



ANNUAL REPORT 2009

## OVERVIEW OF KEY FIGURES

in CHF 1000 (data per share in CHF)		2009	2008
Balance sheet total	as at 31.12.	24'812	25'553
Equity capital	as at 31.12.	23'612	22'999
Market capitalization	as at 31.12.	31'309	25'988
Net income from continued business divisions		849	1'509
Net income from discontinued business divisions		813	85
Group net income		1'662	1'594
Earnings from affiliated companies		2'112	2'061
Profit per share from continued business divisions		0.76	1.34
Profit per share from discontinued business divisions		0.72	0.08
Diluted and undiluted profit per share		1.48	1.42
Dividends per share with nominal value of CHF 9.00*		1.00	1.00
Market price per share	as at 31.12.	25.30	21.00
Issued shares (old shares converted)	Number	1'237'500	1'237'500
Number of full-time equivalents (full-time positions)	as at 31.12.	8	8
Number of full-time equivalents (full-time positions)	Annual average	8	8

\*Application by Board to General Meeting

# LETTER TO SHAREHOLDERS

Dear Shareholders,  
Business Associates  
and Partners,

In 2009, the global economy and the local economy overcame the very bottom of the slump which has prevailed for around two years. The pleasant glimmer of a recovery loomed on the horizon towards the end of the year.

Escor and the Swiss entertainment and casino sector were less directly affected by the global crisis situation however. For 2009, the results for Escor remained within expectations. That said, the sector began to feel – somewhat belatedly – the effects of the profound insecurity of consumers. Both the number of visitors and the average stake per visitor fell slightly for the first time since the Swiss casinos opened eight years ago.

This negative trend is not attributable to the global crisis and its effects on consumer behaviour alone however. Restrictive smoking laws and the increasingly laxer admission standards for state-run games of chance in Switzerland and other neighbouring countries will continue to have a negative impact on the income of Swiss casinos in the future.

Given the corresponding reduction in earnings, several casino firms have revised their investment budget downwards for next year. Whether or not compensating for a drop in revenue through reduced investments in appealing and entertaining machines is a smart move remains to be seen. The fact is that slot machines are increasingly becoming the main revenue earners for casinos. Due to the significantly lower personnel costs – unlike gaming tables – this trend is well regarded or even promoted by many casinos.

With both product lines from the Austrian AGI and Spanish Unidesa, Escor has a product range that has crucially shaped the Swiss gaming machine market. Since the opening of the first casinos in Switzerland eight years ago now, the AGI machines in particular have secured a firm place in almost all Swiss casinos.

The fact that not all casinos are equipped with these successful machines is due to an earlier circular from the Swiss Federal Gaming Board (ESBK). This states that machine manufacturers or suppliers may not supply casinos in which they have a holding greater than 19%. Thus the unusual situation arises whereby Casino Lugano can be supplied with the best machines by Escor or AGI while our own neighbouring casinos in Locarno or Mendrisio must forego them. The circular is based on obsolete prejudices against the gaming machine sector and formerly operated slot machines centers. Now more than ever it is incomprehensible and unjust.

On the basis of the ESBK's report, in March 2007 the Federal Council resolved to make a final decision regarding any relicensing of Swiss Casinos in spring 2010 only. According to our years of knowledge, the Swiss casino scene has two significant weaknesses that we would like to address in the next licensing round.

For years now, Escor has been intensively working on the application for a promising casino project based at the old stock exchange in Zurich, as part of its holding in Casino Zürich AG. It appears however that the project will be in direct competition with at least two other projects. We regard this as proof that the Zurich casino market is deemed attractive from many quarters.

For almost a year now, Escor has also been drafting an application for a casino project in La Tène (Marin) in the canton of Neuchâtel. The project provides for a casino site in the best possible location at the Neuchâtel – Biel and La Chaux-de-Fonds – Murten interchange. It therefore covers a considerable catchment area that is in no way covered by today's casinos. Consequently this would open up a whole new area of potential customers.

