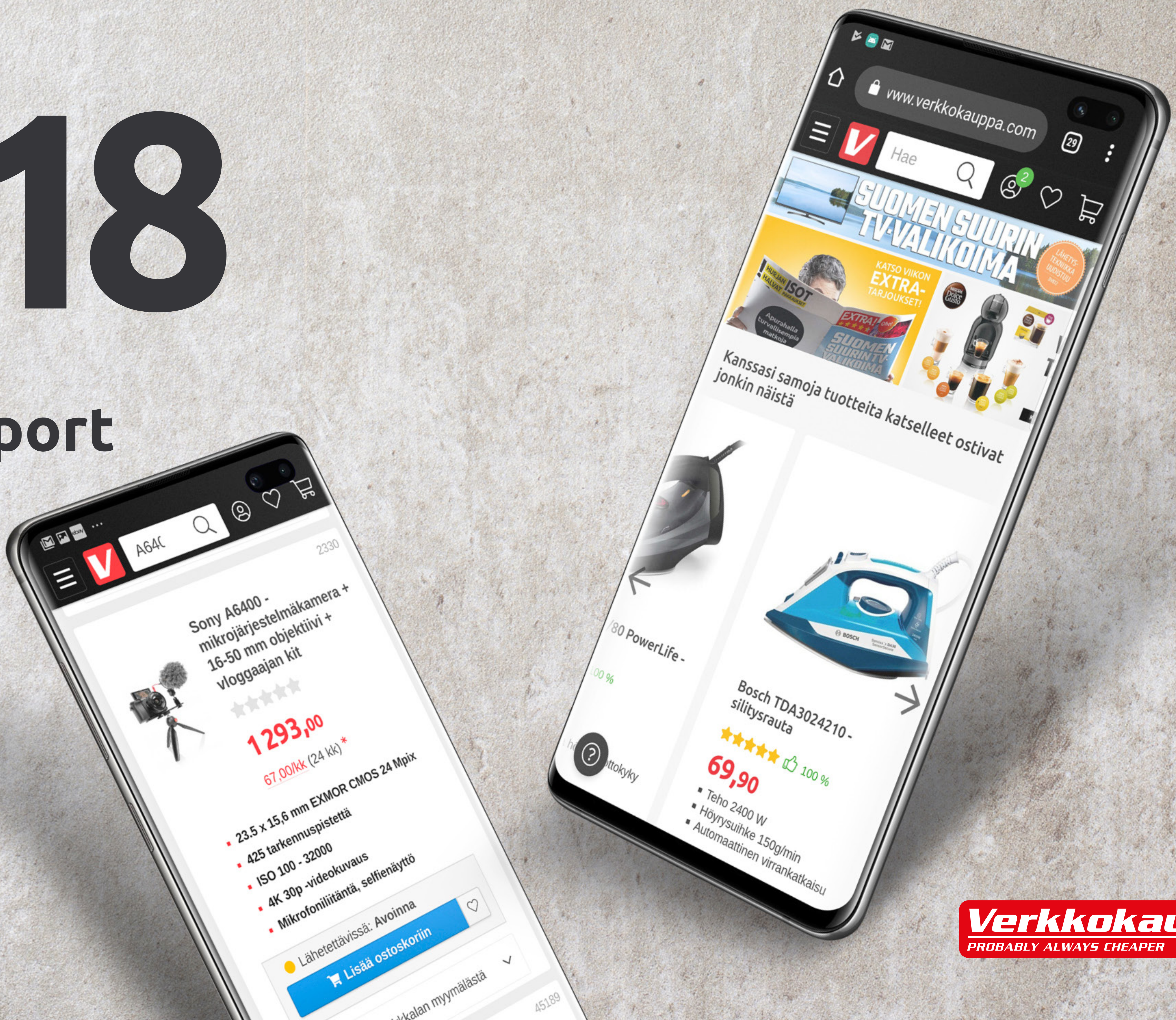
2018

Annual Report



Verkkokauppa.com
PROBABLY ALWAYS CHEAPER

CEO's review

The transformation of the retail industry accelerated in 2018, which could be seen in the challenges of brick-and-mortar stores and retail going online and mobile. Buying online using different devices is becoming increasingly common and in more and more target groups. Verkkokauppa.com was able to leverage its business model and increase its market shares in the highly competitive consumer electronics market. The price competition was tough due to a slow summer and accelerated towards the Christmas season.

The Company increased its sales and improved its results above all thanks to the strong second half of the year. In the fourth quarter, Verkkokauppa.com achieved a growth of 22 percent year on year. In 2018, the Company grew in all business areas and increased its market share across almost all product categories.

Thanks to its solid financial situation and strong cash position, Verkkokauppa.com was able to pay a quarterly growing dividend also in 2018. The good financial situation is supported by a low cost structure and cost-effective operations. The Company will continue to invest in this business model, with the aim of maintaining the competitive advantage offered by the low cost structure also in the future.

In March, the Company opened its fourth mega-store in Raisio with a 100-day opening campaign. Verkkokauppa.com now has omnichannel presence in all key market areas in Finland. During the year, numerous improvements were made on the usability and speed of the webstore, and this systematic work will continue in the coming years, as well.

In the fall, the Company's growth strategy was updated, with a focus on the customer experience. The strategy journey towards being a billion-euro company and retail industry leadership includes several projects. In executing its strategy, Verkkokauppa.com will invest in an omnichannel customer experience, marketing, and data utilization. At the same time, the Company will continue its determined development of product availability and categories – in 2019, Verkkokauppa.com will launch new product categories that offer opportunities for growth. Nevertheless, the Company will remain loyal to its customer promise – probably always cheaper!

In 2018, the Company's Management Team went through major changes, when the long-term CEO **Samuli Seppälä** became a Board member, and I started in my role as CEO in March. The Management Team was strengthened with additional appointments: **Seppo Niemelä** started as Marketing and Communications Director in August, **Taina Suorsa** as HR Director in January 2019, and Kalle Koutajoki as Sales Director in February 2019. CFO **Jussi Tallgren**, Commercial Director **Vesa Järveläinen**, CTO **Henrik Weckström** and Logistics Director **Miika Heinonen** continue to serve as part of the Management Team.

I want to thank all employees of Verkkokauppa.com, our customers and our owners for a fantastic year 2018! Let's keep the ball rolling and challenge the market also in the future. And let's make 2019 even more successful – together!

Panu Porkka
CEO
Verkkokauppa.com Oyj

Verkkokauppa.com grew its market share in a highly competitive market in 2018.

A new chapter in the growth story

Key milestones in 2018 included the appointment of the new CEO of Verkkokauppa.com, the opening of the new megastore in Raisio, and the continuation of profitable growth. Verkkokauppa.com continued to increase its market share.

The year 2018 will go down in the records of Verkkokauppa.com for several reasons. The most significant event of the year was the retirement of the Company's founder and long-term CEO **Samuli Seppälä** from day-to-day operations. **Panu Porkka** assumed his duties as the CEO of Verkkokauppa.com in March 2018. Porkka had previous acted as a member of the Company's Board of Directors, and as the CEO of Suomalainen Kirjakauppa Oy. Seppälä continues as the Company's largest shareholder and as a Board member.

Massive opening of new megastore in Raisio

The first half of the year included another historical event, when the fourth Verkkokauppa.com store was opened in Raisio on March 3, 2018. In addition to the spectacular mega-opening party, the new store was celebrated for the first 100 days. The new Raisio store is part of the Company's growth strategy, according to which Verkkokauppa.com serves its customers with premium megastores in the key urban areas of Finland. In addition to Raisio, the Company has megastores in Helsinki, Pirkkala and Oulu.

Verkkokauppa.com grew its market share

Consumers continued going mobile. At the same time, the significance of the mobile customer experience continued to grow. According to GfK, the consumer electronics market in Finland grew by 1.6% in 2018.

Verkkokauppa.com continued to grow faster than the market, gaining market share. The Company increased its sales in most product categories. Revenue was driven by growing sales in televisions, small domestic appliances (SDA), Audio & Hi-Fi, major domestic appliances (MDA), and computers.

The strong financial position of Verkkokauppa.com enables the Company to operate in a highly competitive market and helps the Company grow its market share. Depending on the competitive situation, Verkkokauppa.com is prepared to further invest in aggressive campaigns to ensure that its revenue grows faster than the market. This is what the Company did also in 2018.

The Company's financial development was twofold in 2018, as its financial guidance indicated. In the first half of the year, revenue increased by 3 percent, and operating profit decreased by 38 percent. The slow growth of revenue in the first half of the year resulted from strong wholesale volumes in the previous year, and the decrease in operating profit resulted from significant growth investments especially in the new Raisio store.

In the second half of the year, the Company resumed its typical revenue growth track – revenue grew by 17 percent year on year. In the same period, operating profit grew by 13 percent year on year. Revenue growth accelerated towards the year-end and was 22 percent in the fourth quarter year on year, despite the sluggish market. The end of the year saw rapid growth especially due to the successful Singles' Day and Black Friday campaigns, as well as the traditionally busy Christmas sales season. During Black Friday, the Company broke its sales records in both webstore and brick-and-mortar store sales.

Verkkokauppa.com's Company-financed customer financing, Apuraha, grew year on year. Its proceeds were 3.1 million euros including both interest income and fee income.

478 million

Revenue 2018, EUR

11%

Revenue growth in 2018

13.3 million

Operating profit in 2018, EUR

The strong financial position of Verkkokauppa.com enables the Company to operate in a highly competitive market.

