

# Olympic Entertainment Group AS

## Consolidated Annual Report 2013

(Translation of the Estonian original)\*

Beginning of reporting period	1 January 2013
End of reporting period	31 December 2013
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Core activity	Provision of gaming services
Auditor	AS PricewaterhouseCoopers

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\*This version of consolidated annual report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of consolidated annual report takes precedence over this translation.

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## Corporate profile

Olympic Entertainment Group AS with its subsidiaries (hereinafter the “Group”) is the leading provider of gaming services in the Baltic States, and operates casinos in Poland, Slovakia, Belarus and Italy.

Olympic Entertainment Group AS is the Group’s ultimate holding company, organising the strategic management and financing of the Group. The operations of local casinos are controlled by local subsidiaries which include Olympic Casino Estonia AS in Estonia, Olympic Casino Latvia SIA and Altea SIA in Latvia, Olympic Casino Group Baltija UAB in Lithuania, Casino Polonia-Wroclaw Sp. z o.o. in Poland, Olympic Casino Slovakia S.r.o. in Slovakia, Olympic Casino Bel IP in Belarus and The Box S.r.l and Jackpot Game S.r.l. in Italy. Most of the Group’s casino properties operate under the trademark of Olympic Casino. In addition to land-based casinos the Group is also providing online casino services and has operated a 4-star hotel and casino complex in Tallinn, Estonia until 31 October 2013.

The shares of Olympic Entertainment Group AS are listed on the Tallinn and Warsaw Stock Exchanges (OMX: OEG1T / WSE: OEG).

As at 31 December 2013, the Group had a total of 82 casinos 17 of which were added through acquisition of Latvian casino operator Altea SIA on 28 June 2013. The Group operates 18 casinos in Estonia, 38 in Latvia, 12 in Lithuania, 3 in Poland, 5 in Slovakia, 4 in Belarus and 2 in Italy. The Group employed 2,515 employees in 7 countries.

Group entities include:

	Domicile	Ownership 31.12.2013	Ownership 31.12.2012	Area of activity
Olympic Casino Eesti AS	Estonia	95%	95%	Gaming services
Kungla Investeeringu AS	Estonia	100%	100%	Bar services
Kesklinna Hotelli OÜ	Estonia	100%	97.5%	Hotel real estate development
Fortuna Travel OÜ	Estonia	100%	95%	Hotel operations
Nordic Gaming OÜ	Estonia	100%	100%	Holding activities
Kasiino.ee OÜ	Estonia	100%	100%	Internet solutions
Olympic Casino Latvia SIA	Latvia	100%	100%	Gaming services
Ahti SIA	Latvia	100%	100%	Bar services
Altea SIA	Latvia	95%	-	Gaming services
Olympic Casino Group Baltija UAB	Lithuania	100%	100%	Gaming services
Mecom Grupp UAB	Lithuania	100%	100%	Bar services
Silber Investments Sp. z o.o.	Poland	100%	100%	Holding activities
Baina Investments Sp. z o.o.	Poland	100%	100%	Holding activities
Casino-Polonia Wroclaw Sp. z o.o.	Poland	80%	80%	Gaming services
Olympic Casino Slovakia S.r.o.	Slovakia	100%	100%	Gaming services
Olympic F & B S.r.o.	Slovakia	100%	100%	Bar services
Olympic Casino Bel IP	Belarus	100%	100%	Gaming services
The Box S.r.l.	Italy	50%	50%	Gaming services
Jackpot Game S.r.l.	Italy	50%	50%	Gaming services
Siquia Holding B.V.	Holland	95%	-	Holding activities
Jessy Investments B.V.	Holland	100%	-	Holding activities
Gametech Services Ltd	Jersey	100%	-	Software services
Brandhouse Ltd	Jersey	100%	-	Holding activities
Olympic Casino Ukraine TOV	Ukraine	100%	100%	Bankrupt
Alea Private Company	Ukraine	100%	100%	Bankrupt

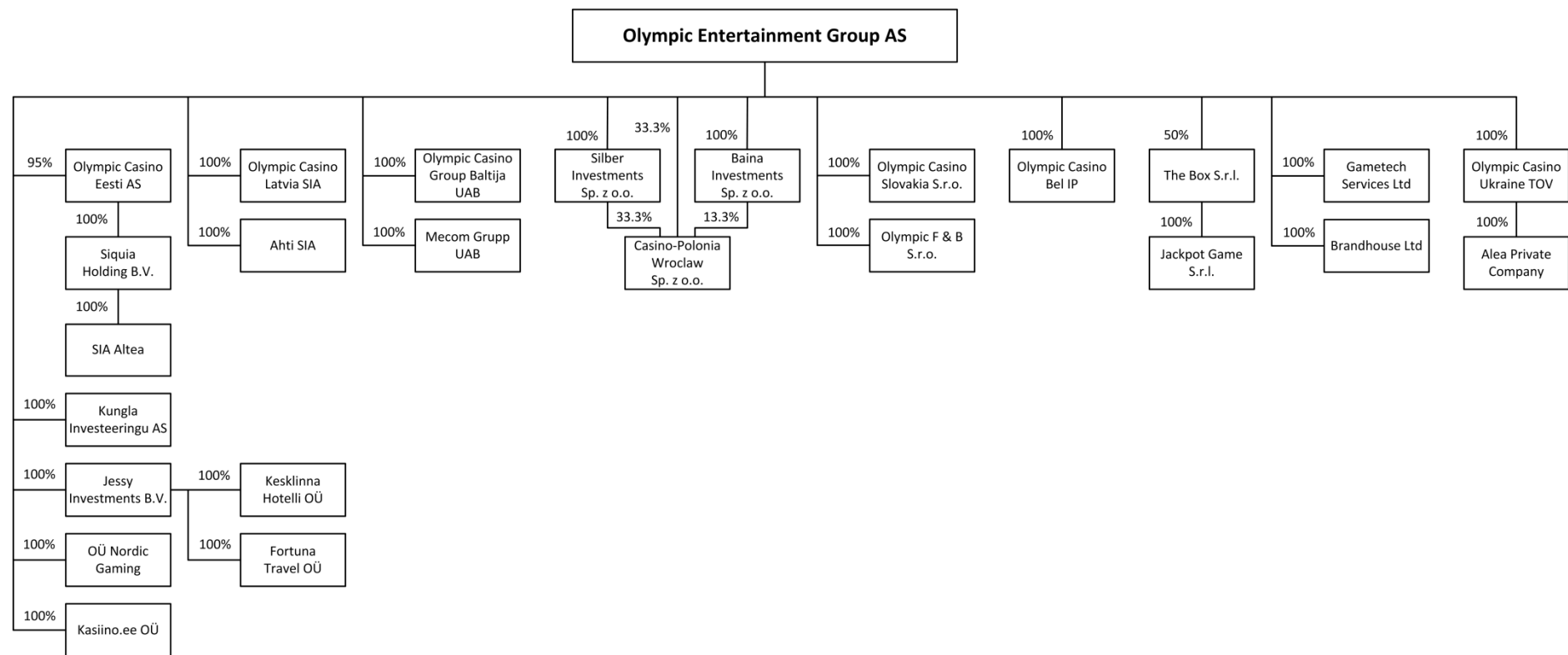
### Our vision

Our vision is to be a global casino and resort operator, best known for our excellent service and creative design.

### Our mission

To give our guests a customer orientated, secure and safe environment with the finest design and craftsmanship, unparalleled in the industry and supported by the excellence of our name and reputation.

Group's structure at 31 December 2013



## Declaration of the management

The members of the management confirm that according to their best knowledge, the financial statements, prepared in accordance with the accounting standards in force, give a true and fair view of the assets, liabilities, financial position and profit or loss of Olympic Entertainment Group AS and the Group entities involved in the consolidation as a whole, and the management report gives a true and fair view of the development and results of the business activities and financial position of Olympic Entertainment Group AS and the Group entities involved in the consolidation as a whole and contains a description of the main risks and doubts.



Madis Jäger  
Chairman of the Management Board



Meelis Pielberg  
Member of the Management Board

26 March 2014

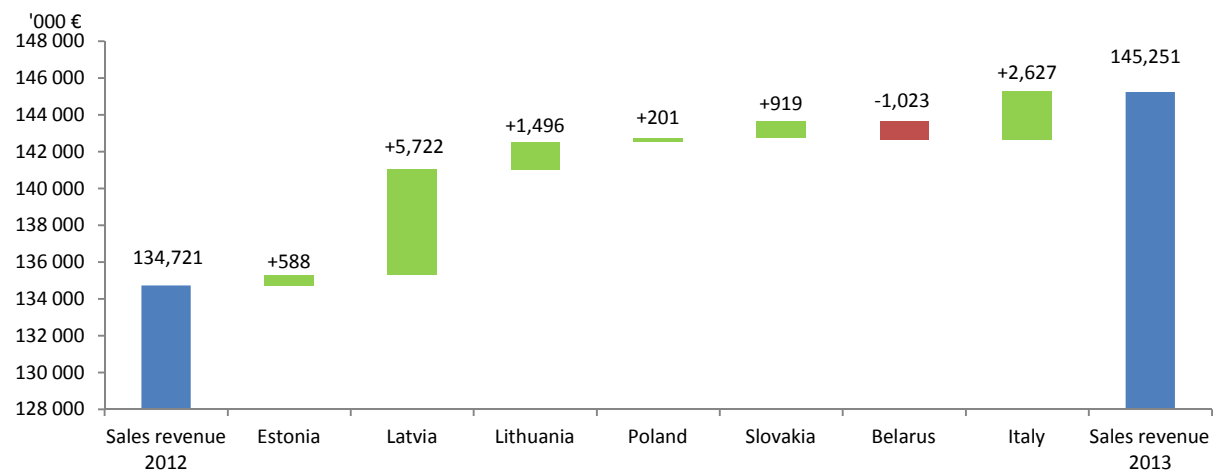
## Management report

### Overview of the economic activities

#### Key developments of the Group in 2013.

- The Group's consolidated revenues of 2013 amounted to EUR 145.3 million, up 7.8% or EUR 10.5 million y-o-y.
- Gaming revenues accounted for 93.6% (135.9 m€) and other revenues for 6.4% (9.3 m€) of the Group's consolidated revenues of 2013. A year before the revenue split was 92.3% (125.5 m€) and 6.7% (9.2 m€), respectively.
- The Group's consolidated EBITDA for 2013 amounted to EUR 39.5 million, up 2.3% from EUR 38.7 million a year before. The Group's consolidated operating profit increased EUR 3.4 million (+11.9%) to EUR 31.8 million.
- The Group's consolidated net profit attributable to equity holders of the parent company for 2013 totalled EUR 25.7 million compared to EUR 24.2 million a year ago (+6.2%).
- On 11 March 2013 Olympic Casino Eesti AS, the subsidiary of Olympic Entertainment Group AS, acquired a 100% shareholding in Siquia Holding B.V. registered in the Netherlands. On 28 June 2013 Siquia Holding B.V, the subsidiary of Olympic Casino Eesti AS, signed a sale-purchase agreement to acquire 100% shareholding in Latvian casino operator Altea SIA, which led to an increase of casinos in Latvia from 21 to 38.
- On 11 March 2013 Olympic Entertainment Group AS established and registered the companies Gametech Services Ltd and Brandhouse Ltd in Jersey to create a legal platform for the expansion of the Group's activities in markets related to online gaming.
- The annual general meeting of the shareholders held on 18 April 2013 decided to pay dividends in the amount of EUR 15.1 million.
- Olympic Entertainment Group AS acquired 100% of the shares of the Dutch entity Jessy Investments B.V. and transferred the 100% shareholding in OÜ Fortuna Travel to the acquired entity. In addition, Olympic Entertainment Group AS acquired 100% shareholding in Kesklinna Hotelli OÜ, which was used to increase the share capital of Jessy Investments B.V through non-monetary contribution.
- On 18 July 2013 Group entity Kesklinna Hotelli OÜ and AS Merko Ehitus Eesti signed an agreement for the construction of new upscale hotel instead of Reval Park Hotel & Casino. The new hotel will be operated by Hilton Worldwide under its Hilton Hotels & Resorts brand. The estimated cost of the new hotel and casino complex expected to open in December 2015 is EUR 36 million. Starting from 1 November 2013 Group's Estonian flagship casino is operating in Radisson Blue Hotel Olümpia premises.
- Group entity Olympic Casino Latvia SIA started providing online gaming services in Latvia from 1 August 2013 after being granted of corresponding license. In addition, the Group launched sports betting and sports bar network under OlyBet name, which is a new brand for all online services.

#### The Group's consolidated sales revenue bridge:



**The Group's consolidated revenue by segments:**

'000€	2013	2012	Change
Estonia	35,229	34,641	1.7%
Latvia	39,267	33,545	17.1%
Lithuania	21,503	20,007	7.5%
Poland	27,408	27,207	0.7%
Slovakia	16,109	15,190	6.1%
Belarus	2,378	3,401	-30.1%
Italy	3,357	730	360.0%
<b>Total</b>	<b>145,251</b>	<b>134,721</b>	<b>7.8%</b>

**Share of segments in the Group's revenue:**



At the end of 2013, the Group had 82 casinos with total floor area of 28,031 m<sup>2</sup> (+4,001 m<sup>2</sup>).

**Number of casinos by segment:**

	31 December 2013	31 December 2012
Estonia	18	18
Latvia	38	21
Lithuania	12	10
Poland	3	3
Slovakia	5	4
Belarus	4	5
Italy	2	2
<b>Total</b>	<b>82</b>	<b>63</b>

The Group's consolidated operating expenses for 2013 amounted to EUR 114.0 million, up 6.0% or EUR 6.5 million y-o-y. The growth was highest in personnel expenses (+2.9 m€, +8.7%), rent expenses (+1.2 m€, +12.5%) and gaming tax (+1.4 m€, +5.2%). Amortisation and depreciation cost declined the most (-2.6 m€, -25.2%). Personnel expenses (35.9 m€) and gaming tax (28.9 m€) represented the largest cost items accounting for 56.8% of total operating expenses.



**Key performance indicators of the Group**

		<b>2013</b>	<b>2012</b>	<b>2011</b>
Revenues	m€	145.8	135.9	127.3
Gaming tax	m€	28.9	27.5	25.7
EBITDA	m€	39.5	38.7	32.0
EBIT	m€	31.8	28.4	16.4
Net profit	m€	25.7	24.2	13.8
EBITDA margin	%	27.1	28.5	25.1
Operating margin	%	21.8	20.9	12.9
Net margin	%	17.7	17.8	10.9
Assets	m€	118.3	109.2	101.0
Equity	m€	102.0	93.0	81.7
ROE	%	27.9	29.4	17.5
ROA	%	22.6	23.0	13.3
Current ratio	times	3.2	3.5	2.9
Casinos at end of period	#	82	63	61
Casino floor area at end of period	m <sup>2</sup>	28,031	24,030	24,014
Employees	#	2,515	2,277	2,336
Slot machines at end of period	#	3,038	2,594	2,471
Gaming tables at end of period	#	191	178	180

## Underlying formulas:

- EBITDA = earnings before financial expenses, income taxes, depreciation and amortisation and impairment losses
- Operating profit = profit before financial expenses and income taxes
- Net profit = net profit for the period less non-controlling interests
- EBITDA margin = EBITDA / revenue
- Operating margin = operating profit / revenue
- Net margin = net profit / revenue
- ROE = net profit / average total equity attributable to the shareholders of the parent company
- ROA = net profit / average total assets
- Current ratio = current assets / current liabilities



## Overview by markets

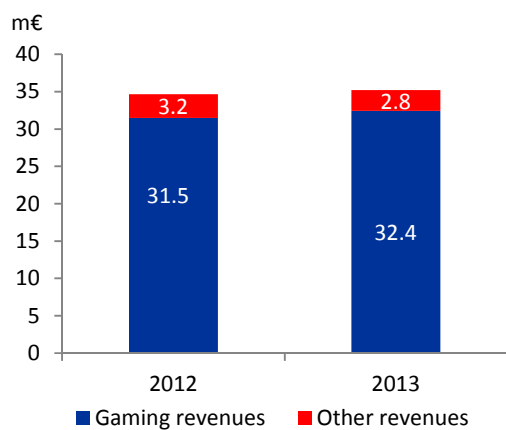
### Estonia

The sales revenues of Estonian segment for 2013 amounted to EUR 35.2 million (+0.6 m€, +1.7%), EBITDA to EUR 9.3 million (-0.3 m€, -3.4%) and operating profit to EUR 7.7 million (+1.0 m€, +15.2%). Gaming revenue increased 3.0% y-o-y amounting to EUR 32.4 million.

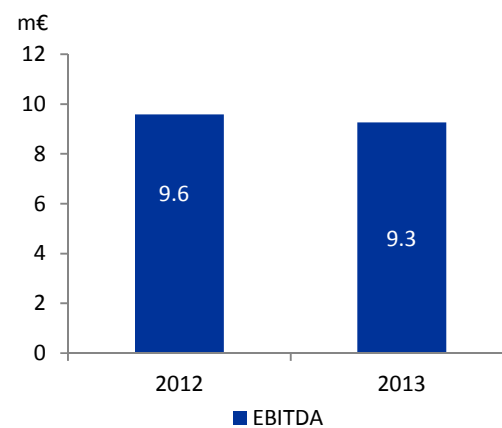
The market share of Olympic Casino Eesti AS in the Estonian gaming market (except for online casino) was 56% in Q4 2013 remaining on the same level as a year ago. All in all, total Estonian gaming market increased in 2013 by 3% as compared to 2012.

At the end of 2013, there were 18 Olympic casinos with 737 slot machines and 19 gaming tables operating in Estonia. As at 31 December 2013, the Estonian operations employed 477 people.

#### Sales revenues



#### EBITDA



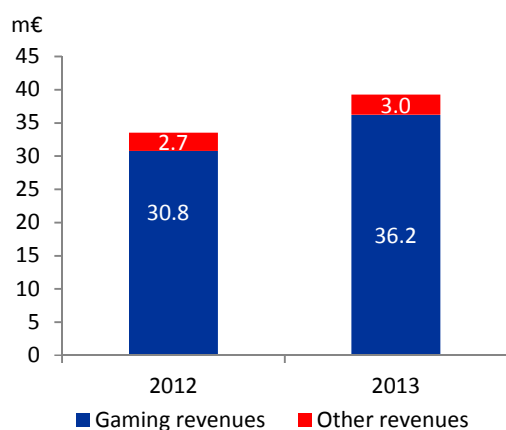
### Latvia

The sales revenues of Latvian segment for 2013 amounted to EUR 39.3 million (+5.7 m€, +17.1%), EBITDA to EUR 17.0 million (+1.5 m€, +10.0%) and operating profit to EUR 14.7 million (+1.5 m€, +11.2%). Gaming revenue increased 17.6% y-o-y amounting to EUR 36.2 million.

