



Calm before the storm

As Germany enters a new phase in its relationship with the gaming industry, G3 takes an overview of the marketplace, details the changes and speaks to the protagonists

With over 82 million people Germany is the most populous country in the EU and the 16th most populous in the world and is divided into 16 states.

It has the world's fourth largest economy by nominal GDP and the fifth largest by PPP and is a global leader in several industrial and technological sectors. It is the world's second largest exporter and importer of goods and exports account for more than one third of national output.

Germany is a highly developed country with a high standard of living, low level of corruption and a skilled labour force. The service sector accounts for around 71 per cent of GDP whilst industry (28 per cent) and agriculture (one per cent) make up the rest. Unemployment rate was 3.9 per cent (March 2017), the lowest of all EU states, and at its lowest level since December 1980.

GDP is at \$3.3bn and per capita is at \$45,260. It

overtook the UK last year as the fastest growing among the G7 states with a growth rate of 1.9 per cent in 2016.

Germany is also one of the most visited countries in the world and it is the second most popular destination in Europe. Berlin has become the third most visited city in Europe.

In 2015 there were 79.7 million overnight stays by visitors from abroad and 436 overnight stays in total. The highest number of visitors came from the Netherlands followed by Swiss, American and the British visitors.

In addition it is said 30 per cent of Germans spend their holiday in their own country whilst tourism contributes over €33.2bn (travel receipts from foreign visitors) to the GDP (4.5 per cent of GDP) and accounts for seven per cent of the workforce.

The German amusement machine industry is equally as large and impressive and is made up

of 309,200 amusement and gaming products divided up between 267,000 AWP's and 23,800 amusement games and 18,400 sports games (billiards, table soccer etc).

The German gambling market saw a total of €12.7bn in revenues in 2015 and of this the regulated market had an 82 per cent share with €10.4bn. However the growth of the unregulated market is growing and was 15 per cent back in 2013.

Of the €10.4bn total revenue in 2015 (€10bn in 2014) online gambling accounted for €299m (€223m in 2014). Unregulated revenues amounted to €2.2bn (€1.7bn 2014) of which online casinos were responsible for 84 per cent.

THE CASINO MARKET

Germany's gambling houses are split into two categories – Spielhallen (small scale gambling halls/arcades) and Spielbanken (state licensed large scale casinos).

Half of the country's casinos are state owned and the other half privately owned. BuPris represents the privately owned sector whilst the state owned landbased casinos are organised by the DSbV.

There are currently a total of 66 casino sites and are governed by strict laws under a 2008 agreement GlüStV.

There are 31 privately owned casinos (BupriS)



MARKET NUMBERS

TYPE OF MACHINE	2014	2015	2016
Amusement machines without prizes	27,000	23,800	20,500
Pinball	2,000	2,000	1,900
Internet terminals	13,000	10,000	7,000
Score games (touchscreens, jukeboxes)	2,300	2,200	2,100
Video games	9,700	9,600	9,500
AWPs	269,000	267,000	264,000
Sports Games	18,400	18,400	18,300
TOTAL	314,400	309,200	302,800

operated by nine companies and 35 state owned casinos (DsBV) operated by nine companies.

Casino gambling began in Germany in the mid 1930s. Prior to 1933 there were no gambling centres and the only exception was a casino in Sopot (Gdansk) which opened in 1919. In 1933 the ban on gambling was abolished by the National Socialists and a casino in Baden-Baden received the only concession to operate. This later closed and the gambling halls began to flourish after the war.

Today gambling houses pay taxes on gross profits and on average they pay anything from 20 to 80 per cent to the treasury depending on the state. Due to the high taxes they are however exempt from all other taxes. In 2014 the German gambling houses paid a total of €254m to the

treasury. The sector is governed by the Federal Ministry of the Interior and Federal Affairs (MIB) and the Federal Law covers all forms of public gambling (except commercial games and gambling halls) which comes under the Ministry of Economic Affairs, Labour, Transport and Technology.

In 2016 the casino sector saw revenues of €577m (up by 3.7 per cent on the previous year). In 2015 this figure was €566m (and in 2014 €508m) and of this amount €156m came from table games and €399m from slots. There were some 5.53 million visitors to all the casinos last year and there are 550 table games and 7,500 slots in casinos in total.

The state casinos saw a gross profit of €309m. Of this €120 was donated to the federal states in

taxes for good causes. There were some three million visitors to the state casinos and 2.6 million to the private casinos.

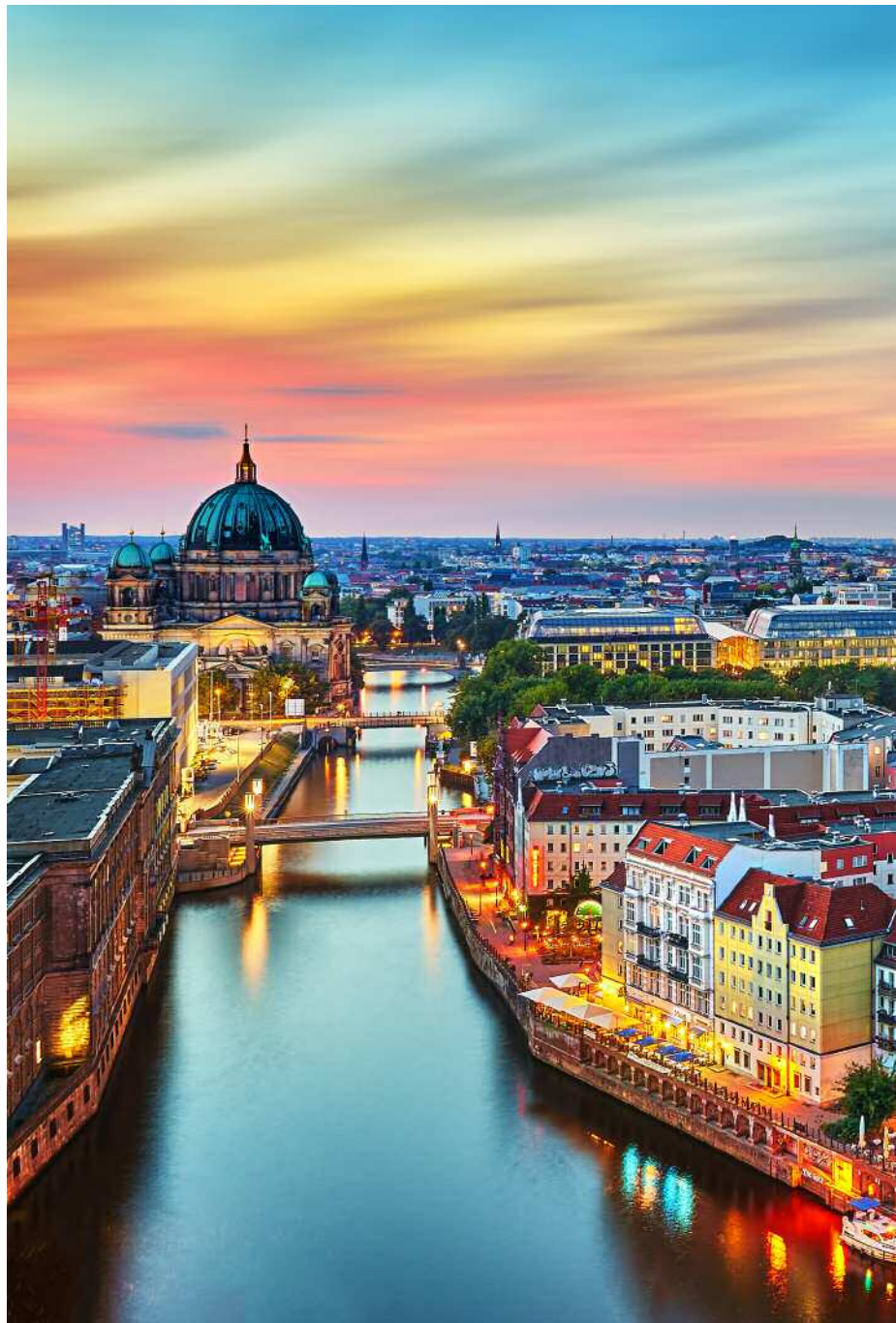
The sector has seen serious declines since 2007 with profits dropping by 40 per cent and visitor figures down. The number of gambling machines however has risen by 47 per cent from 87,000 devices back in 2005 to around 267,000 in 2014.

