

Annual report and financial statements

1 Jan–31 Dec 2014

*Ålands penningautomatförening
(company reg. no. 0280695-6)*

CONTENTS

CEO's statement on 2014	3
Annual report for 2014	7
Ratios	16
Income statement	17
Balance sheet	18
Accounting principles	20
Income statement notes	21
Balance sheet notes	22
• Intangible fixed assets	
• Tangible fixed assets	
• Investments	
• Intra-Group receivables and liabilities	
• Equity	
Signatures of Board of Directors and CEO, and auditor's endorsement	28
List of accounting books, verification types and storage methods	29



1 Jan–31 Dec 2014

CEO's statement on 2014

“Who's gonna stand up”

Protect the wild, tomorrow's child
Protect the land from the greed of man
Take down the dams, stand up to oil
Protect the plants, and renew the soil

Who's gonna stand up and save the earth?
Who's gonna say that she's had enough?
Who's gonna take on the big machine?
Who's gonna stand up and save the earth?
This all starts with you and me

Damn the dams, save the rivers
Starve the takers and feed the givers
Build a dream, save the world
We're the people know as earth

Who's gonna stand up and save the earth?
Who's gonna say that she's had enough?
Who's gonna take on the big machine?
Who's gonna stand up and save the earth?
This all starts with you and me

Ban fossil fuel, draw the line
Before we build, one more pipeline
Ban fracking now, save the waters
And build a life, for our sons and daughters

Who's gonna stand up and save the earth?
Who's gonna say that she's had enough?
Who's gonna take on the big machine?
Who's gonna stand up and save the earth?
This all starts with you and me

Who's gonna stand up
Who's gonna stand up
Who's gonna stand up

/Who's gonna stand up - Neil Young, 2014

“We enter 2014 with the objective of restoring growth in our existing markets and accumulating growth by expanding into a new market.” This was how I ended my statement in our 2013 annual report.

Did we succeed in this task? Did we manage to stand up for everything we believe in and work to achieve?

The answer is NO, and perhaps to some small extent yes. One thing we do know for certain is that we learnt a lot during the year.

Revenue declined by 9% to €98 million (€108 million) and operating profit decreased by 46% to €17 million (€31 million). The cost increases, planned to create growth, did not have the desired effect in 2014. Despite this, an unchanged dividend of €21 million (€21 million) is proposed.

Agile approach and hunt for new insight

Once again, Paf employees have shown persistence, innovation and endurance. And we have done a great deal, but we have not found the key to growth in all our markets.

We know that sharing experiences leads to growth, and this permeates our decisions and the way we choose to develop. Responsibility is a daily part of our activities. We test out new things, learn from this and test some more.

If the truth were out there – you know, the precise answer that solves everything – then naturally we would use it. Instead, however, we are continuing to find ways to speed up development cycles.

For A/B testing.

For new fruitful partnerships.

For new working methods internally.

Curiosity, cooperation and focus on implementing new solutions, processes and projects permeate the Paf organisation.

That's why I am proud and have great faith in the future.

But surely something happened?

We have seen our Spanish market grow. The Spanish licence was expanded during the year and now also includes online bingo, while the licence application for online slot machines is being processed. These new product areas will be seen in the figures for 2015, while for a large part of 2014 they drew on development resources in order to create solutions that meet the regulations and legislative requirements imposed on us by the Spanish authorities.

We have started cooperating with a new company, Finnlines. This partnership means that Paf now runs gaming activities on board a total of 27 ships serving scheduled routes, with nearly 19 million passengers every year.

During the second half of the year we developed a new partnership with Sunborn, a Finnish hotel company whose activities include developing a concept of “floating superyacht hotels”. If all the licences fall into place, in the first half of 2015 we will open a floating but permanently moored casino on board Sunborn’s hotel in Gibraltar.

Paf has devoted resources, skills and focus to further developing responsible gaming within our organisation. At heart, the concept remains the same: the more of our customers we get to take responsibility themselves and use the tools we offer, the better. We are also developing our other processes as well as Radar, a tool we developed ourselves, to become ever more effective in supporting customers who are in the risk zone for problem gaming.

We are proud that in November we were named the online gaming industry’s most Socially Responsible Operator in 2014.

In May we launched Experiment Alone, a mini documentary series on YouTube and other online channels. There were six mini documentaries in total, each lasting 10 to 15 minutes. We are pleased with the attention this attracted and the percentage of viewers who actually watched right to the end. We have learnt a lot from Experiment Alone, as well as it having made many people aware of us. Unfortunately, we did not get the strong growth we had hoped for despite the attention we got – peaking with the final programme, which was a Bob Dylan concert for an audience of just one.

The second half has brought growth in our Swedish market. But the more you have, the more you want – and this is where our agile approach comes in, learning fast and incorporating what we have learnt into new solutions that we take out to our customers. Which in turn provides new insight and lessons, which leads to new solutions. And so on.

Expanded management team

In August we expanded our management team and at the same time brought our two spheres of operation (Land & Ship and paf.com) closer together. The technical developments taking place in our industry mean that the differences between the traditional “physical” gaming world and digital online gaming are increasingly small.

We boosted our technical and legal expertise in the management team, as well as bringing responsible gaming on board.

Overall, these measures created a flatter organisational model and brought the management team closer to our customers and employees. This feels like an important step in strengthening Paf to face the increasingly stiff competition.

New market

On 30 December we completed our purchase of Winga from the Buongiorno Group in Italy. This realised the intention we had to acquire a company in 2014 with a view to moving into a



1 Jan–31 Dec 2014

licensed market that was new to us. We met representatives of the company and its owners in late summer and are pleased and proud that we succeeded in completing the deal in 2014. The Italian market and Winga are expected to provide us with growth of around 10% in 2015.

Alterations to head office

Work on extending and simultaneously converting our present head office into a low-energy office took place during the year. The planning work resulted in the construction project being put out to tender in December. By year-end the decision had been taken to start the construction project. We expect to move into the new premises in summer 2016.

Summary

We are not satisfied with how revenue and profits have developed. However, I know that our employees will stand up to the competition so as to find effective countermeasures.

I know that our employees will stand up and maintain the fast pace of our product launches – a pace that is reflected in the fact that during the year we expanded paf.com with 39 new games, an increase of nearly 20% compared with 2013.

Those working in the area of requirements from authorities will continue to stand up to ensure that Paf meets the requirements made of us in the licensed markets in which we operate.

We will continue to stand up and show our customers that it's more fun to do things together.

We will continue to stand up and provide new tools and processes for responsible gambling.

Paf's nearly 400 employees will stand up for Åland's third sector, and together we will do all we can to generate profits that can be distributed for the public good in Åland.

We enter 2015 with the aim of finding and implementing measures to restore Paf's growth.

Anders Ingves
CEO

ANNUAL REPORT FOR 2014

Operations

Generating and distributing surplus to charitable causes has always been – and still is – Paf's mission. We deliver a significant surplus which is allocated to charity. We create the surplus by offering safe and socially responsible gaming that our customers enjoy, providing them with entertainment and new relationships that can enrich their lives.