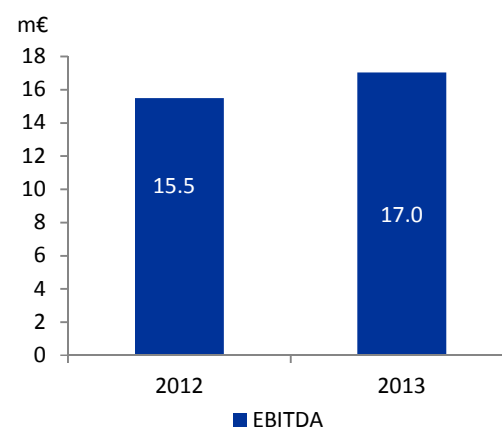
The market share of Latvian operations in the Latvian gaming market was approximately 24% in Q4 2013, up from 21% a year ago. Total Latvian gaming market increased by 4% as compared to 2012.

At the end of 2013, there were 38 Olympic casinos with 1,044 slot machines and 18 gaming tables operating in Latvia. As at 31 December 2013, there were 659 employees in Latvia.

#### Sales revenues



#### EBITDA



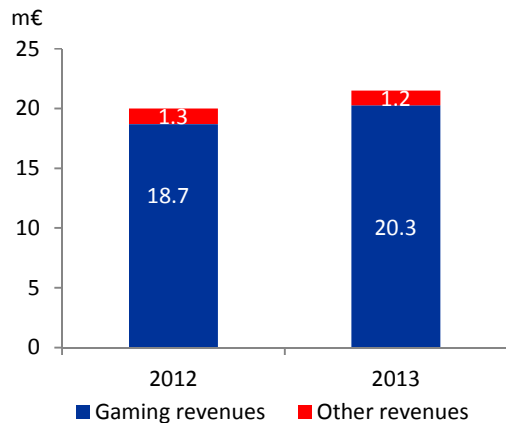
### Lithuania

The sales revenues of Lithuanian segment for 2013 amounted to EUR 21.5 million (+1.5 m€, +7.5%), EBITDA to EUR 4.9 million (-0.4 m€, -7.0%) and operating profit to EUR 3.7 million (-0.2 m€, -4.8%). Gaming revenue increased 8.4% y-o-y amounting to EUR 20.3 million.

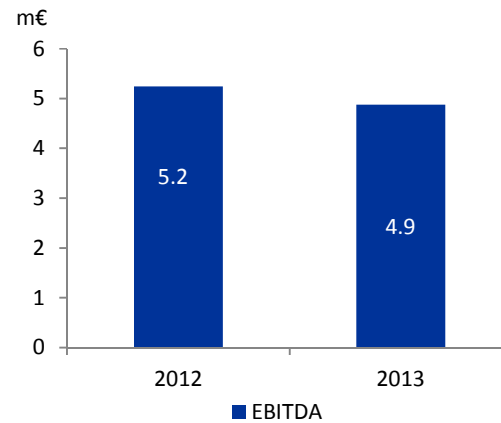
The market share of Olympic Casino Group Baltija UAB in the Lithuanian gaming market was 69% in Q4 2013, remaining on the same level as a year before. Total Lithuanian gaming market increased by 8% as compared to 2012.

At the end 2013, there were 12 Olympic casinos with 424 slot machines and 62 gaming tables operating in Lithuania. As at 31 December 2013, the Lithuanian operations employed 674 people.

#### Sales revenues



#### EBITDA

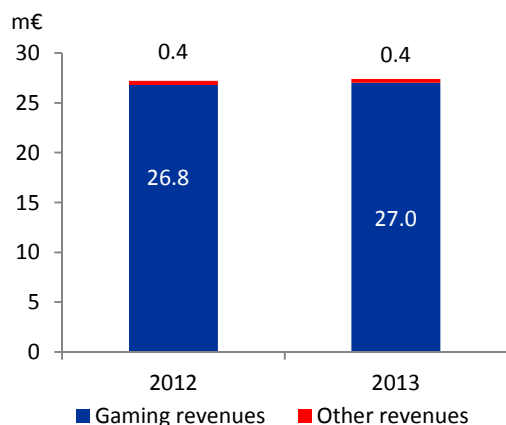


### Poland

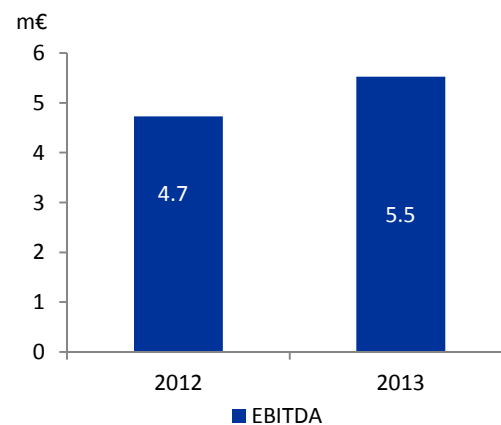
The sales revenues of Polish segment for 2013 amounted to EUR 27.4 million (+0.2 m€, +0.7%), EBITDA to EUR 5.5 million (+0.8 m€, +16.8%) and operating profit to EUR 4.5 million (+1.9 m€, +72.9%). Gaming revenue increased 0.9% y-o-y amounting to EUR 27.0 million.

At the end of 2013, there were 3 Olympic casinos with 271 slot machines and 39 gaming tables operating in Poland. As at 31 December 2013, the Polish operations employed 337 people.

#### Sales revenues



#### EBITDA

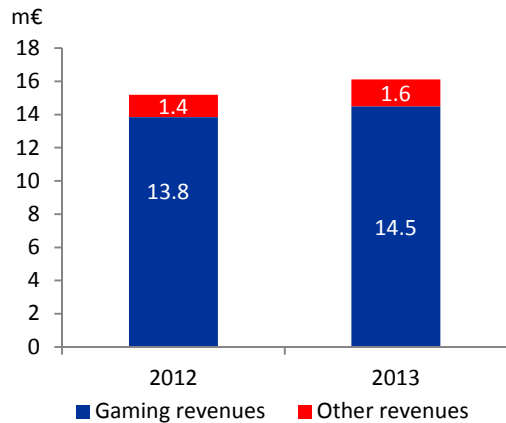


### Slovakia

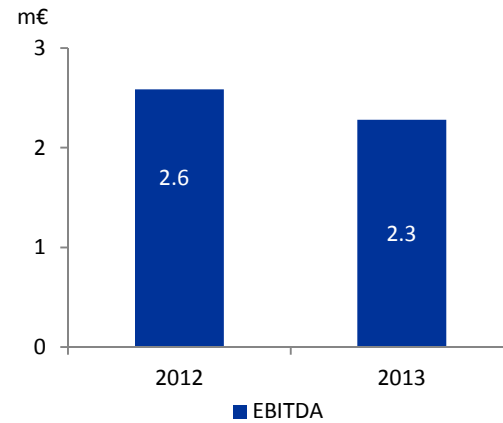
The sales revenues of Slovak segment for 2013 amounted to EUR 16.1 million (+0.9 m€, +6.1%), EBITDA to EUR 2.3 million (-0.3 m€, -11.8%) and operating profit to EUR 1.1 million (-0.2 m€, -16.9%). Gaming revenue increased 4.7% y-o-y amounting to EUR 14.5 million.

At the end of 2013, there were 5 Olympic casinos with 263 slot machines and 53 gaming tables operating in Slovakia. As at 31 December 2013, The Slovak operations employed 277 people.

#### Sales revenues



#### EBITDA

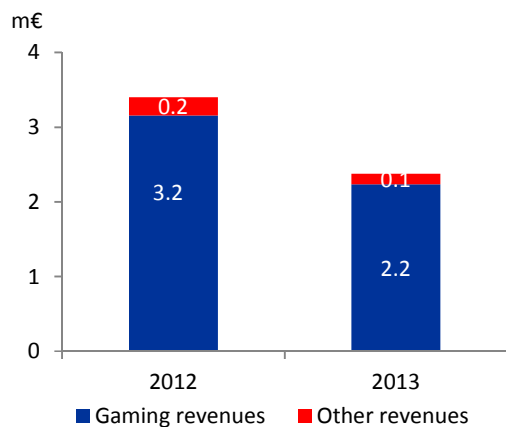


### Belarus

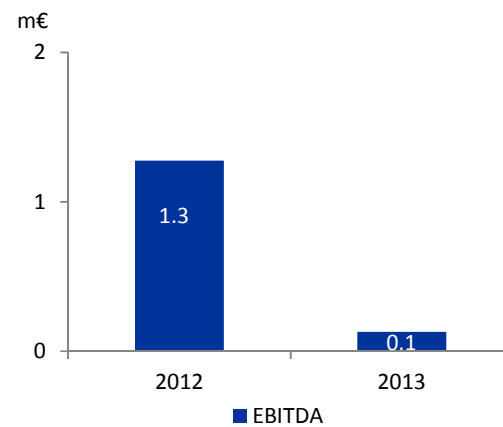
The sales revenues of Belarusian segment for 2013 amounted to EUR 2.4 million (-1.0 m€, -30.1%), EBITDA to EUR 0.1 million (-1.1 m€, -89.6%) and operating profit to EUR 0.1 million (-1.0 m€, -95.4%). Gaming revenue decreased 29.2% y-o-y amounting to EUR 2.2 million.

At the end of December 2013, there were 4 Olympic casinos with 187 slot machines operating in Belarus. As at 31 December 2013, the Belarusian operations employed 84 people.

#### Sales revenues



#### EBITDA



### Italy

The sales revenues of Italian segment before deducting the gaming tax of Italy for 2013 amounted to EUR 7.0 million, EBITDA to EUR 0.4 million and operating profit to EUR 0.1 million. The Group is operating in Italy since August 2012. At the end of 2013, there were 2 VLT slot casinos operating under Slottery trademark with 112 slot machines operating in Italy. As at 31 December 2013, there were 7 employees in Italy.

### Financial position

As at 31 December 2013, the total assets of the Group amounted to EUR 118.3 million, up 8.3% or EUR 9.1 million compared to the same period a year ago.

Current assets totalled EUR 50.0 million or 42.2% of total assets, and non-current assets EUR 68.3 million or 57.8% of total assets. The liabilities amounted to EUR 16.3 million and equity to EUR 102.0 million. The largest liabilities included suppliers payable and customer prepayments (5.2 m€), tax liabilities (4.6 m€) and payables to employees (3.6 m€).

### Investments

In 2013, the Group's expenditures on property, plant and equipment totalled EUR 14.3 million (+5.5 m€), of which EUR 6.9 million was invested into new gaming equipment (+2.9m€) and EUR 6.6 million (+2.3 m€) into construction and reconstruction of casinos.

### Cash flows

In 2013, the Group's cash flows generated from operating activities amounted to EUR 35.5 million (+0.8 m€) and cash flows from investing activities to EUR -9.0 million (-1.7 m€). Financing cash flows amounted to EUR -17.9 million (-3.6 €). Net cash flows totalled EUR 8.6 million (+6.1 m€).

### Staff

As at 31 December 2013 the Group employed 2,515 people, up by 238 y-o-y mostly due to expansion in Latvia as well as opening new casinos in Lithuania and Slovakia.

In 2013, total personnel expenses, including social security taxes amounted to EUR 35.9 million (+2.9 m€, +8.7%). The members of the Management Board and Supervisory Board of all Group entities were paid remuneration and benefits including social security taxes in the amount of EUR 823 thousand (793 thousand in 2012) and EUR 157 thousand (EUR 157 thousand in 2012), respectively.

In 2011, share options were granted to the members of the Management Board of Olympic Entertainment Group AS and the Group's key personnel. According to the agreements, a member of the Management Board may subscribe for up to 70,000 shares in Olympic Entertainment Group AS until the end of the option programme; the numbers of shares that may be subscribed for under the agreements concluded with the Group's key personnel are individually different. The exact number of shares that each member of the Management Board and each employee can subscribe for depends on the attainment of the Group's financial targets and the individual performance of each member of the Management Board or key personnel. The option holders have the right to subscribe for shares from 1 July 2014. The expiration date of the share option programme is 1 September 2014.

### Basic principles of staff policy

The successful human resources policy is to ensure the organization's strategies and objectives consistent implementation by all employees. Personnel policy is determined by focused action goals and principles, which are based on the Group's core values and the daily decisions taken under optimal implementation personnel. Principles, which are given in HR policies, ensure the establishing and maintaining organization right atmosphere, which supports people commitment, intrinsic motivation, and cooperation.

The most valuable assets of a company are right people on right positions, who are executing their roles and obligations, which are most suitable for their personal characteristics, knowledge and abilities. Therefore, the HR policy mainly focuses on labour planning needs at the Group over the long term. The Group uses both internal and external recruitment, but in filling vacancies preference is given to persons who are already employed by the Group. The requirements for a particular position and suitability to the team are the main criteria for selecting people. The staff policy gives each employee an overview of the recruitment conditions, opportunities for a new employee and rights of existing employees.

The HR policy regulates the management methods and practices, internal communication, main principles concerning the staff: induction programmes, mentoring, frequency of appraisal interviews, monthly evaluation of employees, attestations, trainings, remuneration system, provision of feedback, equal treatment of employees.

The Group, together with its subsidiaries, is a continuous learning organization valuing new knowledge and ideas, ensuring the generation and implementation of the above.

Training policy and remuneration policy, what are the parts of HR Policy, must support the values of the learning organization: systematic staff development activities enables remain competitive in the labour market and the services market, remuneration policy is built on the principles of employee systemic motivation support.

The Group's human resources policy is constantly evolving: design is based on modernity, both short-and longer-term strategies, as well as labour market trends.

**Key objectives for year 2014**

- To continue to increase its market share in all of its operating markets;
- To find new opportunities for the expansion of the Group's business;
- To improve the Group's position in the online services segment and to create additional synergies with other operating segments of the Group.

**Description of main risks**

The risk management policy of the Group is based on the requirements established by regulative bodies, generally accepted practices and internal regulations of the Group. The Group is guided by the principle to manage risks in a manner that ensures an optimal risk to income ratio. As part of the risk management of the Group, all potential risks, their measurement and control are defined, and an action plan is prepared to reduce risks, thereby ensuring the achievement of financial and other strategic objectives of the Group.

**Business risks**

The macro-economic development of operated markets and related changes in the consumption habits of clients are the factors that influence the Group the most. To manage risks, the Group monitors and analyses the general development of markets and the activities of competitors, as a result of which the Group will adjust operational activities, including marketing activities, if necessary.

The gaming sector as a whole is significantly influenced by regulative changes and supervisory activities at the state and local level. The Group estimates that the regulative risk is managed by presence in seven different jurisdictions.

**Currency risk**

The Group earns income in euros, Lithuanian litas, Polish zloty and Belarus roubles. Most of the Group's expenses are incurred in these currencies in its operating markets. The changes in exchange rates of these currencies against the euro impact both the Group's revenues and expenses, as a result of which there is no major effect on the Group's operating profit.

Internal transactions of the Group are primarily concluded in euros. The equity of the Group is influenced by a change in the exchange rate of the Latvian Lats, Polish zloty and Belarus rouble to the euro. The functional currencies of subsidiaries within the Group are the US dollar (USD) and the Swiss franc (CHF). The total market value of USD and CHF may not exceed 20% of the equity according to the last audited consolidated balance sheet of the Group.

**Credit risk**

The Group's settlements with clients are to a great extent immediately carried out in cash or by payment cards. The Group accepts banks with the credit rating of A and B where the most of the Group's funds have been deposited. Credit risk of the Group is related to cash, its equivalents and other positions of financial assets.

## Management and Supervisory Boards

The Management Board of Olympic Entertainment Group AS is comprised of two members. In the daily management activities, the Management Board of the Company is independent and is guided by the best interests of all shareholders, thereby ensuring sustainable development of the Company according to the set objectives and strategy. The Management Board also ensures the functioning of internal control and risk management procedures in the Company. The Supervisory Board of Olympic Entertainment Group AS elects members of the Management Board for a term of three years.



Madis Jääger – Chairman of the Management Board and CEO since 2012 (member of the Management Board since 2010). Madis Jääger has graduated from Estonian Business School in 2002 with a degree in International Business Administration major in accounting and banking *cum laude*. Madis Jääger owns neither directly nor through the companies controlled by him any of the Company's shares.



Meelis Pielberg – member of the Management Board and head of land-based casino operations since 2012. Meelis Pielberg has graduated from Estonian Maritime Academy in 2000. Meelis Pielberg owns directly and through the companies controlled by him a total of 29,355 Company's shares.

The Supervisory Board of Olympic Entertainment Group AS comprises of four members. The General Meeting of Shareholders of Olympic Entertainment Group AS elects members of the Supervisory Management Board for five years.

Armin Karu – Chairman of the Supervisory Board since 2008. Armin Karu is the founder of the Company. He has graduated from Haaga Institute in Finland (International Management Diploma 1998; MBA 2005). Armin Karu owns directly and through the companies controlled by him a total of 68,364,790 Company's shares.

Jaan Korpusov – member of the Supervisory Board since 2006. Jaan Korpusov has graduated from University of Tartu in 1985 the faculty of history. Jaan Korpusov owns directly and through the companies controlled by him a total of 28,761,910 Company's shares.

Liina Linsi – member of the Supervisory Board since 2006. Liina Linsi has graduated from University of Tartu (law) in 1984 *cum laude*. Liina Linsi owns directly and through the companies controlled by her a total of 16,681 Company's shares.

Peep Vain – member of the Supervisory Board since 2006. Peep Vain studied radio technology at Tallinn Polytechnic Institute (1986-1987) and business administration at the University of Tartu (1989-1990). He has graduated from Bentley College in Massachusetts, USA with a degree in marketing *cum laude*. Peep Vain owns neither directly nor through the companies controlled by him any of the Company's shares.

## Shares of Olympic Entertainment Group AS

The shares of Olympic Entertainment Group AS are listed in the main list of Tallinn Stock Exchange since 23 October 2006. From 26 September 2007, the shares of Olympic Entertainment Group AS are traded on Warsaw Stock Exchange. The Company's registered share capital is EUR 60,531,802. The share capital is divided into 151,329,505 ordinary shares with the book value of EUR 0.40 each.