Otto Wulferding, Chairman of DSBV said: "The profit situation in 2016 shows that the German casinos have not only stopped the declines. We could even reverse the trend. The growth shows the high acceptance of legal gambling. It is clear however that we can not keep pace with the exorbitant development of illegal providers.

"In the market for sports bettors for example,

Essential information and facts about Germany:

Country	Germany
Capital	Berlin
Total Area	357,022sq.km
Population	80,722,792
Median age	46.8 years
Ethnic groups	German (91.5%), Turkish (2.4%), Roman Catholic (29%), Protestant (27%), Muslim (4.4%)
Religions	German (official)
Languages	Euro
Currency	Federal Parliamentary Republic
Government type	Frank Walter Steinmeier (2017)
Chief of State	Chancellor Angela Merkel (since 2005)
Head of Government	Cabinet or Bundesminister recommended by the Chancellor and appointed by President
Cabinet	President elected for 5 year term (eligible for second term) by a Federal Convention. Next due 2022. Chancellor elected by absolute majority by Federal Parliament for four year term. Next due September 2017)
Elections	



researchers expect a plus in 2016, which will allow the turnover to be increased, 10 times the legal turnover of casinos, which means over €5bn. The casinos cannot miss the aggressive competition of TV and magazines. They are prohibited by suggestive advertising.”

PRIVATE CASINOS

Members of BupriS operate in six federal states of Berlin, Hamburg, Hesse, Lower Saxony, Rhineland-Palatinate and Saxony-Anhalt and the casinos include:

Berlin – has five locations operated by Spielbank Berlin with its flagship located at Potsdamer Platz which also has a poker floor alongside slots and tables. Spielbank Berlin was founded in 1975 by 10 partners and it was then called Gustav Jaenecke which was set up to open a casino in then West Berlin. After the fall of the wall the company began to grow and relocated its casino, then located at the Europa Center, to its premises now in Potsdamer Platz in 1998. The company also has casinos now in Spandau, Wilmersdorf, Hasenheide and since 2013 at the base of the television tower. Main shareholder in

the company is Novomatic.

Hamburg – this state is the home of the first casino opened by the Blanc brothers in the early 19th century there are four locations in Hamburg operated by Spielbank Hamburg Jahr and Achterfeld KG. Spielbank Hamburg was set up in 1977 and opened its first casino two years later in the Hotel Intercontinental on the Outer Alster. It later moved in 2006 to the Casino Esplanade whilst the other casinos Casino Steindamm, Casino Mundsburg and Casino Reeperbahn followed.

Hessen – four locations in this state. The Francois Blanc Spielbank is operated by Spielbank Bad Homburg whilst there are two casinos operated by Spielbank Kassel/Novomatic in Kassel and Bad Wildungen and the fourth is operated by Spielbank Wiesbaden in the heart of the historic spa town of Wiesbaden.

Lower Saxony has 10 casinos operated by Spielbank Niedersachsen which is a wholly owned subsidiary of Casinos Austria. These are

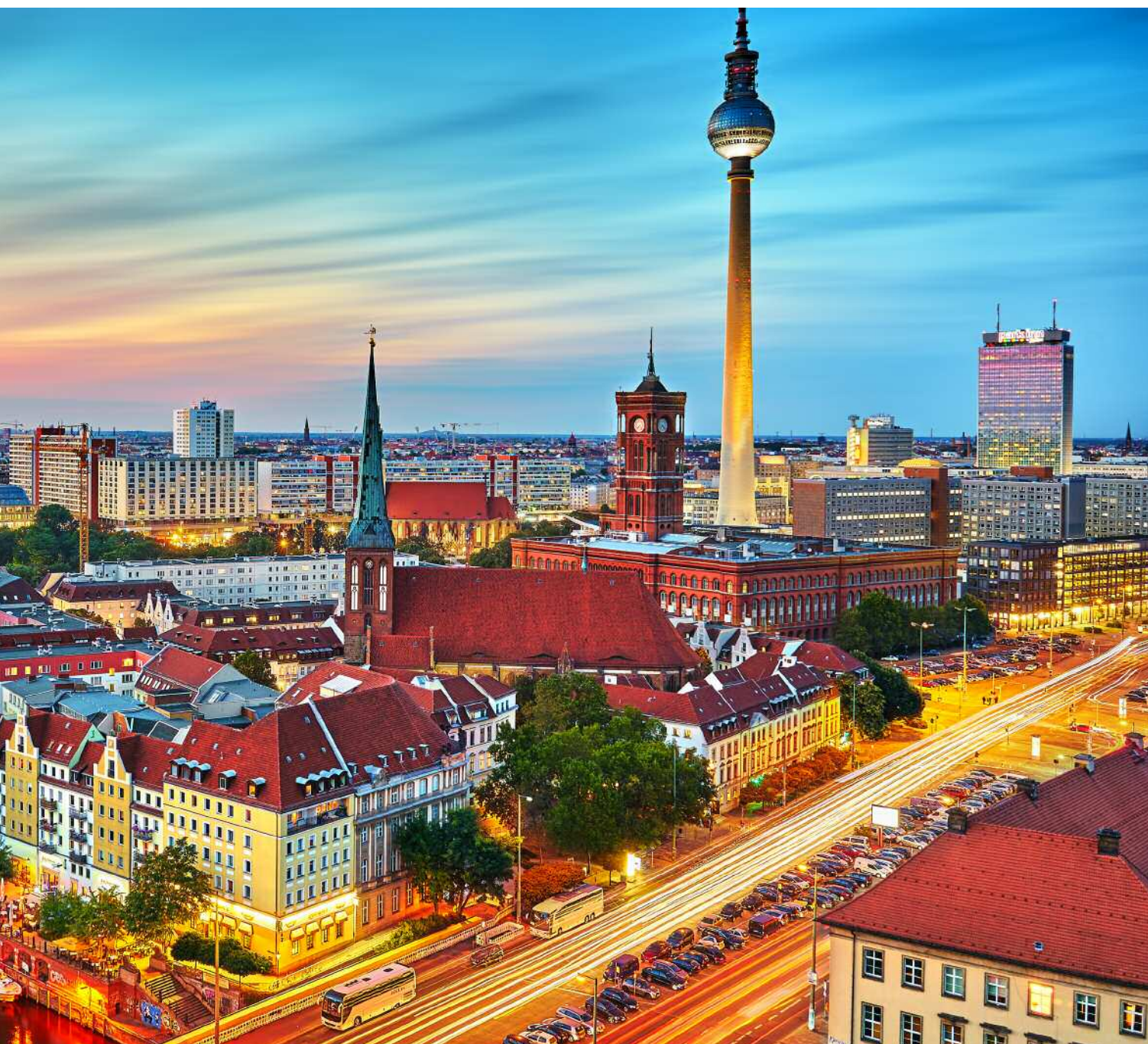
located in Bad Bentheim, Bad Harzburg, Bad Pyrmont, Bad Zwischenahn, Göttingen, Hannover, Norderney, Osnabrück, Sevetal and Wolfsburg. The company has a total of 40 gaming tables and 1,244 slots in its casinos.

Rheinland-Pfalz – there are six casinos here operated by Spielbank Bad Neuenahr located in Bad Neuenahr, Bad Dürkheim and Nürburgring. The Ring Casino in Nürburgring is the latest casino which opened in 2009 and is located at the start and finish of the Grand Prix circuit. The other three casinos are operated by Spielbank Mainz and located in Main, Trier and Bad Ems.

