvement in the cruise ship segment in 2018. Under the brand name CASINO MERKUR MARE the company currently operates casinos on four cruise ships of the Spanish shipping line Pullmantur Cruises SL. Furthermore, the Gauselmann Group established a partnership with TUI Cruises in 2018. In the same year, it opened a CASINO MERKUR MARE aboard the new "Mein Schiff 1", followed by a second aboard the new "Mein Schiff 2" in early 2019, with a total investment on the two brand new cruise liners of 500,000 euros. By tapping into the ship's casino market, the Gauselmann Group is riding on the back of the positive development in the cruise industry, which is reporting rising demand for cruises worldwide.

Due to the conditions out at sea, the company is able to offer the complete product portfolio in this business segment. All four casinos on the Pullmantur ships were converted and the product range optimised in 2017. The portfolio in 2018 included slot machine games, classic games, amusement machines such as video games and grab machines. The offering also included coin-pushers, lottery, sports betting, a money box in which banknotes that are swirled around by air currents can be caught, and bingo. On the TUI Cruises ships, slot machine games and classic games were offered as well as amusement machines, coin-pushers and bingo. For 2019, the company expects sales in existing business on the four Pullmantur cruise ships to remain stable.



Established in 2018: partnership with TUI Cruises



Operation of online casinos in licensed markets

The Gauselmann Group has been active in licensed and regulated markets in the online gaming segment since 2008. At its Berlin location, Merkur Interactive Services (MIS) consolidates services for the operation and marketing of online gaming and integrated sports betting offerings. The services are primarily provided in Germany, while business activities in other European countries are conducted on the basis of corresponding licences. In 2018, the company offered its online gaming products on the UK market under the cashino.com brand and in Spain under the merkurmagic.es brand. In Italy, MIS also operated an online casino and online sports betting under merkur-win.it in cooperation with an Italian affiliate. In addition, partners were offered so-called skin solutions, in which

that it will be possible to resume gaming soon. The number of employees at MIS increased in 2018 compared to the previous year to 65.

As in previous years, the online gaming market in Europe continued to be highly competitive in 2018. The sector was dominated by consolidations and mergers among large players operating under several brands. Growth in the online segment remained in the low double-digit range.

In the online casino market, however, there was a trend towards additional regulation, which had a negative impact on growth. Higher taxes and advertising restrictions or bans posed the greatest challenges. The effects of the additional regulations were particularly noticeable in

operation of online casinos in licensed markets being assigned to MERKUR Casino and thus to the gaming operations business segment.

For MIS and the licensing companies, the 2018 financial year was marked by the expansion of business operations and the necessary related structures. Overall, the company recorded a positive business development in 2018 with significant sales growth. This was primarily due to the continued market focus of the Merkur24 social casino, which developed positively. In addition, one online casino was converted to a new operator platform. The MIS brands still need time to become established. In order to acquire and retain more customers, the company is planning to expand sports betting

prevention, player protection, licensing regulations, data protection and foreign language teaching. Team-building events were also organised.

In 2019, business development will continue to be characterised by the change in technological product platforms and the expansion of the games portfolio. In the first quarter of 2019, the Spanish online casino started operations on a new platform. Preparations are also underway for entry into the Czech market, with the Czech online casino scheduled to go live in 2020. The sales targets are to be met through product optimisation and marketing activities geared to the specific markets. To this end, the company plans to increase marketing expenses for



MIS hosted the websites that were used by other operators with a different look. MIS also operated the Merkur24.com social casino with its main market in Germany. Until the end of 2018, merkur-spielcasino.de marketed an online casino for Schleswig-Holstein. All casino licenses in Schleswig-Holstein expired in December 2018 and were not extended by the state government in time, so that the offering was discontinued for the time being. In the meantime, the state parliament in Schleswig-Holstein has passed a law on the allocation of licences, so

the UK, although here as well the online market continued to grow.

The business model of MIS was again characterised in the past financial year by a high level of customer orientation, service quality and flexibility, while at the same time exploiting synergy effects, for example through the development of games within the Gauselmann Group, and know-how transfer through the central support of various countries. Changes in the corporate structure of the Gauselmann Group led to

activities. In Spain, a sports betting product was added to the existing online casino as of April 2019 and the product is also to be launched on the market in the Czech Republic in the future. In Italy, it is also being increasingly promoted and continuously improved.

In order to ensure the high quality of its services and to constantly adapt them to current requirements, MIS invested in further training for its employees in 2018. This included specialised training on such topics as money laundering

building the brand and to make more use of online marketing instruments.



TOP NATIONAL EMPLOYER AND GERMANY'S MOST ATTRACTIVE EMPLOYER

Employees rate their employer: in 2019, for the fifth year in succession, this culminated in the well-known Top National Employer award for our MERKUR Casino subsidiary, which employs the majority of our more than 13,300 employees. This makes MERKUR Casino one of the most popular 1,000 employers from 22 business sectors in Germany. This outcome, as well as the fact that we are the only company in the industry to have been honoured, fills us with pride.

With the entire group, we were also ranked Germany's Most Attractive Employer. We came among the top 10 per cent of most attractive employers in Germany and occupied first place in our industry. The ranking was based on five so-called reputational factors: employer, service, sustainability, management and economic performance.



"Merkur Sportwetten can look back on a successful business year in 2018. We have firmly established ourselves among the top two providers in three of our four core markets. In Germany, we were also able to sustainably strengthen the XTIP brand by investing in the product as well as service."