Paf has run gaming activities on board passenger ferries and cruise ships since 1967, within its Land & Ship business area. Our internet venture was launched on a trial basis as far back in 1996, taking off with the launch of betting in December 1999. Since then our operations – particularly within paf.com – have expanded considerably.

In recent years Paf has gone from being primarily a monopoly to being a company that operates in full international competition. There is fierce competition between many international players in the online gaming industry, and these days the majority of the revenue in our Land & Ship operations is also generated outside the monopoly in competition with other gaming companies.

In addition to the main business areas paf.com and Land & Ships, Paf also operates lotteries in Sweden.

Community responsibility

A safe gaming environment is essential if we are to successfully build long-term relationships, and Paf aims to be number one in security in the gaming world. In November Paf was named most Socially Responsible Operator in the online gaming sector by the international trade journal eGaming Review.

We want to be among the best in the world when it comes to responsible gaming and we are continually developing tools that our clients can use to manage their gaming. Using our tool Radar, which we developed ourselves, we identify online customers who are in the risk zone for gambling-related problems and gambling addiction. Those customers identified by Radar are contacted personally and offered help and support. In the short term, investments in responsible gaming have had and are continuing to have a negative impact on revenue and profit, but in the slightly longer term safer gaming is expected to result in customers wanting to play with Paf for longer, with improved profits as a consequence.

We consider it very important to train our staff continually in responsible gaming. In 2014 we trained staff in areas such as marketing and customer service, and we gave new Paf

employees training in responsible gaming. In total, we provided training on more than 30 different occasions during 2014.

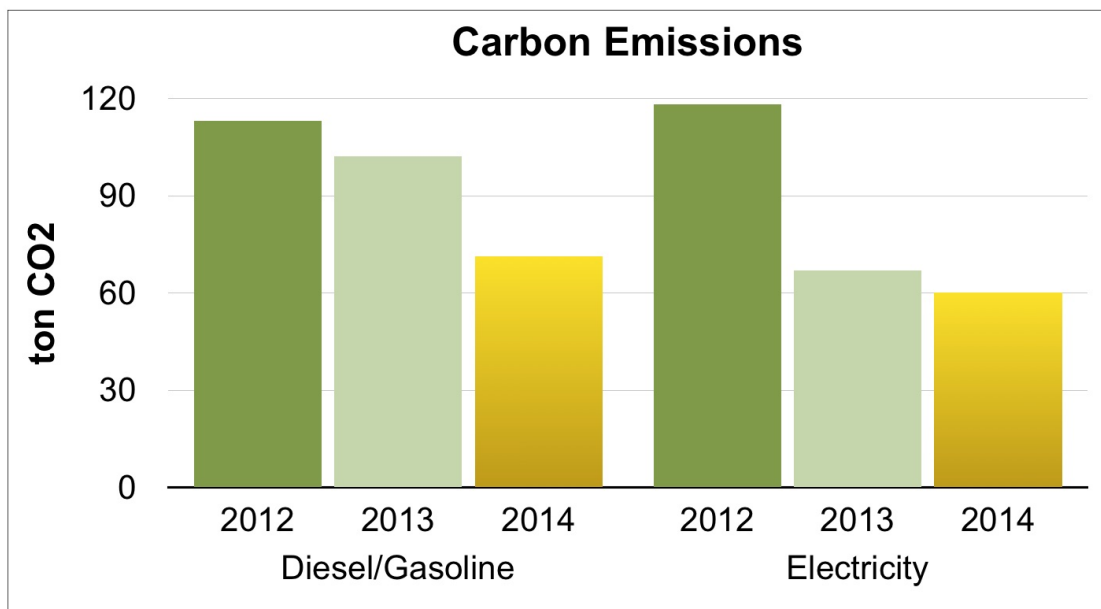
Winners should feel secure and be sure of a fast payout. In addition, we call all customers who win a large sum of money and give them advice so that they can more easily handle the new situation that a major gambling win involves.

Environmental responsibility

Environmental responsibility is also something that is important to Paf. Paf's environmental activities and measures are mainly aimed at sustainable and long-term improvements with a view to reducing the company's carbon emissions. During the year a test unit for solar power was installed at Paf's head office on Åland as a first step in a major solar power project.

Paf encourages its employees to initiate and run environmental projects. In May 2014 employees at Paf's Tallinn office in Estonia were awarded a Green Office certificate by the WWF.

Environmental work in the past year resulted in Paf succeeding in reducing its environmental footprint compared to the previous year. Since 2012 (our base year, when measurements began) Paf has reduced its carbon emissions for fuel by 37% and for electricity by 49%.



Email: environment@paf.com

Play Among Friends

With us, it should feel like playing together. Quite simply, we believe that it is more fun and more interesting to do things together, and that an experience is greater when we share it with others.

Financial overview

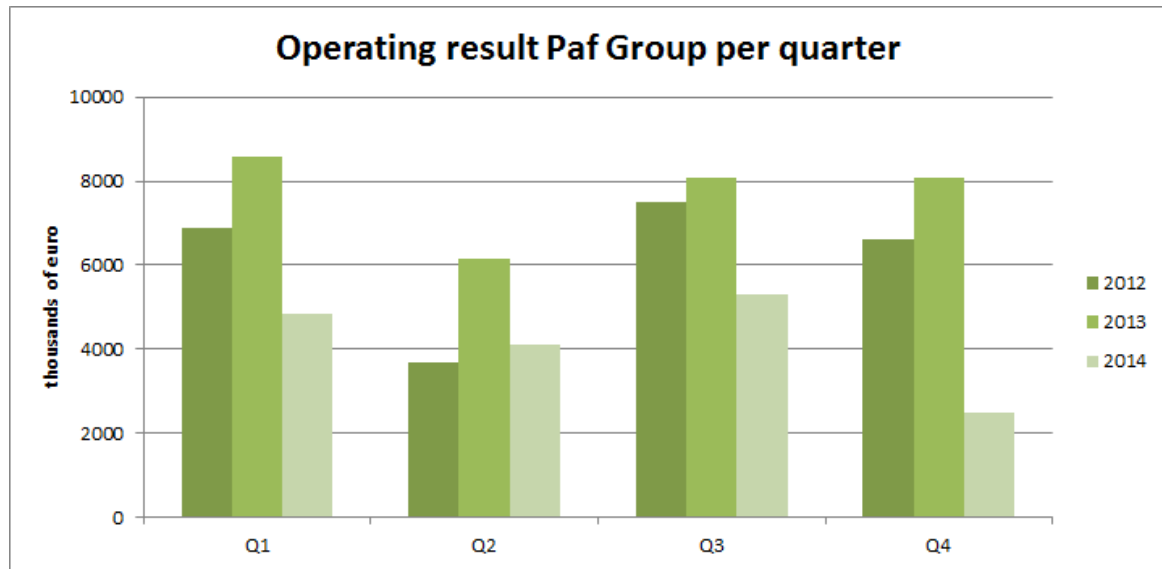
(Figures in brackets refer to the previous year)

Compared with the previous two financial years, 2014 was a weaker year in terms of revenue. Combined with targeted major investments in areas such as marketing, this meant a poorer operating result in the short term. The result was also affected by factors beyond the company's control such as ships changing flag, decisions by authorities and the general economic situation. In the short term, investments in responsible gaming have also had and are continuing to have a negative impact on revenue and profit, but in the slightly longer term safer gaming is expected to result in customers wanting to play with Paf for longer, with improved profits as a consequence. Since the various lines of business are contained in various companies within the Paf Group, the emphasis in our financial reporting is to provide an annual report for the whole Group.