ISIN	EE3100084021
Ticker symbol	OEG1T
Market	BALTIC MAIN LIST
Number of securities issued	151 329 505
Number of listed securities	151 329 505
Listing date	23 October 2006

Movements in the share price (in EUR) and traded volume (number of securities) of Olympic Entertainment Group AS during the period of 1 January 2010 – 31 December 2013:



History of trading in the share in Olympic Entertainment Group AS (in euros):

	2009	2010	2011	2012	2013
Opening price	0.500	0.770	1.490	1.076	1.790
Highest price	0.890	1.680	1.719	1.790	2.060
Lowest price	0.300	0.730	0.868	1.076	1.680
Average price	0.597	1.232	1.332	1.371	1.871
Last price	0.770	1.485	1.062	1.780	1.860
Number of shares traded	58,089,812	50,928,144	25,362,569	22,065,114	26,938,802
Turnover (EUR million)	36.83	62.83	32.60	30.03	50.41
Capitalisation (EUR million)	116.27	224.72	160.71	269.37	281.47
P/E ratio	-	196.3	11.6	11.1	11.0

Comparison of the share of Olympic Entertainment Group AS with indices during the period of 01 January 2010 – 31 December 2013:

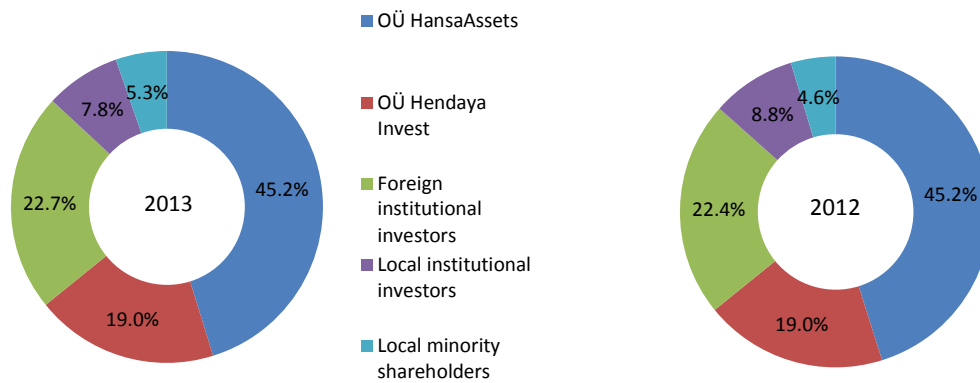


Index/share	1 Jan 2010	31 Dec 2013	+/-%
— OMX Baltic Benchmark GI	314.42	613.5	95.12
— OMX Tallinn	404.58	817.72	102.12
— OEG1T	0.77 EUR	1.86 EUR	141.56

**Largest shareholders of Olympic Entertainment Group AS:**

	<b>31.12.2013</b>	<b>31.12.2012</b>
OÜ HansaAssets	45.17%	45.17%
OÜ Henda Invest	18.98%	18.95%
Skandinaviska Enskilda Banken Ab, Swedish Clients	3.34%	2.18%
J.P. Morgan Bank Luxembourg S.A.	3.02%	0%
NORDEA BANK Finland PLC, clients	2.19%	2.94%
ING Luxembourg S.A. AIF Account	1.66%	1.66%
Citibank (London) UBS AG London Branch-IPB clients	1.54%	2.24%
State Street Bank and Trust Omnibus Account A Fund NO OM01	1.29%	1.08%
JPMorgan Chase Bank, National Association on behalf of US residents	0.95%	0.49%

**Structure of Olympic Entertainment Group AS shareholders:**



**Dividends**

The Group is under no permanent or fixed obligation to regularly pay dividends its shareholders. Recommendations of the Management Board for profit allocation are based on financial performance, requirements for current capital, investment needs and strategic considerations.

In 2013 the Group has paid dividends in amount of euros 0.1 per share for the year of 2012.



## Corporate governance recommendations

Olympic Entertainment Group AS (hereinafter also referred to as the “Company”) observes applicable legislation, the rules of the Tallinn Stock Exchange, and the Corporate Governance Recommendations (CGR). The principles of the CGR which the Company does not comply with are explained below (in *italics*) together with references to relevant articles of the CGR.

### General Meeting of Shareholders

The Company’s highest governing body is the General Meeting of Shareholders. Each shareholder of Olympic Entertainment Group AS may attend the General Meeting where he or she may speak on any agenda item, may ask questions and may make proposals. The Company gives notice of a General Meeting on the website of the Tallinn Stock Exchange, on its own website at [www.olympic-casino.com](http://www.olympic-casino.com), and in at least one national daily newspaper. General Meetings may be attended by shareholders and their duly appointed proxies holding proper letters of authorisation.

The Company’s Management and Supervisory Boards provide shareholders with all relevant information required for making decisions at the General Meeting and make all materials relevant to the agenda items available to the shareholders. The agenda of a General Meeting is published in the notice of the General Meeting, on the Company’s website, and on the website of the Tallinn and Warsaw Stock Exchanges. Shareholders can review the proposals made and the arguments and explanations provided by the Supervisory Board before the General Meeting on the Company’s website and on the website of the Tallinn and Warsaw Stock Exchanges. In addition, shareholders may send questions about the agenda items via email to [info@oc.eu](mailto:info@oc.eu).

*The Company does not make observing and attending General Meetings possible through communication channels to avoid excessive expenses and because of the lack of explicit need for it (CGR 1.3.3.).*

In 2013, the Annual General Meeting of Shareholders convened at 18 April in the Park Lounge of Reval Park Hotel & Casino, (Kreutzwaldi 23, Tallinn). The Chairman of the Supervisory Board Armin Karu, members of the Supervisory Board Jaan Korpusov and Liina Linsi and the Chairman of the Management Board Madis Jääger attended the meeting.

*Member of the Management Board Meelis Pielberg, member of the Supervisory Board Peep Vain as well as the auditor whose presence was not necessary (CGR 1.3.2.) did not attend the Annual General Meeting of Shareholders at 18 April 2013.*

Shareholders representing 75.05% shareholding were present at the Annual General Meeting. Under the Articles of Association of Olympic Entertainment Group AS, the General Meeting has a quorum when more than half of the votes represented by shares are present. Accordingly, the meeting had the quorum required for passing resolutions.

### Management Board

The Management Board of Olympic Entertainment Group AS comprises two members, where the Chairman is Madis Jääger and member is Meelis Pielberg. The main area of responsibility of the Chairman of the Management Board Madis Jääger was general management, financial management and investor relations issues. Member of the Management Board Meelis Pielberg was responsible for land-based casino operations and implementation of development projects. The Management Board is completely independent in matters concerning the daily management of the Company and acts in the best interests of all shareholders, ensuring the sustainable development of the Company in accordance with set objectives and adopted strategies, and the implementation and execution of appropriate internal control and risk management procedures. The Supervisory Board of Olympic Entertainment Group AS elects members of the Management Board for a term of three years.

The principles of paying remuneration to the members of the Management Board are decided by the Supervisory Board in conformity with the requirements of the CGR. The Management Board’s bonus systems are based on board members’ responsibilities and the attainment of specific, comparable and previously set targets.

*The Company does not disclose basic remuneration, performance pay, and termination and other benefits, paid to each member of the Management Board because this constitutes sensitive personal information and its disclosure is not imperative for evaluating the Company’s performance and management (CGR 2.2.7.).* The aggregate amount of the benefits paid to the members of the Management Boards of all Group entities in 2013 is presented in the “Staff” section of the management report.

The members of the Management Board avoid conflicts of interest and observe the prohibition on competition.

### Supervisory Board

In 2013, the Company’s Supervisory Board had four members – Armin Karu, Jaan Korpusov, Liina Linsi and Peep Vain. The Supervisory Board is elected for a term of five years. The terms of office of Jaan Korpusov, Liina Linsi and Peep Vain will expire at 11 September 2018. The term of office of Armin Karu will expire at 13 August 2018.

The Chairman of the Supervisory Board is Armin Karu. Independent members of the Supervisory Board are Liina Linsi and Peep Vain. All members of the Supervisory Board have the knowledge and experience required for performing their duties

and act in accordance with effective legislation and the Corporate Governance Recommendations. The Supervisory Board supervises the activities of the Management Board and participates in the adoption of all significant decisions, acting in the best interests of all shareholders. The Supervisory Board meets according to the need but not less frequently than once in every three months. The Supervisory Board approves the Company's strategy, activity plans, risk management policies, annual budgets and investment plans and performs other duties vested in the Supervisory Board. The Supervisory Board evaluates the performance of the Management Board in implementing the Company's strategy on a regular basis. The Supervisory Board has not formed any committees.

All members of the Supervisory Board, except for one member of Supervisory board, have attended all meetings of the Supervisory Board. The members of the Supervisory Board avoid conflicts of interest, act in the best interests of all shareholders and observe the prohibition on competition. The Supervisory and Management Boards cooperate closely for better development of the Company, acting in conformity with the Company's Articles of Association. In data exchange and communication, all members of the Supervisory and Management Boards follow the confidentiality protocol. The Management Board ensures that the confidentiality protocol is also observed by the Company's employees who have access to price sensitive information.

*The Company does not disclose the benefits, including basic remuneration, additional remuneration, and termination and other benefits, paid to each member of the Supervisory Board because this constitutes sensitive personal information and its disclosure is not imperative for evaluating the Company's performance and management (CGR 3.2.5.).* The aggregate amount of the benefits paid to the members of the Supervisory Board of all Group entities in 2013 is presented in the "Staff" section of the management report.

#### **Disclosure of information, financial reporting and auditing**

The Company follows all information disclosure requirements provided in the CGR and treats all shareholders equally. All required information and financial statements are made available in Estonian and in English on the Company's website and the website of the Tallinn Stock Exchange, and in English on the website of the Warsaw Stock Exchange.

Data exchange with the media and analysts is organised with due consideration and care, and without jeopardising the independence of the parties. On July 18 2013 the Company held a press conference, announcing the establishment of a new upscale hotel operated by Hilton Worldwide under Hilton Hotels & Resorts brand replacing the current Reval Park Hotel & Casino in Tallinn. The new hotel and entertainment complex costing around 36 million euros will be constructed by Merko Ehitus Eesti. The Company will publish the time and location of its future press conferences and the content of its presentations on the Company's website (CGR 5.6.).

The Company has published its 2013 annual and interim reports. The Management Board prepares the consolidated annual financial statements which are audited by the auditor. Supervisory Board approves the annual report and the Management Board presents the annual report to General Meeting for approval. The annual report is presented to the shareholders together with the Supervisory Board's written report on the annual report.

Transactions performed with related parties are disclosed in the notes to the consolidated annual financial statements.

On giving notice of the Annual General Meeting, the Supervisory Board will make information on the candidate for the Company's auditor available to shareholders. In making its decision, the Company observes the auditors' rotation requirement. Before signing the audit services contract, the Management Board will submit a draft of the contract for approval to the Supervisory Board.

The Company's Supervisory Board approved the audit services provided by AS PricewaterhouseCoopers in 2013. The auditor is remunerated in accordance with the contract signed with AS PricewaterhouseCoopers that specifies, among other things, the auditor's obligations and responsibilities in auditing the Company. According to the Company's information, the auditor has performed all its contractual obligations and has performed the audit in accordance with International Standards on Auditing.

*The Company does not disclose the amount of the audit fee because its non-disclosure does not affect the reliability of the audit services provided by the auditor (CGR 6.2.1.).*

#### **Audit Committee**

Pursuant to clause 99 (1) 1) and clause 13 (1) 1) of the Auditors Activities Act (came into force at 01.07.2010), Olympic Entertainment Group AS has the obligation to form an Audit Committee. The Audit Committee consists of two members: Chairman Liina Linsi and member Armin Karu.

The Audit Committee at Olympic Entertainment Group AS is an advisory body to the Supervisory Board in the areas of auditing, risk management, internal control and audit, supervision and budget preparation and in respect of the legality of the activities of the Supervisory Board.

## Corporate social responsibility report

Olympic Entertainment Group AS is a socially responsible Group that stands for transparency of business and high ethical standards, continuously invests in the development of its business, implements necessary measures to prevent money laundering, offers secure services and environment to its clients, and respects their privacy. The Group operates only under the laws established by states and has always been one of the initiators of development of legislation and enactment of necessary regulations. In continuous cooperation with local state authorities, we strive to develop the gaming market according to the highest standards and ensure protection to our clients in cooperation with the regulators of the given field. The Group contributes to the welfare of community by continuously attending charity programmes and supporting athletic, cultural, children's health and welfare. In addition, the Group invests in its employees, supporting their professional and social development.

In its operations, Olympic Entertainment Group is guided by four main values of the Group:

### Passion for service

- We have guests, not customers – we treat our customers like guests in our homes.
- We always try to exceed our guests' expectations – we love the job, we do more than is expected of us, we support our team and give more than 100%.
- We are champions in what we do – we are proud to offer the best service in the gaming industry, our people are the best and we support their development.

### Responsible

- We always offer the most secure environment – we have a deserved reputation for high security standards and well developed responsible gaming programs.
- We take care of our own – we take responsibility for our own actions and always support our team.
- We are good citizens actively supporting the community through our participation in regular charity programs and deserving causes.

### Entertaining

- We communicate with a smile – in addition to our wide choice of games and winning programs, we entertain our customers with a smile on our faces and in our hearts.
- We enjoy every moment – we enjoy working in our teams and with our colleagues, work is play and smiling employees smile to the guests as well.

### Rewarding

- We create positive feelings – we share with our guests the joy of winning and we support them if they do not. We try to ensure that spending time with us is always a winning experience.
- We promote initiative – there are always ways to improve our product and our service, we reward initiative and encourage great ideas that will benefit our company, our guests and our staff.

As a responsible company, we are part of society and we behave accordingly in all our business areas. We regularly attend charity programmes and worthy projects and, through this, support social initiatives that make our living environment better. As a socially responsible company, Olympic Entertainment Group allocates a certain part of its budget to charity. The sponsored areas are sports, culture and social affairs. As regards the sports, we support the best known and loved areas of sport. In social fields, we prefer projects related to children; in cultural fields we base our sponsorship on the scope of a particular project.

Examples of charity and sponsorship activities and support:

#### Estonia

- Estonian Olympic Committee
- Estonian Basketball Association
- Maarja Village
- Birgitta festival
- Tervise abi OÜ
- Estonian Pool Federation
- Estonian Bartenders Association
- R.A.A.M MTÜ

#### Latvia

- Martina Fund (children with health problems)
- Riga Municipal Financial department (support in connection with Zolitudes tragedy on November 21<sup>st</sup> 2013)
- Rugby club "Livonija"

**Poland**

- PARAM SP.J – support of fire safety seminar
- Klub Sportowy Wola – volleyball club support
- Foundation Byc Bardziej
- Project Raszyn support
- Real SP Z.O.O – participation in charity project

**Slovakia**

- PLAMIENOK non-profit organization
- HARMONY non-profit organization

**Belarus**

- Rescuers society support
- Field hockey club support
- Belaya rus (book publishing support)
- Society of People with Health Problems and Children's Home

Olympic Entertainment Group actively involves its employees in carrying out charity events. We have initiated a movement during which we strive to jointly carry out different good acts. For example: blood donation, joint collection of gifts to those in need. It is important that the employees contribute their time and energy, rather than collect only money. Our experience confirms that the time dedicated to and spent with those in need is even more important than money.

**Promotion of responsible gaming**

Olympic Entertainment Group has actively participated in the committees for drafting gaming legislation in its areas of activity, making proposals for achieving a responsible approach towards gaming. The Group has established the rules of social responsibility that set out requirements for subsidiaries that they are obliged to comply with the statutory requirements and take preventive measures to avoid gaming addiction. The rules also establish requirements for notifying clients of gaming addiction.

In all Group entities, the principles of responsible gaming are adhered to, the examples of which include:

- We act with social awareness – we are proud of our high ethical standards
- We ensure that we continuously develop our industry-specific knowledge
- We are committed to legal and responsible advertising
- We pro-actively enforce effective anti-money laundering measures
- We provide safe, licensed and responsible gaming services
- We rigorously respect customer confidentiality and privacy
- Gaming is entertainment
- We have established visitors' minimum age and registration
- Clients may apply a voluntary casino access restrictions
- Our staff is trained to be aware of problem gambling
- We offer help against problem gambling
- We collaborate with problem gamblers groups

All our casinos have information materials that call for reasonable gaming and give information as to where help can be received. The Group also collaborates with several psychologists who help problem gamblers.

**Welfare of employees**

The Group has developed a system of additional remuneration for its employees that encourages the team members to continuously improve their performance. Each year, the Group prepares a training plan according to the needs identified during the annual development conversations. Women are not preferred over men and vice versa. Continuous work is made to prevent risks in the working environment; also work satisfaction surveys are conducted to improve the welfare of employees.

## Consolidated financial statements

### Consolidated statement of financial position

	Notes	31.12.2013	31.12.2012
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	44,582	35,973
Financial investments	7	1,086	13,773
Receivables and prepayments	8	2,946	2,730
Prepaid income tax		357	280
Inventories	12	1,001	1,036
<b>Total current assets</b>		<b>49,972</b>	<b>53,792</b>
<b>Non-current assets</b>			
Deferred tax assets	13	1,077	1,038
Financial investments	7	3,396	2,035
Other long-term receivables		670	712
Investment property	14	1,784	1,785
Property, plant and equipment	15	26,513	19,611
Intangible assets	17	34,865	30,226
<b>Total non-current assets</b>		<b>68,305</b>	<b>55,407</b>
<b>TOTAL ASSETS</b>		<b>118,277</b>	<b>109,199</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Borrowings	18	240	241
Trade and other payables	19	13,494	12,827
Income tax payable		776	827
Provisions	20	1,181	1,585
<b>Total current liabilities</b>		<b>15,691</b>	<b>15,480</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	13	246	140
Long-term borrowings	18	369	596
<b>Total non-current liabilities</b>		<b>615</b>	<b>736</b>
<b>TOTAL LIABILITIES</b>		<b>16,306</b>	<b>16,216</b>
<b>EQUITY</b>			
Share capital		60,532	60,532
Statutory reserve capital		1,210	0
Other reserve		235	141
Currency translation differences		-1,204	-700
Retained earnings		36,782	27,327
<b>Total equity attributable to equity holders of the parent</b>		<b>97,555</b>	<b>87,300</b>
Non-controlling interest		4,416	5,683
<b>TOTAL EQUITY</b>	21	<b>101,971</b>	<b>92,983</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>118,277</b>	<b>109,199</b>

The notes on pages 25 to 57 are an integral part of these consolidated financial statements.

