



**Veikkaus Oy**

# **ANNUAL REPORT 2018**

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## 2018

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# A WORD FROM THE CEO



"In 2018 Veikkaus prepared for major changes in its operating environment. Gaming is shifting from the points of sale towards the digital channel, where Veikkaus also faces competition from foreign operators. Veikkaus must develop its operations to succeed in international competition. Succeeding in the competition and ensuring our ability to channel gaming also provide the basis for the exclusive right and its continuation. We want to be able to provide games responsibly even in the future, minimizing game-related harm and channelling gaming revenue to the benefit of Finnish people.

The strategy for the years 2019–2021 lays down that Veikkaus' competitiveness shall be reinforced in the digital channel. We innovate and develop our operations in order to be able to offer our customers world-class alternatives to play entertaining and exciting gambling games in a reliable way. We also work in close cooperation with our international partners.

From the perspective of responsibility, it is important that we manage to channel gaming towards Veikkaus' games. A year ago, we introduced gaming limits in the digital channel that are unique even in the international setting. The first analyses have shown that the players have managed to use the gaming limits to control their gaming to take the direction they wish, and this has also lessened problematic gaming. According to estimates, the compulsory gaming limits decreased the growth of the gross gaming revenue in the digital channel by ca. EUR 21 million in 2018.


The government bill for a new Lotteries Act was presented for parliamentary consideration in October. The bill entails that Veikkaus should introduce compulsory identification on decentralised slot machines as of 1 January 2022. Veikkaus estimates that the compulsory identification would decrease the profit from slot machines by ca. EUR 100–150 million a year. Its impact on the lottery tax paid by Veikkaus would fall within the range of EUR 4–36 million.

Changes in consumer behaviour, the transition that trade is currently undergoing, and the reductions in the point-of-sale network have lessened gaming at the points of sale. We are working to overhaul Veikkaus' cost structure to correspond to the development in order to ensure our future competitiveness, thereby securing funds to our beneficiaries. In the coming years, we will focus on investments that support Veikkaus' competitive monopoly.

In spite of the challenges in the development of the gross gaming revenue, we were able to generate the projected profit to our beneficiaries in 2018, by operating in a cost-efficient way. By developing further our operations, we can continue to guarantee the profit to our beneficiaries even in the future.

I express my sincere thanks to our customers, employees, and partners for the year 2018!"

Olli Sarekoski  
President and CEO  
Veikkaus Oy

A man and a woman are shown from the chest up, celebrating at night. They are both wearing denim shirts and have their arms raised in the air. The background is dark with numerous small, warm-toned string lights that create a bokeh effect. The overall mood is joyful and festive.

# BOARD OF DIRECTORS, REPORT

## BOARD OF DIRECTORS' REPORT 2018

At the end of 2018 the new Veikkaus had operated two years. The new Veikkaus Oy was born when the gaming operations of Veikkaus, Finland's Slot Machine Association, and Fintoto were integrated at the beginning of 2017.

In 2018, we created a new strategy for Veikkaus for the period 2019–2021. The strategy aims to ensure Veikkaus' competitive monopoly, as gaming is shifting strongly towards digital channels. Veikkaus' digital games and services must be competitive in the face of rapidly increasing international game provision. Our goal is to turn Veikkaus into an operator that succeeds in international competition, capable of continuing to provide games responsibly even in the future, while minimizing gaming-related detriments and channelling gaming revenue to the benefit of Finns. Veikkaus' Board of Directors approved the strategic policy in their meeting of 28 August 2018.

According to the new strategy, Veikkaus offers the players world-class alternatives to play entertaining and exciting games reliably. We are continuously innovating new and interesting offerings. We offer the customers precisely the games they want and services that best suit them. We strengthen our competitiveness in the digital product groups and focus our product development especially on the games in the digital channel. Veikkaus' brand is being reformed responsibly to meet the requirements of the competitive market. At the same time, we are making our corporate culture and staff's knowhow even more agile than before.

In its second year of operations, Veikkaus reached a turnover of EUR 3 154.7 million (-2.4 %). The gross gaming revenue amounted to EUR 1 759.0 million (-1.1 %). The gross gaming revenue is calculated by deducting the prizes paid out to players<sup>1</sup> from the turnover. The downward development of the turnover and the GGR was affected by structural changes in trade and the gaming and money transfer limits that were adopted in the digital channel to facilitate customers' control of their gaming. Further, the fall also reflected the stricter regulation applied to game and service development.

Veikkaus reached a turnover of EUR 1 014.5 million (-0.7 %) and a financial result of EUR 1 014.2 million (-0.7 %). The result exceeded the amount that had been recorded in the State Budget for the beneficiary ministries as funds to be distributed to the beneficiaries, EUR 1 013.5 million of the result of the financial year. The result was affected by the development of the GGR, and by a decrease in one-off integration-related expenses, which fell from the previous year. It was also affected by a fall in personnel expenses, and a decrease in sales commissions, caused by reduced retailer sales.

The total Finnish gaming market amounted to ca. EUR 2 050 million in terms of GGR in the year under review. This figure contains Veikkaus' GGR and H2 Gambling Capital's estimate of the digital gaming with other operators in which Finns have engaged. The total market increased by 1.2 percent over the previous year. Veikkaus' share of the market was ca. 86 percent.

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## CUSTOMER RELATIONS: ACTIVE PROMOTION OF PLAYER IDENTIFICATION

Veikkaus had over 2 043 000 Loyal Customers in its customer base at the end of the period under review. Gold Customers represented ca. 130 000 of them, whereas 55 000 customers had attained the Silver level. Up to over 170 000 Loyal Customers had already ordered the responsibility elements, i.e. the Game Test and the Play Moderately service message, which are the prerequisites for reaching the Gold and Silver levels.

We held immensely popular Loyal Customer Days at the Pelaamo and Feel Vegas arcades in June,

September, and December. The Loyal Customer Days aim at increasing people's awareness of the Loyal Customer programme and its benefits, and getting more customers to join the programme. The Loyal Customers received a variety of benefits throughout the year. The winners of the Loyal Customer Draws got to attend, e.g., the Winter Olympics at Pyeongchang, the Ice Hockey World Championship in Denmark, and the FIFA World Cup hosted by Russia. Over 500 000 customers are collecting Loyal Customer Points.

<sup>1</sup> In slot machine and table games of personal draws, the turnover is reported by deducting the prize payout from it.

Veikkaus ranked first in the Finnish Customer Index survey of 2018 in terms of customer loyalty, surpassing the winner of the previous year, S-Pankki, which came second this time. Veikkaus also ranked well in surveys concerning customer loyalty and customer experiences, when compared to other gaming companies.

The share of identified gaming out of all playing of Veikkaus games went up to 44.8 percent (+4.2 percentage points). The new Veikkaus Card, which was sent out to all of Veikkaus' Loyal Customers in 2017–2018, increased the share of identified gaming on slot machines. Increasing identified gaming is one of Veikkaus' core strategic goals. Veikkaus is also preparing to introduce compulsory identification on decentralised slot machines that is to be adopted as of 1 January 2022 in accordance with the government bill on the amendment of the Lotteries Act. The bill has been submitted for parliamentary consideration. Identification leads to better customer experiences and versatile tools for the control of gaming.

The gaming license granted to Veikkaus by the province of Åland and Veikkaus' game sales on the island of Åland ended on 31 December 2017. The residents of Åland also lost their right to play at Veikkaus' online service [veikkaus.fi](http://veikkaus.fi). During the duration of the former license, Veikkaus sold such games on Åland that were not otherwise available in the province, i.e. Lotto, Vikinglotto, Eurojackpot, Jokeri, Keno, Lomattonni, Kaikki tai ei mitään, Synttärit, and scratchcards. As the gaming license ended, the terms of Veikkaus' Loyal Customer Programme were also updated on 1 January 2018.

The EU General Data Protection Regulation entered into force on 25 May 2018. Veikkaus updated its data protection description and published a data privacy notice on its website, detailing the principles of processing personal data at Veikkaus in accordance with the requirements of the regulation. For customers, the changes in data protection regulation are visible in, e.g., more detailed descriptions of the use of personal data, more transparent communications, and new functionalities at the OmaVeikkaus service.

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## CORPORATE BRAND: VEIKKAUS' REPUTATION STAYED AT A GOOD LEVEL

The appreciation towards Veikkaus' brand almost maintained its previous level in 2018. Out of all Finns, 72 percent held a positive view of Veikkaus, and 77 percent thought that Veikkaus was a responsible company (FranklyPartners 03/2018). According to the Reputation and Trust survey (Q2/2018) carried out by T-Media, Veikkaus' reputation among the general public kept its good level (average 3.67). Veikkaus' most potential area of development and largest reputational risks still have to do with responsibility, whereas the company's strength lies in innovation.

In a brand appreciation survey carried out by the market research company Taloustutkimus (06/2018), Veikkaus ranked 154th, with a total of 541 different brands surveyed. Our rank improved from 2017, when we were rated as the 170th most appreciated brand. The respondents having voted Veikkaus as the most appreciated brand cited, e.g., the fact that our proceeds are used for good causes, that Veikkaus helps several operators and groups, and offers excitement and a versatile range of products.

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## RETAIL NETWORK: GAMING SHIFTING MORE AND MORE TOWARDS THE DIGITAL CHANNEL

In the year under review, 57.9 percent of Veikkaus' turnover came from the retail network, whereas 42.1 percent came from the digital channel. Gaming is shifting more and more towards the digital channel. The online service has ca. 613 216 customers

a week (+17 %), and a total of 1.4 million customers a year. Mobile gaming is constantly increasing in popularity, and at the end of the year, 45 percent of the customers of the online store came to play by using mobile appliances.

We introduced new gaming limits at the online service *veikkaus.fi*, compulsory to all. They enable the players to follow and control their gaming. Besides launching new games and reforms, we have focused on enhancing the customer experience by improving our user interfaces and services. The *veikkaus.fi* service will be developed further in 2019, to take customers' needs into account even better.

The customer numbers at Veikkaus' points of sale remained at a high level, despite the centralisation trend in trade, and the subsequent reduction of the store network. As a result of this trend, some of the daily service encounters have switched over from kiosks and service stations to larger retail store units. This, together with the growth of digital gaming, has lessened gaming at the points of sale.

Despite the changes in the retail network, the degree of slot machine placement has retained its high level. We have also continued to renew our slot machine base. In particular, games that facilitate fast and easy gaming, including Express and

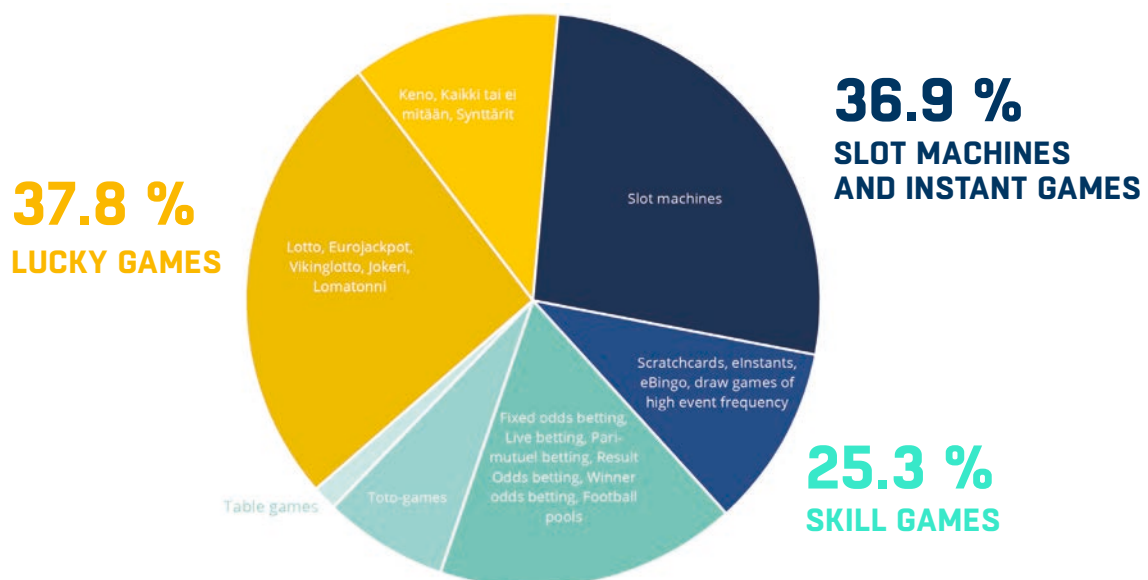
syndicate gaming, have continued to increase in popularity.

