



ANNUAL REPORT 2016

SHORT VERSION

# A word from the CEO

## Our history will shape our future

Paf is a fantastic company! In 2016, Paf turned 50 years, which is a respectable age for any company - and ours has a very special history for a company within our industry. We also have a highly engaged owner that embraces long-term strategic planning, accompanied by skilled and professional employees, many of whom have worked at Paf for over 10 years. Our customers are loyal and a large number of them choose to stay with us for a long period of time despite pressure from our many competitors. To top things off, we have generated tens of millions of euros for good causes.

During 2016, I have had the pleasure of getting to know this great company as well as a new country and the local community. I am honoured and incredibly inspired by getting to lead a company that engages so many people in this community and that means so much for the local people.



Paf is a unique company in many ways: firstly, we are a Nordic gaming company operating internationally and owned by the regional government - no other company in the industry matches this description. Secondly, we have an edge in that our operations are strongly rooted both in the digital sphere on the internet and in physical settings through Land & Ship. Few companies in the industry have succeeded in competing within both segments.

What makes Paf unique should also mark the direction that Paf should grow in - since we will grow. Our Nordic roots coupled with our presence in both the digital and the physical money gaming worlds are the starting point of our strategy and give

an indication of the markets we will choose to compete in. Paf has a great advantage in that we work continuously towards long-term strategic goals, since this the endurance needed to face the likely mounting competition in the markets in the coming years.

The year 2016 has been an eventful time for Paf. Though we have seen big changes in the top management of the company, we have been able to keep up the pace and to deliver a relatively strong result, considering the circumstances. Aside from a few non-recurring items, the operative result of 2016 is in line with the strong trend of the previous year. Paf's product has gained competitive edge during the year, and we have many exciting innovations and new functions in the pipeline for 2017. In addition, we are implementing some organisational changes to gradually create optimal conditions for moving forward even faster as an organisation and as a company.

Looking forward to 2017, we feel confident in continuing our journey into the future with our robust 50-year-old company, firmly rooted in the history that has shaped Paf as a company and as an organisation

**Christer Fahlstedt, CEO.**

## The year in short

In January 2016, Paf Board decided to dismiss the company's CEO Anders Ingves.

On 15 January, a Finnish player from Southwestern Finland won €3.4 million in the game Mega Fortune Dreams at Paf.

In March 2016, Paf was awarded as the company with the Best Initiative in Responsible Gaming by the Spanish gaming industry organisation JDigital.

During the spring of 2016, the first study in the collaboration with Stockholm University was initiated under professor Per Carlbring. The study focuses on how deposit limits affect gaming behaviour.

On 7 May, the Finnish basketball player Eero Lehtinen took home the first prize in the Paf Poker Challenge event on Åland for the second year in a row.

On 1 June, Christer Fahlstedt took up the position as Paf's CEO.

On 30 June, Per Sahlberg was taken on as the new CFO. The former CFO Johan Rothberg was named vice director with focus on business development.

In September, Paf signed a long-term contract with Norwegian cruise and transport shipping company Color Line. Paf will be responsible for all gaming activities aboard the shipping company's six vessels in the North Sea.

On 10 September, Paf Boxing Gala was arranged on Åland with the Paf-sponsored boxing star Robert Helenius fighting the main match.

In July 2016, all of Paf's personnel on Åland moved into the newly built and partially rebuilt environmentally friendly head offices. On 29 October, the general public was welcomed to the main offices to join in the formal inauguration of the main office built as a passive house.

On 31 October, Paf turned 50. The company anniversary was celebrated with a dinner gala in the new head office on 22 November as well as with a larger networking event on 12 August.

On November 14, Goran Ristic was appointed as the new CMO. He replaced the former Marketing Director Stefan Rumander.

Paf launched its new in-house customer support during 2016 and terminated collaboration with the external customer support supplier in Denmark. This created 25 new jobs on Åland.

During 2016, Paf launched three new games, one of which was the popular Cash n' Carry Shopping Spree.

During 2016, Paf generated a total of €20 million for good causes.



## Important events after the end of the year

In January 2017, Paf was awarded as the most responsible gaming company in the Nordic market by the EGR Nordic Awards in Malta. A total of eight companies were shortlisted for the prize.

Charges for money laundering were brought against Paf and its former CEO Anders Ingves in January 2017. According to the charges, the alleged felony took place between 2009 and 2012. The charges are related to a Paf customer, who has embezzled funds from different companies while being an active customer at Paf.com.