Strategy and competitive advantages

Verkkokauppa.com's vision is to be a Nordic leader in retail through cost-efficiency, brand image, own ecosystem and scalable business model.

According to Verkkokauppa.com's business plan until 2021, the Company will focus on the customer experience, a seamless omnichannel business model, and improved brand marketing. Investments in the brick-and-mortar store experience, the website and cost-saving technologies continued in 2018 – the Company will invest in these areas also in the coming years.

Retail going online and mobile

The Company's main focus is on growth: the goal is to become a billion-euro Company and to win market share aggressively, also in the future. Verkkokauppa.com will progress on this journey in an operating environment in which consumer trends are changing and retail is rapidly going online: an estimated one percent or 400 million euros of brick-and-mortar sales go online in Finland each year. The share of online retail sales is currently approximately 12 percent (Statista 2018). According to a study by Statistics Finland in 2018, 47 percent of Finns had bought goods or services online during the past three months. The study also shows that the share of mobile phone use in online shopping has increased in all age groups, and, for example, nearly half of all Finns under 45 years of age had been shopping online using a phone during the year.

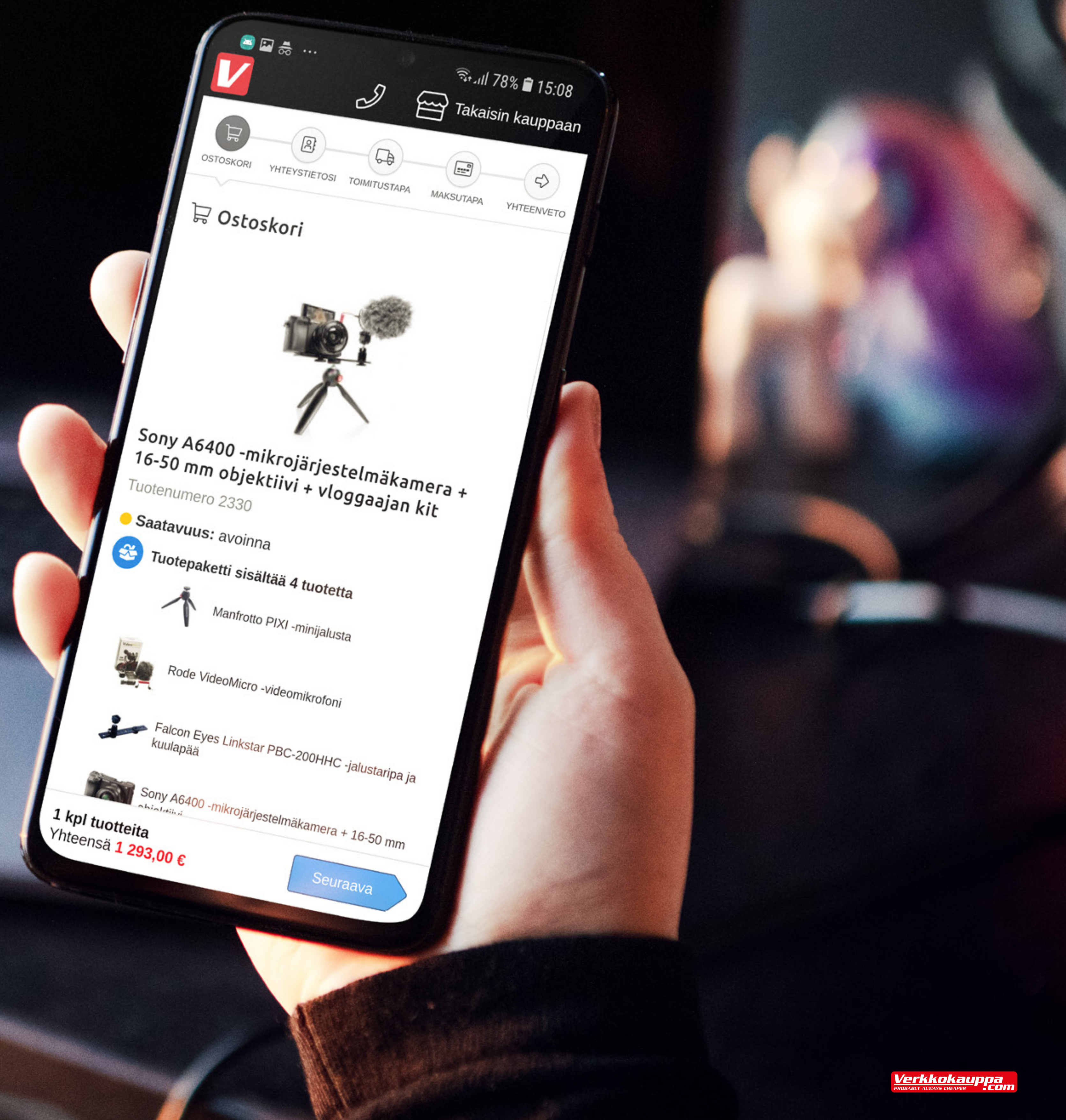
Retail continues to go rapidly online also at global scale: the value of online sales is expected to double between 2017 and 2021. Simultaneously, there is a strong trend of mobile adoption in shopping – by 2021, mobile devices are expected account for 73 percent of global online retail revenue (Statista).

Experiential omnichannel customer experience and cheap prices

Verkkokauppa.com aims to be the customer's preferred channel-agnostic place for shopping, which always offers an interesting range of products at competitive prices. The development of Verkkokauppa.com relies on a growth strategy and is supported by new product categories suited for online retail. Day-to-day operations are carried out in line with the Company's values defined in 2018: courage, agility, transparency and community.

The Company considers the following as its competitive advantages for the future: interesting and preferred brand for the Company's stakeholders, genuinely omnichannel and experiential customer experience, sustainable and scalable cost structure, and an agile software platform.

The development of Verkkokauppa.com relies on a growth strategy and is supported by new product categories suited for online retail.



Global megatrend of retail going online supports the growth of Verkkokauppa.com

Share of online sales in Finland is approximately

12%*

Online retail continues to grow. In 2019, the Company's revenue is expected to continue growing to 500–550 million euros, compared to the 2018 revenue of 478 million euros. The Company expects its growth to continue in the medium term, driven by the ongoing transformation of the retail business, the growth of the Finnish GDP and the Company's growth strategy. The Company's position in the market and leadership role in the retail industry are supported by its well-known brand, low indebtedness, steady cashflow and strong equity ratio.

* Source: eMarketer; Website (retailtechnews.com) Statista 2018

Finland's most visited and best-known webstore

Online visits in 2018

57 million

Verkkokauppa.com is Finland's most visited and best-known webstore. The website www.verkkokauppa.com and its subpages received a total of 57 million visits in 2018. Verkkokauppa.com is the most visited webstore in Finland, and also one of the country's most visited websites overall.

The Company was ranked fifth in research firm YouGov's 2018 Brand Advocacy Ranking, which lists Finland's most recommended brands. Verkkokauppa. com was the only retail company on the list, which included internationally known top Finnish brands. In 2017, Verkkokauppa.com was ranked 7th and in 2016, 10th on the list.

Profitably growing webstore

Targeted operating profit margin

2.5–4.5%

Verkkokauppa.com is a growth company with a sustainable and scalable cost structure. The Company's very low cost structure enables profitable growth and probably always cheaper prices. Thanks to its low fixed costs, Verkkokauppa.com is able to grow profitably also in an increasingly competitive market or in a market experiencing decreasing household purchasing power – while retaining low sales prices.

In the first half of 2019, the Company adjusted its medium-term financial targets in connection with the adoption of IFRS. In the medium term the Company targets an annual revenue growth of 10–20%, an annually growing operating profit, and an operating margin of 2.5–4.5%. The Company's dividend policy remains to pay an increasing quarterly dividend.

Omnichannel and experiential

Verkkokauppa.com is different. One of the Company's values is courage, which is reflected on customers as open-mindedness and the willingness for renewal. Verkkokauppa.com wants to offer its customers a genuinely experiential customer experience – whether online, on mobile devices or in any of the four megastores.

The Company focused on ensuring a smooth and seamless shopping experience also in 2018. At the core of the Company's business operations is its own software platform. During 2018, the Company carried out significant improvements to the customer experience and personalization of the webstore. The Company will continue this work also in 2019 by making significant investments in different marketing channels as well as in developing the omnichannel customer experience.

Verkkokauppa.com is different. One of the Company's values is courage.