Sachsen-Anhalt has two casinos operated by Gauselmann Group's Merkur Spielbanken Saxony Anhalt in Leuna-Günthersdorf and Magdeburg. The first is a modern casino which opened in 2015 with table games, slots and poker whilst Magdeburg opened in April 2016 with slots and poker.

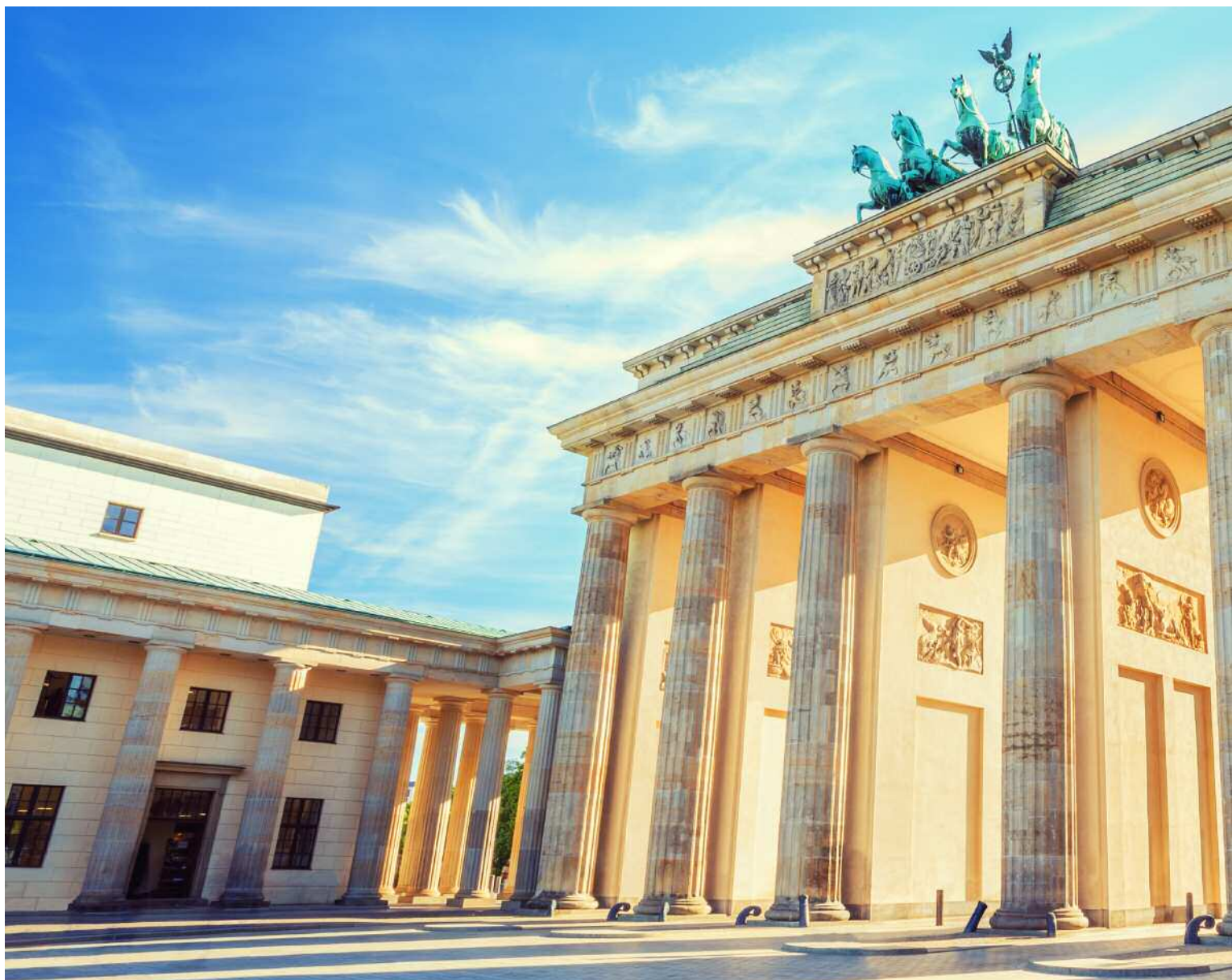
STATE CASINOS

There are nine state licensed operators with 35



DATA FOR THE REGULATED MARKET 2015

CATEGORY	NO. OF SITES	NO. OF OPERATORS	PRODUCTS	GROSS REVENUES LAND-BASED	GROSS REVENUES ONLINE
CASINOS	66	17	7,500 slots 550 table games	€557m	
SLOTS	70-80,000	5,000	267,000 slots	€5.3bn	
Gaming halls	9,000		190,000 slots		
Single sites	60-70,000		77,000 slots		
LOTTERY	21,977 PoS	16 LLG/13 Gew.SpV		€3.9bn	€258m
Lotterien			Lotto 6/49, Eurojackpot, Keno, Bingo, etc	€3.6bn	€254m
Sportsbetting			Football Toto/ Football Toto/Oddset	€71m	€0.4m
Klassen	91 PoS	GKL	NKL/SKL	€198m	€0.2m
OTHER LOTTERIES		Various	Various	€683m	€41m
TOTAL				€10.4bn	€299m



MARKET REVENUES

	GAMING REVENUE	SHARE	STAKES	SHARE
Regulated market	€10.4bn	82%	€55bn	61%
Non regulated market	€2.2bn	18%	€35bn	39%
TOTAL	€12.7bn	100%	€90bn	100%

locations and these are members of the Deutscher Spielbankenverband association (DSbV) and operate in eight federal states – Baden-Württemberg, Bavaria, Bremen, North Rhine-Westphalia, Saarland, Saxony and Schleswig-Holstein. The casinos include:

Baden-Württemberg – has three casinos in Baden-Baden, Konstanz and Stuttgart

Bavaria – there are nine casinos here operated by the State Lotteries Administration Bavarian Spielbanken (Spielbanken Bayern) and they located in Bad Füssing, Bad Kissingen, Bad Reichenhall, Bad Kötzing, Bad Steben, Bad Wiessee, Feuchtwangen, Garmisch Partenkirchen and Lindau.

Brandenburg – two casinos here operated by Brandenburgische Spielbanken and is located in Cottbus and Potsdam. The Jokers Garden in

Potsdam opened in 2002 and located in a listed 1750s building whilst Jokers Palace in Cottbus opened in 1998 and is located in the former state bank building.

Bremen – has two casinos operated by Westspiel Casinos and they are located in Bremen and Bremerhaven. The Bremen casino offers classic gaming and slots in an historic building on the banks of the river Weser and opened in 1980. Bremerhaven opened in 1982 on the river Weser also. Westspiel operates four more casinos in the state of North Rhine Westfalen

North Rhine Westfalen – has four casinos operated by Westspiel Casinos located in Aachen, Bad Oeynhausen, Duisburg and Dortmund-Hohensyburg. Westspiel Casinos sees around one million visitors to all its six casinos with a gross profit of €90m last year.

Saarland – seven casinos here located in Saarbrücken (three casinos), Neunkirchen, Nennig, Homburg and Saarlouis all operated by Saarland Spielbanken.

Saxony – has three casinos in Leipzig, Dresden and Chemnitz operated by Sachsen Spielbanken all offering bingo, poker, roulette and slots. The company was founded in 1994.

Schleswig Holstein – has five casinos operated by Spielbank Schleswig Holstein and they are located in Flensburg, Kiel, Lübeck, Schenefeld and Westerland all offering table games and slots.