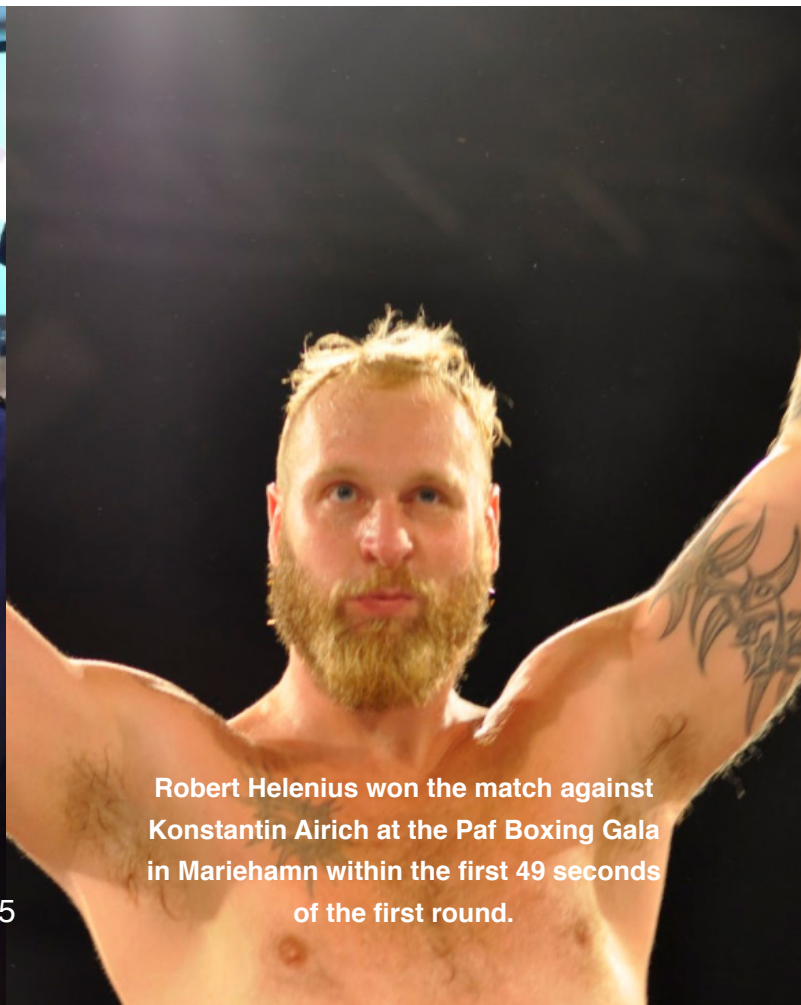
In January 2017, a lucky Paf player from central Finland won €3.5 million in the slot game Mega Fortune Dreams at Paf.com.

In February 2017, Paf sold its Italian affiliate Winga to the Swedish-Maltese money gaming company LeoVegas.

In February 2017, Paf started operating aboard the 6 Color Line cruise ships. These onboard operations include altogether 250 slot machines, 12 blackjack and roulette tables, and some 40 other money gaming entertainment machines.



In January 2017, Paf was awarded as the most responsible gaming company in the Nordic market by the EGR Nordic Awards in Malta.



Robert Helenius won the match against Konstantin Airich at the Paf Boxing Gala in Mariehamn within the first 49 seconds of the first round.

# 50 years of money gaming for good causes

Paf was founded on Åland in 1966 for the purpose of generating a profit to be distributed to good causes within the community. Now, 50 years later, the main purpose of Paf's operations is still the same. The profit is generated by providing money gaming entertainment for customers in a safe and responsible gaming environment. During 2016, Paf generated €20.8 million for good causes.

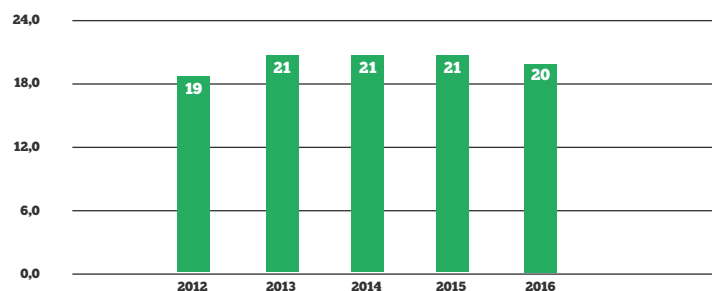
Since 1967, Paf has offered gaming entertainment aboard passenger ferries and cruise ships. The digital gaming era of Paf started in 1999, when Paf launched its own internet gaming site, Paf.com. Since then, Paf's online gaming entertainment offer has experienced an exponential growth, and includes hundreds of games in the following categories: slots, casino, poker, odds, bingo and lotteries.