Gaming revenue in the business area paf.com decreased by -11% (+7%) to €65.3 (73.0) million, while gaming revenue for Land & Ship decreased by -5% (-6%) to €32.8 (34.6) million. Total revenue decreased by -9% (+3%), from €108.2 million to €98.1 million. Stiffening competition in our home market, economic slowdown, ships changing flag and requirements from authorities all had a negative effect on revenue.

In 2013 the tax authorities carried out an extensive review of parts of the Paf Group. Based on decisions by the Finnish Tax Administration that were received during Q4 of 2014, extra provisions of around €1.3 million were charged to operating profit for the year. In addition, equity has been adjusted by around €3.8 million in respect of previous financial years. Even before the tax review Paf had analysed its VAT management with Finnish VAT experts. The Tax Administration's decisions will be appealed. In many cases Paf's VAT-free gaming operations make drawing boundaries a complex matter, since Paf is the only gaming company with international operations to fall under Finnish legislation.

The Group's operating profit decreased by -46% (+25%), from €30.9 million to €16.8 million.



Profit for the year in the Group declined by -45 % (+17%), from €31.4 million to €17.2 million. For the parent company profit declined by -45 % (+10%) to €17.6 (31.8) million.

In addition to the profits that Paf pays out, the provincial government will receive €10.0 (11.5) million in repaid gaming tax arrears from the Finnish state.

Significant and notable events in 2014

Paf.com

- At the end of the year Paf acquired the Italian online operator Winga, which operates in the regulated Italian gaming market using local gaming licences. As a result of the acquisition, with effect from 2015 the Paf Group will operate in Italy under the Winga and winga.it brands.
- In November Paf was named most Socially Responsible Operator in the online gaming sector by the international trade journal eGaming Review.
- In August our cooperation agreement with gaming developer Microgaming's gaming platform Quickfire was expanded, broadening the range of slot machines on paf.com.
- In May we began collaborating with gaming developer Proactive Gaming, with the aim of jointly creating a new range of online bingo products.
- The Spanish licence was expanded during the year and now also includes online bingo, while the licence application for online slot machines is being processed.

Land & Ship

- In December our cooperation agreement with the Eckerö Group's subsidiaries Eckerölinjen and Birka Cruises was extended, covering gaming on board two of the company's ships.
- In November we signed a cooperation agreement with the Finnish company Finnlines under which Paf will run gaming activities on board Finnlines' five ships serving scheduled routes in the Baltic.
- In November our cooperation agreement with the Russian company St. Peter Line was extended, relating to gaming activities on board two of its ships.
- In August the Tallink ship Silja Europa was taken out of service in the Baltic, which had a negative effect on revenue.
- Together with the Finnish hotel company Sunborn, during the second half of the year Paf began work on opening an international casino on board the five-star floating hotel yacht Sunborn Hotel in Gibraltar. Casino Sunborn is planned to open in April 2015 once the licence application has been approved.
- In June a new long-term cooperation agreement was signed with AS Tallink Grupp, as a result of which Paf will continue to run gaming activities on board 10 Tallink and Silja Line ships in the Baltic.
- In January Viking XPRS changed flag from Swedish to Estonian, which had a negative effect on revenue because of higher lottery taxes.

Other

- In August Paf's management team was expanded by four internally recruited members with expertise in technology, law and responsible gaming. The management team now has ten members in total.
- Together with IFK Mariehamn and Åland United, in July Paf organised the ten-day long Paf Carnival in Mariehamn. The carnival, which was visited by more than 20,000 people, was themed around Brazil and the football World Cup and focused on food, music, song and samba.
- Work on extending and converting Paf's head office into a low-energy office took place during the year. The construction project was put out to tender in December and we expect to move into the new premises in summer 2016.

Significant events after the end of the financial year

- At the end of March 2015 work began on the alterations and extension to the head office. In conjunction with this, most of the staff affected moved into temporary premises.

Estimate of likely future development

In 2015 the market is expected to be characterised by continued growth and stiffening competition. Paf's expansion into Italy and the introduction of licences for slot machines in Spain are expected to provide Paf with good conditions for growth. The expansion into Italy will initially require increased investments in marketing, but is expected to make a positive contribution to profits towards the end of the year.

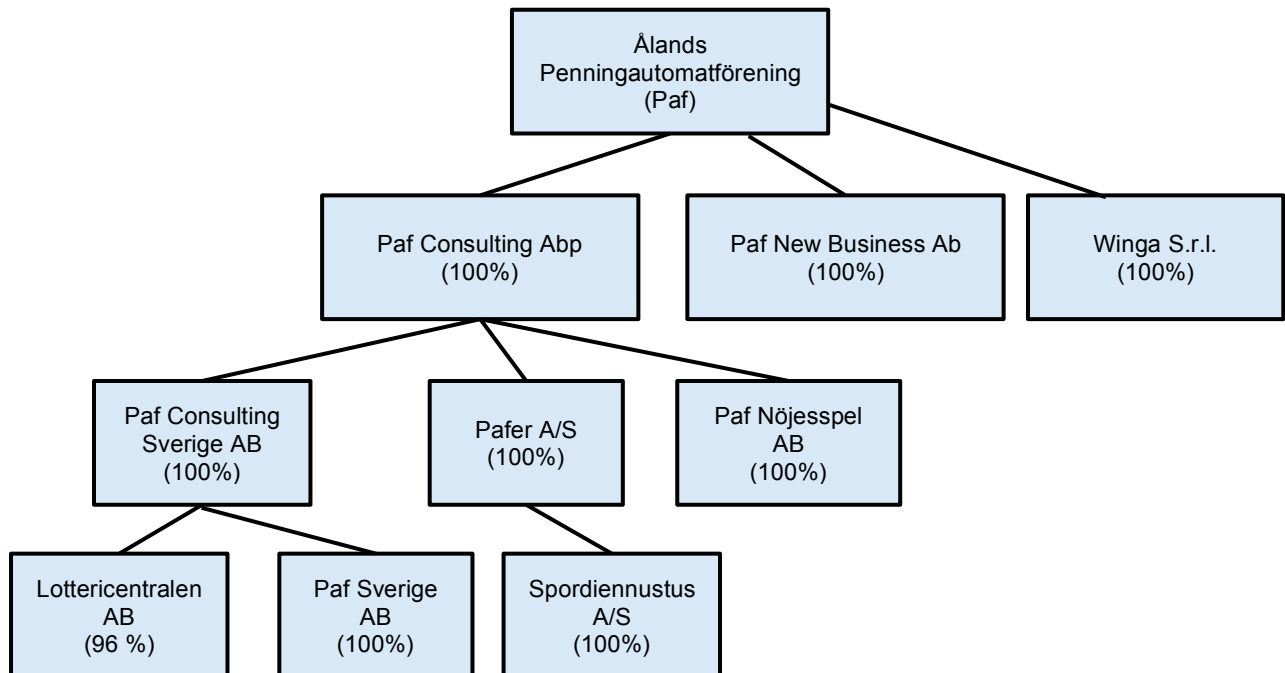
Significant risks

Paf carries out continual risk assessment that is presented to the Board annually. One obvious risk for Paf, as for the industry as a whole, is legal risk. In Paf's case, uncertainty concerning which path Finland will choose is a significant risk – particularly whether the monopoly legislation will remain in place or whether the country will follow the increasingly obvious trend in Europe towards licensing systems. The current licensing system in the Italian market, licensing of slot machine gaming in Spain and the fact that Sweden is now to investigate the possibility of a licensing system are factors pulling in the opposite direction, resulting in reduced risk.