The intensive Swiss casino licensing effort is supported by the positive results of the casino in Locarno. Business in the medium-sized, efficiently managed casino in Tessin has once again proved extremely successful.

Since any implementation of our Swiss casino projects is dependent on numerous political and financial factors and since these projects will only be definite in the course of 2010 at the earliest, Escor has been intensively involved in a new casino project in Montenegro for a long time now. Based on detailed business plans and intensive preliminary investigations, in autumn 2009 the board gave the promising project the green light. Work began immediately so that this 6 million Euro project can be opened before the summer season 2010.

At the same time, as planned, Escor disposed of its holding in Giochi San Marino S.p.A. The San Marino company opted not to go through with costly relicensing three years ago and ceased its operational activities. As a result the holding was therefore of little benefit to Escor.

Alongside the intensive work on new casino projects, Escor has been following traditional machine installation activities for years with a watchful eye. The industry situation has still barely settled. As a result of the incomprehensible decision by the Federal Administrative Court regarding the Tactilo electronic lottery game, but also due to the vacillating conduct of the ESBK and cantons against illegally operated slot machines, the industry situation is still obscure and has little appeal for respectable prospecting machine operators. Because we believe in a stable and financially successful machine market however, Escor continues to develop entertaining slot machines with a skill element. With the Skillspot approved by the EBSK in spring we took a significant step towards an appealing and financially beneficial gaming machine. The further development currently undergoing the approval

process should essentially give these highly appealing machines greater competitiveness in terms of maximum profit.

#### **Earnings from discontinued business divisions significantly affect group profit of CHF 1.7 million**

Following a net profit of CHF 1.6 million last year, Escor has shown a slightly higher net profit of CHF 1.7 million for the year under review. In fact Escor exceeded the predicted expectations with this annual result however this deviation was primarily due to the liquidation of provisions.

The casino machine trade in Switzerland remains virtually unchanged compared with the previous year. The number of machines sold only saw a slight decrease in spite of the smoking ban and recession fears. Less renovation work and technical upgrades were completed however, meaning that spare parts and services were slightly below expectations. Overall, income and expenditure from operating activities remained in line with expectations.

At CHF 2.11 million, income from affiliated companies is around 2.5 percent higher than in the previous year (CHF 2.06 million). The 3.5 percent decline in sales in the Locarno casino could be addressed through promptly initiated cost-cutting measures which ultimately led to a net profit slightly above that of last year. As in the previous year, the «Zurich Casino» project put a strain on the income statement to the tune of around a quarter of a million francs.

The net profit from discontinued business divisions amounted to CHF 0.8 million (CHF 0.1 million in previous year). A loss on the disposal of the Giochi San Marino S.p.A. holding was offset through the liquidation of reserves. In the year under review, certain legal proceedings and disputes arising in connection with discontinued business divisions, were settled. Reserves had been formed for this purpose in 2005. These

reserves have been reviewed at the end of each year and had been adapted to changed circumstances as at 31.12.2009.

#### **Board once again requests dividend distribution**

The sustainably consistent net profit and long-term positive prospects have prompted Escor's board to retain the consistent dividend policy. It proposed a dividend of CHF 1.00 per share with a nominal value of CHF 9.00 for 2009 to the General Meeting.

All members of Escor's board were last ratified at the 2007 ordinary general meeting and were re-elected for a further three years. Escor's Articles of Association provide for elections at the imminent May 2010 General Meeting. The members of the Board will be up for re-election for a new three year term of office.

#### **Outlook for 2010**

At the beginning of the 2009/10 year, the casino sector is eagerly watching the Federal Council for its decision on any relicensing expected this spring. Should the Federal Council be of the opinion in its decision of principle, that certain regions in Switzerland are entitled to expect a license, then the ESBK will initiate a corresponding selection procedure. A decision on licensing can be expected before the end of 2010. Escor would be ready to implement both of its projects in Zurich and La Tène within a year's time in the event of a positive decision.