The last few years, Paf has gone from monopoly operations to operating in full-scale international competition, since online the gaming activities take place in a broad international market. Correspondingly, most of the profit from Paf's physical gaming activities aboard ships and in land-based casinos are now generated outside of the monopoly, in competition with other money gaming companies.

Besides online money gaming, Paf manages large-scale physical money gaming operations comprising of around 1,500 slot machines and 55 games tables aboard 28 ships in the Baltic Sea, in Paf Casino on Åland and in Casino Sunborn in Gibraltar.

All in all, Paf has over 400 employees from 29 different countries. The main offices are located in Mariehamn on Åland, and the main customer base is in Finland, Sweden, Estonia and Spain. Paf operates under a gaming license granted by the regional government of Åland, and its operations are inspected by the local gambling authority Lotteriinspektionen. During 2016, Paf also had local gaming licenses in Estonia, Spain and Italy.

**Paf profit generated for good causes (€ M)**



During the last five years, Paf has distributed €102 M to good causes.

## Our values

Paf's mission is to generate a profit that will be distributed to good causes on Åland. The profit is generated by offering exciting money gaming entertainment to our customers in a responsible manner.

Our way of working, our mission and our product all stem from the thought of promoting a sense of community, responsibility and sustainability in different contexts; at the workplace, in our customer relations in the society at large.

As a company owned by the regional government, it is especially important for Paf to clearly communicate its values and to live up to them. Our values are anchored in our reason for being, and function as a compass both in our operative work as well as in forming our strategic long-term goals.



## Financial summary

### Revenue

The revenue for the Paf group 2016 is the highest in the history of the company. The total revenue increased from €110M to €113M during the year, and the increase is due to organic growth.

The GGR for online operations increased by +7% (+17%) to €81.9M (€76.4M).

The GGR for physical gaming operations on land and aboard ship decreased by -7% (+2%) to €31.5M (€33.6) M.

The costs for materials and services increased from €27.9M to €33.4M. This is mainly due to the increase in variable costs, which has occurred parallel to the increase in revenue.

Personnel costs increased from €22.6M to €25.0M. Starting from September, personnel costs include personnel costs for customer support and for the marketing organisation in Spain. Up to September, these areas were bought from external suppliers. The costs increased partly because of the increase in personnel from 345 to 376 persons, and partly because of temporary employee turnover costs due to structural changes in the company.

The result for the financial period sank from €22.7M to €15.2M. Paf expects the result to grow during 2017 through increased profits and decreased costs created by active cost control.

The market is expected to continue growing and to be characterized by increased competition during 2017. An important area of focus for Paf is international growth, which will likely call for boosted marketing efforts. In the short term, this may have a negative effect on the operating profit, while creating the foundation for increased profitability in the long term.

## **Paf Group Summary**

In 2016, the Paf Group comprised of the parent company Ålands Penningautomatförening and its subsidiaries Paf Consulting Abp, Paf New Business Ab, and Winga S.r.l. In addition, Paf Consulting Abp is the owner of several smaller companies.

Ålands Penningautomatförening manages physical gaming operations on Åland and aboard ships registered on Åland as well as international online money gaming operations.

Paf Consulting Abp manages gaming operations aboard ships registered overseas, and international online money gaming operations.



Paf Consulting Abp is a sub-group comprising of Paf Consulting Sverige AB (in abeyance) and Pafer A/S. During 2016, Spordiennustus A/S and its parent company Pafer A/S were merged into one, which means that all Estonian operations are now gathered in one company.

Paf New Business Ab operates in a very restricted area and is at the moment virtually dormant as a company.

Winga S.r.l. is based in i Milano and manages online money gaming operations in the Italian market. In the beginning of 2017, Paf sold Winga to the Swedish-Maltese gaming company LeoVegas, and Winga's affiliation with the Paf group has thereafter been discontinued.

## Organisation and management

### Board

Until November 2016, members of the board included chair Jarl Danielsson, vice chair Torbjörn Eliasson and members Anders Å Karlsson, Sara Kemetter, DAnne Sundman, Cecilia Jansson and Birgitta Eriksson.