**Consolidated statement of comprehensive income**

	Notes	2013	2012
Income from gaming transactions	22	135,921	125,479
Revenue	23	9,330	9,242
Other income	24	568	1,224
<b>Total revenue and income</b>		<b>145,819</b>	<b>135,945</b>
Cost of materials, goods and services	25	-3,044	-2,907
Other operating expenses	25	-66,826	-61,036
Staff costs	25	-35,878	-33,005
Depreciation, amortisation and impairment	15;17	-7,763	-10,380
Change in the fair value of investment property	14	-1	107
Other expenses	26	-524	-327
<b>Total operating expenses</b>		<b>-114,036</b>	<b>-107,548</b>
<b>Operating profit</b>		<b>31,783</b>	<b>28,397</b>
Interest income		163	351
Interest expense		-17	-157
Foreign exchange losses		-59	-47
Other finance income and costs		-623	436
<b>Total finance income and costs</b>	27	<b>-536</b>	<b>583</b>
<b>Profit before income tax</b>		<b>31,247</b>	<b>28,980</b>
Income tax expense	28	-4,323	-3,961
<b>Net profit for the period</b>		<b>26,924</b>	<b>25,019</b>
<i>Attributable to the parent</i>		<i>25,694</i>	<i>24,199</i>
<i>Attributable to non-controlling interest</i>		<i>1,230</i>	<i>820</i>
<b>Other comprehensive income:</b>			
<b>Items that may be subsequently reclassified to profit</b>			
Currency translation differences		-504	1,076
<b>Total comprehensive income for the period</b>		<b>26,420</b>	<b>26,095</b>
<i>Attributable to the parent</i>		<i>25,190</i>	<i>25,275</i>
<i>Attributable to non-controlling interest</i>		<i>1,230</i>	<i>820</i>
Basic earnings per share*	21	17.0	16.0
Diluted earnings per share*	21	17.0	16.0

\* In euro cents

The notes on pages 25 to 57 are an integral part of these consolidated financial statements.

**Consolidated statement of cash flows**

	Notes	2013	2012
<b>Cash flows from operating activities</b>			
Net profit for the period		26,924	25,019
Adjustments			
Depreciation, amortisation and impairment	5;17	7,763	10,380
Gain / loss on disposal of non-current assets (net)		64	-44
Change in fair value of investment property	14	1	-107
Income tax expense	28	4,323	3,961
Other finance income and costs (net)	27	536	-583
Changes in working capital:			
Receivables and prepayments		485	-669
Inventories		35	-127
Liabilities and prepayments		-472	1,252
Interest paid		-17	-161
Corporate income tax paid		-4,149	-4,243
<b>Net cash generated from operating activities</b>		<b>35,493</b>	<b>34,678</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment and intangible assets		-14,851	-7,576
Proceeds from sale of property, plant and equipment		52	153
Acquisition of investment property		0	-14
Proceeds from sale of investment property		0	131
Purchase of financial investments	7	-1,379	-5,206
Proceeds from sale of financial investments	7	11,150	2,696
Acquisition of subsidiary, net of cash acquired	30	-4,244	-1,243
Interest received		267	354
<b>Net cash used in investing activities</b>		<b>-9,005</b>	<b>-10,705</b>
<b>Cash flows from financing activities</b>			
Repayments of loans received	18	-238	-6,276
Payments of finance lease principal		-4	-4
Reduction of share capital paid	21	0	-15,143
Dividends paid	21	-17,630	0
<b>Net cash used in financing activities</b>		<b>-17,872</b>	<b>-21,423</b>
<b>Net cash flows</b>			
		<b>8,616</b>	<b>2,550</b>
Cash and cash equivalents at beginning of the period	6	35,973	33,413
Exchange gains and losses on cash and cash equivalents		-7	10
<b>Cash and cash equivalents at end of the period</b>	6	<b>44,582</b>	<b>35,973</b>

The notes on pages 25 to 57 are an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity

	Equity attributable to equity holders of the parent							Non-controlling interest	Total equity
	Share capital	Share premium	Statutory reserve capital	Other reserves	Currency translation differences	Retained earnings / accumulated losses	Total		
<b>Balance at 31.12.2011</b>	<b>81,718</b>	<b>14,535</b>	<b>2,470</b>	<b>53</b>	<b>-1,776</b>	<b>-19,930</b>	<b>77,070</b>	<b>4,589</b>	<b>81,659</b>
<i>Net profit for the period</i>	0	0	0	0	0	24,199	24,199	820	25,019
<i>Other comprehensive income</i>	0	0	0	0	1,076	0	1,076	0	1,076
Total comprehensive income for the period	0	0	0	0	1,076	24,199	25,275	820	26,095
<i>Increase of statutory reserve capital</i>	0	0	692	0	0	-692	0	0	0
<i>Covering the accumulated losses</i>	0	-14,535	-3,162	0	0	17,697	0	0	0
<i>Reduction of share capital</i>	-21,186	0	0	0	0	6,053	-15,133	-10	-15,143
<i>Employee option programme</i>	0	0	0	88	0	0	88	0	88
Total transactions with owners	-21,186	-14,535	-2,470	88	0	23,058	-15,045	-10	-15,055
Acquired through business combinations	0	0	0	0	0	0	0	284	284
<b>Balance at 31.12.2012</b>	<b>60,532</b>	<b>0</b>	<b>0</b>	<b>141</b>	<b>-700</b>	<b>27,327</b>	<b>87,300</b>	<b>5,683</b>	<b>92,983</b>
<b>Balance at 31.12.2012</b>	<b>60,532</b>	<b>0</b>	<b>0</b>	<b>141</b>	<b>-700</b>	<b>27,327</b>	<b>87,300</b>	<b>5,683</b>	<b>92,983</b>
<i>Net profit for the period</i>	0	0	0	0	0	25,694	25,694	1,230	26,924
<i>Other comprehensive income</i>	0	0	0	0	-504	0	-504	0	-504
Total comprehensive income for the period	0	0	0	0	-504	25,694	25,190	1,230	26,420
<i>Increase of statutory reserve capital</i>	0	0	1,210	0	0	-1,210	0	0	0
<i>Dividends paid</i>	0	0	0	0	0	-15,133	-15,133	-2,497	-17,630
<i>Employee option programme</i>	0	0	0	94	0	0	94	0	94
Total transactions with owners	0	0	1,210	94	0	-16,343	-15,039	-2,497	-17,536
Other adjustments	0	0	0	0	0	104	104	0	104
<b>Balance at 31.12.2013</b>	<b>60,532</b>	<b>0</b>	<b>1,210</b>	<b>235</b>	<b>-1,204</b>	<b>36,782</b>	<b>97,555</b>	<b>4,416</b>	<b>101,971</b>

The notes on pages 25 to 57 are an integral part of these consolidated financial statements.



## Notes to the consolidated financial statements

### Note 1 General information

Olympic Entertainment Group AS (hereinafter the "Company") is a company registered in Estonia at 15 November 1999. The consolidated financial statements of the Company prepared for the financial year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is a leading gaming services provider in the Baltic States (Estonia, Latvia and Lithuania) and it operates casinos in Poland, Slovakia, Belarus and Italy.

The Management Board authorised these consolidated financial statements for issue at 26 March 2014. In accordance with the commercial legislation of the Republic of Estonia, the financial statements are approved by the Supervisory Board of the Company and approved by the General Meeting of Shareholders.

### Note 2 Summary of significant accounting policies

#### Basis of preparation

The consolidated financial statements of Olympic Entertainment Group AS for the year 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS's) as adopted by the European Union.

The consolidated financial statements have been prepared under the historical cost convention, except as disclosed otherwise in the accounting policies. Group entities use uniform accounting policies. The accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

The consolidated financial statements for the year 2013 are presented in thousands of euros.

#### Adoption of new or revised standards and interpretations

##### New or revised standards and interpretations

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2013 and which the Group has partially early adopted:

Presentation of Items of Other Comprehensive Income, amendments to IAS 1	(Effective for annual periods beginning on or after 1 July 2012).	The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.
IFRS 9, Financial Instruments: Classification and Measurement	(Effective for annual periods beginning on or after 1 January 2015; not yet adopted by the EU).	<p>IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities, and in December 2011 to change its effective date and add transition disclosures. Key features of the standard are as follows:</p> <ul style="list-style-type: none"> <li>• Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.</li> <li>• An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.</li> </ul>

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

IFRS 10, Consolidated Financial Statements

(Effective for annual periods beginning on or after 1 January 2014).

Replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 12, Disclosure of Interest in Other Entities

(Effective for annual periods beginning on or after 1 January 2014).

The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in Associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 13, Fair Value Measurement

(Effective for annual periods beginning on or after 1 January 2013).

The standard aims to improve consistency and reduce complexity by providing a revised definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs, which has already been used in the present annual report.

Amendments to IAS 36 - Recoverable amount disclosures for non-financial assets	(Effective for annual periods beginning on or after 1 January 2014).	The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is already exercising these amendments.
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Other new or revised standards or interpretations that are not yet effective are not expected to have a material impact on the Group.

## Group accounting

### Consolidation

The financial statements of all subsidiaries (except for the subsidiaries acquired for the purpose of selling) under the control of the parent company have been combined on a line-by-line basis in the consolidated financial statements. All intergroup receivables and liabilities, inter-company transactions and the resulting income and expenses have been eliminated. The share of non-controlling interests in the net income and equity of the companies that are controlled by the parent company is included within equity in consolidated balance sheet, separately from equity attributable to the equity holders of the parent company and as a separate item in the consolidated income statement.

### Subsidiaries

A subsidiary is an entity controlled by the parent company. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than 50% of the voting rights of the subsidiary or the Group has the power to control the operating and financial policy of the subsidiary.

From the acquisition date, the Group's interest in the assets, liabilities and contingent liabilities of the acquired entity and the resulting goodwill are recognised in the consolidated balance sheet and the interest in the acquired entity's income and expenses is included in the consolidated income statement. Positive goodwill is recognised as an intangible asset in the consolidated balance sheet.

If a subsidiary is disposed of during the reporting period, the income and expenses of the subsidiary disposed of are included in the consolidated income statement until the date of disposal. The difference between the proceeds from the disposal and the carrying amount of the net assets of the subsidiary (including goodwill) as at the date of the disposal is recognised as a gain or loss on disposal of the subsidiary. If a part of a subsidiary is disposed of and the Group's control over the entity falls below 50%, but influence over the entity does not completely disappear, the consolidation of the entity is ceased as at the date of the disposal and the remaining interest in the assets, liabilities and goodwill of the subsidiary is recognised as an associate, a jointly controlled entity or another financial asset. The fair value of the remaining investment is considered to be its new cost.

### Transactions with non-controlling interests

For transactions with minority interest (both for recognition of acquisitions as well as disposals of minority interests), the parent entity approach is used.

### Separate primary financial statements of the parent company presented in the notes to the consolidated financial statements

According to the Accounting Act of Estonia, the notes to the consolidated financial statements shall include disclosures on the separate primary financial statements of the consolidating entity (parent company). The parent's primary financial statements have been prepared using the same accounting policies as for the preparation of the consolidated financial statements, except for investments in subsidiaries that are carried at fair value in the separate primary financial statements.

## Foreign currency translation

All currencies other than the functional currency, the euro, are considered to be foreign currencies. Foreign currency transactions are recorded based on the foreign currency exchange rates of the European Central Bank prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency (receivables and loans payable in cash) are translated into the functional currency based on the foreign currency exchange rates of the European Central Bank prevailing at the balance sheet date. Foreign exchange gains and losses resulting from translation are recorded in the income statement of the reporting period. Non-monetary assets and liabilities that are measured at fair value (investment property) and denominated in a foreign currency are translated into the functional currency, using the official exchange rates of the European Central Bank which prevail at the date of determining fair value. Non-monetary assets and liabilities that are denominated in a foreign currency but that are not measured at fair value (e.g. prepayments, inventories measured at cost, and property, plant and equipment and intangible assets) are not translated at the balance sheet date but they continue to be reported using the official exchange rate of the European Central Bank prevailing at the date of the initial transaction.

*Financials of foreign subsidiaries*

For the purpose of consolidation of subsidiaries and other business units that are located abroad, their financial statements are translated from the functional currency into the presentation currency of the parent company. When the functional currency of a foreign business unit differs from the presentation currency of the parent company, the following exchange rates are applied to translating the financial statements prepared in a foreign currency:

- a) all asset and liability items are translated using the official exchange rate of the European Central Bank prevailing at the balance sheet date;
- b) revenue, expenses, other changes in equity and cash flows are translated using the weighted average exchange rate of the period.

The differences arising from the translation of financial statements are recognised within equity as *Currency translation differences* in the consolidated balance sheet. On a disposal of a foreign subsidiary, the cumulative amount presented within equity as *Currency translation differences* related to that foreign subsidiary is recognised as a profit or loss for the financial year.

**Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board of the parent company that makes strategic decisions.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, bank account balances, term deposits with maturities of 3 months or less at the time of acquisition.

**Financial assets**

The Group has the following financial assets: *held-to-maturity investments* and *loans and receivables*. Classification depends on the purpose of the acquisition of financial assets. Management makes the decision regarding the classification of financial assets at their initial recognition.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets acquired for the purpose of trading which are initially recognised at the trade date at their fair value, less transaction costs. After initial recognition, the financial assets in this category are measured at their fair value. Realised and unrealised gains and loss from revaluation on these securities are recognised consistently, either as gains or losses in the income statement line *Other finance income and costs*.

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has a positive intention and ability to hold until maturity. Held-to-maturity investments are measured at their amortised cost using the effective interest rate method, less any impairment losses.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments and that are not quoted in an active market. Loans and receivables are initially recognised at their fair value plus all transactions costs directly attributable to the acquisition of a financial asset, except for the financial assets at fair value through profit or loss, where all transaction costs directly attributable to the acquisition of a financial asset are expensed. After initial recognition loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less a provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the initial effective interest rate.

Purchases of financial instruments are recognised at the trade date, i.e., at the date the Group commits to purchase the financial asset. Financial assets are derecognized from the balance sheet when the assets are redeemed or the rights to cash flows from the assets otherwise expire or the rights to the cash flows from the financial assets have been transferred while also transferring substantially all risks and rewards of ownership of the assets to the third party.

**Inventories**

Inventories are recorded in the balance sheet at their acquisition cost, which consists of the purchase costs and other costs incurred in bringing the inventories to their present location and condition. Purchase costs of inventories include the purchase price, customs duties and other non-refundable taxes and direct transportation costs related to the purchase, less discounts and subsidies. The weighted average method is used to account for the cost of inventories.

Inventories are measured in the balance sheet at the lower of acquisition cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**Investment property**

Real estate properties (land, buildings) that the Group holds for the purpose of earnings rental income or for capital appreciation and that are not used in its operating activities are recorded under investment property. An item of investment property is initially recognised in the balance sheet at cost, including any directly attributable expenditure (e.g. notary fees, property transfer taxes, professional fees for legal services, and other transaction costs without which the transaction would have not taken place). It is subsequently measured at its fair value which is based on the market value determined annually by independent evaluator. Fair value adjustments are recognised separately in the income statement line *Change in the fair value of investment property*. No depreciation is calculated on investment property measured at fair value.

Investment property is derecognised on disposal or when the asset is withdrawn from use and no future economic benefits are expected. Gains or losses from derecognition of investment properties are recognised separately in the income statement line for the reporting period *Change in the fair value of investment property*.

When the purpose of use of an investment property changes the asset is reclassified in the balance sheet. From the date of the change, the accounting policies of the group into which the asset has been transferred are applied to the asset.

**Property, plant and equipment**

Property, plant and equipment are assets used in the operations of the Group with the useful life of over one year. An item of property, plant and equipment is initially recognised at its cost which consists of the purchase price (incl. customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Items of property, plant and equipment are carried in the balance sheet at cost less any accumulated depreciation and any accumulated impairment losses. Items of property, plant and equipment leased under the finance lease terms are accounted for similarly to purchased property, plant and equipment.

Subsequent expenditure incurred for items of property, plant and equipment are recognised as non-current assets when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Other repair and maintenance costs are recognised as expenses at the time they incur.

The straight-line method is used for determining depreciation. The depreciation rates are set separately for each item of property, plant and equipment depending on its useful life. For assets with significant residual value, only the depreciable amount, i.e. difference between cost and residual value is depreciated over the useful life of the asset.

If an item of property, plant and equipment consists of separately identifiable components with different useful lives, these components are accounted for as separate assets and accordingly, separate depreciation rates are set for them depending on their useful lives.

The annual depreciation ranges for the groups of property, plant and equipment are as follows:

Buildings	5%
Renovation expenditure	10-25% (the term of the lease agreement is generally used as the basis)
Machinery and equipment	10-40%
Other property, plant and equipment	25-40%

Depreciation of an asset begins when the asset is available for use for the purpose intended by management and is ceased when the residual value exceeds the carrying amount, when the asset is permanently withdrawn from use or is reclassified as *Non-current assets held for sale*. At each balance sheet date, the appropriateness of the depreciation rates, the depreciation method and the residual value are reviewed.

Where an asset's recoverable amount (higher of an asset's fair value less costs to sell and value in use) is lower than its carrying amount, it is written down immediately to its recoverable amount.

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition of items of property, plant and equipment are included either within other operating income or other operating expenses in the income statement.

**Intangible assets**

Intangible assets are recognised in the balance sheet when the asset can be controlled by the Group, the expected future benefits attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. An intangible asset is initially recognised at cost, comprising of its purchase price and any directly attributable expenditures. Intangible assets are carried in the balance sheet at acquisition cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are divided into assets with finite useful lives and assets with indefinite useful lives.

Intangible assets with indefinite useful lives (goodwill which arose in a business combination) are not subject to amortisation, but they are tested for impairment at each balance sheet date and if their carrying amounts are not recoverable, they are written down to their recoverable amount.

Intangible assets with finite useful lives are amortised using the straight-line method depending on the useful life of the asset. The appropriateness of the amortisation periods and method is assessed at each balance sheet date. The annual amortisation rates for the groups of non-current assets are as follows:

Software and licenses                      1 to 5 years

Assets with finite useful lives are tested for impairment whenever there is any evidence of an impairment loss.

**Software**

Computer software which is not an integral part of the related hardware is recognised as an intangible asset. Software development costs are included within intangible assets when they are directly related to the development of such software items that can be distinguished from one another, are controlled by the Group and from which the future economic benefits for a period longer than one year are expected to flow to the Group. Software development costs subject to capitalisation include labour costs and other expenses directly related to development. Ongoing software maintenance costs are recognised as expenses in the income statement. Capitalised software costs are amortised over the estimated useful life not exceeding 5 years.