GAMING HALLS

There is no (current) limit on the number of licences available for amusement arcades or slots in single sites (see page 54 for changes), but there are strict conditions. These include:



TOTALLY GAMBLING REVENUE

€13bn

LOTTERY

16 state lotteries

POINTS OF SALE

22,000

LOTTERY & SPORTS BETTING REVENUE

€3.7bn

ONLINE REVENUES (TOTAL)

€299m

BOOKMAKERS

60

HORSE BETTING

49 racing clubs

GAMING HALLS

9,000

SLOTS IN GAMING LOUNGES

195,000

SINGLE SITES

60-70,000

SLOTS IN SINGLE SITES

77,000

TOTAL SLOTS REVENUE

€5.3bn

CASINOS

66

NO. OF SLOTS IN CASINOS

7,500

NO. OF TABLES IN CASINOS

550

TOTAL CASINO REVENUES

€566m (gross profit)

- One amusement arcade only can be operated in any one building.
- The ITSG requires a minimum distance between arcades set by the individual states and varies between 50m and 500m.
- Some states have a distance requirement between arcades and schools, youth institutions.
- Maximum number of slots in an arcade is 12 with only one machine permitted per 12sq.m
- In bars and restaurants the maximum number of slots permitted in three.

Licence fees for arcades vary between states but are usually between €150 and €3,000 depending on size. Operators meanwhile pay an amusement tax of between 12 and 20 per cent based on the gross income from slots.

Meanwhile there are some 5,000 operators which have some 9,000 gaming halls in Germany with 190,000 slots. There are also around 60 to 70,000 single sites operating 77,000 slots. Revenues for this sector amount to €5.3bn which is 64 per cent of the regulated market.

The number of AWP's in Germany grew

The number of AWP's in Germany grew significantly during 2006 and 2010 then began to drop and remained stagnant for a number of years until 2015 when the number dropped by 2,000 to 267,000. Apparently the decline was down to interventions

significantly during 2006 and 2010 then began to drop and remained stagnant for a number of years until 2015 when the number dropped by 2,000 to 267,000. Apparently the decline was down to interventions from German states in their quest to roll back commercial gaming. Of course back in 2006 the fun games were removed from the market and these were replaced in effect by AWP's.

SPORTS BETTING

Gambling has a long standing history in Germany. Horse racing developed back in 1822 and later organised bookmakers and betting salons arrived. In 1922 the racing law and lottery law was passed which is still valid today. There are around 40 horse racing tracks in Germany.

There is a dedicated bookmaker for horse racing called RaceBets which is only available via the internet. It offers markets for horse racing in 40

countries and by 2007 established itself as the largest bookmaker in Germany and offers bets on more than 250,000 races per year.

It holds licences in the UK, Ireland, Malta and Germany. Racebets revenue reached €9.3m in 2015 with an annual growth rate of around 12 per cent.

In 2016 Betsson acquired the company from its founders and the German Thoroughbred Association in a deal worth €40m. The cooperation with German Racing continues.

Meanwhile sports betting in Germany is dominated by large chains running franchise systems and a concession procedure is carried out for those requiring licences.

In reality Oddset is the only company legally allowed to offer sports betting. Providers of the

Reports

GERMANY UPDATE



TURNOVER OF AMUSEMENT INDUSTRY

SECTOR	2014	2015	2016
TOTAL	€6.6bn	€7.2bn	€7.7bn
Upstream turnover total	€800m	€850m	€860m
Manufacturing costs	€460m	€570m	€540m
Operators	€5.8bn	€6.3bn	€6.9bn
Amusement machines			
With prize	€5.7bn	€6.3bn	€6.8bn
Without prize/sports	€55m	€50m	€50m
Internet terminals	€25m	€15m	€5m

lotteries and sports betting are state owned companies such as Lotto, Toto and Oddset and this is coordinated by the Deutsche Lotto und Totoblock (DLTB) a consortium of state owned providers. DLTB is made up of 16 independent lottery companies in the states and was founded in 1955.

Oddset is a part of the DLTB and is basically a monopoly in the sports betting market. Every state and city has at least two Oddset stations whilst you can place bets at any Lotto outlets of the DLTB which have 23,000 points of sales.

Oddset has provided betting options in Germany since 1999 and is one of the largest state owned betting providers in Europe. It began operations in Bavaria via the State Lottery Administration and a year later offered its products nationwide to the 16 German lottery companies.

Oddset recently introduced its new Plus and

Kompakt betting programmes in most federal states for more advanced betting. Bets can be made at PoS plus online and via mobile apps.

Meanwhile in 2014 a Sports Betting Association (DSWV) was formed to look at the legal uncertainty in the German market. The members all have licences for sports betting or are in the round of the nationwide concession.

The 12 members are Admiral, Bet-at-Home, Betway, BTY Sportwetten, Bwin, Cashpoint, Bet365, Interwetten, Ladbrokes, Mybet, Paddy Power Betfair, Skybet, Tipico, Tipwin, Wetten, William Hill and Xtip Sportwetten.

The DSWV records record tax revenues from the sports betting sector which increased by almost 20 per cent in 2015 to €4.5bn – 97 per cent of this is from private operators. Oddset supplies the remaining three per cent.



The unregulated market is made up of sports and horse race betting plus online casino, poker and lottery sector. There are said to be around 200 unregulated operators with approximately 4,500 locations plus another 133 online sites. There are said to be as many as 400 online casino sites, 85 poker and up to five unregulated lottery sites.

From this sector the unregulated sports betting sector takes around €736m of which 40 per cent is from online sales. They do however pay around €250m in taxes. The casino online sector takes around €1.1bn followed by lotteries with €246m and poker €123m. Total online unregulated revenues amounted to €2.2bn in 2015.

Germany's sports betting market was worth around €5.12bn in 2016 based on both landbased and online betting operators. However it is said that €4.9bn of this is generated by 'grey' market operators with the remained €210m generated by the state owned monopoly provider Oddset which is the only legal provider of sports betting in Germany.

Apparently 63 operators paid taxes on German wagers in 2016 compared to 47 back in 2012 whilst the state earned around €250m in sport betting taxes last year with the majority coming from 'cooperate' grey market operators.

The grey market is growing by around 12 per cent each year since the Interstate Treaty was signed in 2012 and the European Football Championships in 2016 boosted wagers with an extra €150m generated during this time.

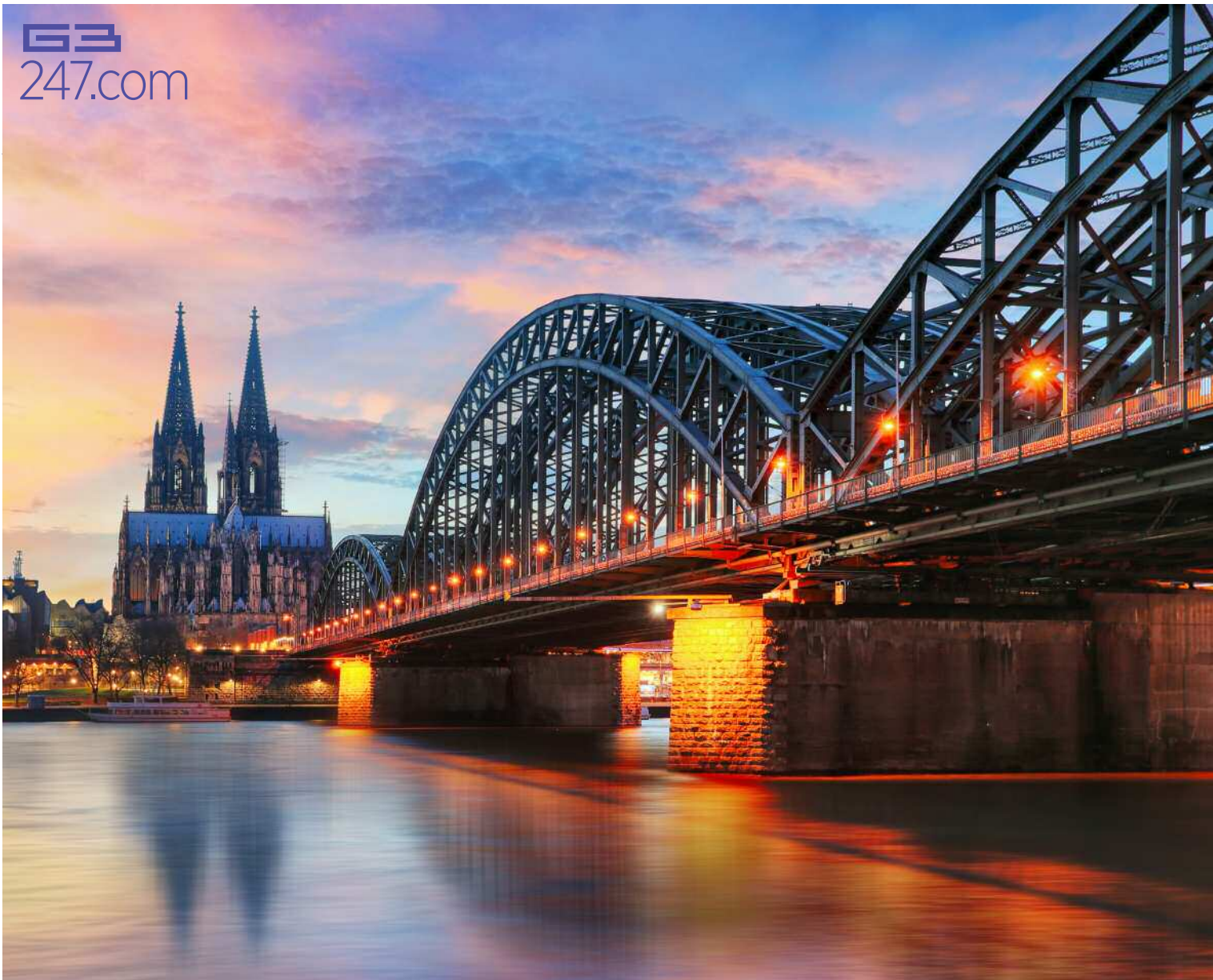
The InterState Treaty included an 'experimental' clause to allow 20 private companies to acquire a sports betting licence but as yet no licence has been granted. Madly they pay taxes on their operations and the system remains. This limitation has been found to be incompatible with EU law and now the sports betting sector is under review.