The point-of-sale design will be reformed starting from 2019. We will first reform the points of sale at retail locations that are new, or need to be renovated, or have large customer flows. At the end of 2018 we finalised a project started in spring 2017, in which the point-of-sale fixtures and stands were chosen after a bidding process.

We have continued to plan a sales reform. The project aims at enabling smooth and fast service encounters, improving the customer experience through, e.g., digital services, and enhancing the availability of the games through new point-of-sale solutions.

The Pelaamo arcades have been revised, replaced, and some of them have been enlarged. The project to build the casino in Tampere is proceeding according to plan and the construction work on the site have been initiated.

## GAMING BUSINESS OPERATIONS: EUROJACKPOT HAD AN EXCELLENT YEAR



Veikkaus games fall into three game groups based on their features: Lucky Games, Slot Machine and Instant Games, and Skill Games. Lucky Games represented 37.8 % of the total turnover in 2018; Slot Machine and Instant Games represented 36.9 %, and Skill Games 25.3 %.

The game to succeed best of all Veikkaus games in 2018 was Eurojackpot, which boosted the turnover of Lucky Games. As for Slot Machine and Instant Games, and Skill Games, their turnover fell from 2017.

**Lucky Games** include the weekly drawn Lotto, Eurojackpot, and Vikinglotto, and their add-on games Jokeri and Lomattonni. In addition, the Lucky Games group covers the daily drawn games Keno, Kaikki tai ei mitään, Synttärät, and Tähdenlento. The turnover of Lucky Games amounted to EUR 1 191.8 million (+3.2 %).

The decrease in the turnover (EUR 340.4 million) of Veikkaus' most popular game Lotto slowed down in 2018 (-1.3 %). The slowing down of the downward trend can be explained by a reform we introduced in January, in which Lotto's Doubling Up feature was replaced with the Plus gaming option, familiar from Vikinglotto. By choosing the Plus option, the players can quintuple all of their winnings, except for the jackpot. The players have welcomed the Plus feature, and nearly 40 percent of the players choose it while playing. Lotto's marketing concept was also revised in 2018.

Eurojackpot's year was excellent, with its turnover (EUR 300.8 million) rising by 40.6 percent. Maximum jackpots of EUR 90 million were available in as many as thirteen weeks. The game was played more even in weeks with smaller jackpots. The good sales were boosted by a revised marketing concept and two jackpots landed in Finland. Especially the record-high jackpot of EUR 90 million, which was hit in Loimaa, southern Finland in February, had a great impact on the popularity of the game. In contrast, there were no maximum jackpots of EUR 35 million in Vikinglotto in 2018, which affected the game's turnover (EUR 75.5 million), falling by 11.5 percent.

Keno's turnover (EUR 314.5 million) fell by 7.0 percent. Some of the players of the daily drawn Lucky Games have switched over to Slot Machine and Instant Games, and this has affected Keno's turnover. Keno saw its first Keno festival in August and September, and again at the turn of October and November. During the Keno festivals, the jackpots of levels 5–10 were multiplied by one and a half times. The festivals increased Keno's weekly sales by an average of 10.5 percent as compared with the other weeks of the year.

The turnover of Kaikki tai ei mitään game was EUR 50.1 million (-21.1 %). In October Kaikki tai ei mitään was supplemented with an add-on game, Onnenapila, which is chosen to cover around a half of the lines played. After the introduction of Onnenapila, the weekly sales of Kaikki tai ei mitään increased by 25.0 percent.

In December, Veikkaus launched a new number guessing game Tähdenlento. It is the first game to be operated on Veikkaus' own game platform, V-moottori.

**Slot Machine and Instant Games include** the traditional and digital slot machine games, scratchcards, digital eInstants, digital eBingo games, and draw games of high event frequency. The Slot Machine and Instant Games posted a turnover of EUR 1 163.5 million (-5.9 %).

Slot machine games reached a turnover<sup>2</sup> of EUR 840.3 million (+2.2 %). The turnover of the traditional slot machine games fell as a result of, e.g., structural changes and reductions in the retail network, challenges in the equipment base, and season-specific impacts. The digital slot machine games posted record-high sales. The growth can be explained mostly by the fact that the game accounts on veikkaus.fi were combined in December 2017, following which the number of monthly players grew significantly.

Combining the game accounts and the subsequent changes in customer behaviour led to a drastic decrease (-32.7 %) in the turnover (EUR 185.8 million) of the eInstants, eBingo, and other draw games of high event frequency as compared with the previous year. At the end of the year, the Ministry of the Interior made a decree amendment, enabling higher payout percentages in the eInstants in the future.

The turnover of scratchcards (EUR 137.4 million) fell by one percent. The fall can be explained by the weak sales of Mega Instant, as compared with the previous year's scratchcard celebrating Finland's hundredth anniversary, as well as by a fall in the number of the points of sale.

In 2018, Veikkaus released several new slot machine games: Novax, Hottipotti, Repolainen, Hokkuspokkus, Mestarietsivä, and Kultaranta. In the course of the year, a total of 38 new digital slot machine games were introduced, among them four multi-channel games of Veikkaus' own production – Novax, Hottipotti, Repolainen, and Mestarietsivä. Further, we launched three games in the digital channel that had been previously released in the traditional channel – HokkusPokkus, Ra-ha II, and Fruttis. A total of seven new eInstants were also released. Fruttis eInstant, launched in June, was a great success. After its launch, it posted the best sales of the year of all the eInstants. Other new re-

<sup>2</sup> In slot machine games of personal draws, the turnover is reported by deducting the prize payout from it.

leases in 2018 included Mega, Pajatso, and Jalokivi scratchcards. In addition, the Casino 10 € scratch-card was revised.

Veikkaus signed a customer contract with two international gaming industry companies Netent AB and Yggdrasil Gaming. The online games by Yggdrasil and NetEnt will be available to Veikkaus' customers as of early 2019. This reinforces, for its part, Veikkaus' competitiveness in the globally growing product groups of the digital channel.

**Skill Games** include the fixed odds betting games Fixed Odds Betting, Live Betting, and the Virtual bets; the parimutuel betting games (Multibet, result Odds betting, Winner Odds Betting), Football Pools, the toto games and the table games.

The Skill Games reached a turnover of EUR 799.4 million (-4.8 %) in the period under review. The most significant reasons for the negative development were the decrease in point-of-sale gaming caused by structural changes in trade, the new money transfer limits in the digital channel, and the fact that customers took up other games of high event frequency in the digital channel to an increasing degree.

The combined turnover of betting games of fixed and parimutuel odds and Football Pools (EUR 534.7 million) decreased by 5.5 percent over the year before. The downward trend was seen both at the points of sale (-11.1 %) and in the digital channel (-3.1 %). The Winter Olympics did not bring the projected turnover, as especially the time difference affected the customers' gaming activity more than expected. The turnover from the World Championship in Ice Hockey also turned out slightly disappointing, as Finland already dropped out in the quarter finals. Instead, the turnover and customer figures of the FIFA World Cup that took place in June and July broke records. The turnover was twenty percent higher and the number of identified players in sports games increased by 13 percent as compared with the UEFA European Championship two years before. When compared against the FIFA World Cup four years before, the turnover increased by 17 percent.

The months after top-level sporting events have traditionally been a more quiet time when it comes to customers' gaming activity, and this was also true in 2018. In the autumn, the turnover and customer numbers of the most important series from the perspective of Veikkaus' business, i.e. the Finnish

ice hockey elite league Liiga, remained at a clearly lower level than in the previous year when there had not been any international top-level sporting events in the summer.

Live Betting increased its turnover (EUR 76.2 million) by 18.1 percent during the period under review following a reform introduced in December 2017, making, e.g., game combinations possible. The virtual bets that were launched at the beginning of February made the selection of Skill Games more versatile for their part.

The toto games are divided into T Games and other Toto Games. The T Games are games where the outcome is based on the winners of several successive races (Toto4, Toto65, and Toto76). Other Toto Games include games the outcome of which is based on the rankings of a single race (Rank, Quinella, and Trifecta). The total turnover of the toto games (EUR 221.0 million) went down by 4.8 percent as compared with the previous year. The drop had to do with a drastic decrease in the demand for toto games in all channels. The turnover of the other Toto Games (EUR 117.4 million) fell by -10.1 %, and even the digital channel showed decrease (-7.6 %). In spite of the fall in the turnover, the other Toto Games attracted more customers (+5.0 %) than in the previous year.

In contrast, the turnover of the T Games showed a slight increase (+2.2 %) thanks to an increase in digital gaming (+10.1 %). The digital turnover of the T Games increased as a result of a successfully planned use of the prize fund, the jackpots realized, the fast-paced and entertaining Magic Monday concept, realized jointly with Hippos and horse tracks, as well as a reform of the studio design of TotoTV. Thanks to the growth in the T Games, the total turnover of the toto games in the digital channel reached the level of the previous year (+0.1%). The T Games attracted nine percent more customers than in 2017.

The turnover of table games<sup>3</sup> (EUR 43.7 million) grew by 4.5 percent as compared with the previous year. The points of sale, and especially the digital channel, showed increase, with the digital channel reaching up to a 20.8-percent growth. The most important reason behind the growth was the development of the multichannel table game offerings and the international poker network. During the year, we released several new games and a multichannel table game concept, which is unique even in the global setting.

<sup>3</sup> (1) In table games of personal draws, the turnover is reported by deducting the prize payout from it.

## **COST DEVELOPMENT: POSITIVE DEVELOPMENT OF COST-EFFICIENCY**

The costs from Veikkaus' operations included one-off expenses (EUR 11.8 million) caused by the integration, especially the combination of the systems and the transfer tax recorded as a result of the transfer of the shares of the old Veikkaus. Despite the one-off costs, we were able to improve cost-efficiency, and the costs in relation to the GGR were 29.7 percent.

The prizes paid out to players amounted to EUR 1 395.7 million<sup>4</sup>. The company paid EUR 211.0 million in lottery tax to the State, whereas the compensations for retail outlets and sales commissions paid out to the business partners totalled EUR 158.3 million. The compensations decreased as a result of a drop in retail sales, caused by structural changes in trade, as well as the general trend towards digital gaming.

The costs developed as expected. The supervision and authority fees increased as a result of compensations related to the prevention of problem gambling and expenses of the Funding Centre for Social and Healthcare Organisations, paid to the Ministry of Social Affairs and Health. Veikkaus' personnel expenses were lower than in 2017, when the costs were raised by cooperation negotiations and higher incentives. The service purchases covered the costs of use, maintenance, and development of the ICT systems. The depreciations grew as a result of investments in slot machines, increasing the number of Veikkaus' own gaming locations, and combining the systems and the game service.