Markus Ettlin,
Management Spokesman
Merkur Sportwetten GmbH

In the sports betting business segment, Merkur Sportwetten GmbH consolidates the entire national and international sports betting business of the Gauselmann Group. This comprises the 'product house', including betting agent Cashpoint Solutions in Vienna and sports betting provider Cashpoint Limited based in Malta, as well as the sales organisations in the core markets Germany (under the XTIP brand), Austria and Denmark (under the Cashpoint brand), Belgium (under the Betcenter brand) and, since 2019, Poland (under the Totolotek brand).

The product portfolio of Cashpoint Solutions includes integrated solutions – land-based and online – all tailor-made to adapt to the country-specific laws and regulations in the respective target markets. The land-based offering comprises company-owned betting agencies, as well as a franchise system for betting shops, points of sale and shop-in-shop systems. Bets can also be placed online and mobile via an app.

A personalised customer card that can be used on all platforms allows customers to access all sports betting content and services uniformly and conveniently. All offerings of the sports betting brands Cashpoint, XTIP and Betcenter meet the highest quality and security standards thanks to certification in accordance with DIN ISO 27001.

In the past year, the sports betting segment grew very dynamically in all four core markets and significantly above the market level. Compared to 2017, betting stakes in the financial year 2018 increased by a good 20 per cent in Germany and Denmark, by 15 per cent in Austria and by 30 per cent in Belgium. In 2018, Merkur Sportwetten increased its investment in the development activities of the betting agent Cashpoint Solutions and in the marketing of the German sports betting brand XTIP in order to strengthen their market positions on a sustainable basis. This resulted in an earnings

increase of 35 per cent year-on-year. The number of bricks-and-mortar betting agencies grew by 330 new betting offices as well as terminal and kiosk locations to over 2,200 sales points in Germany, Austria, Denmark and Belgium.

Thanks to organic growth and further acquisitions, the number of employees in the sports betting business segment rose by around 100 in 2018. Thus, at the end of 2018, over 850 employees worked in the Gauselmann Group's sports betting business segment at the Cashpoint headquarters in Vienna, the national sales offices in Vienna, Frankfurt am Main, Copenhagen and Hasselt, and the company-operated branches.

The German sports betting market grew by some 5 per cent in 2018. Although the market is still dominated by a private competitor, XTIP was able to record important successes in both the online and land-based segments. For example, the number of active online customers tripled between the first and fourth quarters and online bets rose by 50 per cent. In addition to increased marketing investments, this was mainly due to the expansion of the sales team

in Hamburg, which is specifically responsible for acquiring and supporting online customers. In the land-based segment, the franchise concept proved to be particularly successful, as the number of XTIP betting shops operated by franchise partners rose by 30 per cent and the new locations contributed 25 per cent to the betting stakes in the very first year.

In Germany, no significant progress was seen in 2018 regarding the further development of a secure and plannable legal basis that would enable an effective implementation of the regulatory objectives – above all the protection of players and minors as well as the prevention of money laundering. Instead, divergent and confusing enforcement efforts continue to focus predominantly on sports betting providers willing to accept regulation. Due to the lack of legal regulations, XTIP does not offer an online casino – and thus puts itself at a severe competitive disadvantage compared to almost all other sports betting providers on the German market.



Since 1 January 2018, Lukas Podolski has been XTIP's brand ambassador



The Austrian sports betting market grew moderately in 2018. Although the regulations for sports betting providers were tightened in 2017 and 2018 and new charges were levied in numerous federal states, the market remained stable. In the most important federal state of Vienna, access control limited to registered guests was implemented in betting shops; however, after a familiarisation phase this was well received. Despite the challenging regulatory environment, Cashpoint was able to confidently defend its leading position in the Austrian sports betting market and, thanks to product quality and flexibility, gain further competitive advantages.

As in the previous year, the Danish sports betting market was dominated by the state-owned provider Danske Spil. Although other private providers intensified their activities, Cashpoint was nevertheless able to maintain its position as the leading private sports betting provider in Denmark, further expand its market share in the land-based business and make first inroads into the online market.

In Belgium, Merkur Sportwetten has a 50 per cent stake in Betcenter. Here, the growth of the sports betting market slowed in 2018. This was due, among other things, to the new legal limitation on the number of land-based points of sale. However, Betcenter remained committed

to its expansion plans, and in the second half of the year took over two established betting agents and their more than 20 betting shops. Despite stricter regulations, Betcenter was thus able to expand its position and establish itself as the leading sports betting provider in Belgium alongside a competitor.

The entire international sports betting market exploited the Football World Cup held in Russia in the summer of 2018 to win new customers. Despite the early elimination of the German national team, XTIP was also able to benefit from the knock-on effect and increase brand awareness in Germany. This was achieved with numerous advertising campaigns in local betting shops and thanks to the attention-grabbing TV, print and online campaigns with footballer Lukas Podolski, who has been a brand ambassador for XTIP since January 2018. The marketing teams of Cashpoint and Betcenter were also able to use the Football World Cup to win new customers in Austria and Belgium. The Shootout games app developed by Betcenter was one of the most frequently downloaded football apps during the World Cup.