On 10 November 2016, Åsa Ceder was appointed as new board member and chairman, and Anders Å. Karlsson was appointed the vice chairman. Two new appointed members were Carl Haglund and Anna Dahlsten. Jarl Danielsson, Torbjörn Eliasson and Cecilia Jansson left the board.

### CEO and group management

In the beginning of 2016, Paf's group management consisted 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. At the end of January 2016, Anders Ingves left the company and Johan Rothberg was appointed acting CEO. Starting 1 February 2016, Kim Johansson is part of group management.

On 1 June 2016, Christer Fahlstedt assumed his tasks as CEO, and during the same month Johan Rothberg was appointed deputy CEO. Stefan

Rumander left group management and Paf in August 2016. Since 1 October 2016, Per Sahlberg is part of the group management. On 24 November 2016, Goran Ristic became part of group management.

## Auditors

The auditors appointed for Paf by the regional government of Åland are Bengt Nyholm (CGR) (Finnish Chambers of Commerce recognised auditor) and Erika Sjölund (GRM) (Finnish Chambers of Commerce recognised auditor). Their assistants are Leif Hermans (CGR) and Sixten Söderström (GRM).

# Financial Report

## Key figures

€1000s

Group	2012	2013	2014	2015	2016
Revenues	105 059	108 214	98 148	110 033	113 515
Operating profit	24 695	30 867	16 763	19 972	15 788
Profit before extraordinary items	26 761	31 438	17 315	22 852	15 330
Profit before year-end appropriations and taxes	26 810	31 429	17 315	22 852	15 330
Profit	26 813	31 420	17 160	22 697	15 171
Operating margin	23,5 %	28,5 %	17,1 %	18,2 %	13,9 %
Profit as % of revenues	25,5 %	29,0 %	17,5 %	20,6 %	13,4 %
Return on equity in % (ROE)	32,0 %	32,2 %	17,1 %	23,0 %	15,4 %
Return on invested capital in % (ROI)	29,1 %	29,8 %	17,6 %	22,6 %	15,8 %
Solvency	85,8 %	87,3 %	81,8 %	85,6 %	84,5 %
Investments tangible assets	2 962	3 269	5 080	13 451	9 929
Investments in intangible assets	1 828	884	1 136	2 289	2 406
Investments tangible and intangible assets	4 790	4 153	6 215	15 739	12 335
Average number of employees	347	372	314	345	376
Ship-employed croupiers*			58	52	54

\*As a result of amended agreements, the salary amounts for the staff concerned are no longer included in the payroll, which is why they are also separated in the staff statistics.

## Parent company

Ålands Penningautomatförening	2012	2013	2014	2015	2016
Revenues	82 491	85 090	77 641	81 336	86 224
Operating profit	26 922	31 286	17 110	23 335	20 837
Profit before extraordinary items	28 800	31 823	17 590	23 626	18 374
Profit before year-end appropriations and taxes	28 854	31 823	17 590	23 626	18 374
Profit	28 854	31 823	17 590	23 618	18 341
Operating margin	32,6 %	36,8 %	22,0 %	28,7 %	24,2 %
Profit as % of revenues	35,0 %	37,4 %	22,7 %	29,0 %	21,3 %
Return on equity in % (ROE)	36,4 %	33,6 %	17,9 %	24,3 %	18,5 %
Return on invested capital in % (ROI)	32,5 %	30,8 %	18,3 %	23,9 %	18,7 %
Solvency	87,0 %	89,5 %	85,3 %	83,9 %	85,0 %
Investments tangible assets	2 375	2 250	4 742	13 225	7 887
Investments in intangible assets	636	711	927	1 779	1 979
Investments tangible and intangible assets	3 012	2 962	5 668	15 004	9 866
Investments in shares, etc.	62	0	4 808	3 880	4 930
Total investments	3 073	2 962	10 477	18 884	14 796
Gross investments as % of revenues	3,7 %	3,5 %	13,5 %	23,2 %	17,2 %
Average number of employees	268	292	256	264	261
Ship-employed croupiers*			28	28	30
Distribution of profits	10 500	19 000	21 000	21 000	20 000
Lottery tax to the Finnish government	10 311	11 458	9 995	11 105	11 433

\*As a result of amended agreements, the salary amounts for the staff concerned are no longer included in the payroll, which is why they are also separated in the staff statistics.