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## **RESEARCH AND PRODUCT DEVELOPMENT: AIMING AT AN EVEN BETTER PRODUCT SELECTION**

In 2018 Veikkaus' research and product development focused on the release of new products. As in the previous year, we centred especially on new releases in the Slot Machine and Instant Games group. In addition, the development focused on projects that enable product development and make it faster in the next few years. Veikkaus' new online casino game system NEMO was launched at veikkaus.fi service in November, with the release of the game Hymykissa. The company's own game system helps Veikkaus to release new online casino games faster, as part of the company's other game provision. In the course of the year, we also worked on our preparedness to attach new game providers to the online service. The first two of these were NetEnt and Yggdrasil. In Lucky Games, we developed our digital capacity by launching a new game, Tähdentento, in December. Tähdentento operates on Veikkaus' own V-moottori platform. V-moottori adds to the flexibility and pace of new draw game launches in the online service. We also initiated a number of game system reforms in the fields of Skill games and retail sales, with the objective of launching them in the years 2020–2021.

Veikkaus signed a contract with three other national gaming companies on the establishment of a joint venture in October. Besides Veikkaus, the compa-

nies to take part in the joint venture are Danske Lotteri Spil from Denmark, la Française des Jeux from France, and Norsk Tipping from Norway. The new company is called Lotteries Entertainment Innovation Alliance AS (LEIA). LEIA aims to develop new types of games and to offer the customers of each company a better selection of digital games. Thus, the companies can respond to the challenges in the digital environment and make innovation more open. The owner companies can use the games on their specific domestic markets. LEIA is a limited company, established under the laws of Norway, with its registered office in Hamar, Norway.

As part of the company's ICT architecture plan, Veikkaus launched a number of reforms to its infrastructure. The reforms focus on the company's data communication services and the data centre services. Their aim is to offer strong support to the company's strategic goals. In 2018 Veikkaus' product development also covered change projects required by legislation and regulatory provisions, including investments caused by changes in the legislation concerning data protection and money laundering.

Veikkaus spent EUR 23.3 million on product development and research, i.e. 6.3 percent of the total expenses, including depreciations.

<sup>4</sup> Excluding the winnings of slot machines and table games, which are deducted from the turnover.

## RESPONSIBILITY: GAME LIMITS AFFECTED ONLINE GAMING

The year 2018 was the first full year when customers were obliged to follow money transfer limits and, for games of high event frequency and draw games, loss limits. According to estimates, the compulsory game limits reduced the growth of the GGR in the digital channel in 2018 by ca. EUR 21 million. According to recent analyses, the realized drop in the GGR probably concerned the most problematic gaming, which means that the compulsory limits worked well and as expected.

To a slight surprise, we have noticed that the compulsory money transfer limit is more effective than the compulsory loss limit, which is applied to certain draw games of high event frequency, since players face the transfer limit more often. Over a half of the players have set both the monthly transfer limit and the loss limit at a hundred euros or less. Based on a recent survey, players value clearly more a model where they can set the limits they wish than a model where an authority or operator sets limits that are common to all.

Last year Veikkaus conducted an extensive population survey twice, analysing gaming and the detriments it may cause. According to a survey made in April 2018, 2.8 percent of the population (116 000 people) suffer from gambling problems. In a respective survey carried out in December, the percentage was 2.6 (107 000 people). The respective percentages in 2017 were 3.1 (April) and 3.3 (December).

Thus, based on the results of two successive years, the number of people with gambling problems has definitely not increased. Veikkaus will continue to carry out such surveys in 2019.

The umbrella concept of Veikkaus' responsible gaming was launched in August. The concept speaks for maintaining the joy of gaming. The target group of the campaign is that of young adults and people who play Veikkaus games less frequently. According to a subsequent survey, the campaign reached its target audience well, especially young people, and it reinforced people's idea of Veikkaus as a reliable, humane company that works for the good causes.

Veikkaus passed the European Lotteries (EL) Responsible Gaming Standard in November, following certification by an external evaluator. Veikkaus reached high points in the certification, and not a single remark demanding immediate development was made. In December, another certification was carried out, as the responsibility of the casino operations was certified based on the responsibility standard of the European Casino Association (ECA). We passed even this certification with excellent ratings.

Veikkaus' separate responsibility and CSR report will be published in the spring by the date of the General Meeting.

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## GOVERNANCE: CHANGES TO THE BOARD OF DIRECTORS IN MARCH

The Board of Directors continued to be chaired by Olli-Pekka Kallasvuori, LL.M. The other members were Outi Henriksson, Chief Financial Officer, M.Sc. (Econ.) (Aktia Pankki Oyj); Minna Pajumaa, Senior Financial Counsellor (Prime Minister's Office); Tuomo Puumala, Member of Parliament; Hanna Sievonen, Independent Corporate Advisor, M.Sc. (Econ.); Jutta Urpilainen, Member of Parliament; and Raimo Vistbacka, LL.M. with court training. In the General Meeting of 27 March 2018, Ilkka Kanerva, Member of Parliament, was appointed as a new member of the board. Kanerva used to chair Veikkaus' Supervisory Board previously.

Timo Heinonen, Member of Parliament, was appointed as the new chairman of the Supervisory Board. Heinonen used to be a member of the Supervisory Board previously. Veikkaus' Supervisory Board has a maximum of 28 members according to the articles of association of the company, two of whom are representatives of the personnel. The personnel representatives also have personal deputies. Of the other members of the Supervisory Board, half represent the company's beneficiaries and half are appointed according to the balance of political power in Parliament.

## PERSONNEL: ORGANIZATION AND STEERING MODEL REFORMED IN SEPTEMBER

At the end of the year, Veikkaus employed 2 074 people. Over half of the personnel worked as croupiers and dealers and in other customer service jobs at Veikkaus' game arcades, Casino Helsinki, and restaurants.

In 2018, 53 percent were full-time and 47 percent part-time employees. The large number of part-time employees can be explained mainly by croupiers and dealers working part-time. 98 percent of the personnel had permanent employment contracts. Women represented 44 percent of the personnel, and men 56 percent. During the year under review, 422 new employees were hired, and 359 left the company. The incoming turnover was 22 percent and the departing turnover 18 percent. The average turnover was 20 percent.

The company's personnel expenses totalled EUR 98.3 million (-7.3 %) in 2018. The share of salaries was EUR 81.8 million and the share of pension costs and indirect personnel expenses was EUR 16.5 million.

Veikkaus' organization and steering model was reformed as of 1 September 2018. Through the reform Veikkaus aimed at preparing for changes in the operating environment, the rapidly increasing international competition, and success in digital business. The new organization covers seven operational units all of which are represented in Veikkaus' new Executive Team. The change was negotiated with employee representatives and it did not lead to personnel cuts.

The new Executive Team has seven members in addition to President and CEO Olli Sarekoski. The members are Executive Vice President Velipekka Nummikoski, Chief Operating Officer Nora Vähävirta, Senior Vice President, ICT and Sales Ari Aarnihuhta, Senior Vice President, Business Operations Timo Kiiskinen, Senior Vice President, Channels and Sales Jari Heino, Senior Vice President, HR Heli Lallukka, and Senior Vice President, Legal Affairs and Governance Pekka Ilmivalta.

The development of the operating culture and supervisor work was supported in many ways. At the end of the year, the process of managing Veikkaus' performance was reformed and made into a new process of Success Management in cooperation with personnel representatives, and all supervisors were trained to operate according to the new process. At the end of the operating year, a new rolling model of operational planning was introduced. Its implementation will be started in 2019. Further, supervisors and employees were trained for the use of, e.g., agile methods in different branches of the organization.

During the year under review, representatives of the employer and the personnel negotiated, e.g., over revisions to the compensation schemes. The new compensation scheme concerning officials was adopted in April, and in August, dialogue concerning the updates to the employees' compensation scheme was also continued. At the end of the year, Veikkaus carried out collective bargaining negotiations.

A compensation scheme covering Veikkaus' entire personnel was developed at the end of the year, with a view to making the new strategy more functional. The objective of the compensation scheme was to motivate and engage the personnel to the building of future Veikkaus. The scheme's different forms were linked to objectives derived from the company's new strategy.

Estimates concerning the building of a unified Veikkaus showed positive development in the four Puls-si surveys carried out during the year under review. Veikkaus' employees want to be actively involved in the development of their workplace. The response activity in the year's last personnel survey was at an exceptionally good level, with 83.6 percent of the staff participating. In the personnel survey, 81.0 percent of Veikkaus' employees said they were excited about their work.

## SUPERVISION AND RISK MANAGEMENT

According to chapter 42, section 2 of the Lotteries Act (506/2009), Veikkaus' gaming operations are supervised by the National Police Board working under the Ministry of the Interior. The Ministry of the Interior approves the rules of the games, and the National Police Board supervises that the rules are complied with.

It is estimated that the most significant risks from the perspective of the company's profitability and the financial result of the year 2019 are the effects of the regulation governing the gaming system,

which has been made stricter, and the development of the domestic consumer demand and structure of trade. In the short term, the prize payout to players may vary significantly. Veikkaus considers it important that its ability to channel gaming towards domestic offerings, as well as to develop games and services, can be secured in the middle of tightened competition especially in the digital channels.

The company's supervision and risk management is described in the Corporate Governance 2018 review.

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## FUTURE PROSPECTS

The strategy aims to ensure Veikkaus' competitive monopoly. As gaming is shifting strongly towards digital channels, Veikkaus' digital games and services need to be competitive while facing the rapidly increasing international gaming provision. Our objective is to turn Veikkaus into an operator that succeeds in international competition and that can continue to provide games responsibly, minimising the detriments of gaming even in the future. The rhythm of gaming is faster and requires that games must be reformed more and more frequently, in order that we can fulfil our customers' expectations of personal game services. Questions related to data protection and security are also central to our operations. Changes in gaming regulation, as well as in consumer behaviour and domestic purchasing power are significant insecurity factors from the viewpoint of the operations.

Veikkaus aims to achieve a result of the same level as that of 2018. Veikkaus' projected profit recorded in the State Budget 2019 is EUR 1 099.0 million, of

which EUR 1 023.2 million have been earmarked for return to the State. In addition, a total of EUR 71.4 million of the undistributed prize funds from the previous years, managed by the ministries, will be distributed to the beneficiaries; EUR 16.9 million of these funds are managed by the Ministry of Education and Culture, and EUR 54.5 million by the Ministry of Social Affairs and Health.

After the end of the financial year, Veikkaus initiated cooperation negotiations in January 2019, covering 1 300 employees. Veikkaus is planning to end table game operations in restaurants and the Pelaamo arcades. Further, we are planning to reorganize the support functions of restaurant game tables, and retail sales and retail channel cooperation. The estimated personnel reduction will be ca. 400 employees, of whom most are working part-time. By these measures of reorganization Veikkaus aims at reforming its cost structure and making its operations more efficient.

## **BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFITS**

Veikkaus Oy's financial profit for the financial year 2018 was EUR 1 014 208 253.77. The Board of Directors proposes that the difference between the financial profit 2018 and the items affecting the return, EUR 618 253.77, be returned to the beneficiary ministries: EUR 24 758.45 to the Ministry of Agriculture and Forestry, EUR 327 672.85 to the Ministry of Education and Culture, and EUR 265 822.47 to the Ministry of Social Affairs and Health.