The 2010 annual result will be affected for the first time by the implementation and success of the new casino project in Montenegro. If the casino can be opened in early summer as planned, we anticipate a break-even result for the first year of operation.

The casino industry is looking to 2010 in a somewhat subdued mood. Difficult-to-influence factors such as the smoking ban

at federal level or basic customer morale permit a somewhat pessimistic prognosis. Casinos with an A license are also facing a massive increase in taxation due to being equated with B licenses. To what extent these prospects will also affect willingness to invest in casinos remains to be seen. In the casino machine retail sector we are anticipating revenues of around the same amount as in 2009.

Even the operation in Locarno will not remain wholly unaffected by the general trends. The smoking ban has already been faced successfully some two years ago in Tessin. Nevertheless the competitive situation could look set to get tighter due to additional Italian slot machines.

#### **Thanks**

For the third time in a row, Escor is able to distribute a dividend this year. By so doing, the Board is able to continue its shareholder-friendly distribution policy.

We are therefore grateful to the shareholders and would like to thank you, Ladies and Gentlemen, for your loyalty to the company. We would also like to thank our employees who contribute to Escor's success with enthusiasm and commitment.

Escor is facing some exciting and interesting challenges. I would like to thank all those who actively participate in shaping our company and contribute to Escor continuing to play a leading role in its new environment in the future.



Christian Vollmer  
Chairman of the Board of Directors

## THE CASINO MACHINE TRADE

In 2007 the 19 Swiss casinos still recorded gross earnings of over CHF 1 billion. Since then turnover has declined steadily. A further decrease by 5 to 7 percent to CHF 950 million is anticipated for reporting year 2009. At the same time, the net profit from all casinos is also set to drop further (CHF 142 million in 2007).

The introduction of smoking bans in the cantons of St. Gallen, Graubünden and Tessin, the generally poor economic situation and the weak Euro all contributed to the steady decline in turnover and profit. No end to the negative trend appears imminent. Instead, other circumstances could give rise to problems within the sector in the near future. Thus, the smoking ban announced by the federal government could lead to the costly rebuilding of casinos that have hitherto been spared if the casinos do not wish to lose the traditional smoking clientele.

The new gambling laws in neighbouring Germany and Italy have a negative impact on casinos in the bordering area of Switzerland. Amusement arcades are spreading like wild fire throughout Germany due to the attractive and liberal laws on gaming machines. The fact that smoking is permitted in these premises will impair the competitiveness of Swiss casinos along the German border even further in the future. The Tessin casinos are also having to battle against the massive increase in gaming machines in Italian restaurants and gaming arcades. In regions close to the border, there are currently over ten thousand new slot machines.

Adversity is also threatening the industry inland. In its latest decision of January 2010, the Federal Administrative Court declared that the Tactilo gaming machines banned by the ESBK were subject to the Lotteries Act and may therefore be operated with cantonal permits. In this the Federal Administrative Court distinguishes between

games of chance offered in licensed casinos and lotteries which may be permitted by cantons. It based its decision on the fact that the 700 Tactilo machines currently operated only in French-speaking Switzerland are based on orderliness which is a prerequisite for lotteries. In practice however the player is often unable to tell the difference between a Tactilo machine and a conventional slot machine and therefore the mechanisms for randomising profit remain concealed to them. The fact is also that an instant win of CHF 10,000.00 can be won with these minimally supervised machines in restaurants which creates an enormous incentive for the player. The fact is also that the Tactilo machines operated so far generate daily revenues of CHF 700, whereas the former slot machines earned just CHF 70.00. Revenue ten times higher for the machine operator can not be justified, even – or even because – it is a state institution. The effects of such machines are also clearly evident in the latest social reports. Gambling addicts are not found in the strictly controlled Swiss casinos at all but instead using state-run games of chance such as Tactilo and lotteries. The fact that the boards of these lottery companies are staffed by politicians who not long ago ranted vehemently against the social effects of the private machine industry is just preposterous.