Finland’s most popular webstore

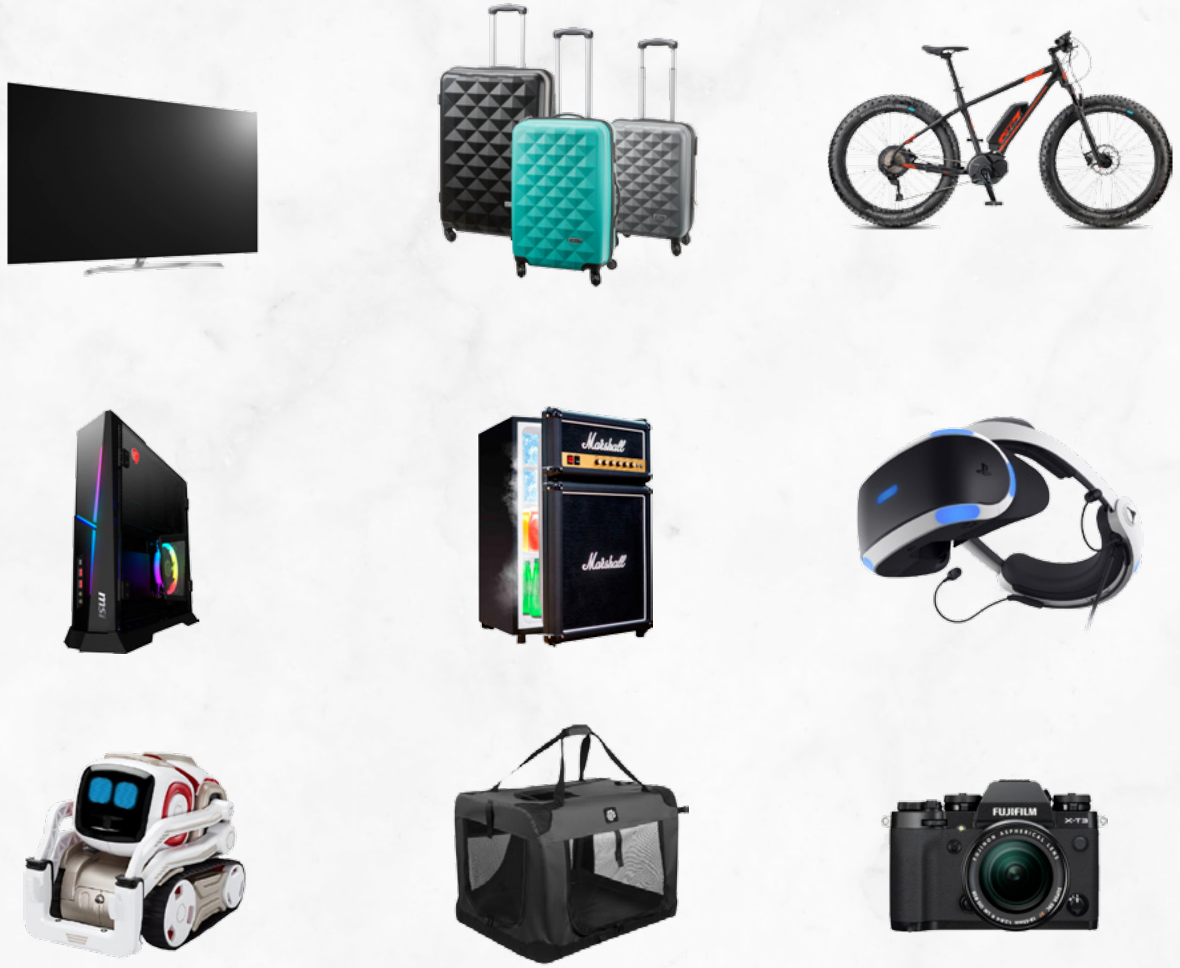
Verkkokauppa.com has always followed the online philosophy. Customer expectations are growing and expanding, as retail goes online and mobile. In 2018, the Company focused on developing its omnichannel customer experience.

The year 2018 reinforced the Company’s view that retail continues to go online and above all, mobile. After all, it is easy to use a smartphone to browse the offering of a webstore, buy things on the way home from work, at lunch or even from the home sofa.

Customer expectations driving webstore development

Customers expect a webstore to offer a comprehensive and interesting range of products. Verkkokauppa.com sells more than 65,000 products in 26 different product categories. A good webstore is also able to recommend relevant and attractive products and brands to the customer. This creates a good customer experience, and makes shopping inspiring and entertaining. Another feature improving the customer experience is the opportunity to purchase all necessary accessories together with the main product.

Verkkokauppa.com has been Finland’s most visited webstore for several years in a row. We develop and tweak our webstore continuously with the objective of offering an ever smoother and more personalized customer experience. As we develop the shopping experience, we pay a lot of attention on clarity: customers expect to be able to move quickly and smoothly from one product and category to another in the relevant search results.



Verkkokauppa.com sells more than 65,000 products in 26 different product categories.

Transparent product information creates added value for customers

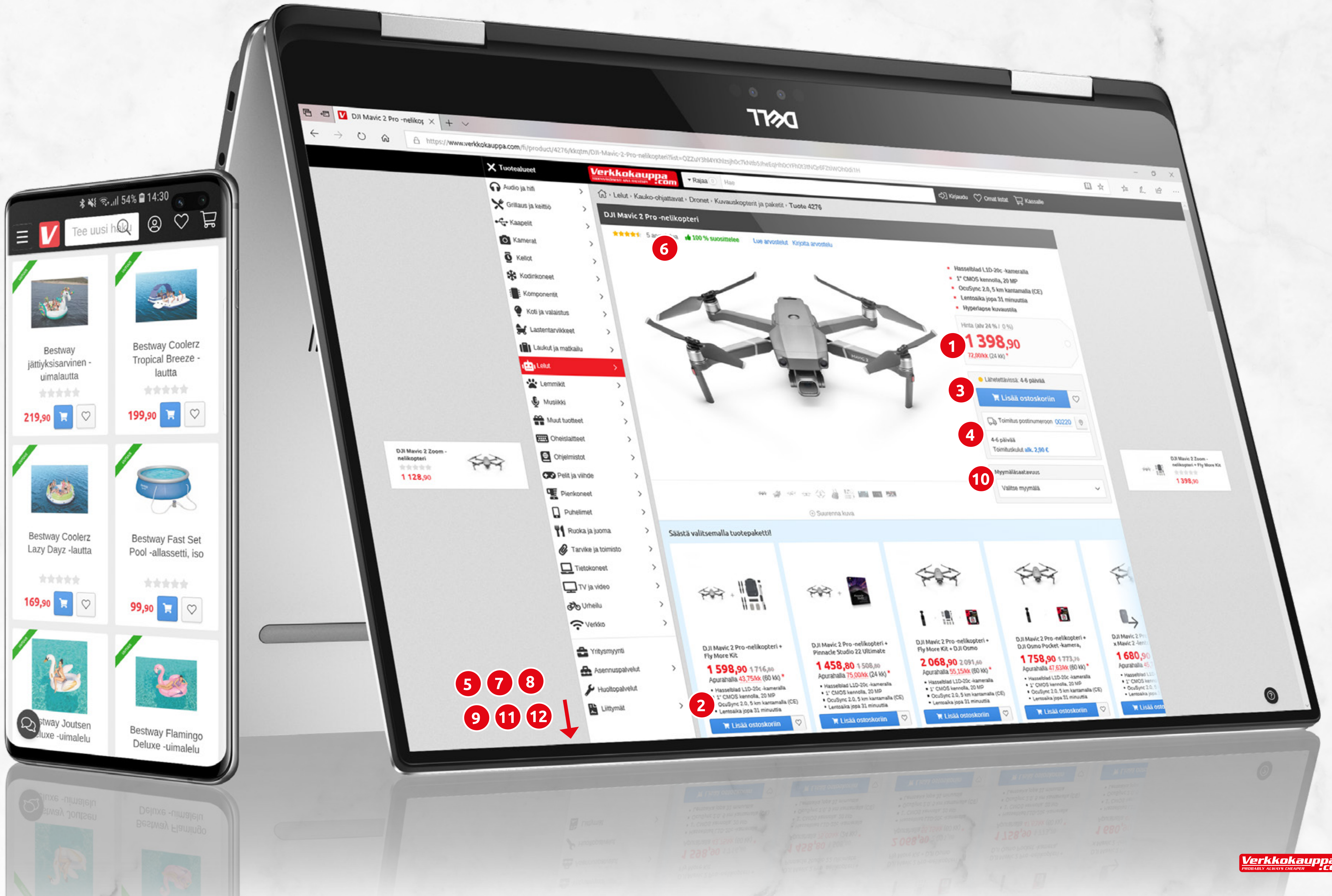
Verkkokauppa.com wants to offer its customers the largest volume of relevant and comprehensive product information. The Company is constantly enriching the offered product information: product descriptions, descriptions of key features and product images all provide information in an easily digested format. Furthermore, to support the purchase decision, Verkkokauppa.com offers hundreds of thousands of uncensored product reviews written by customers, the service and return rates of products, as well as real-time availability data. The Company aims to enrich the product information continuously.

Speed, speed, speed!

Another way in which Verkkokauppa.com is developing its customer experience is by ensuring that the site loads even faster than before – also on mobile devices. In 2018, the Company invested significantly in the technology behind the webstore. This enabled an even faster and customer-friendly webstore, which yielded tangible results: according to the Company's own analyses, the customer experience was excellent during the Christmas season, which also drove sales.

1. Cheap prices and Apuraha instalment payment
2. Comprehensive product and technical information
3. Real-time availability information
4. Delivery estimate time according to location and postal code
5. Price Barometer and Market Price
6. Uncensored product reviews
7. Product-specific Q&A
8. Product maintenance and return rates
9. Product sales history
10. Product location at the store
11. Related products
12. Last visited products
13. Personalized product recommendations based on the customer's interests

Verkkokauppa.com invested significantly in the technology behind the webstore.



New megastore in Raisio

Verkkokauppa.com's fourth megastore was opened in March 2018, and the opening campaign continued well into the summer. The Raisio store was one of the key drivers of the Company's revenue growth in 2018.

The opening of the Raisio megastore was one of the highlights of the year 2018. The opening of the fourth megastore was also a major step forward in realizing the Company's omnichannel business model.

The opening of the new store was celebrated on March 8, 2018, and the festivities did not stop there – the opening campaign lasted a respectable one hundred days. The enthusiastic and well-motivated sales staff of the new store had been trained specifically for the new store and was ready to conquer the Turku region in their red Verkkokauppa.com shirts from day one.