Each state has its own gambling laws too which limits the number of licences issued. Baden-Württemberg for example can have a maximum of 600 betting shops whilst Berlin is 200 (with a maximum of 10 per licensee).

Bookmaker or totalisator licences on horse race betting are granted under the Race Betting Lottery Act. Although there is no legal limit on numbers for totalisator licences they can only be issued to horse racing or breeding association and for certain race tracks.

Sports betting operators are subject to a five per cent federal tax on stakes on bets both for land and online gambling and this applies to horse race betting. Betting shop owners can also be subject to local betting shop taxes which are determined locally and is approximately €200 per month per 20 sq.m

There are around 60 commercial bookmakers in Germany (regulated) and 49 racing clubs for horse betting and another 200 non regulated internet companies operating.



ONLINE GAMBLING

The gambling regulation of 2008 in Germany was replaced in 2012 by the new German Interstate Treaty on Gambling (ISTG). The treaty maintained a state monopoly on the operation of lotteries and stipulated a total ban on online casino operations and limited the availability for sports betting licences.

It was implemented by 15 of the 16 states. The state of Schleswig-Holstein refrained from signing the treaty and created its own online gambling law. As a result the only licensed online gambling sites were in this state but available to all German players.

Schleswig Holstein has almost three million inhabitants and at the time passed its own more liberal law permitting licences for sports bets, poker, games of chance and casino games online. By 2013 there were around 50 licences granted in the state.

The ISTG meanwhile, although did not permit casino games, did grant concessions to 20 private bookmakers for sports betting shops and online portals. However not a single licence has still been issued to date.

The VDAI claims online gambling has negatively affected land-based gaming. Gross revenues for the gambling sector in 2005 amounted to €952m, which by 2014 had dropped to €508m. Meanwhile, online casinos reached just under €200m in 2005 and by 2012 it topped €658m.

The treaty states the following:

- Limitation of 20 licences for sports betting only.
- Monthly limitation on stakes to €1,000 per customer.
- Betting operators liable for a five per cent tax on stakes (called Torpedo tax)
- In-play betting limited to final results and period of a game.

The treaty states that although online casinos are still banned, online lotteries and a limited

number of online sports books can be operated. Meanwhile in 2013 Schleswig Holstein's gambling law was abolished by Germany's newly elected state government and all states now adopt the ISTG.

Although this state no longer issues online licences the licences which were granted via its GlückspielG law continues to apply to the permits granted for a six year period and so they are valid until 2018/19.

This includes about 25 betting licences issued to various companies include 888 Germany, Admiral, Bet at Home, Betwin, Bet365 plus a further 23 licences to online casinos including



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- ▶ Integration of video, audio and touch
- ▶ PiP/PoP achievable
- ▶ Screen scaling and resizing

DATA FOR THE UNREGULATED MARKET 2015

	NO. OF SITES	NO. OF OPERATORS	TOTAL REVENUES
Betting Outlets (total)	4,500	200	€2.27bn
Sports-betting	133		€736m (60% landbased and 40% online)
Casinos	402		€1.16bn
Poker	85		€123m
Lottery	<5		€246m

DECLINING FIGURES

	2007	2015	DIFFERENCE
Gross Profit	€923m	€556m	-40%
Table games	€210m	€156m	-26%
Slots	€713m	€399m	-44%
Tronc	€142m	€85m	-40%
Visitors	€8.9m	€5.6m	-37%

888, Bet at Home, Betway, Bwin, Ladbrokes. The state also has several lottery licences issued, four horse racing betting licences and five casinos.

The ban on online gambling, however, only applies to domestic online gambling companies, which means that Germany cannot legally

penalise or restrict foreign operators.

The VDAI claims online gambling has negatively affected land-based gaming. Gross revenues of the gambling sector in 2005 amounted to €952m, which by 2014 had dropped to €508m. Meanwhile online casinos reached just under €200m in 2005 and by 2012 it topped €658m.

The association Deutscher Online Casinoverband (DOCV) is calling for an amendment to the gambling state treaty to including the licensing of casino online products. They want a viable and law safe regulation for online casinos in Germany. Oddset at the moment remains the only legal German internet provider.

Gauselmann's note of caution after hugely successful year

"All in all, the Gauselmann Group achieved a good result in 2016. What the raw numbers do not reveal, however, is that as a result of the legislation many arcades in Germany continue to be directly threatened by closure. Although for the past 65 years the Gauselmann Group and the coin-op sector in general have ensured that people's desire to play has been kept in check in a coordinated manner."

Paul Gauselmann, founder and Chairman of the Management Board of the Gauselmann Group.



From a purely economic perspective, the family-owned Gauselmann Group from Espelkamp in eastern Westphalia – under the management of Paul and Armin Gauselmann and six other managing directors – closed the 2016 financial year on an extremely positive note.

Cumulative sales of all entities in the Gauselmann Group with its internationally known "laughing Merkur sun" trademark were up by 14.2 per cent to €2.53bn. Adjusted for intragroup sales, sales revenues climbed by 17.8 per cent to €1.72bn – an increase of €260m. Hand in hand with this, the number of employees rose in the same period by 1,198 to total 10,438 games makers worldwide.

This growth is above all attributable to foreign sales, which have risen steadily for the past several years, whereas the share of sales of the German market is now just over 50 per cent. In the ongoing business year, foreign sales will for the first time account for substantially more than 50 per cent.

As a result of the Glücksspieländerungsstaatsvertrag ("First Amended Interstate Gambling Treaty") and the respective state arcade laws, the situation on the German home market is difficult, although a growing number of players use and enjoy the products and services, but remain silent.

"All in all, the Gauselmann Group achieved a good result in 2016. What the raw numbers do not reveal, however, is that as a result of the legislation many arcades in Germany continue to be directly threatened by closure," says Paul Gauselmann, founder and Chairman of the Management Board of the Gauselmann Group. "

Although for the past 65 years the Gauselmann Group and the coin-op sector in general have ensured that people's desire to play has been kept in check in a coordinated manner," Paul Gauselmann adds. This includes extensive protection of players and minors, an area in which the Gauselmann Group is seen as a

pioneer. In cooperation with leading companies for biometric control systems, the company has developed the FACE-CHECK automatic admission control system for arcades, which with the help of biometric data ensures the exclusion of barred players and minors under the age of 18.