To withstand the increasing pressure from competition and the legal constraints, casinos are under heavy strain. In the future even more attention must be paid to the range of games on offer. Escor can satisfactorily cover the increased market demands with its two product lines from Austria (AGI) and Spain (Unidesa). The astonishing thing here is the fact that none of the 19 Swiss casinos employs a full-time slot manager despite the fact that over 80 percent of revenue is recorded in this sector.

Even given these somewhat less than promising signs, Escor is only anticipating a slight decrease in trade revenue for 2010.

## CHANGES IN GAMING MACHINES WITH A SKILL ELEMENT

Mid-2009 saw a slight improvement in relations between machine designers and the supervisory body, the ESBK. On 30 April 2009, Escor obtained approval for its latest gaming machine with skill element, Skillspot. This machine is primarily based on the successful Snapspot and puts the player's skill to certain challenges without excessively taxing the player's ability. The machine also allows lesser skilled players to make a profit.

In early summer a limited number of machines were tested in the field to test the software for technical faults. It also had to be urgently established whether or not the machine could be emptied by skilled players. Tests showed that the machine is also appealing to lesser skilled players and regularly allows winnings. These winnings were consistently between 80 and 85 percent of the stakes suggesting that over longer periods the machine could form an economic basis for operators.

Further detailed tests using over 50 machines confirmed the assumption that Skillspot was fully developed and did not have any technical faults.

The tests also confirmed however that after five «machine-free» years, there was barely any gaming market left. The former typical slot machine customers have switched to other products in the meantime – to the Tactilo machines in French-speaking Switzerland, lotteries or casinos, or to the many illegal slot machines on offer which, with their extremely high winning prospects, are much more appealing than the legally presented gaming machines with skill element.

In December 2009 therefore, Escor submitted a lightly «stricter» version of Skillspot for approval. Among other things, the machine provides the prospect of a four times greater maximum win of CHF 80.00. The fact that we are still far removed from the winnings offered previously, let alone

the potential winnings of CHF 10,000.00 from a state operated Tactilo machine, only partly highlights the absurdity of the new legislation.

Escor is therefore anticipating having to wait until summer 2010 to obtain approval for the minor changes to the software from the ESBK. Such long processing times for simple software modifications are difficult to understand and not acceptable for an industrial company.

## CASINO HOLDINGS AND PROJECTS

### Casinò Locarno SA

Escor has a 36.5 percent holding in Casinò Locarno SA. Escor's corresponding share of the profits in 2009 was slightly above its share in the profits for the previous year (CHF 2.06 million), at CHF 2.11 million.

As early as the beginning of last year it became apparent that gross gaming revenue would not reach the anticipated levels. Only promptly introduced cutbacks enabled a profit equal to that of the previous year to be achieved in 2009. Although turnover recovered during the second half of the year, the casino recorded a drop in profits for 2009 by 3.8 percent compared with the previous year.

The decline in earnings for slot machines was 2.7 percent, that is less than earnings from gaming tables, with a drop of 14.4 percent. The large decline in earnings from gaming tables is mainly attributable to the reduced hours of operation which became necessary from last autumn due to staffing cuts. The share of profits from gaming tables compared to overall gross gaming fell further in the year under review from 9.4 percent to 8.3 percent.

There are three main reasons for the reduction in gross gaming revenue recorded over the last two years:

- The smoking ban introduced in the canton of Tessin as early as April 2008 has left its mark. Building measures were introduced immediately and the needs of the smoking clientele could at least be met in the slot machine sector with separate smoking areas.
- The financial resources available to casino visitors have been hugely limited by the poor economic conditions, particularly in Tessin and in northern Italy.
- The increasingly inadequate Italian state budget has impelled the government in Italy to loosen the gaming scene to generate more income for the state.

The liberal legislation has resulted in the installation of more than one hundred thousand gaming machines across the country, with several tens of thousands of those in northern Italy close to the border. Players of these are not subject to any restrictions or controls.