Group overview

The Paf Group comprises the parent company Paf and its subsidiaries Paf Consulting Abp, Paf New Business Ab and the recently acquired company Winga S.r.l. Paf Consulting Abp in turn also owns a number of other Group companies. Paf offers physical gaming in Åland and on board ships under the Åland and Finnish flags, as well as an international gaming business online.

The Group chart below shows active companies as at 31 Dec 2014:



Paf Consulting Abp runs gaming activities on foreign-flagged ships as well as online gaming in the international market. The company in turn makes up a sub-group consisting of Paf Consulting Sverige AB, Pafer A/S and Paf Nöjesspel AB and their subsidiaries. The main business areas of the Paf Consulting Group are ship-based gaming and online gaming in the international market, as well as land-based lotteries. The different activities are divided between the Paf Consulting Group's various companies.

Paf New Business Ab carries on very limited activities and is now almost a dormant company.

Winga S.r.l. is a company based in Milan that runs online gaming operations in the Italian market. The company was acquired at the end of 2014 and therefore had no impact on the consolidated results for the year.

Organisation and management

Board of Directors

In 2014 the Board consisted of chairman Jarl Danielsson, vice chairman Torbjörn Eliasson and directors Anders Å Karlsson, Sara Kemetter, Danne Sundman, Cecilia Jansson and Birgitta Eriksson.

CEO and Group management

Paf's Group management consists of CEO Anders Ingves, deputy CEO Johanna Backholm, Jukka Nikula, Stefan Rumander, Johan Rothberg, Anders Sims, Sara Eriksson, Daniela Johansson, Andreas Perjus and Tuomas Bergström.

Auditors

Auditors appointed by the provincial government for Ålands Penningautomatförening: Bengt Nyholm (auditor certified by the Finnish Institute of Authorised Public Accountants – KHT auditor) and Erika Sjölund (auditor certified by the Finnish Auditors' Association – HTM auditor). Their deputies are Leif Hermans (KHT) and Sixten Söderström (HTM).

Allocation Board

In accordance with Åland law, Paf has an Allocation Board tasked with proposing policies and making recommendations to the provincial government concerning how Paf's returns for each financial year should be distributed.

The Allocation Board consists of the financial director for the province Conny Nyholm (chair), Paf's finance director Johan Rothberg (secretary) and a representative of each member association. Each year the Allocation Board makes a proposal to Åland's provincial government on the distribution of the surplus, better known as Paf funds. The representatives of the member associations on the Allocation Board in 2014 were:

Member associations:

Finnish Red Cross – Åland District	Peter Lindbäck
Public Health in Åland	Karl-Göran Eriksson
Cultural associations	Lars Häggblom
Save the Children – Åland	Kerstin Wikgren
Åland's Association for the Disabled	Ralf Hellman
Åland's Sports Association	Edvard Johansson

Åland Martha District
Åland's Lifeboat Association
Åland's Youth Association

Lisbeth Bergman
Lennart Joelsson
Kjell Rosén

The net return from Paf's activities is distributed every year by the Åland provincial government together with the Allocation Board, through grants and loans to a variety of activities and projects, all with the common denominator that they are not for profit. In 2014 a total of €20.7 million was available for distribution to a broad spectrum of recipients, both large and small.

GRANTS:

Social activities	3,260,000
Environmental activities	450,000
Youth work	385,000
Sports	1,575,000
Cultural activities	1,681,000
Leadership grants	169,000
Event contributions	100,000
Other grants	2,125,000
Project grants	790,000
Community development and employment	6,555,000
Total grants	17,090,000

LOANS AND INVESTMENTS:

Geriatric clinic	2,000,000
Other loans	1,610,000
Total distributed	20,700,000

Board proposal for the appropriation of profits

The Board of Directors proposes that €21 million of the profit for the year is allocated to the Åland provincial government for distribution to charitable causes, and at the same time would like to express its great thanks to the management and staff for their excellent work.

R A T I O S						€ thousand
Group	2010	2011	2012	2013	2014	
Revenue	93,355	96,279	105,059	108,214	98,148	
Operating profit	2,103	19,621	24,695	30,867	16,763	
Profit before extraordinary items	3,159	21,502	26,761	31,438	17,315	
Profit before appropriations and tax	3,202	21,083	26,810	31,429	17,315	
Net profit	3,823	21,014	26,813	31,420	17,160	
Operating margin	2.3%	20.4%	23.5%	28.5%	17.1%	
Profit as % of revenue	4.1%	21.8%	25.5%	29.0%	17.5%	
Cost-to-income ratio	98	80	77	72	83	
Return on equity in % (ROE)	4.1%	29.9%	32.0%	32.2%	17.1%	
Return on invested capital in % (ROIC)	4.8%	26.9%	29.1%	29.8%	17.6%	
Equity/assets ratio	84.9%	86.6%	85.8%	87.3%	81.8%	
Investments in tangible assets	2,762	1,571	2,962	3,269	5,080	
Investments in intangible assets	4,753	1,183	1,828	884	1,136	
Investments in tangible and intangible assets	7,515	2,754	4,790	4,153	6,215	
Average number of employees	409	348	347	372	314	
Croupiers employed by shipowners*					58	

*As a result of amended contracts, payroll costs for the personnel concerned are no longer included in the payroll total and consequently these employees are also shown separately in personnel statistics.

Parent company – Ålands Penningautomatförening	2010	2011	2012	2013	2014	
Revenue	70,356	76,975	82,491	85,090	77,641	
Operating profit	7,017	21,074	26,922	31,286	17,110	
Profit before extraordinary items	8,132	13,100	28,800	31,823	17,590	
Profit before appropriations and tax	8,175	12,683	28,854	31,823	17,590	
Net profit	8,175	12,683	28,854	31,823	17,590	
Operating margin	10.0%	27.4%	32.6%	36.8%	22.0%	
Profit as % of revenue	11.6%	16.5%	35.0%	37.4%	22.7%	
Cost-to-income ratio	90	73	68	64	79	
Return on equity in % (ROE)	12.6%	19.4%	36.4%	33.6%	17.9%	
Return on invested capital in % (ROIC)	12.1%	28.0%	32.5%	30.8%	18.3%	
Equity/assets ratio	87.6%	87.4%	87.0%	89.5%	85.3%	
Investments in tangible assets	2,734	1,525	2,375	2,250	4,742	
Investments in intangible assets	3,698	1,031	636	711	927	
Investments in tangible and intangible assets	6,433	2,556	3,012	2,962	5,668	
Capital investments	1,870	4,556	62	0	4,808	
Total investments	8,303	7,112	3,073	2,962	10,477	
Gross investments as % of revenue	11.8%	9.2%	3.7%	3.5%	13.5%	
Average number of employees	279	267	268	292	256	
Croupiers employed by shipowners*					28	
Distribution of profits	7,000	8,000	10,500	19,000	21,000	
Lottery tax in Finland	6,554	8,651	10,311	11,458	9,995	

*As a result of amended contracts, payroll costs for the personnel concerned are no longer included in the payroll total and consequently these employees are also shown separately in personnel statistics.