The opening weekend turned out to be a massive event, as expected. The new store and fantastic offers attracted queues of hundreds of customers. In addition to unique offers, the opening event included several activities, and the highlight of the weekend was a great fireworks show.

The new store was advertised in the spring with special local ads. At the beginning of June, a weekly "Monday Carnival, also on Tuesdays" was launched, in which various activities were organized at the store on Mondays and Tuesdays. The extremely popular Outlet Auction was also introduced in Raisio. In the auction, Outlet products were auctioned, often with the starting bid of one euro. In addition, gaming events were organized at the store, attracting especially younger customers to the new store.

The Christmas season was opened with a bang in Raisio with the Black Friday campaign on November 23, 2018. There were more than one thousand great offers on Verkkokauppa.com's megastores and webstore. The entire weekend witnessed crazy shopping at all Verkkokauppa.com stores, including in Raisio. After the successful Black Friday campaign, the Raisio store smoothly transitioned to its first Christmas sales season, which was also very successful.

The opening weekend turned out to be a massive event, as expected.

Experiences and events

The pace was fast also for events in 2018! Verkkokauppa.com stores witnessed a mind-blowing range of events and offered customers plenty to see and experience.

It is important for Verkkokauppa.com to offer its customers relevant, value-adding events and experiences. In addition to a broad and affordable product range, they provide good reasons for visiting and spending time at the Verkkokauppa.com stores.

The opening of the Raisio store in March witnessed fireworks and gigantic mattress jumps. We had a real **Dudeson** present and customers queued hundreds of meters to participate in product raffles.

At the Helsinki store, the popular **Dude Island Festival** was arranged for the second time in the summer. Its highlight was the **Rap Battle Dude Island**, a freestyle rap battle with unprecedented prizes. The high quality of the competition attracted the attention of the music media. This time the winner was the Finnish freestyle rap champion **Pure**, who showed outstanding cleverness in his performance. Many other events were arranged in connection with Dude Island Festival, including the **Monster Energy Riku Tahko RallyCross Challenge**, and the **Omen by HP** gaming event.

During the summer, the first pet store events were held at the stores, when the **Hauvantai** (Dog Saturday) **tour** swirled through all Verkkokauppa.com stores. A celebration of cats and dogs in front of the stores included treasure hunts and **Match Shows**.

The fall started with the **ROG + Blackstorm** gaming tour, which visited every store. The tour looked for Finland's best Overwatch players with a series of fierce battles. The best players of the tour played against one another at the **Digimessut** fair held at the Helsinki store. After a two-day gaming frenzy, the player known as **Peacemaker** from Turku was crowned as the king of Overwatch. In addition, Digimessut featured a **Logitech keyboard throwing competition**, Finland's most popular YouTubers such as **Lakko**, **ZoneVD**, **eeddspeaks** and many others. In August, Verkkokauppa.com participated in the YouTuber event **Tubecon** for the third time, increasing its visibility among YouTubers.

Throughout 2018, numerous smaller events were held at the Verkkokauppa.com stores. A wheel of fortune and sausage BBQ by Verkkokauppa.com salespersons were arranged in Raisio. On several Saturdays, families with children were treated to flying drones and driving remote-controlled cars. Bikers were treated to a **Bike Saturday**, on which customers were offered a free bike service. The now already traditional **Outlet Auctions** drew a steady crowd and shouting for outlet products at the stores.

It is important for Verkkokauppa.com to offer its customers relevant, value-adding events and experiences.

Corporate responsibility

Key themes in Verkkokauppa.com's corporate responsibility include customer service, management and well-being at work, supply chain management, and energy and material efficiency. This section reports on key events and projects in 2018 related to both personnel and environmental matters. The Report of the Board of Directors describes the role of corporate responsibility in the Company's business model, the Company's way of working and managing the supply chain, and the results of key indicators related to corporate responsibility.

Personnel in a growing company

In 2018, key personnel-related themes included the role of management and immediate supervisors in the Company's way of working and strategy execution. In addition, in this section we present two interesting career stories. The Report of the Board of Directors included in the Annual Report describes results related to well-being at work and occupational safety and health.

Growing staff

Verkkokauppa.com grew rapidly in 2018 in terms of both revenue and the number of employees. Despite the growth, the Company has managed to remain agile and maintain a flat organizational structure. The Company considers agility such a critical element of the organization that it has been included in the Company's strategy as one of the Company's values.

Large size creates opportunities for employees – as the number and variety of positions in the Company grows, employees are able to advance in their career or find an entirely new role within the Company. In 2018, several employees were able to advance in within the Company through internal career paths. The Company often seeks candidates for new positions specifically from within the organization to allow employees with the right attitude and good motivation to grow and thrive in the Company.

Skilled professionals have also been hired from outside the Company to bring new competencies and understanding to the organization. These recruitments ensure age diversity within the Company. The combination of strong expertise from both within and outside the organization is a recipe for successful and efficient teams, especially in demanding tasks.

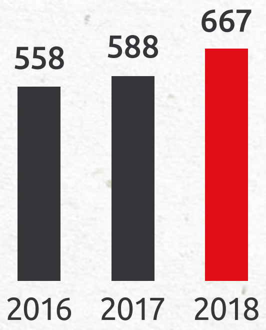
The Company employed an average of 667 people in 2018. The number of employees was the highest at year-end, when many young future Verkkokauppa.com employees took part in creating a record-breaking Christmas sales season.

Diversifying staff

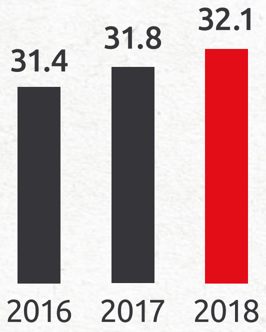
The average age of the Company's employees is 32 years, which corresponds to the average age in the retail industry. The personnel represent a broad scale of individuals, from young adults starting their work career to senior experts. In the Company's view, the best teams are built of people of different ages and backgrounds. According to a personnel survey, employees feel that age diversity is something that enriches the work community. While retail has traditionally been a women-dominated industry, women account for 25 percent of Verkkokauppa.com's employees and men for 75 percent. In recent years, the share of women has been growing in the Company in general, and especially in technical positions.

Values and committed personnel at the core of operations

A sense of community and engaging employees were key personnel themes at Verkkokauppa.com in 2018. We drafted the Company's values based on the views of our personnel. Our values form the common foundation for work carried out by all Verkkokauppa. com employees. Our values are the core around which our strategy, mission and vision are built. Our values help us discover the best ways to achieve our goals.



Average number of personnel



Average age of personnel as of Dec. 31

Courage

At Verkkokauppa.com, courage means the ability to make quick decisions, open-mindedness and willingness for renewal. We appreciate the marketing hooliganism characteristic of Verkkokauppa.com, and continue on the same path with our heads held high.

Transparency

We respect transparency and honesty in everything we do. We value the opinions of our stakeholders. Our operations are guided by a strong sense of fairness.

Agility

Change is inevitable, and we will ride successfully through the storm of changes thanks to our agility. We are fast, efficient and ready for change.

Community

A sense of community is built through seamless cooperation between, and respect for, our employees, customers and stakeholders. The well-being and success of our community are part of our responsible business model.

Personnel highlights in 2018

Supervisor trainings continued
Systematic training of supervisors started in 2017, and the work continues during the current strategy period. The Company has seen that quality supervision correlates with the well-being of employees – which in turn correlates with good customer experience.

Internal career paths were offered to 53 Verkkokauppa.com employees
Employees transitioned to new positions within the Company flexibly from one department to another. Most of the transfers were to junior-level expert roles, in which motivated employees can grow into true industry professionals. Typically, persons transitioning internally into new roles already have a strong knowledge and understanding of the Company and its business. Offering opportunities to move into new roles within the Company is also seen as an effective way of building employee commitment and engagement.

The number of employees grew by 50 persons from the previous year
New, experienced employees were required particularly for specialist roles. New positions in the customer interface and logistics have opened up to young employees, as employees have transitioned to new challenging tasks within the Company.

The Management Team has been strengthened, as well, to ensure that the Company is able to remain competitive and realize its growth strategy. In line with the new strategy, HR was elevated to the Management Team for the first time in the Company's history.

From product manager to software developer

Petteri Karjalainen has worked at Verkkokauppa.com since 2007. He started as a Christmas season helper at the Ruoholahti store and continued as a salesperson in customer service for three years. He then advanced to the role of product manager with responsibility for the music product category. Petteri spends his free time as a semiprofessional musician, so the position fit him perfectly. After eight interesting years, Petteri's career took a new direction into software development in the IT department.

"The path to software development was not a coincidence. I had become interested in programming through my hobby projects. In addition to music, I have been interested in the demo scene and have even done a few game projects. My spouse also encouraged me to take on new challenges."

"I asked the system development team of Verkkokauppa.com's IT department if I had any opportunity to transition to programming as a full-time job. The matter advanced to interviews, during which we got to know one another. My skills got evaluated and I received a lot of information on software development. As a result of the discussions, I started as a software developer in the IT department."

Verkkokauppa.com has always appreciated the curiosity, dedication and self-education of its employees. The Company has seen this as one path in developing motivated experts who can grow into industry professionals in their job.

"I had invested a lot in my programming skills in my free time. In addition to hobby projects, I had studied programming independently. I also decided to get a degree in computer science, and now I am studying that during my free time at Haaga-Helia University of Applied Sciences."

Petteri started working in the system development team under a personal mentor, who took him into an extremely challenging project. He quickly learned the working methods of the IT world in practice.