Internationally, the Gauselmann Group was again able to grow through further acquisitions in the financial year 2016: sales increased by 23.6 per cent from €673m in 2015 to €832m in 2016. To ensure the organisation is well-positioned to meet future challenges, the Gauselmann Group has optimised the structure of its business segments, splitting them into the four pillars Merkur, Gaming operations, Sports betting and Online gaming.

The equity of the family-owned company, which was founded in 1957, increased in 2016 by 12.6 per cent to €775m (2015: €688m), which corresponds to an equity ratio of 54 per cent.

"The Gauselmann Group has always reinvested realised profits – in recent years primarily in international markets – with the result that despite the difficult situation on the German market, we are now able to run an extremely successful organisation. Through their commitment and passion, our employees have, of course, played an important part in this," explains Vice-Chairman Armin Gauselmann.

Numerous national and international awards and certifications testify to the high quality of the products and services on offer. In early 2017, the CASINO MERKUR-SPIELOTHEK subsidiary received recognition as 'Top national employer' for the third year in succession.

Picture right: from l. to r.: (1st row) Armin Gauselmann, Paul Gauselmann, Chairman of the Management Board, (2nd row) Dr Werner Schroer, Technology, (3rd row) Manfred Stoffers, Marketing, Communications and Political Affairs, Jürgen Stühmeyer, Merkur Sales, (4th row) Dieter Kuhlmann, Gaming Operations, (5th row) Alexander Vleeming, Finances, Alexander Martin, Online Gaming.



Keeping the flow of cash constant despite the changes



With legislation changes affecting the German AWP market, the performance of each machine becomes even more critical than before. As we all know, the new regulations will unfortunately reduce the size of the market, and players will have fewer machines to play upon. The value of each EGM then rises, and any performance issues will make a considerably larger impact on operators and their profitability.

CPI explains why Germany's street gaming operators should demand the best in banknote recycling as they consider how to respond to the changes in legislation going forward. G3 speak to CPI's Anette Jauch about the specifics of those changes and how they will impact operators, suppliers and players

"You can have every colour you want so long as it is black". What Henry Ford said in 1909 is applicable today in our market. The significance, power and association of a colour with a product have immortalized this quote – only today, yellow is the new black. It is the colour of the CPI banknote reader and recycling solutions. Many operators know CPI products simply as the yellow ones. And yellow stands for the best quality in the market.

Banknote recyclers have rightly become standard in the German AWP industry. Players appreciate the optimal service a banknote recycler offers, allowing them to both play and receive their wins in convenient notes instead of coins. Operators have a host of benefits: because notes are recycled, the amount of 'dead capital' within the EGM is reduced and the term 'coin starvation' practically no longer exists.

The SCR Advance's performance speaks for itself, and the most recent 'Advance' model offers newfound enhancements in performance, security and speed

from CPI. Excellent first-time acceptance rates of genuine notes – regardless of their quality – is its hallmark, ensuring a smooth experience at the machine for players. This unbeatable acceptance and a range of leading-edge security features place the SCR Advance at the forefront of technology in its field.

Another distinguishing characteristic of SCR Advance is its performance as measured by its jam rate, and this is where it truly outperforms the competition. Players play with the banknotes they have with them – they may be new from the ATM but players usually also carry older notes that are crinkled, dirty and torn. Banknote recyclers must be able to accept, store and pay back notes of varying conditions; if they instead place worn notes into the stacker as a means to prevent issues – or jams – during pay-out, the *raison d'être* to use a banknote recycler is displaced.

A note that gets stuck in the machine during pay-out is what we call a jam, and how often jams occur is what we call the jam rate. The higher the jam rate, the more often the EGM goes down – reducing uptime.

A New Era of Cash Handling in Germany



Anette Jauch
CPI Sales Director - EMEA Gaming

Anette, the SCR Advance was specifically designed for the German AWP market - what were the factors that were taken into account and how was the SCR Advance adapted to specifically suit the German AWP sector?

As you know, CPI's products are used across a range of industries – including Gaming, Financial Services, Retail, Transport and Vending. While SCR Advance is now being used in several of these industries, it had been originally designed and developed for Gaming – and especially for the German AWP market.

What makes it a “German” product? We all know that German operators expect the very best – any products they use must be brilliantly engineered and include advanced features that are highly secure and of the best possible quality. This is especially true of payment peripherals, as operators in the German AWP sector require a number of security features to protect them against frauds and manipulation that aren't as common in other sectors.

Unlike other note recyclers on the market, the SCR Advance can detect the position of each and every note on the recycling drums and will know if notes are missing or become missing even during a powered down state.

Additionally, features like the anti-stringing mechanism and anti-skew note path make SCR Advance the fastest, most secure and most efficient note recycler inside and outside the Gaming market.

How do you see the impact of the legislation changes in Germany affecting the different sectors of the industry, from the suppliers through to the operators and the players?

When this happens, a member of staff has to be called to fix the jam. Typically, this person is a technician who has to be called to the arcade. Operators of EGMs in bars and cafés may have their machines spread over long distances – so it may take a technician hours to reach an affected machine, during which time the machine remains out of order.

CPI offers the lowest jam rate in the industry. With a jam rate of less than 1 jam in more than 10,000 transactions, the SCR Advance truly stands out head and shoulders above the competition.

It seems clear that the market will shrink in number of arcades as well as number of machines in the market. Whilst it is still very unclear by how much the market will shrink, the industry is preparing for a more competitive playing field. In a first step, at the end of this year, some arcades will have to close or downsize. As a result, machines will have to be taken off the floor and returned to the supplier.

From a supplier's point of view, the available market will shrink. From an operator's point of view, the performance of each remaining machine becomes that much more critical to their profitability. A dip in the acceptance rate or downtime from a coin/note jam will impact the arcade owner's revenue much more severely than before.

With fewer games available, players may have less choice and may have to wait until their favourite machine becomes available. And, of course, they will certainly be more annoyed than before if their coins/notes are not being accepted by the machine or if there is a problem during payout – further emphasising the importance of performance to operators.

What are the opportunities for CPI and the SCR Advance in the new German market reality of less locations and fewer machines in operation?

Clearly, CPI's products – and especially the SCR Advance – stand out head and shoulders above the competition with regards to security and performance. With a jam rate of one in 10,000 or more transactions, its performance is unparalleled in the German AWP market and, in fact, the entire industry. And, as each single machine becomes more important, it must be a priority and focus of both machine suppliers and operators to offer machines with the best performing games and the highest-quality peripherals.

Why has Germany so thoroughly adopted the concept of note recycling when other markets continue without such a large-scale install base of this product? What is it that makes Germany different?

In reality, it's actually only Italy that has remained a “Coin-only” market. All the other major AWP markets (Spain, UK, the

With legislation changes affecting the German AWP market, the performance of each machine becomes even more critical than before. As we all know, the new regulations will unfortunately reduce the size of the market, and players will have fewer machines to play upon.

The value of each EGM then rises, and any performance issues will make a considerably larger impact on operators and their profitability. The importance of individual machine uptime will increase for every operator. Now more than ever, it is vital to have the best performing banknote recycler available

Netherlands) have also adopted notes/tickets and note recycling. Note recycling is also the most efficient solution when TITO is not or cannot be made available, as is the case in Germany. Additionally, the current stake/prize structure in the German AWP market provides operators with the revenue to demand the best performing products with casino-like levels of acceptance and security.

Is jam-rate actually more important in a recycling unit as it's expected to be operating for longer periods without support?