Veikkaus' direct financial profit to society in the year under review can be calculated to amount to a

total of EUR 1 014.2 million. The company returned EUR 537.5 million to the Ministry of Education and Culture, EUR 436.1 million to the Ministry of Social Affairs and Health, and EUR 40.6 million to the Ministry of Agriculture and Forestry. Further, Veikkaus paid EUR 211.0 million to the State in lottery tax, and a total of EUR 40.4 million in VAT, which affected the result as an expense. Veikkaus is not VAT liable and cannot therefore deduct the VAT included in its purchases of goods and services.

A man and a woman are shown from the chest up, celebrating joyfully at night. They are both wearing denim shirts and have their arms raised in the air. The background is filled with warm, glowing string lights, creating a festive and celebratory atmosphere. The overall color palette is dominated by warm yellows and oranges.

# FINANCIAL STATEMENT

## STATEMENT OF COMPREHENSIVE INCOME

EUR	Note	2018	2017
<b>TURNOVER</b>	<b>1</b>	<b>3,154,650,745</b>	<b>3,230,858,481</b>
Other operating income	3	3,812,489	3,956,542
Prizes		1,395,694,402	1,453,101,471
Lottery tax		210,995,011	212,751,114
Materials and services			
Authority payments and supervision fees		11,272,408	9,048,878
Retail commissions and placement fees		158,289,128	163,615,761
Materials and supplies		7,115,910	5,828,058
Payslips and lottery tickets		5,843,535	7,550,724
Drawing expenses and result information		10,958,479	12,319,537
Game event cooperation		8,613,071	8,784,189
Product advertising		19,557,016	22,394,192
		<b>221,649,547</b>	<b>229,541,340</b>
Employee benefit expenses			
Wages and salaries		81,828,544	86,211,537
Pension expenses		14,333,284	14,923,503
Other compulsory personnel expenses		2,095,892	4,903,112
		<b>98,257,721</b>	<b>106,038,152</b>
Services purchased	5	81,615,329	79,574,569
Depreciation and impairment	4 9 10	49,960,908	47,613,790
Other operating expenses	6	85,786,377	84,909,465
		<b>217,362,614</b>	<b>212,097,824</b>
<b>OPERATING PROFIT</b>		<b>1,014,503,939</b>	<b>1,021,285,122</b>
Financial items			
Financial income	8	136,215	135,352
Financial expenses	8	518,186	42,526
		-381,971	92,826
<b>INCOME TAXES</b>		<b>-86,285</b>	<b>86,285</b>
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<b>1,014,208,254</b>	<b>1,021,291,663</b>
Earnings per share *			
Number of shares		6000 shares	6000 shares
Earnings per share		169,035	170,215

\* Earnings per share were calculated by dividing the profit for the financial year by the number of shares

## BALANCE SHEET

EUR	Note	2018	2017
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Tangible assets*	9	159,175,013	162,371,191
Intangible assets*	10	27,221,287	35,014,741
Long-term investments	12	1,236,387	1,109,045
Other non-current receivables and prepayments	12	15,037,277	15,750,274
<b>CURRENT ASSETS</b>			
Inventories		6,618,636	7,031,238
Advance payments		975,000,000	975,000,000
Accrued income and deferred expenses	13	42,607,045	47,781,675
Cash and cash equivalents	14	126,589,800	100,715,414
<b>TOTAL ASSETS</b>		<b>1,353,485,445</b>	<b>1,344,773,577</b>
<b>EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	15	600,000	600,000
Aquisition capital	15	151,257,550	151,257,550
Invested unrestricted equity reserve	15	345,698	345,698
Retained earnings		0	-6,646,620
Profit for the financial year		1,014,208,254	1,021,291,663
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1,166,411,502</b>	<b>1,166,848,291</b>
<b>LIABILITIES</b>			
<b>NON-CURRENT LIABILITIES</b>			
Defined benefit pension liabilities	16	2,623,000	2,756,000
Other interest-free liabilities	16	1,518,994	1,451,645
<b>CURRENT LIABILITIES</b>			
Advance payments	17	6,452,487	1,457,355
Advances for multi-week subscriptions	17	10,710,304	9,228,765
Accounts payable	17	18,929,013	27,104,352
Prizes payables	17	39,209,758	35,999,228
Settlement debt to the State	17	41,750,437	42,905,471
Accrued liabilities and deferred income	17	53,909,771	44,559,094
Other short-term liabilities	17	11,970,179	12,463,376
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>1,353,485,445</b>	<b>1,344,773,577</b>

\* Subsidiary shares MEUR 1.2 transferred from long-term receivables to fixed assets, buildings. Comparable figures for 2017 adjusted accordingly.

## CASH FLOW STATEMENT

EUR	Note	2018	2017
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Operating profit		<b>1,014,503,939</b>	<b>1,021,285,122</b>
<b>Adjustments to cash flow from operating activities</b>			
Depreciation and impairment		49,174,178	47,060,349
Other non-cash income and expenses (+/-)		586,027	88,642
Other adjustments to cash flow from operating activities (+/-)		410,099	2,548,000
<b>Cash flow from operating activities before change in working capital</b>		<b>1,063,854,045</b>	<b>1,070,982,113</b>
<b>CHANGES IN WORKING CAPITAL</b>			
inventories increase (-) or decrease (+)		412,601	-430,263
Receivables, non-interest-bearing, increase (-) or decrease (+)		5,887,626	2,037,097
Liabilities, non-interest-bearing, increase (-) or decrease (+)		9,148,657	-16,359,396
<b>Cash flow from operating activities before financing items and taxes</b>		<b>1,079,302,929</b>	<b>1,056,229,551</b>
Interests received and other financial income		72,432	76,345
Interests paid and other financial expenses		-108,087	-42,526
Income taxes paid (-) or received (+)		86,285	-86,285
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>1,079,353,559</b>	<b>1,056,177,085</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Capital expenditures on non-current tangible and intangible assets	11	-40,297,893	-46,339,644
Proceeds from disposal of tangible and intangible non-current assets		1,399,978	1,147,252
Dividends received from long-term investments	11	63,784	59,007
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>-38,834,131</b>	<b>-45,133,385</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Return to the beneficiary ministries		-975,000,000	-975,000,000
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>-1,014,645,043</b>	<b>-1,045,849,810</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at year beginning 1 JAN		100,715,414	5,801,254
Cash and cash equivalents transferred in the integration at year beginning		0	129,720,437
<b>CASH AND CASH EQUIVALENTS AT 31 DEC</b>		<b>126,589,800</b>	<b>100,715,414</b>

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EUR thousand	Share capital	Aquisition capital	Invested unrestricted equity reserve	Retained earnings previous year	Retained earnings	Total shareholders' equity
<b>Shareholders' equity 31 Dec 2017</b>	<b>600</b>	<b>151,258</b>	<b>346</b>	<b>-6,647</b>	<b>1,021,292</b>	<b>1,166,848</b>
Change in aquisition capital	0	0	0	0	0	
Defined employee benefit liabilities	0	0	0	0	0	
Return to the Ministry of Education and Culture	0	0	0	-537,762	0	-537,762
Return to the Ministry of Social Affairs and Health	0	0	0	-436,297	0	-436,297
Return to the Ministry of Agriculture and Forestry	0	0	0	-40,586	0	-40,586
Retained earnings	0	0	0	1,021,292	-1,021,292	0
Net result		0	0	0	1,014,208	1,014,208
<b>Shareholders' equity 31 Dec 2018</b>	<b>600</b>	<b>151,258</b>	<b>346</b>	<b>0</b>	<b>1,014,208</b>	<b>1,166,412</b>

EUR thousand	Share capital	Aquisition capital	Invested unrestricted equity reserve	Retained earnings	Net result	Total shareholders' equity
<b>Shareholders' equity 31 Dec 2016</b>	<b>600</b>	<b>0</b>	<b>582,908</b>	<b>-5,559</b>	<b>0</b>	<b>577,949</b>
Finland's Slot Machine association asset deal	0	172,313	0	423,527	0	595,840
Change in aquisition capital	0	3,227	0	0	0	3,227
Refund of working capital to the Ministry of Social Affairs and Health	0	-24,283	0	0	0	-24,283
Retained earnings of Fintoto	0	0	0	895	0	895
Write off of aquisition price, Fintoto shares	0	0	0	-500	0	-500
Defined employee benefit liabilities	0	0	0	-1,088	0	-1,088
Return to the Ministry of Education and Culture	0	0	-582,563	0	0	-582,563
Return to the Ministry of Social Affairs and Health	0	0	0	-423,527	0	-423,527
Return to the Ministry of Agriculture and Forestry	0	0	0	-395	0	-395
Profit for the financial year		0	0	0	1,021,292	1,021,292
<b>Shareholders' equity 31 Dec 2017</b>	<b>600</b>	<b>151,258</b>	<b>346</b>	<b>-6,647</b>	<b>1,021,292</b>	<b>1,166,848</b>

# ACCOUNTING PRINCIPLES 2018

## BASIC INFORMATION

Veikkaus Oy is a Finnish gaming company domiciled in Helsinki, Finland. Veikkaus is a limited liability company fully owned by the Finnish State subject to ownership steering by the Prime Minister's Office. The company is subject to regulations on limited liabilities companies and the State Shareholding Ownership Steering Act. Further Veikkaus operations are regulated in accordance with the Lotteries Act, according to which Veikkaus Oy has the exclusive right to operate gaming in Finland. Veikkaus offers Finns entertaining and exciting games in a safe and reliable way. The company objective is to secure competitiveness and to keep Veikkaus market position in digital product groups strong by continuously innovating new and interesting offerings for the customers. The company offers games and lotteries in a responsible manner and prevents gaming problems in a such way that the funds can be distributed for the benefit of the Finnish people. The company's aim is to operate gaming in such a

way that the legal protection of those engaging in gaming activities is secured, fraud, criminality and any economic, social, and health-related problems are prevented and reduced.

In accordance with its Articles of Association, Veikkaus' field of operations is to organize games and lotteries, in accordance with Lotteries act, engaging in sports and horse races events as well as organizing lottery and betting activities, slot machines and casino games and other betting related activities. The Ministry of Interior lays out the regulations for the rules of gaming. The rules of the game must include regulations on prize pay-out, refunding of bets as well as regulations on the largest allowed stakes and prizes for slot machines, specialty slot machines and casino games. Further the rules of lotteries, pools, betting and toto games must include the rules for the draw.

## BASIS OF PREPARATION

The financial statements of Veikkaus Oy have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, observing the standards interpretation (IFRIC) effective from December 31, 2018. The financial statements also comply with the Finnish Accounting Standards (FAS) and other Finnish Accounting Regulations.

Veikkaus has adopted the following new standards during the financial year:

IFRS 9 Financial Instruments has replaced the previous IAS 39 standard. The new standard includes revised guidance on the classification and measurement of financial instruments. This also includes a new expected credit loss model for calculating impairment of financial assets and new general hedge accounting requirements. The provision of IAS 39 on the recognition and derecognition of financial instruments have been retained. Application of IFRS 9 did not have any material impact on classification of Veikkaus financial assets nor to accounting principles on impairments. The company does not apply hedge account. In accordance with transition rules comparable figures are not presented.