Cashpoint, XTIP and Betcenter offer attractive pre- and live bets for more than 15,000 sports events in over 40 sporting disciplines in their respective distribution markets. The offer

ranges from classics such as football, tennis and handball to motor and winter sports and American football. In the financial year 2018, Cashpoint Solutions expanded the sports betting offering of the three brands to include new top leagues in international football and e-sports disciplines, as well as live offerings for established trend sports such as darts in its betting portfolio.

In 2018, Cashpoint Solutions incrementally introduced a completely redesigned user interface in Germany for all platforms, which is based on an even faster and more powerful programming logic. The mobile app, home page and sports betting terminals from XTIP now have a uniform brand presence. They feature a clear and intuitive user interface, allowing bets to be placed even more easily and quickly. The app and home page now feature a new filter function that makes it possible to conveniently display over 100,000 different betting variants. The online offering with filter function has received a positive echo in particular from new customers and younger sports betting fans between the ages of 20 and 30. Developed by adp Gauselmann GmbH and launched in 2018, the Bet Book Basic S in landscape format also features the new user interface and has met with a positive response from partners and end customers. In 2019, the sports betting terminals

in the other B2C markets of Austria, Denmark and Belgium will also be equipped with the new user interface.

As no major sporting events are scheduled for 2019, the sports betting market in Germany, Austria, Denmark and Belgium is expected to grow somewhat less dynamically than in the previous year. Nevertheless, Merkur Sportwetten is striving for focused growth in the above core markets and is expanding into neighbouring Poland by purchasing an established betting provider. An application for a licence was filed in Sweden. The focus will continue to be on online betting, especially via mobile devices, and on expanding land-based business.

The Gauselmann Group expressly welcomes the fact that the latest political developments in Germany point to a regulation of the sports betting market in 2020. The group points out that the concrete enactment of the implementing acts will then play an important role in realising the statutory regulatory objectives and maintaining an attractive, licensed betting service.



Betcenter branch in Belgium



For many years, the topics of youth and player protection have been an integral part of the corporate philosophy of the Gauselmann Group and have been firmly anchored in all internal policies and guidelines. In addition, the Gauselmann Group is actively involved in the corresponding working groups of the industry associations and in this way ensures sustainable implementation and targeted further development of this important issue.

At the same time, the legal and regulatory requirements imposed on providers of gaming offerings in Germany have increased drastically in recent years. Unfortunately, these requirements are neither harmonised within the federal states nor within the different gaming segments (gaming arcades, gastronomy, sports betting, casinos, etc.), so that the topic of prevention requires continuously increased resources in order to be able to 'manage' the administrative domain in particular – and here above all documentation of the implemented measures.

Within the Gauselmann Group, however, the goal of prevention measures lies not in 'managing' youth and player protection measures, but rather in implementing prevention activities in a targeted and effective manner, i.e. in the interests of both the players concerned and the employees at the venues. For this reason, the central prevention department was created in 2010, which coordinates and manages all prevention activities of the group.

The main tasks of the central prevention department include developing, implementing and evaluating social programmes, regular internal and external reporting, training and qualification of staff and continuous dialogue with all relevant stakeholders. These include players and family members, Gauselmann Group staff, politicians, regulatory authorities, research institutions, associations and the helpline.

In addition, important projects were initiated and advanced in 2017 and 2018. For example, in 2017 an e-learning tool was designed that was individually adapted for the different applications and is used in all areas. Also in 2017, a separate social concept was developed and successfully introduced for installations in bars and restaurants that is especially adapted to meet the needs of the gastronomy market. As a further measure, msp Münzspielpartner GmbH & Co. KG and M. Hartmann-Automaten GmbH were the world's first vending machine operators in the gastronomy sector to undergo accreditation of all youth and player protection measures by the internationally renowned Global Gambling Guidance Group (G4).

Furthermore, in 2018 the central prevention department established a prevention team in order to meet the steadily increasing requirements already mentioned for youth and player protection. The members of the prevention team are available to answer all questions from staff in the branches concerning consumer protection, check compliance with internal and external regulations and support their colleagues on-site.

As in previous years, the central prevention department is supported by the experts from the Gauselmann Group Responsible Gaming Commission. This is made up of four external and world-renowned researchers and experts, who are responsible for ensuring that the latest scientific findings flow into the Gauselmann Group's prevention work. In addition, they continuously analyse, evaluate and optimise the group's prevention activities together with the central prevention department.

The fundamental principles of all youth and player protection measures are defined in the social programmes of the Gauselmann Group. Here again, the group set a precedent for the



David Schnabel is the Gauselmann Group's Responsible Gaming Officer

When it comes to transferring the defined prevention measures into practice, the employees of the Gauselmann Group play an important role as the central interface to the players.

All staff are regularly made aware of and trained in youth and player protection. These issues are an integral part of all initial and advanced training modules. In 2018, the Gauselmann Group again hosted over 13,500 training sessions relating to the topics of youth and player protection. On average, staff take part in three internal and external training sessions on these topics each year. Thus, they are not only made aware of practical aspects relating to implementation, but also of the enormous importance of the topic and the attendant responsibility towards players.

entire sector by developing a social concept of its own, even before the government defined binding rules for the implementation of youth and player protection measures in commercial gaming. This is evaluated, reviewed and adapted annually to meet the latest legal and addiction-related requirements.