Escor is expecting the economic slump to bottom out very soon, smokers to become increasingly used to the new restrictions and that the competitive situation in the gaming market will soon level off. In the near future we are anticipating gross gaming revenue to remain approximately the same in Casinò Locarno.

### Switzerland's Casino Scene

The Federal Council has promised its report on the Swiss casino scene by spring 2010 at the latest. In it, the Council will take a position on any relicensing.

Of the 21 casinos licensed in 2001, two firms have already had to close their doors after just a short time. The Arosa and Zermatt casinos did not have sufficient player potential to generate gross gaming revenues in keeping with the high tax burdens. Escor still believes that there are two areas in Switzerland that have not yet been tapped by casinos. The canton of Neuchâtel and city of Zurich were two regions not formerly considered that both have definite potential for a viable casino both financially and in terms of the number of inhabitants.

Escor's internal studies also show that both locations are capable of generating extensive new player pools and additional markets having very little effect on the 19 existing Swiss casinos.

### Casino Zürich AG

As part of its holding in Casinò Locarno SA, for some time now Escor has been working on a project at the former stock exchange in Zurich. The casino planned in the city

centre is seeking a B license as the aim with the intended size is to focus primarily on the local clientele from the city.

With investments totalling over CHF 25 million, Casino Zürich AG is planning an operation which, with 150 machines and 14 gaming tables, could generate gross gaming revenue of around CHF 60 million.

With the Zürich airport and Sihlporte projects, Casino Zürich AG has at least two competitors in the further selection process. With its two partners, ACE Casino Holding and Escor, Casino Zürich AG has a fair chance of being granted a license.

#### **Casino La Tène, Neuenburg**

From a bird's eye view, La Tène seems the perfect and almost unique location for a casino in the Neuchâtel region. Situated directly near the motorway – at the intersection between Neuchâtel, Biel, La Chaux-de-Fonds and Murten – La Tène is accessible to 450,000 people within half an hour. A potential customer base that only a few casinos in Switzerland can claim. The important thing here is also the fact that there is no other existing casino nearby whose previous turnover could be affected.

During 2009, Escor has forged ahead with planning a casino on a perfectly situated plot in the municipality. The municipality of La Tène is showing great support for the project in its contacts with cantonal and federal authorities.

Escor is aiming at a casino with a B license which could generate gross gaming revenues of 18 to 24 million Swiss francs with over 70 employees following investments of CHF 10 million.

#### **Casino Promotion Montenegro GmbH**

Following intensive research and analysis of a detailed business plan, in autumn 2009 Escor's Board of Directors granted its

approval for the implementation of a casino project in the port of Bar in Montenegro.

A small state on the Adriatic coast, Montenegro has been a candidate for EU membership since 2009. The government circumstances have been extremely stable for years and ensure long-term legal certainty. The Euro, as the only means of payment, ensures an investment-friendly climate within this sound and extremely promising country.

In recent years, Montenegro has developed into an eminent tourist destination. The country boasts many old and wonderful towns and communities along its Adriatic coast. Tourists come mainly from neighbouring Italy, the EU countries and Russia. Short-term travellers come from nearby Serbia en masse since this country does not have any coastline. Two years ago, Montenegro adopted a gaming law. This law, formulated down to the very last detail, is largely based on the proven laws of certain EU states.

With an investment of around 6 million Euros, Escor is building a casino in Montenegro with 20 gaming tables and 75 slot machines. The desired gross gaming revenue for a normal year of operation is 5 to 8 million Euros.

Casino Promotion Montenegro GmbH, in which Escor has a 70 percent holding, applied to the Montenegro Gaming Board on 26 November 2009 for a license for a casino in Bar and received written consent to a casino license in February 2010.

Building work began immediately within the rented premises. The largely foreign senior staff had already been recruited. Local employees will be employed and trained from March 2010. Escor anticipates opening the business in early spring 2010.



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