IFRS 15 Revenue from Contracts with Customers has replaced the previous IAS 18 and IAS 11 standards and related interpretations. IFRS 15 includes a five-step model that applies to revenue recognition of sales proceeds from customer contracts: the amount and the time when revenue is recognized. Revenue is recognized when, or as, the customer obtains control of the goods or service in an amount that reflects the considerations to which the entity expects to be entitled in exchange for those goods or services. In addition, IFRS 15 contains comprehensive disclosure requirements for the Company's customer contracts, contractual obligations and significant estimates. The risk and benefit transfer model previously applied by Veikkaus also corresponds to the transfer of control in accordance with IFRS 15. The company has not identified any customer agreements where the introduction of the new standard would have a significant impact on turnover and operating profit. The adoption of IFRS 15 has not had any impact on financial statements transactions or values. Veikkaus has adopted the standard retrospectively from the beginning of the comparison period.

## ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENT

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions about the future that affects the measurement of the reported assets and liabilities, such as the contingent assets and liabilities, and the recognition of income and expense in the income statement. Although these estimates and assumptions are based on the management's best knowledge, actual results may differ from the values reported in the financial statement.

In Veikkaus' financial statements, the most significant estimates relate to depreciation periods and depreciation methods of tangible and intangible assets, actuarial calculations to the assumptions and present value used to calculate the pension obligation and the bonus for years of service. Actual results may differ from the estimates made. In addition, judgment is required in the application of accounting principles.

The financial statements are presented in euros and are based on the original acquisition cost of the transactions unless otherwise stated in the accounting principles. The figures presented in the financial statements have been rounded, so the sum of the individual figures presented may differ from the total sum.

The financial statements have been prepared for 12 months of the financial year from 1 January to 31 December 2018. Veikkaus' Board of Directors has approved the financial statements for publication on 12 February 2019. According to the Finnish Companies Act, the Annual General Meeting has the right to approve, reject or amend the financial statements after its publication.

## FOREIGN CURRENCY TRANSACTIONS AND TRANSLATIONS

The company's functional currency is the euro. Transactions denominated in foreign currency are recorded in the functional currency at the exchange rate on the transaction date. Receivables and liabilities in the balance sheet at the balance sheet date have been valued at the closing rates. Foreign exchange differences arising from transactions de-

nominated in foreign currencies and from translation of receivables and liabilities are recognized in the income statement. Gains and losses on operating items are included in the corresponding items above operating profit. Financing gains and losses are recognized in the financial income and expenses.

## RESEARCH AND DEVELOPMENT COST

Research costs are recognized as an expense in the period in which they are incurred. Costs associated with the development of new products, services and processes are capitalized when it is probable that the intangible asset resulting from the development will generate future economic benefits

and meet the recognition criteria. In addition, development costs must be reliably measurable. After initial recognition, capitalized development costs are measured at cost less accumulated depreciation and impairment. Depreciation is started when the asset is ready for use.

## NON-CURRENT ASSETS

Intangible and tangible assets are stated at historical cost less accumulated depreciation and impairment losses. Subsequently, the cost of the asset is capitalized only when it increases the future economic benefits associated with the asset.

Intangible and tangible assets are depreciated according to the depreciation plan based on estimated economic useful life. Other expenses, such as normal maintenance and repairs, are expensed as incurred.

Depreciation periods for property, plant and equipment (years):

- Buildings and constructions 25
- Basic improvements of real estate 5
- Property machinery and equipment 5
- Gaming equipment 5-10
- Other machinery and equipment 4
- ICT equipment 4

Depreciation periods for intangible assets (years):

- ICT software and capitalized research and development costs 4

Land, real estate, housing shares and art objects are not depreciated.

Gains or losses arising from the disposal of tangible assets are recognized in other operating income or expenses in the statement of comprehensive income. Depreciation methods, economic useful life and residual values of tangible assets are reviewed at the end of the financial year.

## **IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS**

The carrying amount of non-current and intangible assets are reviewed upon each statement of financial position date to determine whether there is any indication of impairment, or more frequently should any indication arise. An impairment test is performed to determine any impairment and if necessary an impairment loss may be recognized in income statement when the carrying amount of an asset exceeds the estimated recoverable amount.

In the event of any significant change in the assumptions underlying the calculation of the recoverable amount, a previously recognized impairment loss is reversed, but not however, to an extent higher than the carrying amount that would have been determined without impairment loss recognized in the prior years.

## **LEASE CONTRACTS**

Leases where essential risks and rewards of ownership are not transferred to the lessee are classified as other leases. Lease and rental payments made under other leases, in which Veikkaus acts as a lessee is recognized as an expense in the income statement on a straight-line basis over the lease term. The remaining liabilities of the leases are presented in Note 19.

Other leases in which Veikkaus acts as a lessor are classified as operating contracts and rental income is recognized in the income statement on a straight-line basis over the lease term.

## **INVENTORIES**

Inventories are valued at the lower of cost and net realizable value. The acquisition cost is mainly determined using the weighted average cost method. An allowance is recorded for obsolete items based on management's estimate of expected net realizable value.

## NON-CURRENT RECEIVABLES AND ADVANCE PAYMENTS

Non-current receivables include a pre-paid rent on the premises of Casino Helsinki, which is recognized as an expense in the income statement on a straight-line basis over a 20-year rental period.

## LOYAL CUSTOMER PROGRAM

Veikkaus has a Loyal customer Program in place for the customers' registration. Compulsory identification on decentralized slot machines is to be adopted as of 1 January 2022 in accordance with the government bill on the amendment of the Lotteries Act. Increasing identified gaming is one of Veikkaus core strategic objectives. Identification leads to better customer service experiences and versatile tools for control of gaming.



## FINANCIAL ASSETS AND LIABILITIES

### Financial assets

Financial assets are classified in accordance with IFRS 9 into the following categories: measured at amortized cost and measured at fair value through income statement. The classification is based on the objective of the business model and on the contractual cash flows of the investments or the fair value option in the initial acquisition.

Transaction costs are included in the original carrying amount of financial assets when the item is not measured at fair value through income statement. All purchases and sales of financial assets are recorded on the trade date.

### Financial assets at amortized cost

Financial assets at amortized cost are classified as trade receivables and other receivables as well as bank deposits over three months. Assets classified as a group are measured at amortized cost using the effective interest method. Trade receivables, include retail agents' proceeds from sales of games, agents' retail commissions deducted by prizes paid to customers and the difference between slot machine funds and placement fees. The carrying amount of current trade receivables and other receivables is assumed to be the same as the fair value.

The Company recognizes the expected credit loss allowance for a financial asset that is measured at amortized cost. For the estimation of expected

credit losses in trade receivables, the so-called IFRS 9 standard is used. A simplified procedure where credit losses are recorded at an amount equal to expected credit losses over the entire life of the loan. Recorded credit losses are based on historical information about negligence on receivables.

### Financial assets at fair value cost

Financial assets at fair value through income statement are classified as financial assets that have been acquired for trading or are classified at fair value through income statement. Financial assets held for trading are acquired primarily for obtaining a profit in the short or long term and are presented in either long or short-term financial assets.

The group includes Veikkaus' investments in listed shares and unlisted shares as well as equities. Gains and losses from changes in fair value, disposal and impairment losses are included in financial income and expenses.

Cash and cash equivalents consist of cash, on demand withdrawable bank deposits and other cash equivalents. Other cash and cash equivalents consist of short-term, highly liquid investments, which value varies only slightly. The maturity of items in other cash and cash equivalents is up to three months at the acquisition date.

## **Financial liabilities**

The Company's financial liabilities are classified as financial liabilities at amortized cost.

Financial liabilities at amortized cost are initially recognized at fair value. Transaction costs are included in the original carrying amount of financial liabilities. Subsequently, financial liabilities are measured at amortized cost using the effective in-

terest method. Items that are measured at amortized cost may include long and short-term liabilities, trade payables and other liabilities. A financial liability or part thereof shall be derecognized only when the debt has ceased to exist when the obligation specified in the contract is discharged or canceled or expired.

## **SHAREHOLDERS' EQUITY AND DISTRIBUTION OF PROFIT**

The company's operations are governed by the Lotteries Act, which also defines the allocation and use of income and the control of the use of income. The company may not distribute to its shareholders any dividend on its profit or on its unrestricted equity, nor shall its employees receive any consideration in return for their profits or surpluses. In accordance with the Council of State Decree, the company will pay advances to the beneficiary ministries in accordance with the distribution shares provided for in the Lottery Act. In the state budget, appropriations are allocated annually, in proportion to the intended uses, which are estimated to correspond to the profit for the financial year and to the reversible funds.

The company pays an estimated share of the profit for the financial year as advance return at least quarterly to the beneficiary ministries, the Ministry of Agriculture and Forestry, the Ministry of Education and Culture, and the Ministry of Social Affairs and Health. Within one month from approval of the financial statement, the profit of the financial year less previously paid advance is distributed. The advance payments are presented under current assets in the balance sheet. The result for the financial year is charged from shareholders' equity following the decision by the Annual General Meeting.

## **LONG-TERM EMPLOYEE BENEFITS**

### **Pension plans**

In accordance with IFRS, pension arrangements are divided into defined contribution and defined benefit plans. Pay-as-you-go arrangements are those in which Veikkaus makes fixed payments to the pension company and has no obligation to make additional payments even if the fund does not have enough funds to pay the pensions. Payments to defined contribution plans are recognized in the statement of comprehensive income as statutory pension expenses. Such payments are payments to the TyEL system.

Other pension plans are defined benefit pension plans. They are recorded in the balance sheet as debt calculated based on certain assumptions, reflecting the amounts of future pensions payable under the arrangement. The cost of retirement recognized through profit or loss reflects, inter alia,

increase in debt due to work done by staff during the financial year.

Items from defined benefit plans are derived from actuarial calculations. The calculations are based on assumptions concerning, for example, the termination of employment of the persons covered by the pension plan before retirement age, the future salary level and the discount rate used in the calculations. Expenses based on seasonal performance and net interest on defined benefit plans are recognized in income statement and are included in employee benefit expenses. The items arising from the redefinition of the defined benefit net debt (or asset) are recognized in other comprehensive income.

### **Years of service**

The compensation liability for years of service has been calculated based on when the employees joined the company, by discounting the compensation liability realized at the end of year to present.

Liabilities based on long-term employee benefits are included in the other long-term liabilities in the balance sheet.

### **OTHER CURRENT LIABILITIES - THE PRIZE FUND**

The prize fund is not an actual fund, but the company's liability to players. In the prize distribution, both the cents accrued from the rounding of prize sums and in accordance with the Lotteries Act the undistributed share of prizes are immediately after the draw transferred to the prize fund. After the redemption period set out in the Lotteries Act for the games, which varies between three months' up to one year, depending on the game type, the non-redeemed prizes will be transferred to the prize fund for re-distribution to players. The funds in the prize fund are used for additional prize distributions of different games, as well as for adjustments to prizes in accordance with the gaming regulation. The

company has an obligation to distribute the total amount of prizes under the gaming regulation to players.

In multinational lottery games, the roundings of prizes and unpaid funds are transferred to the multi-national prize fund of the game. Unless the prizes have been collected within the timeframe provided by the Lottery Act, the company must transfer individual non-recoverable gains of at least EUR 10 million to the multinational profit fund of the game and other unpaid profits to unpaid gaming assets. These funds are used in the company's gaming as prescribed by the company.

### **TURNOVER**

The sale of lottery and betting games is recognized according to the game's draw time. The draw is performed either weekly or daily.

Paid prizes have been deducted from income on slot machines and casino games before the net turnover is presented. Unclaimed return on gaming machines and the gaming capital in the payout machinery on December 31 has been recognized in the balance sheet as cash and cash equivalents. The lottery tax and the retail agents commission on these items are recorded as a liability.