**Licenses, trademarks**

Expenditures related to the acquisition of trademarks, licenses and certificates are capitalised when it is possible to evaluate the related future economic benefits. Licenses and trademarks are amortised on a straight-line basis over the estimated useful life of the asset not exceeding 5 years.

**Goodwill**

Goodwill is the excess of the cost of acquisition over the fair value of the assets acquired, reflecting the portion of the acquisition cost which was paid for such assets of the acquired entity that cannot be separated and recognised separately. Goodwill is recognised at its acquisition cost as an intangible asset at the date of acquisition.

Goodwill is subsequently measured at its acquisition cost less any impairment losses. Goodwill is not amortised. Instead, an impairment test is performed annually (or more frequently if an event or change in circumstances indicates that the value of goodwill may be impaired). Goodwill is tested for impairment by performing an impairment test on the cash-generating unit which goodwill has been allocated to. Goodwill is written down to its recoverable amount if the carrying amount is not recoverable. Impairment losses of goodwill are not reversed.

**Impairment of assets**

Assets that have indefinite useful lives (including goodwill) are not subject to amortisation but they are tested annually for impairment, by comparing their carrying amounts with their recoverable amounts.

Assets with an unlimited useful life and depreciable assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. In the event of such circumstances, the recoverable amount of the asset is assessed and is compared with the carrying amount.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of the asset is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit).

Impairment losses are recognised in profit or loss.

At each following balance sheet date, assets that have been written down are assessed to determine whether their recoverable amount has increased (except for impairment losses of goodwill that are not reversed). If the impairment test indicates that the recoverable amount of an asset or asset group (cash-generating unit) has increased above its carrying amount, the previous impairment loss is reversed up to the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. Reversals of impairment losses are recognised in the income statement as a reduction of the impairment loss.



### Finance and operating leases

Leases of property, plant and equipment which transfer all significant risks and rewards of ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

#### *The Group as the lessee*

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges (interest expense). Finance costs are allocated to rental period so as to achieve a constant periodic rate of interest on the remaining balance of the liability. The property, plant and equipment acquired under finance leases is depreciated similarly to acquired assets over the shorter of the useful life of the asset and the lease term. Initial direct costs directly attributable to concluding finance lease agreements and incurred by the lessee are added to the cost of the leased asset.

Operating lease payments are reported in the income statement as expenses on an accrual basis over the lease term.

#### *The Group as the lessor*

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income is recognised on a straight-line basis over the lease term. Initial direct costs incurred by lesser in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

### Financial liabilities

All financial liabilities (supplier payables, borrowings, accrued expenses and other short and long-term borrowings) are initially recorded at the proceeds received, net of transaction costs incurred. After initial recognition, financial liabilities are measured at amortised cost.

The amortised cost of the current financial liabilities normally equals their nominal value; therefore current financial liabilities are stated in the balance sheet in their redemption value. To calculate the amortised cost of non-current financial liabilities, they are initially recognised at fair value of the proceeds received (net of transaction costs incurred) and an interest cost is calculated on the liability in subsequent periods using the effective interest rate method.

Financial liabilities are classified as current when they are due to be settled within twelve months after the balance sheet date; or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Borrowings that are due within 12 months after the balance sheet date, but which are refinanced after the balance sheet date as non-current, are recognised as short-term. Also, borrowings are classified as short-term if the lender had at the balance sheet date the contractual right to demand immediate repayment of the borrowing due to the breach of conditions set forth in the agreement.

### Payables to employees

Payables to employees include the performance pay payable to employees on the basis of employment contracts which are calculated by reference to the Group's financial results and fulfilment of the employees' individual performance objectives.

Performance pay is recognised as an expense and a payable to employees if the disbursement takes place during the next reporting period. The performance pay liability includes both the performance pay and related social tax and unemployment insurance charges.

In addition, payables to employees include vacation pay liabilities calculated at the reporting date in accordance with effective employment contracts and applicable legislation. The vacation pay liabilities include both the direct vacation pay liability and associated social tax and unemployment insurance charges.

### Employee benefits

#### *Termination benefits*

The Group recognises termination benefits as a liability and an expense only when the Group is demonstrably committed to terminating an employee's or a group of employees' employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Social security tax payments also include contributions to mandatory funded pension. The Group has neither a legal or constructive obligation to make pension or similar payments in addition to social security tax.

#### *Share-based payments*

The share options granted to the Group's key personnel are recognised as equity-settled consideration for services rendered to the Group.

Owing to the complexity of determining the fair value of services received, the fair value of the services rendered by the key personnel is measured by reference to the fair value of the equity instruments granted.

The cost of equity-settled share-based payment transactions is recognised as an expense with a corresponding increase in equity over the period in which the employee provided services until the date of vesting of equity instruments. At each balance sheet date, the Group recognises expenses related to share-based payments based on an estimate of the number of equity instruments expected to vest. Any change in the cumulative remuneration expense from the date of the current reporting period is recognised in profit or loss for the period.

The grant of share options is conditional on the employee remaining in the Group's employment until the end of the vesting period and satisfying certain performance conditions. Vesting conditions, other than market conditions, are not taken into account when estimating the fair value of the share options at the measurement date. Instead, vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction so that, ultimately, the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that will eventually vest. Hence, on a cumulative basis, no amount is recognised for services received if the equity instruments granted do not vest because of the failure to satisfy a vesting condition, e.g. when the counterparty fails to complete a specified service period or a performance condition is not satisfied.

### Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The provisions are recognised based on the management's estimates regarding the amount and timing of the expected outflows. A provision is recognised in the balance sheet in the amount according to the management is necessary as of the balance sheet date for the meeting of the obligation arising from the provision or transfer to the third party.

Other possible or present obligations the realisation of which is less probable than non-realisation and whose accompanying costs cannot be measured with sufficient reliability are disclosed in the notes to the financial statements as contingent liabilities.

### Corporate income tax

Income tax assets and liabilities and income tax expenses and income are classified as payable and deferred income tax. Payable income tax is included either within current assets or liabilities and deferred income tax in non-current assets or liabilities.

Corporate income tax on profits and deferred income tax expense or income of the subsidiaries located in Latvia, Lithuania, Poland, Slovakia, Belarus, Italy, the Netherlands and Jersey as well as corporate income tax on dividends of Estonian entities are reported in the consolidated income statement.

According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. Dividends are taxed with the rate of 21/79 on the net amount payable. In certain circumstances, it is possible to distribute dividends without any additional income tax expense. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. An income tax liability is due at the 10th day of the month following the payment of dividends.

Due to the nature of the taxation system, the entities registered in Estonia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise. A contingent income tax liability which would arise upon the payment of dividends is not recognised in the balance sheet. The maximum income tax liability which would accompany the distribution of retained earnings is disclosed in the notes to the financial statements.

### Foreign subsidiaries

According to the income tax laws of Latvia, Lithuania, Poland, Slovakia, Belarus, Italy, Netherlands and Jersey, the corporations of the respective countries are under the obligation to pay corporate income tax on the taxable profit earned in the financial year. The following income tax rates were effective in 2013: 15% in Latvia (2012: 15%), 15% in Lithuania (2012: 15%), 19% in Poland (2012: 19%), 23% in Slovakia (2012: 19%), 18% in Belarus (2012: 18%), 31.4% in Italy (2012: 31.4%), 20% - 25% in Netherlands and 0% in Jersey.

For foreign subsidiaries, the deferred income tax assets or liabilities are determined for all temporary differences between the tax bases of assets and liabilities and their carrying amounts at the balance sheet date. A deferred income tax balance is measured at tax rates applicable in those periods in which the temporary differences will reverse or tax loss carry-forward will be utilised. Deferred income tax assets and liabilities are offset only within an individual group entity. Deferred tax



assets are recognised in the balance sheet only if it is probable that future taxable profit will be available against which the deductions can be made.

#### Revenue recognition

Income from gaming transactions is the aggregate of gaming wins and losses. Income from gaming transactions is accounted for under the accrual method of accounting. Income from gaming transactions is measured differently depending from the country. Generally gaming taxes are paid on income from gaming transactions, i.e. the aggregate of gaming wins and losses. In these cases gaming tax is recognised as expense in statement of comprehensive income. In Italy, gaming tax is paid on wagers and instead of expensing the gaming tax cost it has been deducted from the aggregate of gaming wins and losses. For management reporting purposes the Group management measures income from gaming transactions by the aggregate of gaming wins and losses similarly in all countries. The difference between management and financial reporting arising from Italy is disclosed in Note 22.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates granted. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer, when the amount of revenue and the costs incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue from the provision of services is recorded upon the provision of the service.

Interest income is recognised when it is probable that future economic benefits associated with the transaction will flow to the entity and the amount of the revenue can be measured reliably. Interest income is recognised taking into account the effective interest rate, except if the receipt of the interest is uncertain. In such cases the interest income is accounted for on a cash basis. Dividends are recognised when the right to receive payment is established.

#### Statutory reserve capital

Reserve capital is formed to comply with the requirements of the Commercial Code. Reserve capital is formed from annual net profit allocations. During each financial year, at least one-twentieth of the net profit shall be entered in reserve capital, until reserve capital reaches one-tenth of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

#### Earnings per share

Basic earnings per share are calculated by dividing profit attributable to equity holders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

#### Consolidation of subsidiaries operating in hyperinflationary economic environments

Group considered Belarus as a hyperinflationary economy for accounting purposes while preparing financial statements for the year 2012. In spite of relative stabilization of inflation rate and currency exchange rate treatment of Belarus as a hyperinflationary economy is continued for accounting purposes in the financial statements for the year 2013 as the cumulative inflation rate over the last three years exceeds 100%.

In addition to the quantitative factor mentioned above, several qualitative factors also support treatment of Belarus as a hyperinflationary economy for accounting purposes.

The key accounting policies for recognition of the Belarusian operating segment in the financial statements of the Group include:

- The restated cost, or cost less depreciation, of each non-monetary item carried in the balance sheet is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the balance sheet date.
- The income statement has been restated to account for the loss on the net monetary position that may be derived as the difference resulting from the restatement of non-monetary assets, owners' equity and comprehensive income statement items and the adjustment of index linked assets and liabilities.
- The figures in the income statement and cash flow statement have been restated by applying the change in the general price index from the dates when the items of income and expenses were initially recorded in the financial statements.
- All components of the financial statements of the Belarusian company have been translated at 31 December 2013 with the closing exchange rate BYR 13,080 = EUR 1.

### Note 3 Financial risk management

The risk management policy of the Group is based on the requirements established by regulative bodies, generally accepted practices and internal regulations of the Group. The Group is guided by the principle to manage risks in a manner that ensures an optimal risk to income ratio. As part of the risk management of the Group, all potential risks, their measurement and control are defined, and an action plan is prepared to reduce risks, thereby ensuring the achievement of financial and other strategic objectives of the Group.

#### Financial instruments by category

	Financial assets at fair value through profit or loss		Held-to-maturity investments		Loans and receivables		Total	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Cash and cash equivalents (Note 6)	0	0	0	0	44,582	35,973	44,582	35,973
Financial investments (Note 7)	0	10,815	849	951	3,633	4,042	4,482	15,808
Trade receivables (Note 8)	0	0	0	0	481	496	481	496
Interest receivables (Note 11)	0	0	0	0	14	102	14	102
Other receivables (Note 11)	0	0	0	0	463	27	463	27
<b>Total</b>	<b>0</b>	<b>10,815</b>	<b>849</b>	<b>951</b>	<b>49,173</b>	<b>40,640</b>	<b>50,022</b>	<b>52,406</b>

#### Liabilities at amortised cost

	31.12.2013	31.12.2012
Borrowings (Note 18)	609	837
Trade payables (Note 19)	3,404	3,251
Other liabilities (Note 19)	797	1,036
<b>Total</b>	<b>4,810</b>	<b>5,124</b>

#### Financial risks

The Company's activities expose it to various types of financial risks – market risk (currency risk and interest rate risk), credit risk, liquidity risk and price risk.

#### Currency risk

The Group earns income in euros, Latvian lats, Lithuanian litas, Polish zloty and Belarusian roubles. Most of the Group's expenses are incurred in these currencies in its operating markets. The changes in exchange rates of these currencies against the euro impact both the Group's revenue and expenses, as a result of which there is no major effect on the Group's operating profit.

Internal transactions of the Group are primarily concluded in euros. The equity of the Group is influenced by a change in the exchange rate of the Latvian lats, Polish zloty and Belarusian ruble to the euro. The functional currencies of subsidiaries within the Group are the US dollar (USD) and the Swiss franc (CHF).

**Exposure to currency risks at 31.12.2013**

	EUR	USD	LVL	LTL	PLN	BYR	Others	Total
Cash and cash equivalents (Note 6)	32,983	304	6,945	2,263	1,819	254	14	<b>44,582</b>
Financial investments (Note 7)	2,675	0	0	925	882	0	0	<b>4,482</b>
Trade receivables (Note 8)	221	0	102	41	117	0	0	<b>481</b>
Interest receivables (Note 11)	7	0	0	7	0	0	0	<b>14</b>
Other receivables (Note 11)	449	0	8	6	0	0	0	<b>463</b>
<b>Total</b>	<b>36,335</b>	<b>304</b>	<b>7,055</b>	<b>3,242</b>	<b>2,818</b>	<b>254</b>	<b>14</b>	<b>50,022</b>
Short-term borrowings (Note 18)	-240	0	0	0	0	0	0	<b>-240</b>
Trade payables (Note 19)	-2,382	-128	-466	-268	-160	0	0	<b>-3,404</b>
Other current liabilities (Note 19)	-304	0	-43	-30	-363	-57	0	<b>-797</b>
Long-term borrowings (Note 18)	-353	0	0	0	-16	0	0	<b>-369</b>
<b>Total</b>	<b>-3,279</b>	<b>-128</b>	<b>-509</b>	<b>-298</b>	<b>-539</b>	<b>-57</b>	<b>0</b>	<b>-4,810</b>
<b>Net exposure</b>	<b>33,056</b>	<b>176</b>	<b>6,546</b>	<b>2,944</b>	<b>2,279</b>	<b>197</b>	<b>14</b>	<b>45,212</b>
Appreciation of the currency exchange rate against EUR (%)	-	5%	1%	-	2%	15%	-	-
Depreciation of the currency exchange rate against EUR (%)	-	-5%	-1%	-	-2%	-15%	-	-
<b>Effect on profit and equity</b>	<b>0</b>	<b>9</b>	<b>65</b>	<b>0</b>	<b>46</b>	<b>30</b>	<b>0</b>	<b>150</b>
<b>Effect on profit and equity</b>	<b>0</b>	<b>-9</b>	<b>-65</b>	<b>0</b>	<b>-46</b>	<b>-30</b>	<b>0</b>	<b>-150</b>

**Exposure to currency risks at 31.12.2012**

	EUR	USD	LVL	LTL	PLN	BYR	Others	Total
Cash and cash equivalents (Note 6)	24,320	153	7,980	1,183	2,051	263	23	<b>35,973</b>
Financial investments (Note 7)	3,101	10,815	0	1,054	838	0	0	<b>15,808</b>
Trade receivables (Note 8)	152	0	233	33	78	0	0	<b>496</b>
Interest receivables (Note 11)	37	0	0	65	0	0	0	<b>102</b>
Other receivables (Note 11)	17	0	9	1	0	0	0	<b>27</b>
<b>Total</b>	<b>27,627</b>	<b>10,968</b>	<b>8,222</b>	<b>2,336</b>	<b>2,967</b>	<b>263</b>	<b>23</b>	<b>52,406</b>
Short-term borrowings (Note 18)	-240	0	0	-1	0	0	0	<b>-241</b>
Trade payables (Note 19)	-2,432	-7	-457	-210	-141	0	-4	<b>-3,251</b>
Other current liabilities (Note 19)	-543	0	-36	-15	-399	-43	0	<b>-1,036</b>
Long-term borrowings (Note 18)	-580	0	0	0	-16	0	0	<b>-596</b>
<b>Total</b>	<b>-3,795</b>	<b>-7</b>	<b>-493</b>	<b>-226</b>	<b>-556</b>	<b>-43</b>	<b>-4</b>	<b>-5,124</b>
<b>Net exposure</b>	<b>23,832</b>	<b>10,961</b>	<b>7,729</b>	<b>2,110</b>	<b>2,411</b>	<b>220</b>	<b>19</b>	<b>47,282</b>
Appreciation of the currency exchange rate against EUR (%)	-	2%	0%	-	9%	5%	-	-
Depreciation of the currency exchange rate against EUR (%)	-	-2%	0%	-	-9%	-5%	-	-
<b>Effect on profit and equity</b>	<b>0</b>	<b>219</b>	<b>0</b>	<b>0</b>	<b>217</b>	<b>11</b>	<b>0</b>	<b>448</b>
<b>Effect on profit and equity</b>	<b>0</b>	<b>-219</b>	<b>0</b>	<b>0</b>	<b>-217</b>	<b>-11</b>	<b>0</b>	<b>-448</b>

**Interest rate risk**

The Group's term deposits (see Notes 6 and 7) are with fixed interest rates. The Group has invested in Lithuanian government bonds, whose interest rates are fixed and therefore, the Group is not exposed to interest rate risk of cash-flows.

Jackpot Game S.r.l and Banka Popolare di Milano have concluded the loan agreement with the due date of 31 March 2016. The annual interest rate is 3 month Euribor + 2.0%. At the balance sheet date, the balance of the loan was EUR 563 thousand.

**Credit risk**

The Group's settlements with clients are to a great extent immediately carried out in cash or by payment cards. The Group accepts banks with credit rating A and B where the most of the Group's funds have been deposited. Since the Group invests available liquid assets in short-term interest-bearing instruments, such as overnight deposits, short and long term deposits offered by the banks primarily with the credit rating of A, they do not expose the Group to any credit risk. All financial assets, except for receivables as disclosed in Note 8, are not due. No credit losses have arisen with regard to Trade receivables not yet overdue.

	<b>31.12.2013</b>	<b>31.12.2012</b>
Cash and cash equivalents in bank accounts (Note 6)	39,512	31,199
Short and long term financial investments (Note 7)	4,482	15,808
Trade receivables (Note 8)	481	496
Other receivables (Note 11)	463	27
<b>Total</b>	<b>44,938</b>	<b>47,530</b>

Credit quality of financial assets in financial institutions by credit risk ratings as published by Moody's Investor Service website:

	<b>31.12.2013</b>	<b>31.12.2012</b>
<b>Cash and cash equivalents on bank accounts</b>		
Banks with credit rating A	38,332	30,273
Banks with credit rating B	360	437
Other banks	820	489
<b>Short and long-term financial investments</b>		
Banks with credit rating A	3,555	15,021
Other banks	927	787
<b>Total</b>	<b>43,994</b>	<b>47,007</b>

**Price risk**

Price risk is a risk of possible loss from unfavourable change in the prices of securities. The Group has invested in Lithuanian government bonds. As at 31 December 2013 the investment in Lithuanian government bonds was EUR 849 thousand and at 31 December 2012, EUR 952 thousand. The Group has not used financial instruments to manage the price risk of bonds.