Definitions of ratios

Revenue		Sales income – winnings payments – lottery taxes and similar taxes	
Return on equity in % (ROE)	-	$\frac{\text{profit before extraordinary items} - \text{taxes}}{\text{equity} + \text{minority interests}}$	x 100
Return on invested capital in % (ROIC)	-	$\frac{\text{profit before extraordinary items} + \text{interest costs} + \text{other financial expenses}}{\text{balance sheet total} - \text{interest-free liabilities}}$	x 100
Equity/assets ratio	-	$\frac{\text{equity} + \text{minority interests} + \text{voluntary provisions}}{\text{balance sheet total} - \text{advances received}}$	x 100
Average number of employees		Calculated as an average of the number of employees at the end of the calendar months, taking into consideration part-time employment	

For ROE and ROIC the ratio's divisor is calculated as an average of the values in the balance sheet for the financial period and for the previous financial period

INCOME STATEMENT	Parent			Group	
	Note	2014	2013	2014	2013
REVENUE	R1	77,641,089.10	85,089,506.76	98,147,837	108,213,503
Other operating income		2,572,458.47	2,912,896.15	391,192	604,855
Materials and services					
Purchases during the financial period		-15,746.43	-25,451.11	-5,452,952	-5,305,464
Total services purchased		<u>-14,431,911.83</u>	<u>-11,618,211.30</u>	<u>-20,374,240</u>	<u>-19,052,520</u>
		-14,447,658.26	-11,643,662.41	-25,827,192	-24,357,984
Capitalised development expenses		812,415.46	222,329.76	812,415	359,854
Staff costs	R2				
Salaries and other remuneration		-14,517,046.08	-15,222,910.01	-16,565,521	-17,773,698
Pension expenses		-2,418,805.22	-2,252,560.72	-2,566,277	-2,387,405
Other social expenses		<u>-1,396,122.26</u>	<u>-1,409,923.63</u>	<u>-1,712,228</u>	<u>-1,719,253</u>
		-18,331,973.56	-18,885,394.36	-20,844,026	-21,880,355
Depreciation, amortisation and impairment losses					
Depreciation/amortisation according to plan		-3,186,307.33	-3,820,757.57	-3,817,246	-4,400,429
Amortisation of goodwill		<u>0.00</u>	<u>0.00</u>	<u>-43,672</u>	<u>-116,057</u>
		-3,186,307.33	-3,820,757.57	-3,860,918	-4,516,486
Other operating expenses		-27,949,640.97	-22,588,546.10	-32,056,000	-27,556,603
OPERATING PROFIT		17,110,382.91	31,286,372.23	16,763,309	30,866,784
Financial income and expenses					
Income from shares in Group companies		0.00	32,526.37	0	0
Interest income from Group companies		18,829.91	27,936.25	0	0
Interest income from others		16,889.35	12,361.10	16,889	12,361
Other interest and financial income		977,018.19	1,325,564.77	1,098,753	1,466,243
Impairment of investments		0.00	-230,134.11	0	-230,134
Other interest and financial expenses		<u>-532,738.38</u>	<u>-631,660.71</u>	<u>-564,209</u>	<u>-677,403</u>
		479,999.07	536,593.67	551,433	571,068
PROFIT BEFORE EXTRAORDINARY ITEMS		17,590,381.98	31,822,965.90	17,314,742	31,437,852
Extraordinary items					
Extraordinary expenses		<u>0.00</u>	<u>0.00</u>	<u>0</u>	<u>-8,755</u>
		0.00	0.00	0	-8,755
PROFIT BEFORE APPROPRIATIONS AND TAX		17,590,381.98	31,822,965.90	17,314,742	31,429,097
Appropriations					
Tax for the year and previous years		0.00	0.00	-11,199	-2,730
Deferred taxes		0.00	0.00	-141,948	-4,525
Minority interests		0.00	0.00	-1,263	-1,417
PROFIT FOR THE FINANCIAL PERIOD		<u>17,590,381.98</u>	<u>31,822,965.90</u>	<u>17,160,332</u>	<u>31,420,425</u>

BALANCE SHEET		Parent company		Group	
	Note	31 Dec	31 Dec 2013	31 Dec 2014	31 Dec 2013
ASSETS					
FIXED ASSETS					
Intangible assets					
	B1				
Capitalised development expenses		558,998.62	452,132.61	734,167	503,599
Intellectual property		0.00	0.00	559,868	674,116
Goodwill		0.00	0.00	2,247,540	113,743
Other long-term expenditure		875,440.42	1,414,911.12	2,253,143	1,597,975
Advance payments and current acquisitions		556,588.71	271,553.21	556,589	271,553
		1,991,027.75	2,138,596.94	6,351,306	3,160,987
Tangible assets					
	B2				
Land and water areas		1,098,528.31	1,088,509.99	1,098,528	1,088,510
Buildings and structures		5,558,047.86	5,759,561.07	6,150,040	6,312,796
Machinery and equipment		4,762,474.20	4,235,614.81	5,610,028	5,037,090
Other tangible assets		12,480.21	12,568.36	94,771	51,391
Advance payments and current acquisitions		2,519,883.42	311,479.96	2,519,883	311,480
		13,951,414.00	11,407,734.19	15,473,250	12,801,267
Investments					
	B3				
Shares in companies in the same Group		7,514,680.93	4,706,389.29	0	0
Capital loans to companies in the same Group		2,000,000.00	0.00	0	0
Other shares and holdings		20,406.15	20,406.15	49,406	20,406
Other investments		0.00	0.00	0	6,701
		9,535,087.08	4,726,795.44	49,406	27,107
TOTAL FIXED ASSETS		25,477,528.84	18,273,126.57	21,873,962	15,989,361
CURRENT ASSETS					
Long-term receivables					
	B4				
Long-term receivables from companies in the same Group		260,832.53	829,655.38	0	0
Loans		2,812,306.57	1,205,310.42	2,812,307	1,205,310
		3,073,139.10	2,034,965.80	2,812,307	1,205,310
Current receivables					
Accounts receivable		8,651.09	36,279.09	193,591	85,366
Receivables from companies in the same Group	B4	3,410,991.87	1,516,322.35	0	0
Other current receivables		13,679,063.46	15,343,575.23	13,922,903	15,635,319
Accruals		1,613,662.43	2,120,519.80	1,834,529	2,512,316
		18,712,368.85	19,016,696.47	15,951,023	18,233,001
Financial securities					
Other securities		57,000,000.00	58,000,000.00	57,000,000	58,000,000
		57,000,000.00	58,000,000.00	57,000,000	58,000,000
Cash and bank balances		12,020,561.49	20,402,550.90	25,767,275	29,498,244
TOTAL CURRENT ASSETS		90,806,069.44	99,454,213.16	101,530,604	106,936,556
TOTAL ASSETS		116,283,598.27	117,727,339.73	123,404,567	122,925,917