The toto games organized by the company include both Finnish and international horse events. The company also offers foreign players game events organized in Finland through game operators operating in their home countries. Turnover from the sale of Finnish and foreign toto games played in Finland is recorded in the turnover according to the time of the confirmation of the game result. In the case of toto games played to Finland from abroad, the game-related compensations paid by foreign gaming operators to Veikkaus for the net sales are recorded as compensation for gaming event.

### **OTHER OPERATING INCOME AND EXPENSES**

Other operating income includes rental income from coin & note change machines placed in point of sales managed by agents, Casino Helsinki event fees, indemnifications, disposal gains and losses on property and other non-operating income such

as messaging services and rental income. Other operating expenses include losses on disposal of assets and expenses related to the operational business.

## PRIZES

The prizes, as determined in the rules of play, are recognized as turnover in the comprehensive income statement. The prizes from games based on personal draw are deducted directly from the turnover. According to the Gaming Ordinance, gains unrecovered in the previous year and the proceeds

of rounding off prizes must be transferred to prizes funds to be distributed as prizes in subsequent game rounds of the various games at the latest during the following calendar year.

## MATERIALS AND SERVICES

Retail commissions consist of agents' commissions paid based on the sale of games as well as slot machine placement fees. The bonus rate varies by game.

Materials and supplies include the cost of spare parts and tools for maintaining the company's gaming equipment.

Authority payments and supervision fees include regulation and monitoring costs for game control, control systems for game development, gaming addiction monitoring and research costs, and Peluuri's (pay-per-service phone) expenses. In addition, the company's share of the costs of the Department of Assistance transferred to the Ministry of Social Affairs and Health is recorded in this line.

Scratchcard printing costs, game vouchers, receipt rolls, loyalty cards costs are expensed at the time of acquisition.

Draw and result information costs include TV co-operation agreements and other result publishing costs.

Game event cooperation includes the cost of the betting object information usability. The costs are contract-specific or formed based either on game rounds or annual turnover of games. The costs charged and paid by foreign gaming operators of Toto games are included in this category.

Product advertising costs include product-related media slot purchases and production and design costs.

## OPERATING PROFIT

Operating profit consists of turnover and other operating income less paid prizes and lottery tax as well as material and service costs, employee benefit expenses, service purchases and other operating expenses, depreciation and possible impairment losses.

## TAXES

The lottery tax is 12 % of the amount determined for the calendar month of the proceeds from the sale of games and lottery, less the prizes recorded as expense based on these tickets. The funds that are withdrawn from or paid into the prize fund during the calendar month are added to or subtracted from the sum.

In accordance with Section 59 of the Value Added Tax Act, Veikkaus operations is not subject to VAT. Therefore the VAT included in the company's expenses and investments aren't either deductible and are recorded as expenses in the income statement.

In accordance with Section 21 of the Income Tax Act, Veikkaus is liable to income tax only in respect of profits other than those referred to in the Lottery Tax Act. Income tax is paid on the rental income on coin & note change machines placed in point of sales managed by agents and on the compensation for the use of holiday accommodation by the staff. Veikkaus' financial statements do not include other income subject to income tax.

## NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The International Accounting Standards Board has published IFRS 16 Leases standard. The standard has been approved for application in the EU. The company will adopt the standard from the date of its entry into force.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019).

The IFRS 16 standard changes the accounting for leases by requiring the lessee to recognize a right-of-use asset representing its right to use underlying asset and lease liability representing its obligation to make lease payments, if the customer controls the use of the leased asset for the duration of the contract and the contract is irrevocable. Depreciation and interest on the lease liability are recognized as an expense item in the income statement over the term of the lease instead of a lease expense. The standard includes optional exemptions for short-term leases, contracts up to 12 months and leases of low-value items for assets with a value of less than \$ 5,000.

In applying IFRS 16 the rents currently recognized in other operating expenses in the income statement will be expensed over the lease term through

depreciation and interests included in financial expenses. The standard mainly affects the recognition of operating leases, increasing the balance sheet and leading to some changes in key figures. The most significant impact identified is that Veikkaus recognizes new assets and liabilities in the balance sheet, mainly for its operating leases of business and office facilities. The Company's non-cancellable operating lease commitments are approximately EUR 31 million at the balance sheet date, see note 19.

Lessor accounting remains similar to the current standard, leases are divided into finance leases and other leases. The accounting treatment of lessors will remain largely in line with current IAS 17. In this respect, IFRS 16 does not affect the company's figures on this part.

The company estimates that other published new or amended standards or new interpretations will have no significant impact on the company's financial statements.

## 1. TURNOVER BY GAMES AND GAME GROUPS

EUR thousand	2018	% of turnover	2017	% of turnover
<b>LUCKY GAMES</b>				
Lotto	340,404	10,8	344,815	10,7
Eurojackpot	300,767	9,5	213,857	6,6
Vikinglotto	75,513	2,4	85,327	2,6
Add-on games	103,577	3,3	105,659	3,3
Keno	314,480	10,0	338,325	10,5
Other daily draw games	57,071	1,8	66,868	2,1
<b>LUCKY GAMES TOTAL</b>	<b>1,191,813</b>	<b>37,8</b>	<b>1,154,850</b>	<b>35,7</b>
<b>SLOT MACHINES AND INSTANT GAMES</b>				
Scratch cards	137,373	4,4	138,702	4,3
instants and other digital games	185,834	5,9	275,930	8,5
Slot machines*	840,257	26,6	821,842	25,4
<b>SLOT MACHINES AND INSTANT GAMES</b>	<b>1,163,465</b>	<b>36,9</b>	<b>1,236,475</b>	<b>38,3</b>
<b>SKILL GAMES</b>				
Fixed odds betting games	359,759	11,4	379,861	11,8
Pari-mutuel betting games	106,361	3,4	108,919	3,4
Football pools	68,563	2,2	76,936	2,4
T-games	103,563	3,3	101,367	3,1
Other Toto games	117,389	3,7	130,595	4,0
Table games*	43,738	1,4	41,855	1,3
<b>SKILL GAMES TOTAL</b>	<b>799,373</b>	<b>25,3</b>	<b>839,533</b>	<b>26,0</b>
<b>GAMES TOTAL</b>	<b>3,154,651</b>	<b>100,0</b>	<b>3,230,858</b>	<b>100,0</b>

\* For slot machines and table games with personal draws, the turnover is reported by deducting the prizes paid out.

Add-on games: Jokeri and Lomattoni

Other daily draw games: Kaikki tai ei mitään and Synttärarit

Other digital games: eBingo, Pore, Syke and Tähdentento

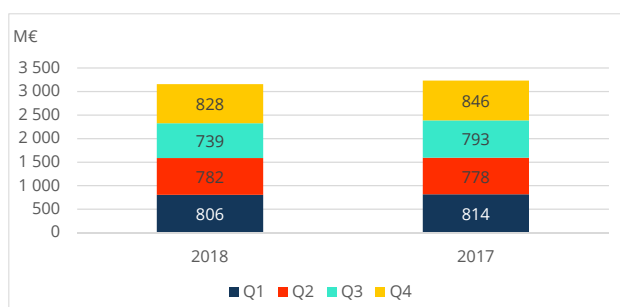
Fixed odd betting games: Fixed Odds Betting, Live Betting and Virtual Betting

Pari-mutuel betting: Result Odds Betting, Multibet and Winner Odds Betting

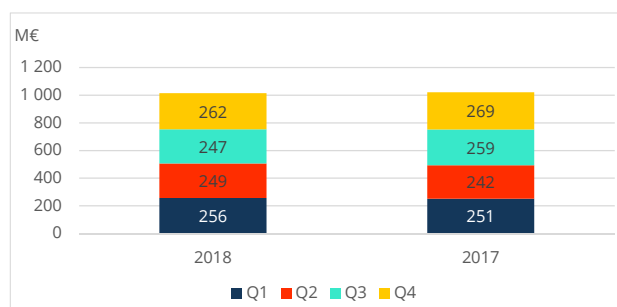
## 2. TWO YEARS IN FIGURES 2017-2018

EUR thousand	2018	2017
<b>Turnover</b>	<b>3,154,651</b>	<b>3,230,858</b>
<b>Gross gaming revenue</b>	<b>1,758,956</b>	<b>1,777,757</b>
% of turnover	55,8 %	55,0 %
<b>Operating profit</b>	<b>1,014,504</b>	<b>1,021,285</b>
% of turnover	32,2 %	31,6 %
<b>Profit before taxes</b>	<b>1,014,208</b>	<b>1,021,292</b>
% of turnover	32,1 %	31,6 %
<b>Profit for the financial year</b>	<b>1,014,208</b>	<b>1,021,292</b>
% of turnover	32,1 %	31,6 %

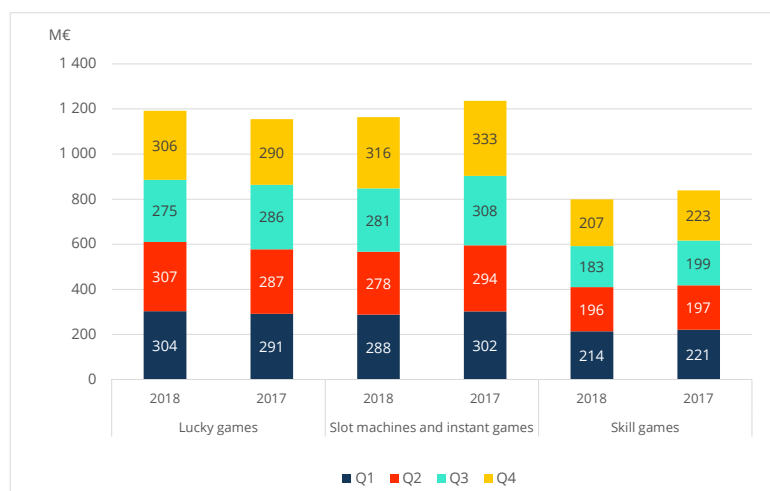
### TURNOVER



### PROFIT FOR THE FINANCIAL YEAR



### TURNOVER BY GAME GROUP, QUARTERLY



### 3. OTHER OPERATING INCOME

EUR thousand	2018	2017
Rental income from facilities and coin & note change machines	2,132	2,306
Service income	386	402
Indemnification and Insurance compensations	141	175
Proceeds from sale of fixed assets	534	486
Event income from Casino Helsinki	235	252
Income from Pay-TV-services	221	211
Other Income	164	124
<b>TOTAL</b>	<b>3,812</b>	<b>3,957</b>

### 4. DEPRECIATION AND IMPAIRMENT

EUR thousand	2018	2017
Buildings and construction	6,147	6,042
Machinery and equipment	31,935	30,636
Intangible assets	11,092	10,383
Disposal loss of fixed assets	787	553
<b>TOTAL</b>	<b>49,961</b>	<b>47,614</b>

Fixed assets are depreciated on a straight-line basis over their expected economic useful lifetime. Lands, housing stocks, and works of art are not subject to depreciations.