**Liquidity risk**

The Group holds its available cash in overnight deposits or fixed-interest rate term deposits. Liquidity risk is mitigated by positive working capital, which as at 31.12.2013 totalled EUR 34,281 thousand and as at 31.12.2012, EUR 38,312 thousand, respectively. The undiscounted cash-flows arising from the Group's financial liabilities divided by maturity:

	<b>31.12.2013</b>	<b>31.12.2012</b>
<b>Bank loans</b> (Note 18)	<b>637</b>	<b>843</b>
1-3 months	63	65
3-12 months	228	195
1-5 years	346	583
<b>Finance lease liabilities</b> (Note 18)	<b>10</b>	<b>14</b>
1-3 months	1	1
3-12 months	2	3
1-5 years	7	10
<b>Trade payables</b> (Note 19)	<b>3,404</b>	<b>3,251</b>
1-3 months	3,404	3,251
3-12 months	0	0
1-5 years	0	0
<b>Other liabilities</b> (Note 19)	<b>797</b>	<b>1,036</b>
1-3 months	797	1,036
3-12 months	0	0
1-5 years	0	0
<b>Total</b>	<b>4,848</b>	<b>5,144</b>
Total 1-3 months	4,265	4,353
Total 3-12 months	230	198
Total 1-5 years	353	593

**Fair value**

According to the assessment of the Group's management, the carrying amounts of the Group's assets and liabilities do not differ significantly from their fair values. Trade receivables and payables are short-term and therefore the management estimates that their carrying amount is close to their fair value. The Group's long-term borrowings are based on floating interest rates, which change according to the market interest rate. Based on the above, the management estimates that the fair values of long-term payables and receivables are an approximation of their carrying amount. Borrowings are estimated at level 3.

Investment gold units was revaluated at 31.12.2012 according to the USD quotation of The London Bullion Market Association and are converted into the functional currency on the basis of the exchange rate of the European Central Bank applicable at the balance sheet date. At the balance date no investment gold units were owned by the Group.

**Capital risk management**

The Group finances business activities by both debt and equity. The objective of capital risk management is to ensure an optimal capital structure and capital price. In shaping the financing structure and assessing risks, the Group monitors the share of equity in the balance sheet total. The aim of the Group is to maintain the share of equity at least at the level of 50% of the total balance sheet.

	<u>31.12.2013</u>	<u>31.12.2012</u>
Total equity of the Group	101,971	92,983
Balance sheet total of the Group	118,277	109,199
Share of equity of the balance sheet total	86%	85%

Information about requirements regarding the equities of subsidiaries of the Group is disclosed in Note 21.

**Note 4 Critical accounting estimates and judgements**

The preparation of financial statements in compliance with IFRSs requires making estimates and assumptions. Application of accounting policies requires making judgements. The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and assumptions, and judgements are based on historical experience and various other factors, including projections of future events, which are believed to be reasonable under the circumstances.

**Deferred income tax (Note 13)**

Deferred income tax assets of foreign subsidiaries have arisen from the expected realisation of tax losses incurred in the previous periods through profits that will be earned in the future. Deferred income tax assets are disclosed for a part that is expected to be realised. Profits earned in the future and realisation of probable tax losses are assessments based on the forecasts of the management on the development and results of the respective market. The Group has no significant tax losses for which deferred tax assets have not been recognised.

The carrying amount of deferred income tax as at 31 December 2013 was EUR 1,077 thousand and as at 31 December 2012 EUR 1,038 thousand. The carrying amount of deferred income tax liability as at 31 December 2013 was EUR 246 thousand and as at 31 December 2012 EUR 140 thousand.

**Useful lives of property, plant and equipment (Note 15)**

Management determines the useful lives of property, plant and equipment on the basis of historical experience and assessment of future trends and prospects.

As at 31 December 2013, the carrying amount of non-current assets was EUR 26,513 thousand and as at 31 December 2012, EUR 19,611 thousand.

If useful lives of items of property, plant and equipment were decreased by 10%, the annual depreciation charge would increase by EUR 820 thousand and if useful lives of items of property, plant and equipment were increased by 10%, the annual depreciation charge would decrease by EUR 671 thousand.

**Estimating the recoverable amount of goodwill (Note 17)**

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill as an intangible asset with an unlimited useful life is not amortised, but is tested for impairment at least once a year. The management of the Group has carried out impairment tests of goodwill. Estimates used by the management for valuation of goodwill are disclosed in Note 17.

As at 31 December 2013, the carrying amount of goodwill was EUR 33,743 thousand and as at 31 December 2012, EUR 29,424 thousand.

**Provisions (Note 20)**

In measuring provisions, the management of the Group is guided by the best knowledge with regard to possible events in future periods. The provisions in the balance sheet amount to EUR 1,181 thousand and EUR 1,585 thousand as at 31 December 2013 and 31 December 2012, respectively.

**Control over the business activities of subsidiary (Note 30)**

A subsidiary is an entity controlled by the parent company. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than 50% of the voting rights of the subsidiary or the Group has the power to control the operating and financial policy of the subsidiary.

Based on the clauses in the shareholder's agreement, Group management estimates that despite the 50% shareholding, the Group has gained control over the Italian company the Box S.r.l., therefore, The Box S.r.l. is treated as a subsidiary.

**Note 5 Impact of hyperinflation**

According to the data by the National Bank of the Republic of Belarus, the cumulative inflation rate over the last three years exceeded the 100% level and the inflation rate of 2013 was 17% (2012: 22%). In 2013, the Belarusian rouble has depreciated against the euro by 15% (2012: 5%). As at 31 December 2013, the exchange rate was BYR 13,080.00 = EUR 1; as at 31 December 2012: BYR 11,340 = EUR 1.

In 2013 and 2012 the Group had no significant losses from inflation.

**Note 6 Cash and cash equivalents**

	<u>31.12.2013</u>	<u>31.12.2012</u>
Cash on hand and at gaming halls	5,070	4,774
Cash in bank accounts	30,837	11,609
Call deposits	6,956	1,971
Term deposits	175	16,683
Cash in transit	1,544	936
<b>Total cash and bank</b>	<b>44,582</b>	<b>35,973</b>

Call deposits comprise the balances on overnight deposits. The effective interest rates of overnight deposits ranged from 0.06% - 0.07% (2012: 0.06%- 0.23%). The effective interest rates of term deposits ranged from 0.08% - 30.0% (2012: 0.08%- 10.0%). The term deposits have maturities of three months or less. The Group approves banks with A and B credit ratings in which the majority of the Group's funds are deposited.

In 2013, the Group's interest income on term deposits amounted to EUR 135 thousand and in 2012, EUR 289 thousand (Notes 3, 27).

**Note 7 Short- and long-term financial investments**

	<b>31.12.2013</b>	<b>31.12.2012</b>
<b>Short-term financial investments</b>		
Lithuanian government bonds	0	952
Deposits with maturities between 4 months and 1 year	3	967
Deposits used as collateral for rental premises	662	610
Other guarantee deposits	421	429
Other investments	0	10,815
<b>Total short-term financial investments (Note 3)</b>	<b>1,086</b>	<b>13,773</b>
<b>Long-term financial investments</b>		
Lithuanian government bonds	849	0
Other guarantee deposits	2,500	2,000
Other investments	47	35
<b>Total long-term financial investments (Note 3)</b>	<b>3,396</b>	<b>2,035</b>

In accordance with the Lithuanian gaming legislation, a gaming organiser has to put up collateral by investing part of its capital in government bonds or making a deposit to the extent of amount of the reserve. Effective rates of collateral are as follows:

- LTL 40,000 / EUR 11,585 per gaming table;
- LTL 25,000 / EUR 7,240 per slot machine (A category);
- LTL 300 / EUR 87 per slot machine (B category).

The Group has opted to invest in the government bonds of the Republic of Lithuania. In 2013 several transactions were made with bonds due to the ending of the agreements. As a result of these transactions the bonds were sold in amount of EUR 956 thousand and purchased in amount of EUR 849 thousand. The interest rates on bonds was 4.8% (2012: 4.5%-5.6%). In 2013, interest income on the bonds amounted to EUR 28 thousand and in 2012, EUR 61 thousand (Note 27).

In 2013 investment gold units were sold in the amount of EUR 10,194 thousand. As a result the loss from the change of units' fair value has occurred in the amount of EUR 621 thousand, which is reflected on the income statement row "Other financial income and expenses" (Note 27).

Other long-term guarantee deposits include the guarantee deposits required in accordance with the valid gaming legislation of the Slovak Republic. Additional guarantee deposit in the amount of EUR 500 thousand was opened due to the opening of the fifth casino in Slovakia in 2013.

**Note 8 Receivables and prepayments**

	<b>31.12.2013</b>	<b>31.12.2012</b>
Trade receivables (Notes 3,9)	481	496
Prepaid taxes (Note 10)	610	651
Other receivables and prepayments (Note 11)	1,855	1,583
<b>Total receivables and prepayments</b>	<b>2,946</b>	<b>2,730</b>



**Note 9 Trade receivables**

	<u>31.12.2013</u>	<u>31.12.2012</u>
Trade receivables not yet due	481	496
Trade receivables overdue and impaired	775	707
Provision for impairment of receivables	-775	-707
<b>Total trade receivables (Note 8)</b>	<b>481</b>	<b>496</b>
<b>Impairment of doubtful receivables</b>	<b><u>2013</u></b>	<b><u>2012</u></b>
At the beginning of year	-707	-675
Impairment of receivables	-68	-32
<b>At year-end</b>	<b>-775</b>	<b>-707</b>

Impairment losses on doubtful receivables are recognised in *Other expenses* in the income statement.

**Note 10 Taxes**

	<u>31.12.2013</u>		<u>31.12.2012</u>	
	<u>Prepayment</u>	<u>Liability</u>	<u>Prepayment</u>	<u>Liability</u>
Gaming tax	354	1,935	525	1,765
Value added tax	228	197	125	377
Personal income tax	0	535	0	488
Social security tax	0	1,217	0	1,130
Excise tax	0	0	0	1
Income tax on gifts, fringe benefits	0	14	0	9
Other taxes	28	18	1	17
<b>Total taxes (Notes 8,19)</b>	<b>610</b>	<b>3,916</b>	<b>651</b>	<b>3,787</b>

**Tax rates effective at 31.12.2013 by country**

	<u>Estonia</u>	<u>Latvia</u>	<u>Lithuania</u>	<u>Poland</u>	<u>Slovakia</u>	<u>Belarus</u>	<u>Italy</u>
Gaming tax (per month)*							
per gaming table (EUR)	1 278	1 440	1 738	50%	29%	-	-
per slot machine (EUR)	447	262	232	50%	29%	130	4,8%
Value added tax	20%	21%	21%	23%	20%	20%	22%
Corporate income tax**	21/79	15%	15%	19%	23%	18%	31,4%
Personal income tax	21%	24%	15%	18%; 32%	19-25%	12%	23-43%
Social security tax	33%	35.09%	40%	18.30%	28.35%	34%	35-39%

**Tax rates effective at 31.12.2012 by country**

	<u>Estonia</u>	<u>Latvia</u>	<u>Lithuania</u>	<u>Poland</u>	<u>Slovakia</u>	<u>Belarus</u>	<u>Italy</u>
Gaming tax (per month)*							
per gaming table (EUR)	1 278	1 440	1 738	50%	29%	-	-
per slot machine (EUR)	447	262	232	50%	29%	125	4,8%
Value added tax	20%	21%	21%	23%	20%	20%	21%
Corporate income tax**	21/79	15%	15%	19%	19%	18%	31,4%
Personal income tax	21%	25%	15%	18%; 32%	19%	12%	23-43%
Social security tax	33%	35,09%	40%	18,30%	28,35%	34%	35-39%

\* In Poland and Slovakia gaming tax is calculated as a percentage of the income from gaming transactions (gross gaming revenue). In Italy gaming tax is calculated as a percentage of total wagers.

\*\* Pursuant to the Income Tax Act in effect, dividends are taxable in Estonia only to the extent of the amount paid out as net dividends.



**Note 11 Other receivables and prepayments**

	<u>31.12.2013</u>	<u>31.12.2012</u>
<b>Prepaid expenses</b>		
Lease of premises	535	645
Licenses	272	160
Software and equipment maintenance	102	131
Other prepaid expenses	426	479
<b>Total prepaid expenses</b>	<b>1,335</b>	<b>1,415</b>
<b>Other short-term receivables</b>		
Loans to employees	9	10
Other receivables from employees	34	29
Interest receivable	14	102
Other short-term receivables	463	27
<b>Total other short-term receivables</b>	<b>520</b>	<b>168</b>
<b>Total (Note 8)</b>	<b>1,855</b>	<b>1,583</b>

At the balance sheet date the article "Other short-term receivables" included the unpaid part for the purchase of subsidiary Altea SIA in the amount of EUR 450 thousand, which is deposited to Swedbank Escrow account.

**Note 12 Inventories**

	<u>31.12.2013</u>	<u>31.12.2012</u>
Gaming equipment	125	201
Jackpot prizes	45	36
Spare parts for slot machines	209	166
Other materials	148	199
Goods purchased for resale	474	434
<b>Total inventories</b>	<b>1,001</b>	<b>1,036</b>

**Note 13 Deferred tax assets and liabilities**

	Tax assets		Tax liabilities	
	<u>31.12.2013</u>	<u>31.12.2012</u>	<u>31.12.2013</u>	<u>31.12.2012</u>
Employee benefits	104	101	0	0
Property, plant and equipment	157	108	-497	-329
Investment property	114	117	0	0
Provisions	113	101	0	0
Loan interest	698	810	0	0
Other	142	129	0	-139
<b>Total tax assets / liabilities</b>	<b>1,328</b>	<b>1,366</b>	<b>-497</b>	<b>-468</b>
Set-off of deferred tax assets and liabilities	-251	-328	251	328
<b>Net deferred tax assets/liabilities</b>	<b>1,077</b>	<b>1,038</b>	<b>-246</b>	<b>-140</b>
Deferred tax assets / liabilities at beginning of year	1,038	1,111	-140	-90
Deferred tax assets / liabilities at end of year	1,077	1,038	-246	-140
<b>Recognised income / expense during the year</b>	<b>39</b>	<b>-73</b>	<b>-106</b>	<b>-50</b>

**Note 14 Investment property**

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<b>Balance at 31 December 2011</b>	<b>1,333</b>	<b>462</b>	<b>1,795</b>
Additions	0	14	14
Sales	-131	0	-131
Net gain from fair value adjustments	97	10	107
<b>Balance at 31 December 2012</b>	<b>1,299</b>	<b>486</b>	<b>1,785</b>
Net gain from fair value adjustments	44	-45	-1
<b>Balance at 31 December 2013</b>	<b>1,343</b>	<b>441</b>	<b>1,784</b>

Land includes forest land acquired for capital appreciation and building rights to a property acquired for real estate development in Vilnius. Buildings include apartments in Tallinn and Tartu acquired to earn rentals and for capital appreciation.

Investment property was valued using the assistance of a professional real estate evaluator Centro Kubas - Nekilnojamasis turtas UAB in Lithuania, and Real Estate Agency Uus Maa, Kaanon Kinnisvara and Metsatervenduse OÜ in Estonia.

In 2013 an independent certified real estate expert's assessment was used for investment property in Estonia to evaluate Tartu real estate object, also this expert's opinion was received for discount and capitalization rates. Evaluation was conducted using discounted cash flow method and market based data (comparable transactions, lease revenues etc.). The discount rate of 10.5% was used for the evaluation (in 2012: 10.5%) and lease growth rate of 2.0% (in 2012: 2.0%). To determine lease price input for the evaluation of „Investment property” valid lease agreements were used that reflected the market conditions according to management's opinion.

To evaluate real estate object in Tallinn comparable transactions' method was used. Actual transactions prices of the commercial real estate objects located in the centre of Tallinn were used as a basis for comparison. Using this method the market value of a real estate object is measured based on the comparison of the evaluated object and similar objects sold in the free market conditions and corrected by adjustment factors.

Forest survey data was used for the evaluation of the forest property.

Lithuanian investment property evaluation was composed using discounted cash flow method and market based data (comparable transactions, lease revenues etc.). The discount rate of 10.5% (2012: 9.8%) was used for the investment property evaluation.

The fair value of real estate is defined using evaluation techniques, which use as much market data as possible (in case such data is available) and the Group's own assessments as little as possible. Quoted prices of identical assets or liabilities (unadjusted) on active markets are rated as level 1. Investment property is rated as level 2 when all significant input data for measuring the fair value is available. If one or several significant inputs of data are not available on the market then the investment property is as level 3. At the balance sheet date the Group's investment properties are rated at level 2 in the amount of EUR 111 thousand (2012: EUR 106 thousand) and at level 3 in the amount of EUR 1,673 thousand (2012: EUR 1,679 thousand). The possible change of the significant market data used, which is not available at the market, for the measurement of the fair value of the investment property classified as level 3, does not have the material effect on the fair values of the Group's investment property. There have been no reclassifications of the investment property items between the rated levels during the year.

In the reporting period, rental income from investment property totalled EUR 51 thousand and in 2012, EUR 51 thousand. Other expenses on investment property (utility, security, insurance, and land tax charges) totalled EUR 17 thousand and in 2012 EUR 21 thousand.