"The entire team welcomed me with open arms and I have been programming with every member of the team. The team consists of very different types of people, who all work well together. We talk a lot regularly. When you are developing a big system, it is highly important to know what your colleague is doing, because your work has a direct impact on the work of other people. We work using the Scrum process, in which work is carried out in two-week sprints. The process makes our work very productive, allow us to focus on our work, and guides us in the right direction."

"My work differs a lot from my programming hobby projects. In our work we use various technologies that I was not familiar with previously. However, thanks to my programming experience and the support of my colleagues, I quickly learned the ropes in my new role. My work is at the same time unrestrained and intense."

One of the key responsibilities of the 50-strong IT department of Verkkokauppa.com is to develop the Company's own enterprise resource planning systems. All projects are related to the development of the Company's business, and the results of the work are usually seen quickly in daily operations.

"We work closely with different departments of our organization. It is extremely important to understand how users actually use the tools we develop. In addition to developing the Company's webstore, one of the most important tasks of the IT department is to help our colleagues do their jobs better. My previous work experience enables me to look at things also from the user's perspective."

Petteri Karjalainen

"We work closely with different departments of our organization."

New HR Director in the spotlight

Taina Suorsa joined the grow story of Verkkokauppa.com in 2014 in the role of HR Manager. The Company's HR has developed rapidly over the past years, and in fall 2018, Taina was promoted to the role of HR Director. She has also been a member of the Company's Management Team as of the beginning of 2019.

In her previous job at the S Group, Taina experienced the transformation of the retail industry, and the omnichannel business model was a hot topic discussed by everyone. With a strong business background, Taina saw interesting opportunities at Verkkokauppa.com.

"In the retail industry, omnichannel thinking was new, but hardly anyone had been able to leverage digital channels as part of the core business. As a pioneer of the retail industry, Verkkokauppa.com was paving the way with its unique business model and strong online retail expertise. I was also fascinated by the Company's growth story as an independent player that had managed to secure its position in the highly competitive market."

Taina sees several personnel-related reasons for the success of Verkkokauppa.com.

"Committed and skilled people are a big strength. Verkkokauppa.com has a strong organizational culture, which is cherished and developed. The Company has managed to maintain a flat organizational structure and agility during its growth, which should not be taken for granted. Over the past four years, the Company has offered a job to 200 new talents. That is a significant achievement during the transformation of the retail industry."

Not a single day is like the next for the HR Director. The job requires the ability to adjust quickly also to challenging situations.

"Working with people is interesting and the pace of a growth company keeps one's mind fresh. This is a diverse business development position in which you get to participate extensively in the Company's key projects. The most important task is to act as an objective business coach and as someone who offers new perspectives. HR is actively putting the well-being and good management of employees on the Management Team's agenda."

"We need to be able to identify the skills and capabilities we need to ensure that we are able to renew the Company and achieve our growth targets. Together with the business management, we are developing personnel policies that fit the Company, support our strategy and build a positive culture."

Verkkokauppa.com emphasizes the role of immediate supervisors. They play a key role in the well-being of employees. The Company has also paid attention to internal career paths.

"Deepening one's expertise or moving to a more demanding position are important. In 2018, more than 50 employees transitioned to a new position within the Company. In addition, we strengthened our team with experts hired from outside the Company. Skills play an important role in the continuously changing business environment. For this reason, we have placed skilled personnel in the center of the current strategy period. To customers, this is visible as competent employees and product expertise, which we are already known for."

HR management is developing continuously to meet the needs of modern work life.

"HR management trends reflect business development trends. Industry leaders are using analytics and data to support the management in, for example, the use of the workforce, development of the skills of employees, or the recruitment of new employees. Furthermore, more and more attention is paid to individual needs and development, as well as the role of employee ambassadors. These things correlate with customer satisfaction, quality and innovation capability."

"Team- and project-based work is becoming increasingly common. Agile methodology familiar from the IT world is used widely in personnel management. The ability to build diverse teams, digital skills, a coaching and empowering management style, and solid management skills form a foundation for the work of supervisors."

Taina Suorsa

"Committed and skilled people are a big strength."

Successful environmental and energy improvements

Recycling volumes increased

Customers are able to bring waste of electrical and electronic equipment (WEEE) for recycling at all Verkkokauppa.com stores, and all WEEE generated from the Company's operations is recycled. In addition, the stores accept all WEEE-related devices and batteries for recycling. In total, Verkkokauppa.com recycled more than 225 tonnes (150 tonnes in 2017 and 160 tonnes in 2016) of WEEE waste and nearly two tonnes of batteries. We want to thank our customers and partners for great cooperation in recycling – our work together continues.

All waste produced by Verkkokauppa.com is sorted, and in 2018, 99.99% of all waste was put to reuse. Approximately 59% of all waste produced in 2018 (71% in 2018, 63% in 2017) was recycled as material or reused. The goal is to recycle an increasing share of the waste instead of incinerating it to generate energy. For example, in 2019, Verkkokauppa.com's goal is to recycle all plastic film as recovered material.

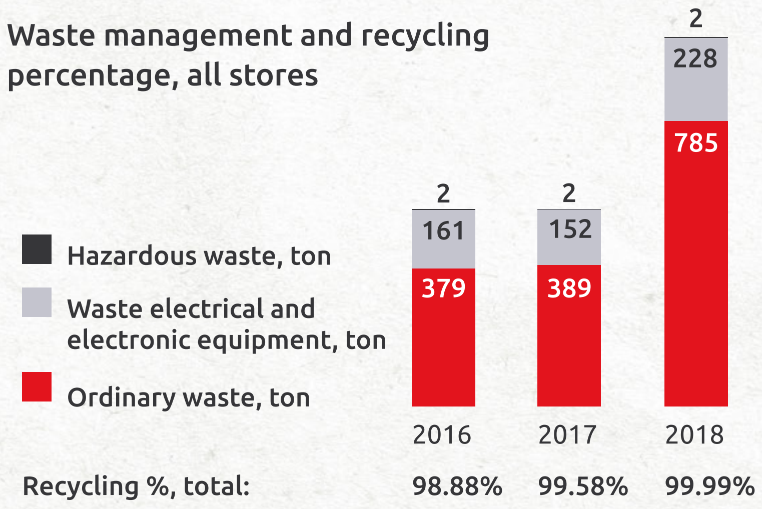
Stores use 100% renewable electricity

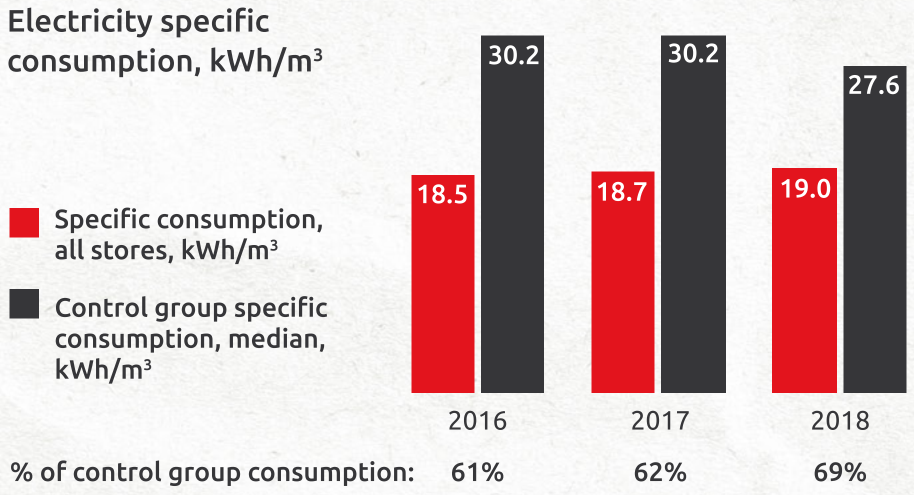
Verkkokauppa.com uses only electricity produced with renewables in all its stores. District heating is used to heat all stores, and cooling in the Helsinki megastore is produced in an environmentally friendly way with district cooling. In 2019, the Company will explore opportunities to use solar power. The goal is to cover, for example, all electricity required by the IT service production running the webstore using solar power. The Jätkäsaari property will be heated partly using the waste heat generated by IT hardware.

The total comparable energy consumption of all of Verkkokauppa.com's stores in 2018 was 69% of the median, which is a good result. The source for the comparative information is the energy consumption data for commercial buildings, department stores and shopping malls from Motiva's energy review database.

Energy efficiency always on the agenda

Verkkokauppa.com aims to continuously improve its energy efficiency. Projects in 2018 included the lighting of the Raisio store, which was implemented entirely using energy-efficient LED light fixtures. Opportunities provided by building services engineering and building automation will be utilized for optimizing heating, cooling and lighting. A good example is the Verkkokauppa.com flagship store and headquarters in Jätkäsaari, Helsinki, which has been granted a LEED (Leadership in Energy and Environmental Design) environmental certification. The store is easy to access also using public transportation, and the parking garage is equipped with charging stations for electric cars.





Verkkokauppa.com aims to continuously improve its energy efficiency.

Report of the Board of Directors and Financial Statements 2018

REPORT OF THE BOARD OF DIRECTORS 2018

Report of the Board of Directors 2018

Year 2018 in brief

Verkkokauppa.com's revenue increased by 10.6% to EUR 477.8 (431.9) million. Operating profit was EUR 13.3 (13.5) million and profit for the financial year EUR 9.3 (9.4) million.