## 5. SERVICE PURCHASED

EUR thousand	2018	2017
Services purchased, ICT services	56,311	60,522
Services purchased, other	25,304	19,053
<b>SERVICES PURCHASED</b>	<b>81,615</b>	<b>79,575</b>
Auditors' fees included in services purchased		
Audit	36	52
Other services	279	126
<b>TOTAL</b>	<b>314</b>	<b>178</b>

## 6. OTHER OPERATING EXPENSES

EUR thousand	2018	2017
Other advertising and marketing expenses	23,879	26,980
Other voluntary personnel expenses	4,475	4,229
Travel expenses	3,181	2,888
Representation and negotiation expenses	999	823
Car expenses	1,035	1,283
Freight charges and transport	3,353	4,028
Machinery and equipment	4,106	7,903
Real estate expenses	23,012	23,208
Banking and cash processing expenses	9,212	8,929
Membership fees	470	472
Other expenses	12,066	4,167
<b>TOTAL</b>	<b>85,786</b>	<b>84,909</b>

## 7. RESEARCH AND DEVELOPMENT EXPENSES

EUR thousand	2018	2017
R&D expenses	20,395	18,174
R&D investments	2,932	3,104
<b>TOTAL</b>	<b>23,327</b>	<b>21,278</b>

The research and development expenses are mostly included in the personnel expenses and purchased service. The research and development investments are related to new products and are mostly included in the intangible assets.

## 8. FINANCIAL INCOME AND EXPENSES

EUR thousand	2018	2017
Dividend income from long-term investments	64	59
Interest income from deposit and bank accounts	43	36
Other financial income	29	40
<b>FINANCIAL INCOME</b>	<b>136</b>	<b>135</b>
Interest expenses	518	43
<b>FINANCIAL EXPENSES</b>	<b>518</b>	<b>43</b>
<b>TOTAL</b>	<b>-382</b>	<b>93</b>

## 9. TANGIBLE NON-CURRENT ASSETS AND DEPRECIATION

EUR thousand	Land and water	Buildings and constructions **	Machinery and equipment	Fixed assets under construction	Total
<b>Aquisition cost 1 Jan 2018</b>	<b>3,943</b>	<b>130,754</b>	<b>262,243</b>	<b>27</b>	<b>396,967</b>
Increase	0	2,643	34,181	48	36,872
Decrease	0	-4,348	-24,970	-1	-29,318
Reclassifications	0	14	11	-26	0
<b>Net book value 31 Dec 2018</b>	<b>3,943</b>	<b>129,065</b>	<b>271,465</b>	<b>48</b>	<b>404,521</b>
Accumulated depreciation 1 Jan 2018	0	-66,823	-167,772	0	-234,595
Depreciation	0	-6,147	-31,935	0	-38,083
Accumulated depreciation on disposals	0	2,809	24,523	0	27,332
<b>Accumulated depreciation 31 Dec 2018</b>	<b>0</b>	<b>-70,161</b>	<b>-175,184</b>	<b>0</b>	<b>-245,346</b>
<b>NET BOOK VALUE 31 DEC 2018</b>	<b>3,943</b>	<b>58,903</b>	<b>96,281</b>	<b>48</b>	<b>159,175</b>

EUR thousand	Land and water	Buildings and constructions **	Machinery and equipment	Fixed assets under construction	Total
<b>Aquisition cost 1 Jan 2017*</b>	<b>3,943</b>	<b>126,910</b>	<b>247,154</b>	<b>5,959</b>	<b>383,967</b>
Increase	0	4,447	31,981	41	36,470
Decrease	0	-653	-16,956	-14	-17,624
Reclassifications	0	50	64	-5,959	-5,846
<b>Net book value 31 Dec 2017</b>	<b>3,943</b>	<b>130,754</b>	<b>262,243</b>	<b>27</b>	<b>396,967</b>
Accumulated depreciation 1 Jan 2017	0	-61,105	-153,190	0	-214,295
Depreciation for the financial year	0	-6,042	-30,636	0	-36,677
Accumulated depreciation on disposals	0	324	16,053	0	16,377
<b>Accumulated depreciation 31 Dec 2017</b>	<b>0</b>	<b>-66,823</b>	<b>-167,772</b>	<b>0</b>	<b>-234,595</b>
<b>NET BOOK VALUE 31 DEC 2017</b>	<b>3,943</b>	<b>63,931</b>	<b>94,470</b>	<b>27</b>	<b>162,371</b>

\*The acquisition cost on 1 Jan 2017 consists of the tangible assets transferred to the opening balance in the integration of the gaming operators.

\*\* Subsidiary shares MEUR 1.2 reclassification from Long-term investments to buildings and constructions in tangible assets. Comparable figures for the year 2017 have been adjusted accordingly.

## 10. INTANGIBLE NON-CURRENT ASSETS AND DEPRECIATION

EUR thousand 2018	Software and capitalized costs	Investments in progress	Total
<b>Aquisition cost 1 Jan 2018</b>	<b>138,219</b>	<b>3,501</b>	<b>141,721</b>
Increase	1,445	1,853	3,298
Decrease	22	0	22
Reclassifications	3,401	-3,401	0
<b>Net book value 31 Dec 2018</b>	<b>143,043</b>	<b>1,954</b>	<b>144,997</b>
Accumulated depreciation 1 Jan 2018	106,706	0	106,706
Depreciation	11,092	0	11,092
Accumulated depreciation of disposals	22	0	22
<b>Accumulated depreciation 31 Dec 2018</b>	<b>117,776</b>	<b>0</b>	<b>117,776</b>
<b>NET BOOK VALUE 31 DEC 2018</b>	<b>25,268</b>	<b>1,954</b>	<b>27,221</b>
Net book value 1 Jan 2019	25,268	1,954	27,221

EUR thousand 2017	Software and capitalized costs	Investments in progress	Total
<b>Aquisition cost 1 Jan 2017*</b>	<b>121,278</b>	<b>4,703</b>	<b>125,981</b>
Increase	7,475	2,427	9,902
Decrease	0	8	8
Reclassifications	9,466	-3,620	5,846
<b>Net book value 31 Dec 2017</b>	<b>138,219</b>	<b>3,501</b>	<b>141,721</b>
Accumulated depreciation 1 Jan 2017	96,323	0	96,323
Depreciation	10,383	0	10,383
Accumulated depreciation on disposals	0	0	0
<b>Accumulated depreciation 31 Dec 2017</b>	<b>106,706</b>	<b>0</b>	<b>106,706</b>
<b>NET BOOK VALUE 31 DEC 2017</b>	<b>31,513</b>	<b>3,501</b>	<b>35,015</b>
Net book value 1 Jan 2018	31,513	3,501	35,015

\*The acquisition cost on 1 Jan 2017 consists of the tangible assets transferred to the opening balance in the integration of the gaming operators.

## 11. CASH FLOW FROM INVESTING ACTIVITIES AND INVESTMENTS IN PROGRESS

EUR thousand	2018	2017		
Slot machines	31,860	28,162		
Casino games	102	207		
Machinery and equipment	232	1,716		
Fixtures and other equipment	119	0		
Company cars	1,879	1,941		
Work tools	0	34,192	19	32,046
ICT software	4,846		16,941	
Basic improvement of real-estate	2,658		4,497	
Shares	127		3,038	
Dividend income	-64		-59	
Changes in long-term investments	0		-3,048	
Investments in progress	-1,525		-7,134	
<b>TOTAL</b>	<b>40,234</b>		<b>46,281</b>	

## 12. NON-CURRENT INVESTMENTS AND OTHER LONG-TERM RECEIVABLES

### LONG-TERM INVESTMENTS

EUR thousand	2018	2017
Shares in unlisted companies	1,061	934
Listed shares	175	175
<b>TOTAL</b>	<b>1,236</b>	<b>1,109</b>

### LONG-TERM RECEIVABLES AND ADVANCE PAYMENTS

EUR thousand	2018	2017
Security Deposit, Eurojackpot	12,185	12,185
Lease advances and guarantees paid	2,852	3,565
<b>TOTAL</b>	<b>15,037</b>	<b>15,750</b>

\*Subsidiary shares MEUR 1.2 transferred from Long-term investments to the buildings and construction in tangible assets. Comparison figures for the year 2017 have been adjusted accordingly.

### 13. CURRENT RECEIVABLES

EUR thousand	2018	2017
Accounts receivables	28,001	22,575
Accrued income and deferred expenses	9,437	17,770
Other receivables	5,169	7,437
<b>TOTAL</b>	<b>42,607</b>	<b>47,782</b>

The accounts receivables consist of uncharged game fees from retailers. The charging period runs from Monday to Sunday and amount for the previous week is charged on Wednesday on the basis of the payment settlement. There are 6,575 retail outlets. Due to the nature of these accounts receivables, there is traditionally no credit risk. On closing date, the balance sheet values of the accounts receivables do not deviate from their fair value.

#### KEY ITEMS OF PREPAID EXPENSES AND ACCRUED INCOME

EUR thousand	2018	2017
Asset transfer tax on the acquisition of Veikkaus' shares	0	9,527
Cash-desk and Hoppers	5,521	5,462
Settlement of Toto-games prizes	1,765	0
Eurojackpot and Vikinglotto draw expenses 2018, recharge from participating countries	527	613
Gtech Engineering Resources 2014-2016	0	468
Refund from the Social Insurance Institution of Finland Kela	472	446
Statutory insurance premiums receivables	962	369
Other accrued income	190	887
<b>TOTAL</b>	<b>9,437</b>	<b>17,770</b>

## 14. CASH AND CASH EQUIVALENTS

EUR thousand	2018	2017
Cash and bank balances	106,690	80,680
Cash equivalents	19,900	20,036
<b>TOTAL</b>	<b>126,590</b>	<b>100,715</b>

Cash equivalents consist of deposits with short-term maturity.

### PRINCIPALS OF FINANCIAL RISK MANAGEMENT

In its business operations Veikkaus is exposed to certain financial risks of a limited scale. The principal financial risks are interest rate risk and CCR (credit risk). To manage these financial risks, Veikkaus has a risk management policy in place, approved by the Board of Directors. Exchange rate risk and liquidity risk are not significant due to the nature of Veikkaus operations.

### INTEREST RATE RISK

Short-term financial investments expose Veikkaus to interest rate risk, which is, however of minor significance. Income and operative cash flows are largely unaffected by changes in the market interest rates. Due to the negative market interest rates Veikkaus has agreed with the banks on 0.00 % interest under fixed deposit levels. The interest rates for the deposit on top of the fixed levels are calculated on the basis of the negative market interest rates.

### CREDIT RISK

In its investing activities, Veikkaus complies with the guidelines approved by the Board of directors. According to these guidelines, investments are made by securing the capital without exchange rate risks and for a maximum of five years. Investment in shares is not permitted under the investment principles. Shares currently recognised in long-term investments where transferred at integration of the former gaming operators Veikkaus Oy, Raha-automaattiyhdistys ry and Fintoto.

The company is exposed to the credit risk through its accounts receivables. The company credit risk is largely dispersed, and therefore does not involve a significant credit risk. The retail commissions, game prizes paid to customers, slot machine cash and placement fees are netted and debited or credited to the retailers. Based on history the credit loss risk is close to 0 %.

## 15. SHAREHOLDERS' EQUITY

EUR thousand	shares amount	2018	shares amount	2017
Share capital	6,000	600	6,000	600
Aquisition capital		151,258		151,258
Reserve for invested unrestricted equity		346		346
Retained earnings		0		-6,647
Profit for the financial year		1,014,208		1,021,292
<b>TOTAL</b>		<b>1,166,412</b>		<b>1,166,848</b>

### AQUISITION CAPITAL

Following an approval by the Ministry of Social Affairs and Health, the former Finland's Slot Machine Associations' equity was complemented with working capital, which corresponded to the amount of the non-depreciated acquisition cost of the non-current assets and reserve made for future investments (as defined in FAS, Finnish Accounting Standards). In connection with the integration, the working capital was transferred to Veikkaus's shareholders' equity as acquisition capital.