**Note 15 Property, plant and equipment**

	Buildings	Renovation expenditures	Machinery & equipment	Other PP&E	Construction in progress	Total
<b>As at 31 December 2011</b>						
Cost	86	26,422	64,230	5,275	431	96,444
Accumulated depreciation	-44	-18,614	-53,591	-4,441	0	-76,690
<b>Carrying amount</b>	<b>42</b>	<b>7,808</b>	<b>10,639</b>	<b>834</b>	<b>431</b>	<b>19,754</b>
<b>Changes in 2012</b>						
Additions	0	717	4,012	421	3,678	8,828
Acquired through business combination	0	834	71	0	0	905
Sales	0	0	-131	0	0	-131
Write-offs	0	-57	-5	-24	0	-86
Transfers	0	1,187	1,582	503	-3,272	0
Depreciation charge	-7	-2,697	-5,812	-553	0	-9,069
Impairment losses	0	-702	-186	-4	0	-892
Currency translation differences	3	99	185	15	0	302
<b>As at 31 December 2012</b>						
Cost	93	29,362	63,081	5,399	837	98,772
Accumulated depreciation	-55	-22,173	-52,726	-4,207	0	-79,161
<b>Carrying amount</b>	<b>38</b>	<b>7,189</b>	<b>10,355</b>	<b>1,192</b>	<b>837</b>	<b>19,611</b>
<b>As at 31 December 2012</b>						
Cost	93	29,362	63,081	5,399	837	98,772
Accumulated depreciation	-55	-22,173	-52,726	-4,207	0	-79,161
<b>Carrying amount</b>	<b>38</b>	<b>7,189</b>	<b>10,355</b>	<b>1,192</b>	<b>837</b>	<b>19,611</b>
<b>Changes in 2013</b>						
Additions	0	2,849	6,947	736	3,797	14,329
Acquired through business combination (Note 30)	0	18	185	0	2	205
Sales	0	0	-146	0	0	-146
Write-offs	0	-102	-15	-11	0	-128
Transfers	0	1,264	1,575	206	-3,045	0
Depreciation charge	-7	-2,072	-4,715	-513	0	-7,307
Reversal of impairment losses	0	0	52	0	0	52
Currency translation differences	0	-30	-62	-8	-3	-103
<b>As at 31 December 2013</b>						
Cost	91	23,951	64,134	5,540	1,588	95,304
Accumulated depreciation	-60	-14,835	-49,958	-3,938	0	-68,791
<b>Carrying amount</b>	<b>31</b>	<b>9,116</b>	<b>14,176</b>	<b>1,602</b>	<b>1,588</b>	<b>26,513</b>

Lease payments and lease liabilities are disclosed in Note 18.

Assets under construction include expenditures incurred in connection with assets constructed for the Group's own use. Upon completion, the assets will be transferred to the appropriate category of property, plant and equipment. Assets under construction include expenditures incurred for construction of a hotel in Estonia and those related to construction of an office building in Lithuania. No items of property, plant and equipment have been pledged as collateral and the Group has no obligation to invest in property, plant and equipment.

In 2013, no impairment losses were recognised for property, plant and equipment. In 2012, the impairment losses of property, plant and equipment totalled EUR 892 thousand, of which EUR 714 thousand was related to the impairment of non-current assets in Estonian subsidiaries and EUR 178 thousand was related to the impairment of slot machines at the warehouse of Polish subsidiaries.

In 2013, property, plant and equipment were written off with the carrying amount of EUR 128 thousand (2012: EUR 86 thousand).

## Note 16 Leased assets

### The Group is the lessee

#### Assets leased under finance lease terms

Information on finance lease liabilities is disclosed in Note 18.

#### Assets leased under operating lease terms

Group entities lease rental premises under operating lease terms. In 2013, operating lease payments totalled EUR 11,073 thousand and in 2012 EUR 9,844 thousand (Note 25).

The amounts of non-cancellable operating lease payments have been determined on the basis of lease payments under non-cancellable lease agreements. Lease agreements do not establish any restrictions to the activities of the Group.

#### Payments due

	<u>2013</u>	<u>2012</u>
Due in less than 1 year	7,655	7,065
Due between 1 and 5 years	14,284	14,587
Due after 5 years	4,531	6,174

### The Group is the lessor

The Group as the lesser leases out investment property under operating lease terms (Note 14). Also the premises initially leased by the Group's subsidiaries are partially subleased to the third parties. In 2013, operating lease income totalled EUR 169 thousand and in 2012, EUR 171 thousand.

#### Future lease payments under non-cancellable operating leases

	<u>2013</u>	<u>2012</u>
Due in less than 1 year	10	65
Due between 1 and 5 years	0	176
Due after 5 years	0	40

## Note 17 Intangible assets

	<u>Goodwill</u>	<u>Software and licenses</u>	<u>Unfinished projects</u>	<u>Total</u>
<b>As at 31 December 2011</b>				
Cost	27,055	3,030	16	<b>30,101</b>
Accumulated amortisation	0	-2,279	0	<b>-2,279</b>
<b>Carrying amount</b>	<b>27,055</b>	<b>751</b>	<b>16</b>	<b>27,822</b>
<b>Changes in 2012</b>				
Additions	0	115	68	<b>183</b>
Acquired through business combination (Note 30)	1,711	153	0	<b>1,864</b>
Write-offs	0	0	-1	<b>-1</b>
Transfers	0	40	-40	<b>0</b>
Impairment losses	0	-3	0	<b>-3</b>
Amortisation charge	0	-329	0	<b>-329</b>
Currency translation differences	658	32	0	<b>690</b>
<b>As at 31 December 2012</b>				
Cost	29,424	3,369	43	<b>32,836</b>
Accumulated amortisation	0	-2,610	0	<b>-2,610</b>
<b>Carrying amount</b>	<b>29,424</b>	<b>759</b>	<b>43</b>	<b>30,226</b>

	Goodwill	Software and licenses	Unfinished projects	Total
<b>As at 31 December 2012</b>				
Cost	29,424	3,369	43	<b>32,836</b>
Accumulated amortisation	0	-2,610	0	<b>-2,610</b>
<b>Carrying amount</b>	<b>29,424</b>	<b>759</b>	<b>43</b>	<b>30,226</b>
<b>Changes in 2013</b>				
Additions	0	436	269	<b>705</b>
Acquired through business combination (Note 30)	4,516	1	0	<b>4,517</b>
Write-offs	0	-1	0	<b>-1</b>
Transfers	0	275	-275	<b>0</b>
Amortisation charge	0	-379	0	<b>-379</b>
Currency translation differences	-197	-6	0	<b>-203</b>
<b>As at 31 December 2013</b>				
Cost	33,743	4,030	37	<b>37,810</b>
Accumulated amortisation	0	-2,945	0	<b>-2,945</b>
<b>Carrying amount</b>	<b>33,743</b>	<b>1,085</b>	<b>37</b>	<b>34,865</b>

*Impairment tests and impairment losses*

Management tested goodwill for impairment as at 31 December 2013 and 31 December 2012. The Group regards segments as cash-generating units. The break-down of goodwill between segments is as follows:

Segment	31.12.2013	31.12.2012
Estonia	13,065	12,968
Latvia	11,704	7,339
Poland	7,263	7,406
Italy	1,711	1,711
	<b>33,743</b>	<b>29,424</b>

The recoverable amount of goodwill was identified by reference to the units' value in use. Value in use was determined using detailed pre-tax operating cash flow estimates for the next five years. The following key assumptions based on prior period experience by the Management Board and expectations in respect of the future growth rates in the respective segment were applied:

Segment	Average income growth in 5-year period		Average expense growth in 5-year period		WACC*		Terminal growth rate	
	2013	2012	2013	2012	2013	2012	2013	2012
Estonia	5%	5%	5%	5%	11.29%	13.60%	3%	3%
Latvia	5%	5%	5%	5%	12.53%	12.94%	3%	3%
Poland	5%	5%	5%	5%	13.94%	14.20%	3%	3%
Italy	5%	5%	5%	5%	14.97%	15.32%	3%	3%

\* Pre-tax discount rate is used.

In 2013 and 2012, no impairment losses were recognised for goodwill.

Reasonable changes in impairment tests would not cause the decrease of recoverable amount below the carrying amount.

**Note 18 Borrowings**

	<u>31.12.2013</u>	<u>31.12.2012</u>
<b>Short-term borrowings</b>		
Current portion of financial lease liability	2	3
Current portion of a long-term bank loan	238	238
<b>Total short-term borrowings</b>	<b>240</b>	<b>241</b>
<b>Long-term borrowings</b>		
Non-current portion of financial lease liability	7	10
Non-current portion of a long-term bank loan	325	563
Other borrowings	37	23
<b>Total long-term borrowings</b>	<b>369</b>	<b>596</b>
<b>Total borrowings</b>	<b>609</b>	<b>837</b>

Jackpot Game S.r.l and Banka Popolare di Milano have concluded the loan agreement with the due date of 31 March 2016. The annual interest rate is 3 month Euribor + 2.0%. Carrying amount of loans received does not vary from their fair value.

In 2013, the interest expense of the bank loan was EUR 17 thousand (2012: EUR 157 thousand) (Note 27).

**Note 19 Trade and other payables**

	<u>31.12.2013</u>	<u>31.12.2012</u>
Customer prepayments	1,775	1,517
Trade payables	3,404	3,251
Other payables	337	326
Tax liabilities (Note 10)	3,916	3,787
Payables to employees	3,602	3,236
Other accrued expenses	460	710
<b>Total trade and other payables</b>	<b>13,494</b>	<b>12,827</b>

**Note 20 Provisions**

	<u>2013</u>	<u>2012</u>
<b>Provisions for winnings</b>		
At beginning of the year	441	636
Charged to the income statement	759	877
Used during year	-673	-1,072
<b>Provisions for winnings at end of the year</b>	<b>527</b>	<b>441</b>
<b>Provisions for expenses</b>		
At beginning of the year	1,144	1,245
Charged to the income statement	496	638
Used during year	-986	-739
<b>Provisions for expenses at end of the year</b>	<b>654</b>	<b>1,144</b>
<b>Total provisions</b>	<b>1,181</b>	<b>1,585</b>

Provisions for winnings include the amounts calculated by electronic jackpot systems. The jackpot amount increases on account of stakes played at each automatic slot machine connected to the system. The likelihood of winning depends on the number of automatic slot machines connected to the system, the stakes made by the clients and the number of clients playing at such automatic slot machines. The winnings occur within a range that is determined in the system on a random basis.

Provisions for expenses include the bonus provisions for employees that may be incurred during the disputes.

## Note 21 Equity

The General Meeting of Shareholders held at 18 April 2013 decided to pay dividends to the shareholders of 0.10 euros per share in the total amount of 15,132,950.50 euros. Dividends were paid out to the shareholders on 15 May 2013.

At 27 July 2012, the reduction of share capital of Olympic Entertainment Group AS on the basis adopted by resolution of the General Meeting of Shareholders held at 19 April 2012 was entered in the Commercial Register where it was decided to reduce the share capital of the Company altogether by EUR 21,186,130.70 from EUR 81,717,932.70 to EUR 60,531,802. The share capital was reduced by reducing the book value of the shares from EUR 0.54 to EUR 0.40, whereas the number of the shares remained the same (i.e. 151,329,505). The reduction of share capital in the amount of EUR 15,132,950.50 (EUR 0.10 per share) was paid to the shareholders on 29 October 2012. Upon reducing the share capital, EUR 6,053,180.20 was not paid to the shareholders but was used to cover the accumulated losses.

Each ordinary share carries one vote at the General Meetings of Shareholders of Olympic Entertainment Group AS.

### Largest shareholders of Olympic Entertainment Group AS:

	<u>31.12.2013</u>	<u>31.12.2012</u>
OÜ HansaAssets	45.17%	45.17%
OÜ Hendaya Invest	18.98%	18.98%
Skandinaviska Enskilda Banken Ab, Swedish Clients	3.34%	2.18%
J.P. Morgan Bank Luxembourg S.A.	3.02%	0%
NORDEA BANK Finland PLC, clients	2.19%	2.94%
ING Luxembourg S.A. AIF Account	1.66%	1.66%
Citibank (London) UBS AG London Branch-IPB clients	1.54%	2.24%
State Street Bank and Trust Omnibus Account A Fund NO OM01	1.29%	1.08%
JPMorgan Chase Bank, National Association on behalf of US residents	0.95%	0.49%

### Number of shares owned directly and through companies controlled by Members of the Supervisory Board and Management Board:

Name	<u>31.12.2013</u>	<u>31.12.2012</u>
Armin Karu	68,364,790	68,364,790
Jaan Korpusov	28,761,910	28,761,910
Liina Linsi	16,681	16,681
Meelis Pielberg	29,355	29,355

### Dividends

At 31 December 2013 Group consolidated retained earnings (taking into the consideration the legal requirement to transfer 1/20 of the net profit for the reporting period to statutory reserve capital) amounted to EUR 35,497 thousand. Payment of dividends to the shareholders is usually accompanied by income tax cost in amount of 21/79 of sum paid out as net dividend. If a company pays out dividends, which are received from its subsidiary, from which the income tax has already been paid or whose profit has already been taxed in the country of origin, then distribution of a parent company dividends does not create liability to pay additional income tax. At 31 December 2013 Olympic Entertainment Group AS, as a parent company, can pay dividends without additional income tax costs in total amount of EUR 47,000 thousand. Therefore at the balance sheet date the distribution of total retained earnings of the company could amount to EUR 35,497 thousand and such dividend payment would not be accompanied by a potential income tax liability.

In 2013 dividends were paid out to the shareholders in total amount EUR 15,132,950.50.

### Capital requirements

The Estonian gaming legislation imposes a restriction that gaming services can only be provided by such legal entities whose share capital equals at least EUR 1 million. In Latvia, the share capital of a gaming services provider has to amount to at least EUR 1.4 million. In Lithuania, the share capital of a gaming services provider has to amount to at least LTL 4 million. In Slovakia, the minimum share capital requirement for a gaming services provider is EUR 1.7 million. In Poland, the share capital of a gaming services provider has to amount to PLN 4 million. In Belarus and Italy there are no established capital requirements and restrictions. As at 31.12.2013, the subsidiaries Baina Investments S.p. z o.o., Silber Investments S.p. z o.o., Casino Polonia Wroclaw Sp. z o.o., Olympic F&B S.r.o., Mecom Grupp UAB, Olympic Casino Bel IP, Kesklinna Hotelli OÜ, Fortuna Travel OÜ and The Box S.r.l equity did not correspond to legal requirements. As at 31.12.2012, the following subsidiaries did not correspond to legal requirements: Baina Investments S.p. z o.o., Silber Investments S.p. z o.o., Casino Polonia Wroclaw Sp. z o.o., Olympic F&B S.r.o., Mecom Grupp UAB, Olympic Casino Bel IP, Kesklinna Hotelli OÜ and The Box S.r.l. The management has taken measures, so that these subsidiaries equity would correspond existing legal requirements.

**Earnings per share**

	<u>2013</u>	<u>2012</u>
Net profit for the reporting period	25,694	24,199
Average number of shares (thousand)	151,329	151,329
Basic earnings per share (euro cents)	17.0	16.0
Diluted profit per share (euro cents)	17.0	16.0

Basic earnings per share are calculated by dividing profit attributable to equity holders of the company by the weighted average number of ordinary shares outstanding during the period. The calculation of diluted earnings per share also takes into consideration the share options granted to employees (see Note 29).

**Note 22 Segment reporting**

The Group's segments have been determined on the basis of reports monitored and analysed by the parent company's Management Board. Financial results are monitored by geographical regions. The results of operating segments are evaluated on the basis of external sales revenue and operating profit. At 31 December 2013, the Group had operations in the Estonian, Latvian, Lithuanian, Polish, Slovak, Belarusian and Italian markets. As at 31 December 2012, the Group had operations in the Estonian, Latvian, Lithuanian, Polish, Slovak, Belarusian and Italian markets.

All segments generate majority of their income from gaming transactions and provided bar services. In addition, Estonian segment was engaged in hotel services until 31.10.2013. Management estimates that inter-segment transactions have been concluded at market prices and under market conditions.

<b>2013</b>	<b>Estonia</b>	<b>Latvia</b>	<b>Lithuania</b>	<b>Poland</b>	<b>Slovakia</b>	<b>Belarus</b>	<b>Italy</b>	<b>Total</b>
Income from gaming transactions	32,409	36,218	20,258	27,025	14,487	2,234	7,037	<b>139,668</b>
Italian gaming tax	0	0	0	0	0	0	-3,747	<b>-3,747</b>
Revenue	2,984	3,049	1,249	386	1,623	144	67	<b>9,502</b>
Inter-segment revenue	-164	0	-4	-3	-1	0	0	<b>-172</b>
<b>External revenue</b>	<b>35,229</b>	<b>39,267</b>	<b>21,503</b>	<b>27,408</b>	<b>16,109</b>	<b>2,378</b>	<b>3,357</b>	<b>145,251</b>
External other income	222	80	28	210	6	22	0	<b>568</b>
<b>Total operating income</b>	<b>35,451</b>	<b>39,347</b>	<b>21,531</b>	<b>27,618</b>	<b>16,115</b>	<b>2,400</b>	<b>3,357</b>	<b>145,819</b>
<b>Total operating expenses</b>	<b>-27,747</b>	<b>-24,640</b>	<b>-17,865</b>	<b>-23,151</b>	<b>-15,017</b>	<b>-2,352</b>	<b>-3,264</b>	<b>-114,036</b>
<i>Incl. depreciation, impairment and impairment charges</i>	-1,562	-2,329	-1,209	-1,061	-1,182	-81	-340	<b>-7,764</b>
<b>Total operating profit</b>	<b>7,704</b>	<b>14,707</b>	<b>3,666</b>	<b>4,467</b>	<b>1,098</b>	<b>48</b>	<b>93</b>	<b>31,783</b>
Segment assets	79,910	35,593	9,443	13,003	10,281	551	3,103	<b>151,883</b>
Unallocated assets*								<b>1,448</b>
Eliminations								<b>-35,055</b>
<b>Total assets</b>								<b>118,277</b>
<i>Incl. PPE and intangible assets</i>	20,277	20,574	5,219	10,108	4,490	15	2,478	<b>63,161</b>
Segment liabilities	3,719	6,327	6,149	15,473	7,898	7,590	2,502	<b>49,658</b>
Unallocated liabilities**								<b>1,594</b>
Eliminations								<b>-34,946</b>
<b>Total liabilities</b>								<b>16,306</b>
Purchase of PPE and intangible assets (incl. through the business combinations)	4,761	9,690	2,555	1,117	1,537	73	23	<b>19,756</b>
<b>Total investments</b>								<b>19,756</b>

\* Unallocated assets include prepaid corporate income tax, deferred tax assets and interest receivable.

\*\* Unallocated liabilities include corporate income tax liability, deferred tax liabilities, interest payable and debt.