As said earlier, this is definitely the case, both for Adult Gaming Centres as well as single-site operations. In AGCs, there is usually an attendant or technician who can clear the jam, whereas at single sites technicians might have to travel from far away to clear a jam – which means the machine remains “unplayable” until the jam has been cleared and the machine is up again. A low jam rate is one of the most important factors when choosing a note recycler – and SCR Advance offers the lowest jam rate in the industry.

What message are you sending to operators about the help and support offered by CPI during what is going to be a difficult time for the AWP industry in Germany?

CPI's daughter site CPI GmbH – the original NRI facility – is a German office with German staff and, most importantly, a German-speaking Technical Support and Service department. With an engineering team close to “where it happens” and technical support only a phone call away, both suppliers and operators can rely on fast and efficient service.

And last but not least: Yellow is the new Black! For years, the high-quality, high-performance note products have been known in Germany as “the yellow ones”. With the increasing pressure of high performance for the gaming machines and its peripherals, it would be negligent not to ask for the best product with the best performance on the market.

Low cost of ownership from high machine uptime and low service costs will easily balance the higher cost that naturally comes from high quality and high performance. When ordering machines, ask for “the Yellow one” – ask for SCR Advance!

on the market. We all deserve to ask for the best, and the best for banknote recycling is yellow – the SCR Advance.

Based in Buxtehude, the former headquarters of NRI, CPI works from a well-known location with a local team has many years of experience in the market. Yet another reason to choose the SCR Advance is the fact that it was designed especially for the German AWP market. Extensive market research and customer feedback is what led to a product that can meet all operator requirements for banknote recycling. No wonder yellow is the new black!

Reports

LEGISLATIVE CHANGES
GERMAN STREET MARKET

Views of the German Market at street-level

G3 appraises the legislative changes affecting the street market in Germany and speaks to the principle operators in the sector, asking for their views and opinions about the affects on their business and player behaviour following the new ruling

The German AWP has in the past years grown strongly. The latest statistics available from 1st January 2016 from the umbrella association The German AWP Industry (Die Deutsche Automatenwirtschaft) show:

• Number of arcades: 9,102

• Number of concessions: 14,877

• Number of arcade operators – approx. 5,000

• Tax paid by the German arcade industry – over 2 billion euros

• 'Amusement tax' (Vergnügungssteuer)

amounted to 985 million euros

• Number of employees in the German AWP industry – approx. 70,000

• Number of people who play on AWP's in Germany – approx. 5 million

Yet the German AWP industry faces an uncertain future. The changes began back in 2012 when the Interstate Gambling Treaty (Glücksspielstaatsvertrag) was updated to reflect the fact that the 16 individual states in Germany were to assume the responsibility of gambling in their own individual states. The present Interstate Gambling Treaty was ratified on 01.0.2012 and will last until 30.06.2021.

Today, AWP gambling in Germany is managed by 16 local governments. Each state has the right to interpret the Interstate Gambling Treaty in different ways. The result is 16 different sets of rules. In some states the results have been



Dieter Kuhlmann,
Spokesman for the Management Board,
CASINO MERKUR-SPIELOTHEK

What consequences are you faced with due to the new state arcade regulations?

Distance regulations to other arcades or institutions such as schools and youth centres are stipulated in the state arcade laws. These will also affect the CASINO MERKUR-SPIELOTHEK arcades. Arcades will have to be closed or reduced in size. As our company operates at various locations with multi-concessions, the ban of multi-concessions affects us.

Players are faced mainly with disadvantages. The reduction in the machine number may mean that there are not enough machines for each player. This may lead customers transgressing to the internet or to illegal forms of gambling.

What is your strategy to maintain your positive business strategy?

Our company will enforce the legal rights for existing arcades and concessions. There are laws that apply to cases of hardship to secure investments that have already been made. Furthermore, CASINO MERKUR-SPIELOTHEK will develop further new locations with single

concessions and so continue to offer a high-quality gaming portfolio in the future as well.

How many arcades will you have to close?

It is too early to give conclusive information here due to the complexity of the subject matter and the diverse implementation laws within the individual states. In the long-term it will be exceptional that we will be able to operate our large arcade complexes without any restrictions.

How many arcades have you had to reduce in size?

The situation at this moment in time is not clear. Thus, we cannot make a conclusive statement here. In the medium-term the majority of our arcades will most likely have to be reduced in size.

These changes stem from desired improvements in responsible gaming. How do you see this?

The Gauselmann Group conforms to the requirement to channel its gaming offer as stated in the Interstate Gaming Treaty. However, the company does not believe that creating larger distances between arcades will lead to greater player protection given the fact that the next gaming offer is only a click away in the internet. Thus, the Gauselmann Group has been regularly training its staff for years in the field of responsible gaming. In addition to that, the company is setting new standards with its new, biometric entry control system called 'FACE-CHECK'. This recognises biometric facial features and can thus ensure that under-aged and banned players are prevented from entering the arcade. 'FACE-CHECK' works at the same time very diligently with the data. General information on responsible gaming is available both in the arcades and on the Gauselmann Group website.

What are the advantages and disadvantages for the player regarding these changes?

Players are faced mainly with disadvantages. The reduction in the machine number may mean that there are not enough machines for each player. This may lead customers transgressing to the internet or to illegal forms of gambling.

The deadline for implementing the state arcade laws in 30th June in many states. What does this mean for Merkur Spielothek?

The deadline varies according to the state. The law cases are still impending. Generally speaking, CASINO MERKUR-SPIELOTHEK is facing various several challenges. This includes, for example, the adaptations necessary to the arcades and organisational structures.

What changes do you expect when the new Technical Directive comes into power next year?

Many positive effects can be expected as the industry has had a long time to prepare for the new Technical Directive. We have had over four years to think about new cabinets as well as new games / content and to accordingly develop these. There will be a vast number of innovations in 2018. The legal specifications will mean that the machines built to Technical Directive 5.0 surely won't meet the current level. The political upheaval is just too deep. Nevertheless, our company sees the industry as innovative enough to be able to offer players very interesting machines at this point in time so that the change from the old to the new Technical Directive should not be so difficult.

CHANGES TO MACHINE STAKES AND PRIZES

PRESENT RULING

NEW RULING (FROM 10.11.18 ONWARDS)

Bet stake – max. 0.20 euro every 5 seconds	remains unchanged
Max. amount allowed on credit metre: 25 euros	10 euros
Max. loss per hour: 80 euros	60 euros
Max. average loss per hour: 33 euros	20 euros
Max. win per hour: 2 euros every 5 seconds	remains unchanged
Max. win per hour (not taking stake into consideration)	
500 euros	400 euros
Max. potential win that can be displayed on AWP	
1000 euros	300 euros



Robert Hess,
Political Representative,
SchmidtGroup

gaming and player protection have been an indispensable part of our daily work for a long time. Only this way can players enjoy their recreational time in a secure environment. We hope that politicians will quickly understand this and react accordingly. We are convinced that we provide a socially responsible offer and we will therefore continue to fight for our playing guests and our staff so that commercial gaming has a good and economically sound future.

People will always want to play and we are apprehensive that the restrictions on the legal and controlled form of gambling will force some into illegal gambling. Responsible gaming and player protection have been an indispensable part of our daily work for a long time.

What is the update concerning multi-concession arcades?

The transition period as stated in the InterState Gambling Treaty ended on 30th June 2017 – apart from in North Rhine-Westphalia (30.11.2017) and Schleswig-Holstein (09.02.2018). Multi-concession arcades are fundamentally forbidden after this transition period. However, the legislator sees the possibility according to §29.4.2. of the InterState Gambling Treaty of so-called hardship cases for existing arcades. The implementation of this regulation varies from state to state. For example, in Bavaria and Rhineland-Palatinate, the hardship case allows the continued operation of up to 48 AWP (i.e. 4 concessions together) until the end of the InterState Gambling Treaty on 30th June 2021. Thus, each location has been individually inspected referring to the implementation of the corresponding State Arcade Law and necessary changes have been carried out. Only this single inspection and classification guarantees lawful arcade operation. And that is our top priority.