BALANCE SHEET	Parent			Group	
	Note	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
LIABILITIES					
EQUITY					
	B7				
Other restricted equity		0.00	0.00	34,917	105,006
Retained earnings		77,511,541.73	69,406,185.87	79,866,026	71,931,694
Net profit for the year		17,590,381.98	31,822,965.90	17,160,332	31,420,425
		95,101,923.71	101,229,151.77	97,061,275	103,457,125
Minority interests		0.00	0.00	5,507	4,542
PROVISIONS					
Other provisions	B6	3,944,098.17	3,990,845.42	3,949,846	3,997,392
		3,944,098.17	3,990,845.42	3,949,846	3,997,392
Long-term debt					
Other liabilities		0.00	0.00	87,706	0
Deferred tax liabilities		0.00	0.00	440,898	298,950
		0.00	0.00	528,604	298,950
Short-term debt					
Liabilities to credit institutions		1,604,563.69	0.00	1,604,564	0
Liabilities to suppliers		3,681,223.77	3,294,848.95	4,818,144	3,585,347
Advances received		130,885.86	139,607.04	130,886	139,607
Current liabilities to Group companies	B5	11,382.11	871.42	0	0
Other current liabilities		5,989,543.63	6,240,490.70	9,193,837	8,312,631
Accruals		5,819,977.31	2,831,524.40	6,111,904	3,130,321
		17,237,576.37	12,507,342.51	21,859,335	15,167,906
TOTAL LIABILITIES		116,283,598.27	117,727,339.73	123,404,567	122,925,917

INFORMATION CONCERNING ACCOUNTING PRINCIPLES**Consolidation principles**

The consolidated financial statements have been prepared using the acquisition method. The acquisition cost of the subsidiaries and the corresponding equity has been reported as Group goodwill/Group liabilities. Group goodwill is amortised over five years.

Profit/loss on sale of subsidiaries and the parent company's share of profit for the year and consolidated goodwill depreciation until the date of sale have been reported in financial income and expenses.

Intra-Group transactions, internal gains, internal profit distribution and internal receivables and liabilities have been eliminated.

Minority interests have been separated from the Group's equity and profit and are shown as a separate item. Any profit or loss in an acquired company up to the date of acquisition is reflected in the minority's share of net profit based on the minority's ownership share during the period concerned.

Translation differences

Translation differences resulting from non-restricted equity have been included in the Group's non-restricted equity, while translation differences resulting from restricted capital have been included in the item other restricted equity.

Transactions in foreign currency

Assets and liabilities in foreign currencies have been translated to euros at the rate prevailing on the closing date. Foreign subsidiaries' income statements have been converted to euros at the monthly average exchange rate for the financial period, while the balance sheet has been translated at the exchange rate on the closing date.

Capitalised development expenses

Capitalised development expenses for own account refer to direct expenditure for the period in respect of salaries and other staff-related costs and direct costs attributed to development projects that have been recorded as assets in the balance sheet. A condition of capitalisation is that it relates to an important new development.

Depreciation/amortisation principles

Fixed assets are reported at cost in the balance sheet minus depreciation/amortisation according to plan. Depreciation/amortisation according to plan is calculated on a straight-line basis and is based on the useful life of the fixed assets.

Expenditure which results in income for three or more years is capitalised and amortised over the period of use. Minor acquisitions are expensed directly at the time of acquisition.

The depreciation/amortisation periods applied are:

Intangible assets

Gaming platforms and basic investments in major computer systems and licences	5 years
Gaming products and smaller computer systems and licences	3 years
Software licences	3–6 years
Investment in leased premises	5 years
Goodwill	5 years

Tangible assets

Properties	40 years
Light structures	5–10 years
Gaming equipment	3–6 years
Personal computers and accessories	3–5 years
Cars	5–7 years
Equipment	3–5 years
Other tangible assets	5 years

INCOME STATEMENT NOTES	Note	Parent company		Group	
		2014	2013	2014	2013
Revenue by geographical area	R1				
Åland – land-based gaming		2,882,911.17	3,115,819.71	2,882,911	3,115,820
Ships on the Baltic Sea		12,018,795.32	11,397,357.29	28,665,932	30,093,283
Finland		0.00	0.00	48,000	548,000
Sweden		0.00	0.00	1,295,922	1,431,827
Internet		62,739,382.61	70,575,980.17	65,255,072	73,024,224
Other		0.00	349.59	0	349
		77,641,089.10	85,089,506.76	98,147,837	108,213,503
Revenue by area of business					
Systems development and related services		0.00	0.00	48,000	548,000
Casino gambling and lotteries on land and ship		14,901,706.49	14,513,177.00	32,844,765	34,640,929
Online gaming		62,739,382.61	70,575,980.17	65,255,072	73,024,224
Other revenue		0.00	349.59	0	349
		77,641,089.10	85,089,506.76	98,147,837	108,213,503
Management salaries and other remuneration	R2				
Salary to the parent company's CEO and deputy ¹		-378,774.16	-331,342.91	-378,774	-331,343
Salary to subsidiaries' CEOs and deputies		0.00	0.00	-140,011	-154,280
Board fees		-42,400.00	-40,900.00	-42,400	-40,900
Other remuneration to Board members		-1,139.00	-1,675.00	-1,139	-1,675
Total		-422,313.16	-373,917.91	-562,325	-528,198

The CEO and management team are covered by a group pension that allows the employee to draw a pension equivalent to 60% of salary at the age of 63.

¹Salary for the deputy CEO is included for the period April to December 2013 and for full-year 2014.