Revenue and profitability development

Revenue grew by 10.6% in January–December 2018 year on year. Revenue grew by 46.0 million euros, totaling 477.8 (431.9) million euros. Relative profitability decreased as the company invested in growth in a slow growing market. Revenue was improved by increased sales particularly in televisions, small domestic appliances (SDA), Audio & Hi-Fi, major domestic appliances (MDA), and computers. The Company grew its sales in most of the product groups.

The demand for consumer electronics remained satisfactory despite the tight market situation. According to GfK, the market grew by 1.6% in January–December 2018.

In the reporting period, personnel costs increased by 16.2% to 30.3 (26.1) million euros. The growth was faster than revenue growth due to the opening of a new store in Raisio in March.

During the reporting period, other operating expenses increased by 28.8% to 23.7 (18.4) million euros. The increase resulted from the new Raisio store and increased marketing investments.

Verkkokauppa.com's company-financed customer financing service Apuraha grew from the previous year. Its proceeds totaled EUR 3.1 (1.5) million euros, including both interest income and fee income. Verkkokauppa.com terminated a shared portfolio in the last quarter, which was used in financing private customers. In the future, Verkkokauppa.com's proceeds and accounts receivables are expected to grow due to this change. Verkkokauppa.com sold past due receivables as part of its risk management. As a result, the credit loss allowance decreased to EUR 0.5 (0.7) million.

Operating profit in January–December 2018 was EUR 13.3 (13.5) million, and profit for the period was EUR 9.3 (9.4) million. Earnings per share were EUR 0.21 (0.21).

Increased brand awareness is visible in the number of visitors at both the brick-and-mortar stores as well as in the online store. In 2018, Verkkokauppa.com Oyj focused on improving organic growth opportunities in both the customer financing service and in existing main product categories.

Revenue growth varied by quarter and was higher in the fourth quarter than in other quarters.

Key events during the financial year

In March 2018, Verkkokauppa.com opened a new store in Raisio.

Panu Porkka assumed his duties as the new CEO on 22 March 2018. **Samuli Seppälä** resigned his duties as CEO at the same time.

On 3 April 2018 the Company appointed **Tommi Jylhä-Vuorio** as Sales Director and **Seppo Niemelä** as Marketing and Communications Director. Niemelä started in his role on 6 August 2018 and Jylhä-Vuorio started in his role on 13 August 2018. Sales Director Jylhä-Vuorio resigned from his duties on 5 September 2018. As a result of the appointments, the Company also established an Extended Management Team, to which Services Director **Timo Halonen**, Web Sales Director **Esa Hjerppe**, and Sales Director, Retail Stores, **Markus Pätilä** joined from the current Management Team. **Taina Suorsa** was appointed as HR Director and Extended Management Team member as of 1 October 2018. Suorsa was appointed to the Management Team as of 1 January 2019. **Vesa Järveläinen** was appointed as Commercial Director as of 1 January 2019. Järveläinen continues as a member of the Management Team. **Kalle Koutajoki** was appointed as Chief Sales Officer (CSO) and Management Team member on 21 December 2018. Koutajoki started in his role on 25 February 2019.

On 9 May 2018 Verkkokauppa.com started to acquire the Company's own shares and ended the process on 8 June 2018. The Company acquired a total of 82,500 own shares.

On 16 May 2018 Verkkokauppa.com Oyj established a new three-year share-based incentive plan for key employees. The Board will resolve annually on the commencement and details of matching periods. The plan is described in more detail in section "Share-based incentive plan". In 2018, the Company transferred a total of 17,867 treasury shares as part of the remuneration of Board members.

Verkkokauppa.com Oyj decided on 12 December 2018 to make a transition to IFRS. The Company's date of transition to IFRS is 1 January 2017. The Company published its year-end financial statements release and financial statements for the financial period ending on 31 December 2018 in accordance with IFRS.

In 2018 the Company focused on growing existing product categories and no new main product categories were launched.

Market development

The competitive environment remained challenging due to the general economic situation and the increased purchasing power of customers. The strong growth of the Finnish economy has improved the Company's relative competitive position. The Finnish Ministry of Finance estimated on 19 December 2018 that the Finnish GDP grew by 2.5% during 2018. According to the market research institute GfK, the consumer electronics market grew by 1.6% during January–December in Finland.

Financing and cash flow

Operating cash flow was EUR 8.9 (23.2) million. The cash flow from investments was EUR -1.4 (-1.5) million. Net finance costs were EUR 1.6 (1.7) million.

The Company is solid. Liquid assets totaled EUR 46.7 (51.9) million. Interest-bearing liabilities totaled EUR 26.3 (29.3) million including lease liabilities and interest-bearing net debts totaled EUR -20.4 (-22.6) million. Equity ratio was 23.0% (25.1%).

Key figures

	2018	2017	2016 (FAS)
Revenue, EUR million	**478**	432	371
Operating margin, of revenue	**2.8%**	3.1%	3.4%
Equity ratio, %	**23%**	25.1%	33.8%
Gearing, %	**-54.3%**	-61.3%	-106.0%
Investments, EUR million	**1.4**	1.5	0.9
Cash flow from operating activities, EUR million	**8.9**	23.2	18.6
Personnel at the end of period	**683**	633	558

Investments

During the reporting period, the Company invested mostly in ordinary store equipment and furniture. In addition, the Company invested in new IT systems and in development of new ERP features, and as a result capitalized 0.4 million euros of the IT department's employee benefit expenses and external technology consulting fees. Net capital expenditures were EUR 1.4 (1.5) million in January–December 2018.

Non-financial information statement

Operational model and value creation

Verkkokauppa.com is Finland's best known and most visited Finnish online retailer, whose goal is to be the probably always cheaper place to shop for its customers. Efficiency of operations, responsibility, quality products, skilled personnel and good customer relationships are at the core of the Company's strategy. Continuous development is part of our daily work. In a changing market environment, where shopping is moving online, Verkkokauppa.com's strengths include:

- Strong omnichannel business model and extensive product assortment
- Low cost structure
- Agile decision-making enabled by the management structure
- Focus and commitment on selected markets
- Strong brand and good market shares
- Stable ownership base

These strengths, combined with a stable financial position, makes profitable growth and long-term development of business operations possible in a changing market.

Verkkokauppa.com's positive financial development ensures value creation to stakeholders and to the wider society. The financial and social impacts are reflected in the operating environment through, among other things, direct and indirect employment and tax payment. The Company is also a stable payer of dividends. The long-term goal is to pay out growing dividends every quarter.

Our way of working

Key themes in Verkkokauppa.com's corporate responsibility include customer service, well-being at work, leadership, supply chain management and energy and material efficiency. Verkkokauppa.com reports on corporate responsibility matters in compliance with legislation on the reporting of non-financial information.

Operating in an ethically sustainable way is an important part of the Company's values, business and success. Responsibility and confidentiality play a key role in the relationships between Verkkokauppa.com Oyj and its stakeholders. The Company's operations are based on ethical guidelines, good governance and diligent adherence to applicable regulations and requirements. Verkkokauppa.com complies with applicable local laws, rules and regulations. Taxes and other payments are performed in accordance with local legislation.

Code of Conduct

Ethical guidelines define the fundamental principles of Verkkokauppa.com's internal and external business operations. They have been summarized as the Company's Code of Conduct.

The Code of Conduct covers the following:

- Adherence to applicable laws and regulations
- Respect for human rights and equal opportunity
- Zero tolerance on bribery and corruption
- Occupational health and safety
- Promotion of energy efficiency
- Encouraging of healthy and well-functioning competition and adherence to applicable competition regulations
- Protection of the Company's material and immaterial properties
- Honest and respectful stakeholder communications
- Timely and reliable information to investors
- Verkkokauppa.com does not participate in political activities
- Responsible procurement, for example the commitment of key suppliers to Verkkokauppa.com's Code of Conduct

Human rights and prevention of corruption and bribery

The Company has zero tolerance towards human rights violations, corruption and bribery. Respect for human rights emphasizes sustainable procurement and equal treatment of employees, a safe work environment and the diversity of the management.

Awareness and capabilities of employees are developed through guidelines and training. Observations of unethical conduct will be brought up for discussion or notified through a specific notification channel starting in 2019. An email-based notification channel was in use in 2018. No reports of suspected unethical conduct were brought to the management's attention in 2018, neither through the notification channel nor through any other route.

Environmental responsibility

Environmental matters are important to Verkkokauppa.com and its stakeholders. Key issues related to the environmental impact of the Company's operations are energy consumption at its stores, the handling of packaging materials, and the Outlet sale of returned products. As part of its WEEE community responsibility, Verkkokauppa.com participates extensively in the recycling of electronic waste.

The right product for each need

For total efficiency of environmental impacts and operations, it is of paramount importance that the customer always receives a long-lasting product that best serves their needs. Verkkokauppa.com wants to provide its customers with as much information as openly as possible to support their purchasing decision. Product information will always provide up-to-date information regarding for example the product's repair and return rates, alongside customer product reviews.

The Company also has an extremely broad right to return and change products. Returned and functional devices are wiped of user information and put on sale through the Outlet, instead of being, for example, destroyed.

Energy efficiency, a smaller carbon footprint

Verkkokauppa.com's carbon emissions are primarily created from transportation during product procurement and customer deliveries, and from the energy consumption of the stores. All electricity used by the Company is generated using renewable energy. The most significant source of emissions at stores is heating. District heating is used for heating all stores, and environmentally friendly district cooling is used for the cooling of the Helsinki flagship store. In all domestic transports, Verkkokauppa.com favors environmentally friendly partners such as Posti and Matkahuolto.