What consequences are you faced with due to the new state arcade regulations?

Only the politicians in Lower Saxony have forced us in the first step to reduce our locations to one concession (12 AWP). However, we are confident that through the pending lawsuits we will be able to maintain our locations in their original form. In the other states we have succeeded through close collaboration with political and municipal decision makers to either completely or mostly secure our locations until the end of the InterState Gambling Treaty.

What is your strategy to maintain your positive business strategy?

People will always want to play and we are apprehensive that the restrictions on the legal and controlled form of gambling will force some of them into the grey market or even into illegal gambling. Responsible

These changes stem from desired improvements in responsible gaming. How do you see this?

Player protection plays a central role as our offer is by definition connected with risks. Therefore, we founded the society Spielerschutz und Prävention mbH (GSP) (Society for Responsible Gaming and Prevention) with two further companies. Qualified responsible gaming staff at the GSP are responsible for player protection and prevention at all arcades of these three companies.

What are the advantages and disadvantages for the player regarding these changes?

A reduced offer does not mean that there will be fewer players. We are convinced that a limited offer of the responsible, controlled and legal gaming market will force players more and more into the grey and illegal gambling markets. What the individual player 'gambles away' in a poker backroom or on his or her own laptop remains unregulated and unprotected. That is why we have demanded for years that politicians sit together with us, the providers of commercial gaming, at a round table together with representatives from science and self-help groups to create constructive dialogue. The solution lies only through the qualitative regulation of the entire gaming market.

The deadline for implementing the state arcade laws is 30th June in many states. What does this mean for the Schmidt Group?

A very busy and enthralling time has come to an end. There is no time to pause as four years remain to create a new quality-focused ruling for the entire gaming market together with politicians. Only if this succeeds will then our business model of so-called multi-concessions have a chance in the future. We are cautiously optimistic that this will be the case!

draconian, in others more relaxed. The State Arcade Laws (Landesspielhallengesetze) came into existence in 2012. Yet most states gave the AWP operators five years until they came into power. This date for the majority of the states was June 30, 2017.

This has led to significant upheaval. The German AWP sector is facing major changes. Some states have had more stringent implementation dates (such as in Berlin).

The major changes affect the concession rights and the future minimum distance between arcades. The German AWP market has flourished over the past years as operators have

often been granted the rights to offer larger arcades. Normally only 12 AWP are allowed per arcade and in the 1990s and before that the market was characterised by small arcades – often known in those days as Spielhöllen – 'gaming hells' is the literal translation. These days are long gone with the multi-concession arcades that are often known as Entertainment Centres.

The strong investment made by many operators – especially the large chains – has changed the way arcades are perceived. The number of players has risen to approx. five million in the population – and the percentage of female players has significantly increased. Things

would be going very well if it were not for the forthcoming changes. The past few years have probably been the most successful and profitable for manufacturers and operators alike. These times are now over.

The changes will affect operators the hardest. Not surprisingly there are many court cases being fought and many of the outcomes are still outstanding. Most states have banned multi-concessions and the arcades can offer a maximum of 12 AWP. (In Hamburg and Berlin the number is only eight). Multi-concessions may only be kept if a legal exception is granted. Some states will continue to allow multi-concessions yet reduce the numbers. In Bavaria



Josef Kron,
Managing Director,
Löwen Play

What consequences are you faced with due to the new state arcade regulations?

The deadline for the German government to enforce the new gaming regulations passed on 30th June for all states except North-Rhine Westphalia and Schleswig-Holstein. Now that the laws are valid, the administration tries to implement them. However, there is a great deal of uncertainty in the market as the laws are lacking in clarity.

What is your approach to maintain your positive business strategy?

We offer professional, regulated gaming with low stakes and prizes and are proud of the contribution we make to the German AWP industry. It goes without saying that we are doing all we can to ensure that our customers can enjoy the level of gaming entertainment they know and expect from us. The mentioned state laws have to be enforced on a local, municipal level. It goes without saying that the staff in town halls has a difficult job despite intensive endeavours in order to cope with the very specific situation. We are following the strategy of cooperating with the local staff at municipalities and try to find a compromise wherever possible. Let me state though that we are nevertheless protecting our business and if a compromise is not possible, then we air our complaints – in lawsuits if necessary.

How many arcades will you have to close?

This is much too early to predict. We have not been forced to close any site right now. The state that is acting in an extremely tough way is Lower Saxony. Here we have had to reduce our multi-concessions to single sites. In other states the story is different. Saarland and Hamburg have decided to tolerate the arcades in the existing form for the

time being in order to give the municipalities more time and to enable them to better cope with the complex situation. The states Bavaria and Rhineland-Palatinate have been so far most understandable and compromising to our industry at least for a transition period.

How many arcades have you had to reduce in size?

To date our arcades in Lower Saxony have had to be reduced to single concession arcades. We are fighting each case on an individual basis.

These changes stem from desired improvements in responsible gaming. How do you see this?

At Löwen Play, we invest in several ways to ensure we provide highest quality and the utmost responsible gaming offer. Our staff are well trained. We ensure that any customers that may have problems with their gaming behaviour receive help as quickly as possible. Players have the ability to ban themselves if they deem this as necessary. With a whole array of measures we ensure that we focus on and take this subject very serious. Therefore, we are at a loss to say why the new regulations should make any further positive effect. On the contrary, if our customers cannot play in a high quality certified arcade we would expect that traditional land-based players will move to online gaming – which is not regulated.

The deadline for implementing the state arcade laws is 30th June in many states. What does this mean for Löwen Play?

There is no general answer to this question. Each federal state has reacted differently and the responsible local municipalities have to enforce the somewhat unclear regulations. For us at Löwen Play, it means we will further intensify our focus in protecting our business in providing safe and legal gaming. We are a large operator and take our responsibilities very seriously. In cases where a compromise is not viable, we are prepared to fight for our rights with the appropriate legal steps.

Town halls have a difficult job despite endeavours to cope with the very specific situation. We are following the strategy of cooperating with the staff at municipalities and try to find a compromise wherever possible. We are nevertheless protecting our business and if a compromise is not possible, then we air our complaints – in lawsuits if necessary.

and Rhineland-Palatinate the maximum number will be 48 AWP's per arcade (four concessions). In Mecklenburg-Vorpommern the maximum number will be 36 AWP's per arcade (three concessions).

The second major upheaval is the new minimum distance rule between arcades. In Lower Saxony it's 100 metres between arcades. In Saxony-Anhalt the minimum distance that's permissible between arcades is 200 metres.

In Bavaria, Bremen and Saxony the number is 250 metres. The states of Hesse and Schleswig-Holstein demand a minimum distance between arcades of 300 metres. All the other states (Baden Württemberg, Berlin, Hamburg, Mecklenburg-Vorpommern, Rheinland-Palatinate, Saarland and Thüringen) stipulate a

distance of 500 metres between arcades. The Technical Directive (Spielverordnung) is controlled at the federal level. The new Technical Directive that was agreed in November 2014 will come into power on November 10, 2018. The major changes are listed in the table: 'Changes to Machine Stakes and Prizes' on page 55.

Furthermore, the stake can only be shown in euros and cents. This hails the end for the points metre. The game pause of five minutes every hour remains unchanged. However, during this time it will no longer be allowed to show any games or game demos and or animations. A further new point is that the AWP has to be reset to its initial setting every three hours.

A point of discussion has been how to prevent a

person playing on more than one machine at one time. To prevent this, the 'automatic' play button will no longer be allowed. This means that a player has to press the play button each time to activate the game.

At present up to three AWP's may be placed in bars and restaurants. However, on November 10, 2019, this will change to a maximum of two AWP's per location.

There is much change ahead yet our interviews with three major operators – CASINO MERKUR-SPIELOTHEK, LÖWEN PLAY and the SCHMIDT GROUP – highlight how the industry has fought for its rights and continues to do so. The only 'overnight change' has been the ban on multi-concessions in Lower Saxony. The story is different in the other 15 German states.