BALANCE SHEET NOTES	Parent company		Group		
INTANGIBLE FIXED ASSETS	Note	2014	2013	2014	2013
	B1				
Capitalised development expenses					
Cost, opening balance		3,244,721.76	2,892,485.99	4,730,854	4,418,030
Investments for the period		0.00	0.00	144,290	1,883
Sold/scrapped		0.00	-59,010.55	0	-59,011
Reclassified		457,965.39	411,246.32	457,965	411,246
Translation difference		0.00	0.00	-76,395	-41,294
Accumulated cost, closing balance		<u>3,702,687.15</u>	<u>3,244,721.76</u>	5,256,714	<u>4,730,854</u>
Amortisation according to plan, opening balance		-2,792,589.15	-2,115,373.52	-4,227,255	-3,536,527
Amortisation for the period		-351,099.38	-696,885.79	-367,995	-751,666
Sold/scrapped		0.00	19,670.16	0	19,670
Translation difference		0.00	0.00	72,703	41,268
Accumulated amortisation, closing balance		<u>-3,143,688.53</u>	<u>-2,792,589.15</u>	-4,522,547	<u>-4,227,255</u>
Total capitalised development expenses		558,998.62	452,132.61	734,167	503,599
Patents, licences and similar rights					
Cost, opening balance		0.00	0.00	1,124,635	1,159,260
Investments for the period		0.00	0.00	33,000	0
Acquisitions		0.00	0.00	559,476	0
Translation difference		0.00	0.00	-60,964	-34,624
Accumulated cost, closing balance		<u>0.00</u>	<u>0.00</u>	1,656,147	<u>1,124,635</u>
Amortisation according to plan, opening balance		0.00	0.00	-450,519	-242,375
Amortisation for the period		0.00	0.00	-216,026	-220,215
Acquisitions		0.00	0.00	-460,668	0
Translation difference		0.00	0.00	30,933	12,071
Accumulated amortisation, closing balance		<u>0.00</u>	<u>0.00</u>	-1,096,280	<u>-450,519</u>
Total patents and similar rights		0.00	0.00	559,868	674,116
Goodwill					
Cost, opening balance		893,179.10	893,179.10	14,357,933	14,350,997
Acquisitions		0.00	0.00	2,177,147	0
Translation difference		0.00	0.00	12,214	6,937
Accumulated cost, closing balance		<u>893,179.10</u>	<u>893,179.10</u>	16,547,294	<u>14,357,933</u>
Amortisation according to plan, opening balance		-893,179.10	-893,179.10	-14,244,190	-14,121,394
Amortisation for the period		0.00	0.00	-43,672	-116,057
Translation difference		0.00	0.00	-11,892	-6,740
Accumulated amortisation, closing balance		<u>-893,179.10</u>	<u>-893,179.10</u>	-14,299,754	<u>-14,244,190</u>
Total goodwill		0.00	0.00	2,247,540	113,743
Advance payments and current projects					
Cost, opening balance		271,553.21	453,491.42	271,553	453,491
Investments for the period		867,753.55	512,572.71	867,754	512,573
Sold/scrapped/expensed		-79,888.12	-283,264.60	-79,888	-283,265
Reclassified		-502,829.93	-411,246.32	-502,830	-411,246
Accumulated cost, closing balance		<u>556,588.71</u>	<u>271,553.21</u>	556,589	<u>271,553</u>
Total advance payments and current projects		556,588.71	271,553.21	556,589	271,553

BALANCE SHEET NOTES	Parent company		Group		
INTANGIBLE FIXED ASSETS	<u>Note</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Other long-term expenditure					
Cost, opening balance		21,091,408.43	25,151,129.42	20,957,947	24,847,138
Investments for the period		58,858.82	198,740.79	90,766	369,271
Acquisitions		0.00	0.00	3,396,888	0
Sold/scrapped		-579.60	-4,258,461.78	-580	-4,258,462
Reclassified		44,864.54	0.00	44,865	0
Accumulated cost, closing balance		<u>21,194,552.19</u>	<u>21,091,408.43</u>	<u>24,489,886</u>	<u>20,957,947</u>
Amortisation according to plan, opening balance		-19,676,497.31	-23,058,880.42	-19,359,972	-22,677,722
Amortisation for the period		-642,614.46	-876,078.67	-727,543	-940,712
Acquisitions		0.00	0.00	-2,149,228	0
Sold/scrapped		0.00	4,258,461.78	<u>0</u>	<u>4,258,462</u>
Accumulated amortisation, closing balance		<u>-20,319,111.77</u>	<u>-19,676,497.31</u>	<u>-22,236,743</u>	<u>-19,359,972</u>
Total other long-term expenditure		875,440.42	1,414,911.12	<u>2,253,143</u>	<u>1,597,975</u>
TOTAL INTANGIBLE ASSETS		<u>1,991,027.75</u>	<u>2,138,596.94</u>	<u>6,351,306</u>	<u>3,160,987</u>

BALANCE SHEET NOTES		Parent company		Group	
TANGIBLE FIXED ASSETS	Note	2014	2013	2014	2013
	B2				
Buildings					
Cost, opening balance		7,844,782.53	7,838,504.58	8,408,155	8,265,285
Investments for the period		0.00	6,277.95	63,616	142,870
Accumulated cost, closing balance		7,844,782.53	7,844,782.53	8,471,770	8,408,155
Depreciation according to plan, opening balance		-2,085,221.46	-1,881,944.87	-2,095,358	-1,881,945
Depreciation for the period		-201,513.21	-203,276.59	-226,372	-213,414
Accumulated depreciation, closing balance		-2,286,734.67	-2,085,221.46	-2,321,731	-2,095,358
Total buildings		5,558,047.86	5,759,561.07	6,150,040	6,312,796
Land and water areas					
Cost, opening balance		1,088,509.99	703,709.99	1,088,510	703,710
Investments for the period		10,018.32	384,800.00	10,018	384,800
Accumulated cost, closing balance		1,098,528.31	1,088,509.99	1,098,528	1,088,510
Total land and water areas		1,098,528.31	1,088,509.99	1,098,528	1,088,510
Machinery and equipment					
Cost, opening balance		27,183,439.25	26,251,956.06	28,838,086	27,081,958
Investments for the period		816,374.89	813,734.13	1,086,014	1,669,392
Acquisitions		0.00	0.00	114,328	0
Sold/scrapped		-623,953.53	-1,309,035.99	-623,954	-1,327,646
Reclassified		1,707,015.08	1,426,785.05	1,707,015	1,426,785
Translation difference		0.00	0.00	-22,034	-12,402
Accumulated cost, closing balance		29,082,875.69	27,183,439.25	31,099,456	28,838,086
Depreciation according to plan, opening balance		-22,947,824.44	-21,584,257.44	-23,792,528	-22,239,470
Depreciation for the period		-1,990,992.13	-2,044,026.61	-2,268,360	-2,263,913
Acquisitions		0.00	0.00	-59,825	0
Sold/scrapped		618,415.08	680,459.61	618,415	699,070
Translation difference		0.00	0.00	21,110	11,785
Accumulated depreciation, closing balance		-24,320,401.49	-22,947,824.44	-25,481,188	-23,792,528
Impairment losses, opening balance		0.00	0.00	-8,468	-8,598
Translation difference		0.00	0.00	228	130
Accumulated impairment losses, closing balance		0.00	0.00	-8,240	-8,468
Total machinery and equipment		4,762,474.20	4,235,614.81	5,610,028	5,037,090
Advance payments and current projects					
Cost, opening balance		311,479.96	781,971.26	311,480	781,971
Investments for the period		3,915,418.54	1,045,387.33	3,915,419	1,045,387
Sold/scrapped		0.00	-89,093.58	0	-89,094
Reclassified		-1,707,015.08	-1,426,785.05	-1,707,015	-1,426,785
Accumulated cost, closing balance		2,519,883.42	311,479.96	2,519,883	311,480
Total advance payments and current projects		2,519,883.42	311,479.96	2,519,883	311,480