The total comparable electricity consumption of all of Verkkokauppa.com's stores in 2018 was 69% (62%) of the median. Electricity consumption saw a slight rise in comparison to the previous year. However, electricity consumption that is one third below the median can still be considered a good result. The source for the comparative information is the energy consumption data for commercial buildings, department stores and shopping malls from Motiva's energy review database. To increase the energy efficiency of its stores, Verkkokauppa.com is, among other things, replacing its lighting with LED lights. In 2019, the Company plans to explore opportunities for using solar energy at its stores.

Material recycling

All waste produced by the Company is sorted, and in 2018, 99.9% of it could be recovered. Most of the produced waste is reusable packaging cardboard, pallets and waste that is burned for energy. The Company's aim is to recycle an even greater proportion of its produced waste as raw material and in other reuse, instead of burning.

As part of WEEE collecting, the Company recycles electric and electronic waste it produces and receives from customers. In 2018, Verkkokauppa.com recycled more than 225 tons of WEEE-waste and nearly 2 tons of batteries. All recycling takes place in cooperation with partners.

Responsible procurement

In several product categories, Verkkokauppa.com has so called private label brands, whose products are generally manufactured in China. The Company conducts regular audits at the factories of its contract manufacturers to ensure that their operations are conducted in a responsible manner. In the audits, special attention is paid to employee well-being, health, safety, salaries and work hours.

One of the most important goals of the audits is to ensure that no child or forced labor is used in the factories. The audits are carried out by SGS, an international company specialized in inspection, certification, testing and auditing. In 2018, four audits were carried out. No implications of the use of child or forced labor nor other faults necessitating intervention were discovered in the audits. In addition, the Company carries out independent testing and quality assurance of the private label devices it sells.

Well-being and management of employees

In the strategy of Verkkokauppa.com, employees play a key part in the realization of the Company's business objectives. The Company is actively developing its management system to improve the well-being of employees and to offer a safe work environment to them. The key priority is to ensure that the Company continues to be an attractive employer, and to ensure the availability of employees and their commitment to the Company.

The Company has a shared mission and vision. The business strategy is based on the Company's shared values. The business strategy and goals are executed in day-to-day operations through goal-oriented management, performance reviews and regular feedback. The skills of employees are maintained through continuous training and development of operations. The tools available to achieve the strategic targets are flexible and will accommodate different types of operating environments and competitive situations.

At the end of 2018, Verkkokauppa.com Oyj had 683 (633) employees. The number of employees increased by 50, or 7.9%.

Occupational well-being and safety

At Verkkokauppa.com, occupational safety and well-being are monitored and developed in cooperation with HR, an occupational health and safety committee, and occupational health services. Well-being at work is promoted by supporting employees' health, work and operational capacity as well as quality of life in various ways. For example, Verkkokauppa.com uses the early support model for the work community. Ensuring a safe work environment means, for example, preventing accidents, and recognizing and avoiding safety hazards and near-miss incidents. To prevent hazards, employees are trained on occupational safety matters and safety risks are evaluated regularly.

In 2018, the sickness absence rate to theoretical total work days was 4.9% (4.4) among Verkkokauppa.com employees. The accident rate* was 1.91 (3.19).

*Accident rate = 1 per million person-hours, calculated from actual hours. The figures do not include minor accidents resulting in less than three days of absence, or travel accidents. The statistics do not include contractors.

Immediate supervisors play a key role

According to personnel surveys, many employees experience their work as meaningful and that they can influence their work. Similarly, mutual respect and helping one another receive praise from employees. It is also pleasing to hear that employees of different ages feel that they are being treated equally. Verkkokauppa.com is experienced as a pioneer that employees are proud of.

From the perspective of Verkkokauppa.com, good and skilled immediate supervisors are a significant resource for productive operations and motivated personnel. The Company considers the development of supervisors' skills as essential for overall well-being at work. In 2018, supervisor trainings focused, for example, on interaction skills. The skills of all employees are developed through job induction, training and job rotation.

Board and management diversity

The members of Verkkokauppa.com Oyj's Board of Directors shall represent diverse expertise and professional backgrounds in such a way that the professional and international experience, ages and genders mutually support and complement one another to benefit the Company's business and create shareholder value. A person elected as a Board member shall have the necessary qualifications as well as sufficient time to successfully carry out the duties involved in the position.

The principles concerning Board diversity also apply to the Management Team of Verkkokauppa.com.

Information presented in the notes to the financial statements

Information on the Company's personnel and related parties are provided in the notes to the financial statements.

Shares and share trading

The number of shares in the Company was 45,065,130 on 31 December 2018, including treasury shares. The Company has one share series with equal rights to vote and dividend.

Over the reporting period 7,062,002 shares, representing 15.7% of all shares in the Company, were traded at the Nasdaq First North Finland marketplace. The highest share price was EUR 8.09 and the lowest EUR 4.01. The average price in share trading was EUR 5.20. The total of share trading was EUR 37 million. The closing price was EUR 4.10, and the market capitalization of all shares was EUR 185 million at the end of the period.

The Company held 64,633 treasury shares on 31 December 2018. These treasury shares accounted for 0.14% of all shares. The treasury shares have no voting rights and no dividend is paid on them.

Share-based incentive plan
On 16 May 2018 Verkkokauppa.com Oyj established a new share-based incentive plan for key employees. The aim of the incentive plan is to increase the value of the Company in the long-term by aligning the objectives of the shareholders and key employees, to encourage key employees to personally invest in the Company's shares, to retain key employees at the Company and to offer them a competitive share-based reward plan.

In the Matching Share Plan, the participant receives a fixed number of matching shares against an investment in Verkkokauppa.com Oyj's shares. The Matching Share Plan includes three matching periods 2018–2020, 2019–2021 and 2020–2022. The Board will resolve annually on the commencement and details of matching periods. The prerequisite for receiving a reward based on this plan is that a person participating in the plan allocates freely transferable Company shares they hold in the plan, or acquires Company shares up to the number determined by the Board of Directors. The payment of reward is based on the participant's employment or service upon reward payment.

Board authorizations

The Annual General Meeting held on 21 March 2018 authorized the Board of Directors to decide on the repurchase of a maximum of 4,506,513 shares of the Company.

The authorization will be valid until the next Annual General Meeting, however no longer than 18 months from the resolution of the General Meeting.

The Board was authorized to decide upon a share issue or the issue of shares owned by the Company. This authorization is for maximum of 4,506,513 shares. The Board was authorized to decide upon all the conditions of the share issue. The authorization will be valid until the next Annual General Meeting, however no longer than 18 months from the resolution of the General Meeting.

In addition to the above, the Board has no other authorizations valid related to shares.

Board of Directors

The Board members were **Christoffer Häggblom**, **Robert Burén**, **Mikael Hagman**, **Minna Kurunsaari**, **Kai Seikku**, **Panu Porkka**, **Henrik Weckström** and **Samuli Seppälä** until the Annual General Meeting held on 21 March 2018. Christoffer Häggblom acted as the Chairman of the Board. At the Annual General Meeting held on 21 March 2018 the Board members Christoffer Häggblom, Robert Burén, Mikael Hagman, Kai Seikku and Samuli Seppälä were re-elected as members of the Board. **Arja Talma** was elected as a new member of the Board. At the constitutive meeting of the Board of Directors, convened after the Annual General Meeting, Christoffer Häggblom was elected as the Chairman of the Board of Directors. **Panu Porkka** is the Company's Chief Executive Officer as of 22 March 2018.

Annual General Meeting

The Annual General Meeting was held in Helsinki on 21 March 2018. The financial statements for the year 2017 were approved and the Board Members and the CEO were discharged from liability. It was decided to pay a dividend of EUR 0.044 per share, totaling EUR 1,982,865.78. The Board of Directors was authorized to decide at its discretion on the distribution of dividends not exceeding 0.138 euro per share or EUR 6,218,987.94 in total. The Annual General Meeting decided that the authorization will be used to distribute dividend three times during the period of validity of the authorization. Unless the Board of Directors decides otherwise, the payment dates of the dividends will be on 16 May 2018, 21 August 2018 and 6 November 2018.

After the Annual General Meeting, Verkkokauppa.com Oyj's Board of Directors held a constitutive meeting, where it resolved on the Board committees. The Board decided to continue with the following board committees: Audit Committee, Nomination and Remuneration Committee and Strategy Committee. Kai Seikku (Chairman), Samuli Seppälä, Arja Talma and Christoffer Häggblom were elected as members of the Audit Committee. Christoffer Häggblom (Chairman), Samuli Seppälä and Kai Seikku were elected as members of the Nomination and Remuneration Committee. Samuli Seppälä (Chairman), Christoffer Häggblom, Robert Burén and Mikael Hagman were elected as members of the Strategy Committee.

The Board election is explained above in the section Board of Directors.

The Authorized Public Accountant Pricewater-houseCoopers Oy was elected as the auditor, with Authorized Public Accountant **Ylva Eriksson** acting as the Principal Auditor.

Dividend

The Annual General Meeting of 2018 resolved to pay 0.044 euros (1,982,865.72 euros in total) per share as dividend. The record date for the dividend distribution was 23 March 2018 and the dividend payment date was 3 April 2018.

Verkkokauppa.com's Annual General Meeting authorized the Board of Directors to decide at its discretion on the distribution of dividends not exceeding 0.138 euro per share to be paid in three instalments during 2018.