International and national studies show that the number of people who develop a problem with playing games for money in Germany is consistently below 1 per cent of the population. The latest study by the "Bundeszentrale für gesundheitliche Aufklärung – BZgA" (Federal Centre for Health Education) puts the number of problematic players at approximately 0.56 per cent and the number of pathological players at approximately 0.31 per cent of the adult population (report "Glücksspielverhalten und Glücksspielsucht in Deutschland", BZgA 2018 – Gambling Behaviour and Gambling Addiction in Germany 2018). However, while this bears out the fact that the number of affected players has remained stable at a low level for years, the Gauselmann Group works constantly to optimise its in-house consumer protection measures.

The Gauselmann Group's Responsible Gaming commission: Ulrike Adelt, Pieter Remmers from Assissa Consultancy Europe in the Netherlands, Dr Wolfgang Kursawe from the Drogenhilfe Köln (Drug Rehabilitation Centre Cologne), Roman Neßhold from the Institut Glücksspiel & Abhängigkeit (Institute of Gambling and Addiction), Austria, Prof. Jörg Häfeli Stäger from the Lucerne University of Applied Sciences, Switzerland and Knuth Achilles



In addition to in-house training and information measures, the Gauselmann Group has also developed extensive information for players and their families. This includes basic information about the possible risks of gaming, as well as where to turn for support and assistance. One important medium is the 'Gaming rules - Information for players and their families' responsible gaming flyer. These flyers are available and prominently displayed at each of the 295 Germany-wide MERKUR Casinos, the Merkur Spielbanken Sachsen-Anhalt, bars and restaurants and XTIP branches, in up to five languages. In addition to a self-test relating to gaming behaviour, they contain contact details for help-lines and counselling services in the vicinity of the respective venue. On the back of the flyers handed out in the gastronomy segment is a QR code with a link to the Safer Gaming website.

Another medium is the Check Card, which is used in all gaming segments of the Gauselmann Group. A WhatsApp number is used here as a communication channel between the player or a relative and the central prevention department. This card uses the Lie Bet Test, which consists of only two questions, to assess gaming behaviour.

To enable it to offer rapid and uncomplicated help, the Gauselmann Group set up an in-house helpline database that has been maintained and regularly updated since 2011. The database currently contains around 800 addresses, which are available via a query tool on the Gauselmann Group website.

Besides measures aimed at social concepts, all operators are increasingly confronted with calls for blacklisting. The federal state of Hesse introduced a state-wide blacklist for gaming arcades back in 2014, which requires players to present ID and disclose personal data before entering.

For this reason, the group started developing an innovative biometric admission control system in 2014 and again focused on driving forward the establishment of this system in 2018. PLAY SAFE, which was developed together with the leading company for biometric entry control systems, plays an elementary role within the group's prevention measures and has been adapted to the various application scenarios in the individual federal states. This ensures that this innovative system ideally complements and optimises the youth and player protection measures in place in arcades and in restaurants and bars.

It permits a check of all players without exception and informs arcade staff if a player is barred or underage. The system works by creating digital facial patterns of all players entering the arcade and comparing them with a blacklist. The images of non-barred players are immediately deleted. With PLAY SAFE, the Gauselmann Group is relying on a data-efficient procedure that does not require players to disclose personal data. Unlike manual matching of data, human error is practically eliminated and checking against the blacklist is securely implemented and access to the venues optimised. The system also has advantages for the responsible authorities: all system messages and the operating time of the admission control system are

seamlessly logged and can be made available to the responsible supervisory authorities - comparable to a 'black box' used in trucks.

PLAY SAFE is in use in many MERKUR Casinos and the system is being successively installed at other venues. In chorus with the leading industry associations, the group is advocating a nationwide blacklist based on biometric features. As opposed to minimum distances and the ban on multiple concessions, the group views this as a more effective step towards greater player and consumer protection. In future, PLAY SAFE Compact, a combination of document-based solution and youth protection module, will be used in the gastronomy sector. The technology has already been successfully rolled out at the first venues, and is being extended to new venues all the time. The issues of youth and player protection with all their challenges and requirements, and especially the establishment of the social concept measures, are key aspects in the accreditation of the Gauselmann Group and its arcades by various certification institutes. For arcades, TÜV InterCert Saar carried out accreditation in line with the "TÜVGJSTIC:1116 - Geprüfter Jugend- und Spielerschutz" (Verified Youth and Player Protection) standard and TÜV Rheinland in accordance with the "Regelmäßig

geprüfte Spielstätte" (Regularly Inspected Gaming Arcade) standard. In addition to the TÜV certifications, ClarCert's accreditation procedure with the Player Protection Quality Seal is also carried out.

Merkur Spielbanken Sachsen-Anhalt was the first casino organisation in Europe to undergo accreditation by the G4. Both the Merkur Spielbank in Leuna-Günthersdorf as well as the locations in Magdeburg and Halle (Saale) completed the international accreditation procedure directly when they opened and have been successfully recertified to G4 every year since. The internationally operating G4 experts examined the effectiveness of the responsible gaming measures and controlled their conformity with the strict G4 accreditation guidelines, which also take the relevant national and federal state laws for casinos into account.

Youth and player protection measures are developed on an ongoing basis





BEST NATIONAL TRAINING

Gauselmann employee Paulina Kurti is Germany's best coin-op specialist and thus one of 213 top graduates in 2018. This is not the first time we have produced a best nationwide graduate. It is a result we are proud of – proud of our trainees, proud of the consistently high level of training our junior staff enjoy. This high standard was also documented in 2018 by the BEST PLACE TO LEARN and Germany's Best Training Company quality seals.