## Definitions of key figures

Revenues	Sales income - profit payments - lottery taxes and similar taxes	
Return on equity in % (ROE)	$\frac{\text{profit before extraordinary items} - \text{taxes}}{\text{equity} + \text{minority stakes}}$	x 100
Return on invested capital in % (ROI)	$\frac{\text{profit before extr.ord items} + \text{interest costs} + \text{other financial costs}}{\text{balance sheet total} - \text{interest-free debts}}$	x 100
Solvency	$\frac{\text{equity} + \text{minority stakes} + \text{voluntary reserves}}{\text{balance sheet total} - \text{advanced received}}$	x 100
Average number of employees	The ratio is calculated as an average of the number of employees at the end of the calendar month taking into account part-time employment	

For ROE and ROI, the ratio divisor is calculated as an average of the values according to the balance sheets of the accounting period and the previous accounting period.

## Profit and Loss Account

		PARENT COMPANY		GROUP	
	Note	2016	2015	2016	2015
<b>REVENUES</b>	R1	<b>86 223 956,60</b>	<b>81 336 494,65</b>	<b>113 514 811</b>	<b>110 033 346</b>
<b>Other operating income</b>		2 959 373,73	2 271 894,27	498 494	648 530
<b>Materials and services</b>					
Purchases during the accounting period		-14 835,58	-13 705,60	-5 114 798	-5 437 481
Total purchased services		<u>-21 200 442,79</u>	<u>-15 297 324,62</u>	<u>-28 319 674</u>	<u>-22 461 604</u>
		<b>-21 215 278,37</b>	<b>-15 311 030,22</b>	<b>-33 434 472</b>	<b>-27 899 085</b>
<b>Staff costs</b>	R2				
Salaries and remuneration		-16 628 447,65	-14 500 559,83	-19 968 409	-17 786 667
Pension costs		-2 500 434,28	-2 557 717,52	-2 763 557	-2 835 991
Other payroll expenses		<u>-1 612 909,97</u>	<u>-1 404 088,17</u>	<u>-2 268 180</u>	<u>-2 005 669</u>
		<b>-20 741 791,90</b>	<b>-18 462 365,52</b>	<b>-25 000 146</b>	<b>-22 628 327</b>
Activated development costs		539 038,93	1 700 492,27	823 893	2 014 390
<b>Depreciations and amortisation</b>		-4 474 318,87	-3 627 000,01	-5 480 784	-4 952 248
Depreciations according to plan		0,00	0,00	-436 144	-465 450
Depreciations for goodwill		<u>-597 720,00</u>	<u>-8 448,02</u>	<u>-606 720</u>	<u>-16 948</u>
Amortisation of assets held as fixed assets		<b>-5 072 038,87</b>	<b>-3 635 448,03</b>	<b>-6 523 648</b>	<b>-5 434 646</b>
Other operating costs		-21 856 369,41	-24 565 005,82	-34 090 574	-36 762 101
		<b>20 836 890,71</b>	<b>23 335 031,61</b>	<b>15 788 358</b>	<b>19 972 107</b>
<b>OPERATING PROFIT</b>					
<b>Financial income and costs</b>					
Income from shares in group companies		0,00	0,00	0	2 476 314
Interest income from group companies		18 818,72	21 516,39	0	0
Interest income from other		39 437,74	38 065,25	39 438	38 065
Other interest and financial income		963 520,92	1 097 341,09	1 039 927	1 239 194
Write-down of group shares		-1 938 291,64	0	0	0
Interest costs to group companies		-78 783,05	-33 296,98	0	0
Other interest and financial costs		<u>-1 467 290,58</u>	<u>-832 279,65</u>	<u>-1 537 517</u>	<u>-874 060</u>
		<b>-2 462 587,89</b>	<b>291 346,10</b>	<b>-458 152</b>	<b>2 879 513</b>
<b>PROFITS BEFORE TAX</b>		<b>18 374 302,82</b>	<b>23 626 377,71</b>	<b>15 330 206</b>	<b>22 851 620</b>
This year's and previous years' tax		-33 566,00	-8 554,05	-37 697	-9 078
Deferred taxes		0,00	0,00	-121 258	-135 213
Minority stakes		0,00	0,00	0	-10 787
<b>ACCOUNTING PERIOD PROFITS</b>		<b>18 340 736,82</b>	<b>23 617 823,66</b>	<b>15 171 251</b>	<b>22 696 542</b>