### RESERVE FOR INVESTED UNRESTRICTED EQUITY

The Reserve for Invested unrestricted equity is subject to the regulations in the Limited Liability Companies Act, chapter 8 section 2. The invested unrestricted equity reserve constitutes the company's unrestricted equity which can be used for distributing the funds.

## 16. EMPLOYEE BENEFITS OBLIGATIONS 1 (2)

### PENSION OBLIGATIONS

The defined benefit pension schemes include additional old age pensions to complement the statutory old age pension that enable some Veikkaus' employees to retire at an earlier age without losing part of their pension. Such pension schemes were granted partly to employees who joined Veikkaus before 1985, and in the case of employees transferred to the company from Finland's Slot Machine association, they are entitled to the special scheme if they joined the company before 28 February 1994.

The commitment given to the insured is recorded as a liability, while the insurance company's proportion of this commitment is presented as an asset. Pensions and paid-up policies are pension index adjusted. The costs incurred are borne entirely by Veikkaus.

In the insurance arrangement, the assets are calculated using the same discount rate as the liabilities; consequently, any change in the discount rate will not result in material risk. Similarly, an increase in life expectancy will not result in any material risk because the insurance company bears the majority of the impact of increase life expectancy. Meanwhile, Veikkaus is fully liable for the increase in pensions; for example, an increase of 0.5% in the pension index would raise the liability by 6.7% while a decrease of 0.5% would lower the liability by 6.0%.

EUR thousand	2018	2017
Pension liabilities in the statement of comprehensive income.		
<b>DEFINED EMPLOYEE BENEFIT LIABILITIES RECOGNISED IN THE FINANCIAL STATEMENT</b>		
Cost based on service during the year	485	244
Net interest expenses	40	31
<b>TOTAL</b>	<b>525</b>	<b>275</b>
<b>ITEMS ARISING FROM REMEASUREMENTS</b>	<b>-375</b>	<b>472</b>
<b>RECONCILIATION OF THE NET DEFINED BENEFIT LIABILITY IN THE BALANCE SHEET</b>		
Defined benefit obligation	15,017	15,197
Fair value of plan assets	-12,394	-12,441
<b>NET DEFINED BENEFIT LIABILITY IN THE BALANCE SHEET 31 DEC</b>	<b>2,623</b>	<b>2,756</b>
<b>CHANGES IN THE NET DEFINED BENEFIT LIABILITY IN THE BALANCE SHEET 1 JAN</b>	<b>2,756</b>	<b>2,206</b>
Amounts in comprehensive income, including remeasurements EUR -375 000 eur (2017; 472 000)	0	1
Contributions paid by employer	-283	-197
<b>NET DEFINED BENEFIT LIABILITY IN THE BALANCE SHEET 31 DEC</b>	<b>2,473</b>	<b>2,010</b>
<b>CHANGES IN THE NET DEFINED BENEFIT OBLIGATION RECORDED IN THE BALANCE SHEET</b>		
<b>DEFINED BENEFIT OBLIGATION 1 JAN</b>	<b>15,197</b>	<b>13,888</b>
Cost based on service during the financial year	238	244
Amendments	477	0
Interest expenses	225	205
<b>ITEMS ARISING FROM REMEASUREMENTS</b>		
Actuarial gains (-)/losses on defined obligations arising from changes in demographic assumptions	0	0
Actuarial gains (-)/losses on defined obligations arising from changes in financial assumptions	-891	660
Actuarial gains (-)/losses on defined obligations arising from changes in experience adjustments	137	579
Actuarial gains (-)/losses on plan assets	-366	-379
<b>DEFINED BENEFIT OBLIGATION 31 DEC</b>	<b>15,017</b>	<b>15,197</b>

## 16. EMPLOYEE BENEFITS OBLIGATIONS 2 (2)

EUR thousand	2018	2017
<b>CHANGES IN THE FAIR VALUE OF PLAN ASSETS RECORDED IN BALANCE SHEET</b>		
<b>FAIR VALUE 1 JAN</b>	<b>12,441</b>	<b>11,682</b>
Interest income	185	174
Recognised actuarial gains (+) /losses (-) on plan assets	-379	767
Amendments	230	0
Contributions	283	197
Benefits paid	-366	-379
<b>FAIR VALUE 31 DEC</b>	<b>12,394</b>	<b>12,441</b>
The amount the company expects to pay into the defined benefit plans for the estimate year	<b>300</b>	<b>198</b>
The fund in the scheme are approved insurance agreements		
<b>MOST SIGNIFICANT ACTUARIAL ASSUMPTIONS</b>		
Discount rate	1,7 %	1,5 %
Rate of salary increase	2,6 %	2,8 %
Rate of benefit increase	1,9 %	2,1 %
The weighted average duration of defined benefit obligation	15	16

### OTHER LONG-TERM EMPLOYEE BENEFITS: BONUS FOR YEARS OF SERVICE

Veikkaus grants its personnel a bonus for years of service. This is classified as long-term employee benefit liability recorded in the balance sheet.

EUR thousand	2018	2017
At the year beginning	1,452	1,500
Change during the period	67	-48
<b>AT THE END OF THE FINANCIAL YEAR 31 DEC</b>	<b>1,519</b>	<b>1,452</b>

## 17. CURRENT LIABILITIES

EUR thousand	2018	2017
<b>ADVANCES RECEIVED</b>	<b>6,452</b>	<b>1,457</b>
	0	0
<b>ADVANCES FOR MULTI-WEEK SUBSCRIPTIONS</b>	<b>10,710</b>	<b>9,229</b>
<b>ACCOUNTS PAYABLES</b>	<b>18,929</b>	<b>27,104</b>
	0	0
<b>CUSTOMERS' FUNDS</b>	<b>39,210</b>	<b>35,999</b>
<b>SETTLEMENT DEBT TO THE STATE</b>		
Lottery tax	38,280	39,058
Withholding tax liability	1,612	1,777
Social security liability	55	72
Value-added tax liability	1,803	1,998
<b>SETTLEMENT DEBT TO THE STATE TOTAL</b>	<b>41,750</b>	<b>42,905</b>
<b>ACCRUALS AND DEFERRED INCOME</b>		
Accrued prizes payables	17,026	9,298
Accrued liabilities and deferred income	53,893	44,550
<b>ACCRUALS AND DEFERRED INCOME TOTAL</b>	<b>70,918</b>	<b>53,847</b>
<b>OTHER SHORT-TERM LIABILITIES</b>		
Prize fund	9,541	9,808
Eurojackpot fund	2,391	2,356
Other short-term liabilities	6	299
Other liabilities	33	0
<b>OTHER SHORT-TERM LIABILITIES TOTAL</b>	<b>11,970</b>	<b>12,463</b>
<b>CURRENT LIABILITIES TOTAL</b>	<b>199,941</b>	<b>183,006</b>

Customers' funds include unclaimed prizes and return payments on lottery and betting games, as well as the funds deposited in the internet player' game accounts.

The Prizes fund consists of matured unclaimed prizes, rounding's from prizes as well as unclaimed prizes from disposed scratch cards. According to the Council of State Decree on Lotteries the accumulated funds are deemed to be paid out as other prizes. In 2018 the accumulated funds amounted to EUR 10.3 million and funds paid out amounted to EUR 10.5 million. The funds totalled EUR 9.5 million in the balance sheet of 31 Dec 2018.

## 18. RELATED PARTY TRANSACTIONS

Veikkaus' related parties include the President and CEO, the Executive Team, the Board of Directors, the Supervisory Board and other state owned companies.

### SALARIES PAID, COMPENSATIONS AND EMPLOYEE BENEFITS

EUR thousand	2018	2017
President and CEO	437	481
Other members of the Executive Team*	1,642	1,904
Board of Directors	262	291
Supervisory Board	74	63
<b>TOTAL</b>	<b>2,415</b>	<b>2,739</b>

\*Part of the The Executive Team members changed as of September 1, 2018. At the end of financial year 2018, the Executive Team had 7 members besides the CEO.

The salaries paid include the annual salaries and other remuneration elements paid to Executive Team members.

The members of Executive Team are entitled to a remuneration for the financial year 2018. The annual incentives amount to be paid will be determined after financial year closing and it will be paid out in year 2019.

The terms and conditions that apply to the company's CEO have been approved by the Board of Directors. Termination of CEO's agreement requires a six (6) months notice period on both sides. If certain criteria specified in the CEO contract are met, a severance pay equalling six (6) months' salary is payable. The CEO's retirement age is determined in accordance with the Employees' Pension Act.

The notice period of Executive Team members is three (3) months on both sides.

The Board of Directors, CEO and other executives do not enjoy extraordinary employee benefits. The executives are entitled to a car and telephone benefit in line with the company policy. The executives are not entitled to additional pension benefits nor any stock options or share based incentive plans.

#### Other related party transactions

Veikkaus may acquire goods or service from other state-owned companies. The purchase price and delivery conditions for these goods or services are the same as for any other group of customers, and the volume is non material.

There have been no extraordinary transactions with the subsidiaries belonging to the related parties of Veikkaus Oy.

## 19. OPERATING LEASE COMMITMENTS AND OTHER CONTINGENT LIABILITIES

EUR thousand	2018	2017
Operating lease liability		
As of Jan 1, 2019 according to IFRS 16 to be classified as right-of use assets to be recognised in balance sheet.	30,802	25,453
Operating lease liability		
As of Jan 1, 2019 according to IFRS 16 to be classified as operating lease cost to be recognised in income statement	6,231	0
Other lease liabilities	612	189
Guarantees	50	54
<b>TOTAL</b>	<b>37,695</b>	<b>25,697</b>
Operating lease liability, rents according to leasing contracts		
Due within one year	11,700	12,481
Due after one year and within five years.	24,698	12,128
Due after five years	635	844
<b>TOTAL</b>	<b>37,033</b>	<b>25,453</b>
Leasing contracts comprise of retail and office premises rental agreements.		
Other lease liabilities		
Due within one year	475	106
Due after one year and within five years.	137	83
<b>TOTAL</b>	<b>612</b>	<b>189</b>

Operating lease liability comprises mainly of rents for retail-, office, and warehouse premises as well as car parking. Non-cancellable leasing contracts shall according to IFRS16 as of Jan 1, 2019 up on lease commencement by the lessee be recognised as a right-of-use asset and lease liability in the balance sheet. The lease liability is initially measured at the present value of the lease payments payable over the lease term discounted at the rate implicit in the lease. The asset will be expensed through depreciation and interests over the lease term.

Other lease liabilities comprises of coffee machine rents, leasing fees for slot machines located at Casino Helsinki, Feel Vegas and game arcades. Other lease liability also include rents for cleaning machine, kitchen equipment, telephones and copy machines.

Banks and financial institution have issued guarantee in favour of Veikkaus operating business at a maximum liability of EUR 50 000,00 as of 31 Dec, 2018. The guarantee will mature at 2027.

## 20. SIGNATURES OF THE FINANCIAL STATEMENT AND THE BOARD OF DIRECTORS' REPORT

Helsinki, 12 February 2019

Olli-Pekka Kallasvuo  
Chairman of the Board

Outi Henriksson

Minna Pajumaa

Tuomo Puumala

Hanna Sievinen

Jutta Urpilainen

Raimo Vistbacka

Ilkka Kanerva

Olli Sarekoski  
President and CEO

A report on the audit has been issued today.

Helsinki, on the 13 of February 2019

KPMG Oy Ab

Lasse Holopainen, Authorised Public Accountant

# VEIKKAUS