The products and services of the Gauselmann Group enjoy an outstanding reputation both nationally and, to an increasing degree, internationally. We owe this in large measure to our more than 13,000 dedicated and motivated staff who, with their know-how and commitment, contribute on a daily basis to the group's success. In return, our employees are offered a wide range of benefits: flexible working hours, individual further training opportunities and interesting career programmes, a wide range of health-promoting measures as well as numerous attractive social benefits.

Employees

As of 31 December 2018, the Gauselmann Group employed a total of 13,323 people worldwide, of whom 7,733 are based in Germany and 5,590 abroad. This corresponds to an increase of 7 per cent or 508 jobs in Germany and 6.3 per cent or 335 jobs abroad.

At 31 December 2018, 228 young people were doing an apprenticeship or traineeship, more than ever before in the company's more than 60-year history.

Initial and advanced training

The spectrum of training opportunities ranges from traditional administrative and commercial/technical professions to dual courses of study and the industry-specific vocational training course leading to the qualification of coin-op specialist. Paul Gauselmann himself was one of the key initiators who campaigned for the conceptual design and introduction of this three-year apprenticeship profession offered exclusively in the coin-op industry.

In total, the group offers more than 20 different modern training occupations per year.

There has been a slight decrease in the annual number of applications. However, since the concept for addressing potential applicants was further refined and new ideas in employer branding and personnel marketing proved to be very successful, the proportion of qualified applicants increased significantly, so that in the end it was possible to fill almost all vacant training places with suitable candidates.

The Gauselmann Group as a matter of principle provides needs-based training at a high level, making it an attractive training company. At 85 per cent, the takeover rate is well above the average not only regionally but also nationwide.



Armin Gauselmann, Theresa Rollmann and Wolfgang Regenbrecht are delighted with the award



A new office building at the Espelkamp location was inaugurated in 2018

Even while they are still undergoing training, the company strives to enhance the employment prospects of young recruits, always with a focus on the needs of the relevant specialist departments, individual potential and the trainees' and students' own career goals.

For the excellent development prospects and staff training and advancement, the Gauselmann Group received FOCUS-MONEY magazine's Top Career Prospects award in the past business year. Also in 2018, a comprehensive analysis by the renowned FAZ Institute revealed that the family-run Gauselmann Group was among the 'top 10 per cent of Germany's most sought-after employers' in the Gambling category.

In its capacity as an exemplary training company, the group has also repeatedly been awarded the BEST PLACE TO LEARN and Best Training Company quality seals in its sector in Germany (FOCUS-MONEY 4/19). The subsidiary MERKUR Casino National was also named Top Employer 2019 by FOCUS magazine for the fifth time in succession.

Many of today's employees started their careers as apprentices in the company and today are able to benefit from the many initiatives introduced or personally supported by the company founder and his family. It is therefore not uncommon for employees to celebrate 25, 30, 40 or more years of service with the company, which is also proof of the high level of iden-

tification of the employees with the industry, the products and services and the management as a whole.

But trainees and dual students are not the only ones who even during their training can choose freely from a wide range of advanced training options corresponding to their strengths, for example language courses, IT training or industry-specific additional qualifications. The Gauselmann Group also offers a comprehensive catalogue of seminars for all specialists and managers, which ranges from technical workshops and long-term advanced training certification courses to differentiated management development programmes and individual coaching.

The targeted promotion of selected experts from within our own ranks is an integral part of the Gauselmann Group's global corporate strategy.

New trainees in 2018



Personnel marketing

People in focus – corporate success in mind. This is the credo of the Gauselmann Group’s personnel marketing. In order to secure the best possible position on the labour market, the company uses various means to address potential applicants in a targeted manner. In addition to administrative support in the general recruiting process, the package of measures includes social media activities, regular and superregional presence at job and education fairs and the use of modern university marketing instruments. In addition to the granting of scholarships in co-operation with various initiatives, the company regularly offers a variety of practice projects and internships for students attending higher education establishments and universities that have proved particularly successful in winning new, qualified employees for the Gauselmann Group. Last year, for example, the company took on 80 per cent of students into regular employment after they had completed their internship or written their thesis.

The Gauselmann Group’s accreditation as a Fair Company in 2018 is additional proof of the high quality of supervision and implementation of modern quality standards for student interns, Bachelor and Master graduates.

The series of events known as the Gauselmann Career Academy, which provides information for school pupils about career opportunities, is also becoming ever more popular. Unbiased lectures and workshops provide practical tips and useful information concerning choice of career and how to apply.

The Gauselmann Career Academy is used as a valuable springboard for individual career orientation by local educational establishments and their teaching staff as well as by young people preparing to take their final school exams.

Occupational health management

For more than ten years, the range of qualification and further training measures for all Gauselmann Group employees has been complemented by a broad spectrum of measures to support employee health. Under the name Fit & Fun by Gauselmann, the group primarily offers all employees at the company’s headquarters in Espelkamp and Lübbecke an occupational health management scheme which, in addition to measures designed to educate and inform employees, also includes the implementation of health-promoting campaigns.

In the completed financial year, the catalogue of measures included health checks, flu jabs and the possibility to give blood directly at the workplace, cooking courses and nutrition counselling, ergonomics analyses of the workplace, massages at the workplace as well as support for the ‘Cycle to work’ and ‘Stroke information tour’ initiatives. The company also provides bicycles to encourage employees to get active in their lunch break. These offerings are free of charge or are subsidised to at least 50 per cent of any charges incurred by Gauselmann as employer.