BALANCE SHEET NOTES		Parent company		Group	
TANGIBLE FIXED ASSETS	<u>Note</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Other tangible fixed assets					
Cost, opening balance		80,042.82	94,449.78	159,436	147,994
Investments for the period		0.00	0.00	4,536	26,469
Acquisitions		0.00	0.00	120,700	0
Sold/scrapped		0.00	-14,406.96	0	-14,407
Translation difference		0.00	0.00	-1,470	-620
Accumulated cost, closing balance		80,042.82	80,042.82	283,203	159,436
Depreciation according to plan, opening balance		-67,474.46	-66,984.54	-108,045	-94,214
Depreciation for the period		-88.15	-489.92	-10,950	-10,510
Acquisitions		0.00	0.00	-69,766	0
Sold/scrapped		0.00	0.00	0	-3,394
Translation difference		0.00	0.00	329	72
Accumulated depreciation, closing balance		-67,562.61	-67,474.46	-188,432	-108,045
Total other long-term expenditure		12,480.21	12,568.36	94,771	51,391
TOTAL TANGIBLE ASSETS		13,951,414.00	11,407,734.19	15,473,250	12,801,267

BALANCE SHEET NOTES**Parent company**

	<u>Note</u>	<u>2014</u>	<u>2013</u>
INVESTMENTS	B3		
Parent company investments			
Shares in Group companies			
Acquisition cost at beginning of period		22,985,540.23	22,996,997.06
Increases		2,808,291.64	0.00
Reductions		0.00	-11,456.83
Acquisition cost at end of period		25,793,831.87	22,985,540.23
Earlier impairment losses		-18,279,150.94	-18,279,150.94
Carrying amount at end of period		7,514,680.93	4,706,389.29
Investments in other shares and holdings			
Acquisition cost at beginning of period		3,229,946.16	3,229,946.16
Increases		0.00	0.00
Acquisition cost at end of period		3,229,946.16	3,229,946.16
Earlier impairment losses		-3,209,540.01	-2,979,405.90
Impairment losses for the year		0.00	-230,134.11
Carrying amount at end of period		20,406.15	20,406.15
Capital loans to Group companies			
Acquisition cost at beginning of period		0.00	0.00
Increases		2,000,000.00	0.00
Acquisition cost at end of period		2,000,000.00	0.00
Impairment losses for the year		0.00	0.00
Carrying amount at end of period		2,000,000.00	0.00
Total investments		9,535,087.08	4,726,795.44

Parent company's subsidiaries and associated companies

Subsidiary	Domicile	Ownership share 2014	Ownership share 2013
Paf New Business Ab	Mariehamn	100%	100%
Paf Consulting Abp	Mariehamn	100%	100%
Winga S.r.l.	Milan	100%	0%

BALANCE SHEET NOTES	Parent company		Group		
	note	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
INTRA-GROUP RECEIVABLES	B4				
Long-term receivables from Group companies					
Loans receivable*		2,260,832.53	829,655.38		
		2,260,832.53	829,655.38		
*Of which €2,000,000 refers to capital loans to the subsidiary Paf Consulting Abp.					
Current receivables from Group companies					
Accounts receivable		155,033.76	468,241.93		
Other receivables		3,255,958.11	1,048,080.42		
		3,410,991.87	1,516,322.35		
INTRA-GROUP LIABILITIES	B5				
Liabilities to Group companies					
Accounts payable		11,382.11	0.00		
Other liabilities		0.00	871.42		
		11,382.11	871.42		
PROVISIONS	B6				
Other provisions					
Jackpot provision		1,444,264.17	3,990,845.42	1,450,012	3,997,392
Other provisions		2,499,834.00	0.00	2,499,834	0
		3,944,098.17	3,990,845.42	3,949,846	3,997,392
EQUITY	B7				
Other restricted equity at beginning of year		0.00	0.00	105,006	106,537
Translation difference		0.00	0.00	-70,090	-1,531
Other restricted equity at end of year		0.00	0.00	34,917	105,006
Retained earnings at beginning of year		101,229,151.78	88,373,920.79	103,352,119	91,835,169
Change in Paf loans		1,456,996.15	32,265.09	1,456,996	32,265
Distribution of profits		-21,000,000.00	-19,000,000.00	-21,000,000	-19,000,000
Deferred tax on retained earnings in Estonia		0.00	0.00	0	-294,425
Adjustment of previous year's profit*		-4,174,606.20	0.00	-3,972,797	-630,000
Translation difference		0.00	0.00	29,709	-11,315
Retained earnings at end of year		77,511,541.73	69,406,185.88	79,866,026	71,931,694
Profit for the financial period		17,590,381.98	31,822,965.90	17,160,332	31,420,425
EQUITY		95,101,923.71	101,229,151.78	97,061,275	103,457,126

*Amount due mainly to tax review decisions in respect of previous financial years. Part of the sum was paid at the beginning of 2015, but the decisions have been appealed. Amount for 2013 refers to tax on capital distributed in the subsidiary Pafer A/S attributable to previous years.

PLEGGED ASSETS AND CONTINGENT LIABILITIES	31 Dec 2014	31 Dec 2013
<u>Assets pledged in favour of Group companies</u>		
Bank guarantees for mortgages pledged		
Bank guarantee, principal debtor Paf Consulting Abp	1,000,000.00	4,000,000.00
<u>Other pledged assets and contingent liabilities</u>		
Credit limits for which mortgages have been pledged		
Credit limit	10,000,000.00	10,000,000.00
Total mortgages pledged as security	10,000,000.00	10,000,000.00
Rental guarantees	221,476.44	227,103.41

**SIGNATURES OF BOARD OF DIRECTORS AND CEO,
AND AUDITOR'S ENDORSEMENT**

Jomala, dated 2015

Anders Ingves
CEO

Jarl Danielsson
Chairman

Anders Å Karlsson

Torbjörn Eliasson

Sara Kemetter

Danne Sundman

Cecilia Jansson

Birgitta Eriksson

An audit report was submitted this day.

Jomala, dated 2015

Bengt Nyholm

Auditor certified by the Finnish Institute of
Authorised Public Accountants
(KHT Auditor)

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LIST OF ACCOUNTING BOOKS, VERIFICATION TYPES AND STORAGE METHODS

Accounting books

Trial balance	Bound hard copy
Day book	Stored electronically in Visma Control accounting system
Nominal ledger	Stored electronically in Visma Control accounting system
Purchase ledger	Stored electronically in Visma Control accounting system
Sales ledger	Stored electronically in Visma Control accounting system
Fixed assets register	Stored electronically in Visma Control accounting system
Group summaries	Stored electronically in Aaro consolidated accounts system

Compliance with section 2:10 of the Finnish Bookkeeping Act is ensured since the completed accounting year is locked from editing and the database is backed up to a separate data medium.

Verification series

AN	Accounts payable invoice register	Paper receipts
AR	Offset of accounts payable	Paper receipts
AV	Periodic depreciation/amortisation of fixed assets	Electronic verification
BOX	Electronic transfer from pre-system	Paper receipts
KB	Payments received on customer invoices	Paper receipts
KR	Customer invoicing	Paper receipts
LB	Payment of invoices	Electronic verification
LF	Final accounting of supplier invoices	Paper receipts
PE	Allocation of accounting events	Electronic verification
RE	Nominal ledger	Paper receipts
IMAN	Accounts payable invoice register in Invoice Manager	Electronic verification
IMAR	Offset of accounts payable in Invoice Manager	Electronic verification
IMLF	Final accounting of accounts payable in Invoice Manager	Electronic verification