2012	Estonia	Latvia	Lithuania	Poland	Slovakia	Belarus	Italy	Total
Income from gaming transactions	31,466	30,809	18,690	26,792	13,838	3,157	1,320	126,072
Italian gaming tax	0	0	0	0	0	0	-593	-593
Revenue	3,267	2,746	1,317	417	1,353	244	3	9,347
Inter-segment revenue	-92	-10	0	-2	-1	0	0	-105
<b>External revenue</b>	<b>34,641</b>	<b>33,545</b>	<b>20,007</b>	<b>27,207</b>	<b>15,190</b>	<b>3,401</b>	<b>730</b>	<b>134,721</b>
External other income	765	135	22	258	1	43	0	1,224
<b>Total operating income</b>	<b>35,406</b>	<b>33,680</b>	<b>20,029</b>	<b>27,465</b>	<b>15,191</b>	<b>3,444</b>	<b>730</b>	<b>135,945</b>
<b>Total operating expenses</b>	<b>-28,718</b>	<b>-20,458</b>	<b>-16,177</b>	<b>-24,882</b>	<b>-13,869</b>	<b>-2,384</b>	<b>-1,060</b>	<b>-107,548</b>
<i>Incl. depreciation, impairment and impairment charges</i>	-2,903	-2,273	-1,390	-2,148	-1,265	-216	-78	-10,273
<b>Total operating profit (-loss)</b>	<b>6,688</b>	<b>13,222</b>	<b>3,852</b>	<b>2,583</b>	<b>1,322</b>	<b>1,060</b>	<b>-330</b>	<b>28,397</b>
Segment assets	79,554	26,573	8,474	13,446	9,834	636	5,289	143,806
Unallocated assets*								1,404
Eliminations								-36,011
<b>Total assets</b>								<b>109,199</b>
<i>Incl. PPE and intangible assets</i>	17,017	13,807	3,884	9,970	4,114	37	2,793	51,622
Segment liabilities	3,848	3,174	4,792	19,162	7,615	7,485	2,521	48,597
Unallocated liabilities**								1,780
Eliminations								-34,161
<b>Total liabilities</b>								<b>16,216</b>
Purchase of PPE and intangible assets (incl. through the business combinations)	2,022	3,791	1,164	547	1,364	21	2,871	11,780
<b>Total investments</b>								<b>11,780</b>

\* Unallocated assets include prepaid corporate income tax, deferred tax assets and interest receivable.

\*\* Unallocated liabilities include corporate income tax liability, deferred tax liabilities, interest payable and debt.

## Note 23 Revenue

	2013	2012
Hotel service revenue	1,263	1,462
Bar service revenue	5,250	5,011
Other revenue	2,817	2,769
<b>Total revenue</b>	<b>9,330</b>	<b>9,242</b>

## Note 24 Other income

	2013	2012
Gains on disposal of PP&E	51	124
Miscellaneous income	517	1,100
<b>Total other income</b>	<b>568</b>	<b>1,224</b>

In 2013, the other income of the Group totalled EUR 517 thousand, of which EUR 203 thousand was value added tax repaid to the Polish subsidiary, and other income was EUR 314 thousand.

In 2012, the other income of the Group totalled EUR 1,100 thousand, of which EUR 501 thousand was court case compromise between Olympic Entertainment Group AS and Moneta Inc., EUR 194 thousand was value added tax repaid to the Polish subsidiary, EUR 270 thousand was sales profit of non-current assets of Estonian subsidiary and sales profit of inventories of Lithuanian subsidiaries and other income was EUR 135 thousand.

**Note 25 Operating expenses**

	<b>2013</b>	<b>2012</b>
<b>Cost of materials, goods and services used</b>		
Direct catering, accommodation and bar service expenses	-3,021	-2,879
Other services	-23	-28
<b>Total cost of materials, goods and services used</b>	<b>-3,044</b>	<b>-2,907</b>
<b>Other operating expenses</b>		
Gaming tax and operating licences	-29,135	-27,700
Marketing expenses	-10,508	-9,910
Rental expenses (Note 16)	-11,073	-9,844
Maintenance expenses (equipment and premises)	-9,033	-7,267
IT expenses	-952	-828
Other expenses	-6,125	-5,487
<b>Total other operating expenses</b>	<b>-66,826</b>	<b>-61,036</b>
<b>Staff cost</b>		
Salaries	-27,843	-25,691
Social security taxes	-8,035	-7,314
<b>Total staff cost</b>	<b>-35,878</b>	<b>-33,005</b>
<b>Total operating expenses</b>	<b>-105,748</b>	<b>-96,948</b>

In 2013, the average number of the Group's employees was 2,515 (in 2012: 2,277).

**Note 26 Other expenses**

	<b>2013</b>	<b>2012</b>
Loss on disposal and liquidation of PP&E	-115	-81
Foreign exchange losses on settlements with suppliers	-72	-83
Provision for impairment of receivables	-33	-20
Miscellaneous expenses	-304	-143
<b>Total other expenses</b>	<b>-524</b>	<b>-327</b>

**Note 27 Finance income and expenses**

	<b>2013</b>	<b>2012</b>
Interest income on term deposits (Note 6)	42	156
Interest income on overnight deposits (Note 6)	93	133
Other interest income	28	61
Interest expense (Note 18)	-17	-157
Foreign exchange profit/loss (net)	-59	-47
Other finance income and costs (Note 7)	-623	437
<b>Total finance income and costs</b>	<b>-536</b>	<b>583</b>

**Note 28 Income tax expense**

	<u>2013</u>	<u>2012</u>
Profit before income tax	31,247	28,980
Estimated income tax on profits of subsidiaries	-3,824	-3,470
Tax effects on expenses not deductible for tax purposes	-499	-491
<b>Income tax expense in the income statement</b>	<b>-4,323</b>	<b>-3,961</b>

Estimated income tax on profits of subsidiaries is calculated using valid income tax rates applicable in the countries of the Group's subsidiaries.

**Note 29 Share-based payments**

In 2011, share options were granted to the members of the Management Board of Olympic Entertainment Group AS and the Group's key personnel. According to the agreements, a member of the Management Board may subscribe for up to 70,000 shares in Olympic Entertainment Group AS until the end of the option programme; the numbers of shares that may be subscribed for under the agreements concluded with the Group's key personnel are individually different. The exact number of shares that each member of the Management Board and each employee can subscribe for depends on the attainment of the Group's financial targets and the individual performance of each member of the Management Board or key personnel.

The strike price of options is the nominal or book value of the share. Options may be executed on the condition that the share price to book at the beginning of the subscription period on NASDAQ OMX Tallinn is higher than 2.89. Options are conditional on the employee completing three years' service (the vesting period). The option holders have the right to subscribe for shares from 1 July 2014. The expiration date of the share option programme is 1 September 2014.

**Exercisable share options (in thousands):**

	<u>2013</u>	<u>2012</u>
<b>Share options outstanding at beginning of the year</b>	<b>505</b>	<b>575</b>
Cancelled share options	0	-70
<b>Share options outstanding at the end of the year</b>	<b>505</b>	<b>505</b>

At the time of issuing options, the fair value of the option programme was determined using the Black-Scholes valuation model. A change in the fair value of options or shares during the period of the option programme does not affect the amount of income subsequently recognised in the income statement. The significant inputs into the model were share price of EUR 1.335 at the grant date, exercise price of EUR 0.6 at the grant date, volatility of 32%, dividend yield of 7.5%, an expected option life of three years and risk-free interest rate of 4.4%. The volatility measured at the standard deviation based on statistical analysis of daily share prices over the last year. In 2013 the expense of share-based payments recognised as personnel expense amounted to EUR 94 thousand (2012: EUR 88 thousand).

**Note 30 Business combinations**

On 11 March Olympic Casino Eesti AS, the subsidiary of Olympic Entertainment Group AS, acquired a 100% shareholding in Siquia Holding B.V. registered in the Netherlands. On 28 June 2013 Siquia Holding B.V, the subsidiary of Olympic Casino Eesti AS, signed a sales-purchase agreement to acquire 100% shareholding in Latvian casino operator Altea SIA, which led to an increase of Group's casinos in Latvia from 21 to 38. With the acquirement of the companies the goodwill in amount of EUR 4,419 thousand has emerged in the Group, which mostly consists of the growth of market share, which will be allocated to Latvian segment.

If the Group had acquired the Latvian company in the beginning of 2013, the revenues of the Group for the year of 2013 would have been higher approximately by EUR 1,980 thousands and 2013 net profit approximately by EUR 280 thousand less. Altea SIA earned revenue for the Group in the amount EUR 1,980 thousand and net loss of EUR 283 thousand.

The following table gives an overview of acquired identifiable assets and liabilities of Latvian companies at the moment of acquisition.

(EUR thousands)

	<u>Fair value</u>
Cash and bank accounts	563
Other receivables and assets	231
Tangible assets	205
Intangible assets	1
Liabilities	-260
<b>Total identifiable assets</b>	<b>740</b>
Goodwill	4,419
Holding acquisition value	5,159
Cash and cash equivalents of purchased company	563
<b>Total net cash flow to the Group</b>	<b>4,596</b>

Total net cash flow to the Group in the amount of EUR 4,596 thousand includes the payment due for the purchase of the subsidiary in the amount of EUR 450 thousand (Note 11).

The other insignificant business combinations led to the generation of the goodwill in the Group in the amount of EUR 97 thousand.

The Group company The Box S.r.l. signed the agreement in 2012, where it acquired the Jackpot Game S.r.l. in Italy. With the acquisition of the company the goodwill was recognised in amount of EUR 1,711 thousands, which was subject to review by the Group management within one year. At 31 December 2013 the amount of goodwill has not been adjusted.

### Note 31 Related party transactions

For the purposes of these consolidated financial statements, related parties include:

- a) shareholders with significant influence;
- b) key management personnel (members of the Management Board and Supervisory Board of Group entities);
- a) close family members of and companies related to the above.

<u>Purchases of goods and services</u>	<u>2013</u>	<u>2012</u>
Shareholders with significant influence	2	41
<b>Total</b>	<b>2</b>	<b>41</b>

As at 31 December 2013 and 31 December 2012, there were no balances of receivables and liabilities with related parties. There are no contractual obligations to purchase from or sell to the related parties.

In 2013, the members of the Management Board and Supervisory Board of all Group entities were paid remuneration and benefits including social security taxes in the amount of EUR 823 thousand (2012: EUR 793 thousand) and EUR 157 thousand (2012: EUR 157 thousand), respectively.

In 2012, share options were granted to all the members of the Management Board of all Group entities. At 31 December 2013, the key management personnel may subscribe for up to 400 thousand shares of Olympic Entertainment Group AS on the basis of the concluded option agreement until the end of the option programme. Options are conditional and their details are described in Note 29.

### Note 32 Contingent liabilities

In assessing the probability that a contingent liability will result in a present obligation, management relies on its best judgment, historical experience, general background information and indications of possible future events.

#### Potential liabilities related to tax audit

Tax authorities may at any time inspect the books and records of the companies belonging to the Group within 5 years subsequent to the reported tax year, and may as a result of their inspection impose additional tax assessments and penalties. The parent Company's management is not aware of any circumstances which may give rise to a potential material liability to Group companies in this respect.

### Note 33 Events after the balance sheet date

On 23 January 2014 Olympic Entertainment Group AS (OEG) has acquired 100% shareholding in Slovak VLT slot casino operator WINWIN Slovakia S.r.o. and plans to open its first VLT casino on Slovak market during the first half of 2014.

WINWIN Slovakia s.r.o. has the license required for operating VLT (server-based) slots in Slovakia. The acquired company does not operate VLT slot casinos at the moment. The share capital of WINWIN Slovakia S.r.o. is 1,231,940 euros. The company was acquired for EUR 877 thousand and at the moment of approving the annual report the purchase price allocation is in process of preparation.

### Note 34 Parent company's separate primary financial statements

According to the Accounting Act of Estonia, the notes to the consolidated financial statements shall include disclosures on the separate primary financial statements of the consolidating entity (parent company). The parent's primary financial statements have been prepared using the same accounting policies as for the preparation of the consolidated financial statements, except for investments in subsidiaries that are carried at fair value in the separate primary financial statements. The fair value of investments in subsidiaries is determined using the market value method.

#### Separate statement of financial position of Olympic Entertainment Group AS

	<u>31.12.2013</u>	<u>31.12.2012</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and bank	834	188
Receivables from group companies	11,512	10,395
Other receivables and prepayments	296	283
<b>Total current assets</b>	<b>12,642</b>	<b>10,866</b>
<b>Non-current assets</b>		
Shares of subsidiaries	280,487	269,047
Long-term receivables from group companies	40,100	36,254
Investment property	152	131
Property, plant and equipment	10	17
Intangible assets	106	53
<b>Total non-current assets</b>	<b>320,855</b>	<b>305,502</b>
<b>TOTAL ASSETS</b>	<b>333,497</b>	<b>316,368</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Payables to group entities	8,182	7,215
Other liabilities	138	140
Provisions	59	58
<b>Total current liabilities</b>	<b>8,379</b>	<b>7,413</b>
<b>Non-current liabilities</b>		
Long-term payables to group companies	29,292	69,577
<b>Total non-current liabilities</b>	<b>29,292</b>	<b>69,577</b>
<b>TOTAL LIABILITIES</b>	<b>37,671</b>	<b>76,990</b>
<b>EQUITY</b>		
Share capital	60,532	60,532
Statutory reserve capital	1,210	0
Other reserve	235	141
Retained earnings	233,849	178,705
<b>TOTAL EQUITY</b>	<b>295,826</b>	<b>239,378</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>333,497</b>	<b>316,368</b>

**Separate statement of comprehensive income of Olympic Entertainment Group AS**

	<b>2013</b>	<b>2012</b>
Sales revenue	174	236
Other income	131	496
<b>Total revenue</b>	<b>305</b>	<b>732</b>
Other operating expenses	-678	-765
Staff costs	-670	-655
Depreciation, amortisation and impairment	-18	-138
Change in the fair value of investment property	21	97
Other expenses	-1	-1
<b>Total operating expenses</b>	<b>-1,346</b>	<b>-1,462</b>
<b>Operating loss</b>	<b>-1,041</b>	<b>-730</b>
Change in fair value of subsidiaries	10,191	115,283
Dividends received from subsidiaries	62,039	9,836
Interest income	1,360	1,938
Interest expense	-967	-2,896
Foreign exchange gains	-95	-67
Other finance income and costs	0	-9
<b>Total finance income and costs</b>	<b>72,528</b>	<b>124,085</b>
<b>Net profit for the period</b>	<b>71,487</b>	<b>123,355</b>
<b>Total comprehensive income for the period</b>	<b>71,487</b>	<b>123,355</b>

**Separate statement of cash flows of Olympic Entertainment Group AS**

	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities</b>		
Net profit for the period	71,487	123,355
Adjustments		
Depreciation, amortisation and impairment	18	138
Change in fair value of investment property	-21	-97
Gain / loss on investments in subsidiaries	-72,230	-125,119
Other finance income and costs (net)	-298	1,034
Changes in working capital:		
Receivables and prepayments	-82	18
Liabilities and prepayments	94	40
Interest paid	0	-155
<b>Net cash generated from operating activities</b>	<b>-1,032</b>	<b>-786</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment and intangible assets	-66	-53
Proceeds from sale of investment property	0	131
Acquisition of subsidiaries	-1,245	-100
Proceeds from reduction of subsidiaries' share capital	0	192
Loans granted	-9,898	-6,000
Repayment of loans granted	6,016	8,196
Interest received	282	1,727
Dividends received	14,604	9,797
<b>Net cash from investing activities</b>	<b>9,693</b>	<b>13,890</b>
<b>Cash flows from financing activities</b>		
Proceeds from loans received	7,150	23,860
Repayments of loans received	0	-22,077
Reduction of share capital paid	0	-15,133
Dividends paid	-15,133	0
<b>Net cash used in financing activities</b>	<b>-7,983</b>	<b>-13,350</b>
<b>Net cash flows</b>	<b>678</b>	<b>-246</b>
Cash and cash equivalents at beginning of period	188	473
Exchange gains and losses on cash and cash equivalents	-32	-39
<b>Cash and cash equivalents at end of period</b>	<b>834</b>	<b>188</b>



## Separate statement of changes in equity of Olympic Entertainment Group AS

	Share capital	Share premium	Statutory reserve capital	Other reserve	Retained earnings	Total
<b>Balance at 31.12.2011</b>	<b>81,718</b>	<b>14,535</b>	<b>2,470</b>	<b>53</b>	<b>32,292</b>	<b>131,068</b>
Profit for the financial year	0	0	0	0	123,355	<b>123,355</b>
Increase of statutory reserve capital	0	0	692	0	-692	<b>0</b>
Coverage of accumulated losses	0	-14,535	-3,162	0	17,697	<b>0</b>
Reduction of share capital	-21,186	0	0	0	6,053	<b>-15,133</b>
Employee option programme	0	0	0	88	0	<b>88</b>
<b>Balance at 31.12.2012</b>	<b>60,532</b>	<b>0</b>	<b>0</b>	<b>141</b>	<b>178,705</b>	<b>239,378</b>
Interests in companies under control or significant influence:						
Carrying amount under the fair value method						<b>-269,047</b>
Carrying amount under the equity method						<b>151,905</b>
Adjustment of the loan receivable						<b>-12,157</b>
<b>Adjusted unconsolidated equity at 31.12.2012</b>						<b>110,079</b>
<b>Balance at 31.12.2012</b>	<b>60,532</b>	<b>0</b>	<b>0</b>	<b>141</b>	<b>178,705</b>	<b>239,378</b>
Profit for the financial year	0	0	0	0	71,487	<b>71,487</b>
Increase of statutory reserve capital	0	0	1,210	0	1,210	<b>0</b>
Dividends paid	0	0	0	0	-15,133	<b>-15,133</b>
Employee option programme	0	0	0	94	0	<b>94</b>
<b>Balance at 31.12.2013</b>	<b>60,532</b>	<b>0</b>	<b>1,210</b>	<b>235</b>	<b>233,849</b>	<b>295,826</b>
Interests in companies under control or significant influence:						
Carrying amount under the fair value method						<b>-280,487</b>
Carrying amount under the equity method						<b>120,747</b>
Adjustment of the loan receivable						<b>-9,599</b>
<b>Adjusted unconsolidated equity at 31.12.2013</b>						<b>126,487</b>



## **INDEPENDENT AUDITOR'S REPORT**

(Translation of the Estonian original)\*

To the Shareholders of Olympic Entertainment Group AS

We have audited the accompanying consolidated financial statements of Olympic Entertainment Group AS and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2013 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

### **Management Board's Responsibility for the Consolidated Financial Statements**

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Olympic Entertainment Group AS and its subsidiaries as of 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Tiit Raimla'.

Tiit Raimla  
Auditor's Certificate No. 287

A handwritten signature in blue ink, appearing to read 'Lauri Past'.

Lauri Past  
Auditor's Certificate No. 567

26 March 2014

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*\* This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*