The Gauselmann Group offers a wide range of company sports

Company sports association

With around 1,000 members in 23 sporting disciplines, the MERKUR Gauselmann e.V. (BSG) company sports association is the largest company sports community in the Minden-Lübbecke region and also one of the largest company sports associations in North Rhine-Westphalia. Members from the various disciplines have frequently shone in numerous competitions and at a number of international tournaments. The MERKUR footballers are particularly successful, even becoming world champions in five-a-side in 2018.

Merkur Seniors Club

For over 20 years, former employees of the Gauselmann Group have maintained friendly contact with one another and meet up several times a year to undertake excursions or other activities. Many of the members organised in this Merkur-Senioren-Club e.V. worked for the company for three or more decades. A number of the current 130 members of the Merkur Seniors Club were employees of the first hour in what is now an international corporate group.

Paul Gauselmann regularly meets with the Merkur Seniors





Mario Hoffmeister (right) hands over one of the many regional donations from the company

The credo of the Gauselmann family of entrepreneurs is to be there for one another, to remember our roots and to stand by our home region, with a special focus on sport and health. For the Gauselmann Group, social commitment has been an integral part of its corporate culture for many years. Social commitment to the region, especially the Altkreis Lübbecke district where the company's two headquarters in Espelkamp and Lübbecke are located, is a matter that is close to the hearts of the entire Gauselmann family, and to Paul Gauselmann in particular. In 1999, exactly 20 years ago, Paul Gauselmann established today's Paul and Karin Gauselmann Foundation, which is now an integral part of the social life of the towns of Espelkamp and Lübbecke as well as the communities of the Altkreis Lübbecke district. Last year, more than 170 projects were realised thanks to the support of this foundation, and since the foundation's inception it has supported almost 2,000 regional projects in total. The organisation's endowment capital was raised to 11.6 million euros in 2015 to mark the occasion of Karin Gauselmann's 80th birthday.

Paul Gauselmann also attaches great importance to health promotion and, as a long-standing board member of the "Förderverein Schlag-

anfall - Neurologische Klinik Minden e.V." (charitable stroke trust - Neurological Clinic Minden), he initiates the annual information event on stroke prophylaxis, the Stroke Info Tour, together with Sparkasse Minden-Lübbecke and Stadtparkasse Rahden. This offers interested members of the local population the possibility of a free personal risk factor assessment by a doctor over a period of ten treatment days. Since the start of the tour in 2002, more than 5,000 participants have so far had check-ups.

The funds provided by the Paul and Karin Gauselmann Foundation are mainly used to facilitate sporting projects, the organisation of tournaments or the acquisition of equipment. The provision of funding by the foundation has enabled many local sports clubs and initiatives to organise activities for people of all generations and especially for young people in the region. A special focus lies on professional sport. The Gauselmann Group is a major sponsor of the second division handball team TuS N-Lübbecke and has also supported the second division football team DSC Arminia Bielefeld for many years. The Gauselmann Group is also a sponsor of the local football team FC Preußen Espelkamp.

In addition to football, the Gauselmann Group has also been a partner of the international Gerry Weber Open tennis tournament in Halle (Westphalia) for many years and supports the local tennis club TV Espelkamp-Mittwald. Its 1st men's 30s team, which has been playing in the Bundesliga for more than ten years, were runners-up in the German Championship in 2018. The special connection to this club results from the long-standing membership of Paul Gauselmann, who still plays tennis actively, and with the teams in the 70s and 75s age groups has built up a genuine senior tennis stronghold. In 2018, for example, the men's 70s age group again won the German Championship title, while the men's 75s age group were vice-champions in their category.

Another foundation set up in 2008 apart from the Paul and Karin Gauselmann Foundation was the "Stiftung Kinderfamilien-Hilfe" (Children-Family Support Foundation), whose work

benefits families with underage children that are experiencing temporary financial difficulties because one or both parents have overindulged their passion for gaming.

In 2010, the entrepreneurial family made an important contribution to the preservation of cultural heritage in the region by acquiring the 500-year-old Schloss Benkhausen and its estate. This important building documenting early Westphalian cultural heritage has been extensively renovated and restored and now serves the company as a training centre. The restoration of the castle and its estate was financed entirely from the entrepreneur's private funds. Featuring 11 seminar rooms and 38 single/double bedrooms for up to 50 overnight guests, it can be used as the Gauselmann Group training centre, as well as for seminars and events organised by external companies.

Paul and Karin Gauselmann officially inaugurate the new jetty at Schloss Benkhausen together with Espelkamp's mayor Heinrich Vieker



COMMITMENT TO THE REGION

Once an insider tip (but no longer), the castle with its impressive backdrop has also become very popular with bridal couples as a venue for civil weddings. Well over 100 civil marriage ceremonies have taken place in the manor house since the renovation of the historic wedding chamber. In addition to hotel rooms and seminar rooms, the historical barn at Schloss Benkhausen has also been home to the German Coin-Op Museum since 2013. With changing special exhibitions and more than 2,000 historical slot machines from all over the world, which are faithfully refurbished and maintained in its own workshop, the German Coin-Op Museum is regarded as an ambassador for the entire vending machine industry. The entrepreneurial family laid the foundation for the world's most unique and largest collection of historical slot machines in 1985. With many different events and the castle café "Die Rentei" opened in 2015, Schloss Benkhausen has become a popular excursion destination as a venue for art, music and culture.

Last year, the entrepreneurial family also decided not only to let the population in the Minden-Lübbecke district participate in its entrepreneurial success, but also to become involved in the state capital of North Rhine-Westphalia beyond the Altkreis district. In August 2018, the Gauselmann Group decided to enter into a sponsoring partnership with the sports city of Düsseldorf. On the one hand, this cooperation includes the naming rights of the Düsseldorf multifunctional arena, now known as the MERKUR SPIEL-ARENA, which is also home to

the first division club Fortuna Düsseldorf. The partnership also includes the sponsorship of numerous Düsseldorf sports clubs such as the Düsseldorfer Eishockeygemeinschaft (DEG), the basketball team ART Giants, the German record champion in table tennis, Borussia Düsseldorf, and the Stockheim Olympia Team.

In 1993, Paul Gauselmann was awarded the Cross of Merit of the Federal Republic of Germany (Bundesverdienstkreuz) and a decade later the First Class Cross of Merit of the Order of Merit of the Federal Republic of Germany (Verdienstkreuz 1. Klasse des Verdienstordens der Bundesrepublik Deutschland) for his outstanding social commitment as well as for his commitment to the German amusement machine industry. On the occasion of his 70th birthday in 2004, the towns of Lübbecke and Espelkamp also honoured the entrepreneur for his tireless commitment to the interests of the region with honorary citizenship. Karin Gauselmann also received honorary citizenship of the town of Espelkamp in 2015.



Düsseldorf Mayor Thomas Geisel and Paul Gauselmann seal the partnership with the sports city of Düsseldorf





FOOTBALL WORLD CHAMPION

For more than 30 years, we have been supporting the MERKUR Gauselmann e.V. company sports association (BSG) both ideologically and financially. With around 1,000 members in 23 sporting disciplines, the BSG is one of the largest company sports associations in North Rhine-Westphalia. In the Football category, a special victory was celebrated in 2018: the team secured the world championship title at the World Company Sport Games.

The more than 13,500 employees of the Gauselmann Group made a committed effort to ensure that the internationally active corporate group successfully mastered the major challenges of the 2018 financial year.

The family company from Espelkamp is present around the globe as the 'games makers' with their products and entertainment offerings. True to the motto 'More than a game' players are offered gaming fun with and for small stakes and prizes, in a contemporary form and always on state-of-the-art technological platforms. The defined core competences – content – technology – operating – enable the group to offer top-quality games anywhere it is permitted and at any time. Naturally, we always comply with the relevant legislative framework, observance of which is permanently monitored through comprehensive compliance processes.

In the view of the Gauselmann Group Management Board, the coming financial years 2019/2020 will be characterised by a consolidation process in Germany and by politically motivated changes abroad.

At the national level, implementation of the provisions of the current Gaming Ordinance (SpielVO) with the Technical Directive (TD) 5.0 and the still incomplete legal framework from the First State Treaty amending the State Treaty on Gaming (GlüÄndStV) have the greatest impact. Since 11 November 2018, it has only been permitted to operate machines that comply with the stricter regulations of the current Gaming Ordinance in German gaming arcades. In autumn 2018, the 240,000 or so slot machines in the overall market had to be replaced or converted to the latest technology in an enormous tour de force.

At the same time, the distance regulations in accordance with GlüÄndStV, which resulted from the respective state arcade laws, were implemented at the local level. Since only a few municipalities have made use of the hardship regulation and/or the exemption possibilities, an inconsistent and unclear nationwide framework has emerged, which requires very individual solutions and represents a challenge for the operational management of the group.

In the sports betting segment, there has been no fundamental change since three federal states prevented a new regulation from taking force in 1 January 2018. Based on the ruling of the Federal Constitutional Court of 26 October 2017, which strengthened the backbone of sports betting providers in Germany for their land-based and online services, this segment was only able to develop further within very narrow limits. With the decision of the Minister-President Conference of 21 March 2019 to adapt the regulations of the State Treaty on Gaming and no longer limit the number of sports betting licences to be issued from 1 January 2020, a more dynamic development can be predicted for the future.

Outside Germany, Brexit plays an important role in the future prospects of the UK-based companies. For some time now, they have been increasing inventories and analysing scenarios with regard to extended delivery times, customs clearance and impacts on employment relationships with English 'EU foreigners'.

All in all, the companies in the core business segments 'Mercur – Gaming operations – Sports betting' expect the 2019 financial year to be very challenging but, on balance, still positive. Due to national specificities, the group result is expected to develop in a restrained fashion compared with the moderate growth in overall sales.

The Mercur business segment subsumes development, production and sales of amusement machines with and without cash prize opportunities, as well as money management machines at home and abroad. In the past year, this business segment focused particularly on the conversion of machines to comply with TD 5.0 and worked to its capacity limits in production and sales accordingly. The notable success of the TD 5.0-compliant machines sold will continue in the 2019 financial year with additional orders, ensuring that capacity utilisation remains at the same high level at the start of the year, which will subsequently be supplemented by increased production of machines for international markets.

The international development and sales companies continued to grow overall in 2018, in some markets even more strongly than originally forecast. Based on a stable positioning in the respective local markets, the company anticipates positive international development and has set correspondingly ambitious targets. The most important markets continue to be Spain, the UK and Latin America.

The gaming operations business segment consolidates the group's global activities in the arcade and casino sector. This also includes international casino operations on six cruise ships of the Pullmantur Cruceros and the TUI "Mein Schiff" fleets.

With the opening of the third casino in Halle/Saxony-Anhalt and the investment in Spielbank Rheinland-Pfalz, this segment once again significantly enhanced its profile at the turn of the year. Together with the long-established Leuna and Magdeburg locations and the stake in Spielbank Berlin, a future-oriented and profitable portfolio has been established.

In the classic core business, the operation of gaming arcades in Germany, the effects of the implementation of the Gaming Ordinance, state arcade laws and the State Treaty on Gaming must first be addressed. The changed games content and the reduction in the number of venues have an influence on the number of visitors and thus also on the sales and earnings situation. Depending on the region, the negative effects cannot be fully offset by the significantly higher quality of both the machines and the customer service in the arcades compared with the competition. Here, innovative concepts have been developed which are gradually being implemented in the market and which open up new business segments, for example through expansion or the management of non-group branches. In the medium term, moderate sales and earnings growth is targeted following initial consolidation.

At the foreign companies, the focus continues to be on broadening the existing base. In the UK, the Czech Republic, Spain, Serbia, Croatia, the Netherlands and Bulgaria, ambitious goals have been set, achievement of which is supported and promoted by well-trained staff and investments in infrastructure.

The Sports betting and Online gaming business segments comprise the activities in the international sports betting business as well as online offerings in licensed and regulated markets. Under the Cashpoint and XTIP brands, the Gauselmann Group has been active in the sports betting market for more than ten years and in the meantime operates sophisticated full-service land-based and online solutions that are adapted to the applicable laws and regulations of the respective target markets. Due to the still inadequate legislative framework in Germany, this business segment is growing primarily through acquisitions abroad. Austria, Denmark, Belgium and, most recently, Poland are neighbouring countries in which broad-based sports betting providers have been acquired, some of which made a positive contribution to the overall operating result of this segment from day one. The liberalisation of the German sports betting market initiated by the Minister-President Conference in March 2019 is expected to lead to a significant increase in momentum in 2019/2020.

Although satisfactory regulation of online gaming is not likely on the German market in the next two or three years, this segment is nevertheless growing very strongly in Europe, and in many neighbouring countries is licensed and transparently regulated by law. The Gauselmann Group holds online licences in the UK, Spain, Italy, Malta, Denmark and the Czech Republic, among other countries, and offers a locally limited online gaming portfolio with attractive slots and table games within the scope of the respective legal regulations.

The future holds interesting challenges for employees and technology, which the Gauselmann Group will address and which it considers itself well equipped to tackle thanks to its stable international positioning and an active strategic business policy.





Advisory Board:
Sonja, Armin, Karin, Karsten, Paul, Michael and Janika Gauselmann (from left to right)



Foundation Board of Directors:
Armin Gauselmann, Paul Gauselmann and Manfred Stoffers (from left to right)



Paul Gauselmann
Chairman
of the Management Board



Armin Gauselmann
Vice-Chairman
of the Management Board



Manfred Stoffers
Marketing - Communications -
Political Affairs



Dr Werner Schroer
Technology



Jürgen Stühmeyer
Merkur Sales



Dieter Kuhlmann
Gaming Operations



Lars Felderhoff
Finance

The Supervisory Board was kept continuously informed through oral and written reports about the development of the company's business and its financial situation. All material business events and transactions were discussed with the Management Board in regular meetings.

The consolidated financial statements as at 31 December 2018 and the Gauselmann Group Management Board Report were audited and approved and issued with a closing statement by Dr. Woelke AG Wirtschaftsprüfungsgesellschaft, Herford. After reviewing the consolidated financial statements and Management Board Report, the Supervisory Board concurs with the audit opinion of the auditor and raises no objections. The Supervisory Board hereby approves the financial statements prepared by the Management Board.

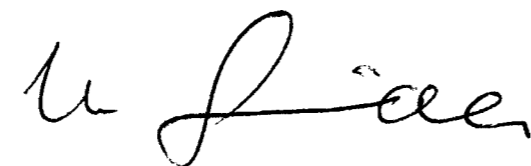
There was a change in the composition of the Management Board in 2018: Lars Felderhoff, previously Commercial Director of adp Gauselmann GmbH, assumed the position of Chief Financial Officer of the Gauselmann Group on 1 July 2018 after 14 years with the company. He succeeds Alexander Vleeming, who has left the group at his own request. The Supervisory Board thanks Alexander Vleeming for his service to the company and wishes Lars Felderhoff every success in his new position.

We also had to say goodbye to our long-standing Supervisory Board member Max Walberer, who passed away in spring 2019 after a long and full life. In him, we have not only lost a competent and highly esteemed member of our Supervisory Board, but above all a fantastic, reliable colleague who stood by us in word and deed at all times. We will always honour his memory.

The Supervisory Board thanks the Family Council, the Management Board and the company's senior executives for their successful entrepreneurial work, as well as all employees for their commitment and excellent achievements in 2018.

The positive overall result in 2018 cannot be taken for granted given the background of the ongoing difficult conditions in the German core market.

Espelkamp, May 2019



Manfred Grünewald
Chairman of the Supervisory Board



Manfred Grünewald
Chairman
former Managing Director of
tobaccoland GmbH & Co. KG



Karsten Gauselmann
Hotelier



Max Walberer († 18.04.2019)
Entrepreneur

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