The Board resolved on 4 May 2018 to pay a dividend of 0.045 euros per share (2,027,930.85 euros in total). The record date for the dividend distribution was 8 May 2018 and the dividend payment date was 16 May 2018.

The Board resolved on 10 August 2018 to pay a dividend of 0.046 euros per share (2,072,995.98 euros in total). The record date for the dividend distribution was 14 August 2018 and the dividend payment date was 21 August 2018.

The Board resolved on 26 October 2018 to pay a dividend of 0.047 euros per share (2,118,061.11 euros in total). The record date for the dividend distribution was 30 October 2018 and the dividend payment date was 6 November 2018.

Corporate governance statement

A corporate governance statement is available in the Company's Annual Report 2018 and on the Company's website at www.verkkokauppa.com/fi/investors/governance.

Risks and uncertainties

Verkkokauppa.com Oyj's risks and uncertainties reflect the market and general economic trends, for example, demand for consumer electronics, wholesale trade business, the business environment and competition. The Company's business operations are also influenced by risks and uncertainties relating to, for example, business strategy, investments, procurement and logistics, information technology, and other operative aspects of the business. The aforementioned risks and uncertainties may affect the Company's operations, financial position and performance positively or negatively.

Subsequent events

Verkkokauppa.com Oyj gave a profit warning on 17 January 2019 and preliminary information on the Company's revenue and comparable EBITDA for the year 2018.

Verkkokauppa.com Oyj published on 12 February 2019 IFRS comparative information.

Verkkokauppa.com Oyj gave a profit warning on 13 February 2019 and preliminary information on the Company's comparable EBITDA for the year 2018.

Verkkokauppa.com Oyj published on 15 February 2019 its medium-term financial targets restated according to IFRS

There are no other subsequent events that differ from usual business events, after the reporting period.

Board of Directors' proposal for profit distribution

The Company's non-restricted equity totals EUR 36,584,117.07.

The Board of Directors proposes to the Annual General Meeting that the Company's profit for the financial year of EUR 9,334,046.14 shall be transferred to the retained earnings/losses account and a dividend of EUR 0.198 per share shall be paid for the year 2018.

Financial targets

In the medium term the Company targets an annual revenue growth of 10–20%. In the medium term the Company aims for an annually growing operating profit and an operating margin of 2.5–4.5%. The Company's dividend policy is to pay an increasing dividend. Dividend is payed quarterly.

Business outlook

Verkkokauppa.com Oyj's business operations are estimated to develop positively within a medium-term time frame. The management believes that the Company will succeed in further growing its market share in chosen segments. The strong balance sheet enables the Company to continue expanding its operations in accordance with its strategy. However, the business outlook includes uncertainties related to macroeconomic trends in particular. The Finnish Ministry of Finance estimated on 19 December 2018 that the Finnish GDP will grow by 1.9% during 2019.

Verkkokauppa.com continues to assess opportunities to rent additional affordable retail and logistics space to support future growth.

Financial guidance

In 2019, the Company's revenue is expected to be between 500–550 million euros (2018: 478 million euros) and operating profit to be between 11–17 million euros (13.3 million euros).

Distribution of shareholders at 31 December 2018

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1–100	2,964	38.9%	144,054	0.3%
101–500	3,100	40.7%	782,629	1.7%
501–1 000	848	11.1%	645,968	1.4%
1 001–5 000	598	7.8%	1,229,852	2.7%
5 001–10 000	51	0.7%	362,210	0.8%
10 001–50 000	38	0.5%	759,141	1.7%
50 001–100 000	3	0.0%	201,482	0.4%
100 001–500 000	8	0.1%	1,616,385	3.6%
500 001–	12	0.2%	39,323,409	87.3%
Total	**7,622**	**100.0%**	**45,065,130**	**100.0%**
Nominee-registered	5		4,451,468	9.9%

Shareholder breakdown by sector at 31 December 2018

	Number of shareholders	% of shareholders	Number of shares	% of shares
Companies	230	3.0%	645,713	1.4%
Financial institutions and insurance companies	27	0.4%	5,781,587	12.8%
Public bodies	5	0.1%	5,685,520	12.6%
Non-profit organisations	11	0.1%	33,671	0.1%
Households	7,331	96.2%	26,276,758	58.3%
Non-Finnish nationals	18	0.2%	6,641,881	14.7%
Total	**7,622**	**100.0%**	**45,065,130**	**100.0%**

Major shareholders at 31 December 2018

Shareholder	Number of shares	% of shares
Seppälä Samuli	22,285,048	49.5%
Rite Ventures Finland Ab	2,172,576	4.8%
Keva	2,171,000	4.8%
Keskinäinen Työeläkevakuutusyhtiö Varma	2,065,932	4.6%
Sijoitusrahasto Nordea Nordic Small Cap	1,690,607	3.8%
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	1,285,388	2.9%
Fondita Nordic Micro Cap Placeringsfond	980,000	2.2%
Op-Suomi -Sijoitusrahasto	936,404	2.1%
Sijoitusrahasto Danske Invest Suomen Pienyhtiöt	700,000	1.6%
Skogberg Ville	634,266	1.4%
10 biggest shareholders total	**34,921,221**	**77.5%**
Other shareholders	10,143,909	22.5%
Total	**45,065,130**	**100.0%**

Share performance indicators

	IFRS 1–12/2018	IFRS 1–12/2017	FAS 1–12/2016
Revenue, thousand euros	477,833	431,870	371,045
Gross profit, thousand euros	72,020	62,450	57,107
Gross margin-%	15.1%	14.5%	15.4%
EBITDA, thousand euros	18,414	18,044	17,912
EBITDA-%	3.9%	4.2%	4.8%
Operating profit, thousand euros	13,324	13,460	13,634
Operating profit-%	2.8%	3.1%	3.7%
Profit for the financial year, thousand euros	9,334	9,449	9,573
Equity ratio, %	23.0%	25.1%	29.1%
Gearing, %	-54.3	-61.3	-42.8
Personnel at the end of the period	683	633	563
Share performance indicators			
Basic earnings per share, euros	0.21	0.21	0.21
Diluted earnings per share, euros	0.21	0.21	0.21
Number of issued shares	45,065,130	45,065,130	45,065,130
Number of treasury shares	64,633		
Weighted average number of shares outstanding	45,042,616	45,065,130	45,065,130
Dilutes weighted average number of shares outstanding	45,092,616	45,096,433	45,065,130
Equity per share, €	0.83	0.82	0.79
Dividend per share, €*	0.198	0.182	0.166
Payout ratio, %	96%	87%	78%
Effective dividend yield, %	4.8%	2.6%	2.2%
Price per earnings ratio (P/E ratio)	19.8	33.8	34.7
Lowest share price	4.01	6.63	6.10
Highest share price	8.09	10.01	8.20
Average share price	5.20	7.78	6.87
Period end share price	4.10	7.08	7.38
Market value of the shares at period end, MEUR	184.80	319.00	332.60
The number of traded shares	7,062,002	7,553,034	4,092,299
Traded shares of all shares, %	15.7%	16.8%	9.1%

* 2018: Board of directors' proposal including dividend payment authorization

Calculation of key ratios

1) Gross profit = Revenue – materials and services

2) Gross margin, % = (Revenue – materials and services) / Revenue

3) EBITDA = Operating profit + depreciation + amortization

4) EBITDA % = (Operating profit + depreciation + amortization) / Revenue

5) Operating profit = Result for the period before income taxes and net finance income and costs

6) Operating margin, % = Operating profit / Revenue

7) Equity ratio, % = Total equity / (Balance sheet total – advance payments received) x 100

8) Gearing, % = (Interest bearing liabilities + lease liabilities – cash and cash equivalents – interest bearing receivables) / Total equity

9) Earnings per share, basic = Profit for the period attributable to equity holders of the company / Weighted average number of shares outstanding

10) Earnings per share, diluted = Profit for the period attributable to equity holders of the company / Weighted average number of shares outstanding + dilutive potential shares

11) Equity per share = Equity / Number of shares at reporting day

12) Dividend per share = Dividend / Number of shares at reporting day revised by share split

13) Payout ratio, % = Dividend per share revised by share split / Earnings by share revised by share split x 100

14) Effective dividend yield % = Dividend per share / Share price at reporting day x 100

15) Price per earnings ratio (P/E ratio) = Share price at reporting day / Earnings per share

16) Traded shares of all shares, % = The number of changed share during the reporting period / The average number of share during the reporting period x 100

FINANCIAL STATEMENTS 2018

1 Income statement (IFRS)

EUR thousand	Note	2018	2017
Revenue	7.2	**477,833**	**431,870**
Other operating income	7.3	389	81
Materials and services	7.4	-405,813	-369,420
Employee benefit expenses	7.5	-30,300	-26,084
Depreciations	7.7	-5,090	-4,584
Other operating expenses	7.8	-23,696	-18,403
Operating profit		**13,324**	**13,460**
Finance income	7.9	9	123
Finance costs	7.9	-1,670	-1,771
Profit before income taxes		**11,662**	**11,812**
Income taxes	7.10,7.16	-2,328	-2,363
Profit for the financial year		**9,334**	**9,449**
Profit for the financial year attributable to			
Equity holders of the Company		9,334	9,449
Earnings per share calculated from the profit for the financial year attributable to equity holders			
Earnings per share, basic and diluted (EUR)	7.11	0.21	0.21

2 Statement of comprehensive income (IFRS)

EUR thousand	Note	2018	2017
Profit for the financial year		**9,334**	**9,449**
Items that will not be reclassified to profit or loss			
Realized changes in fair values of equity investments		-	308
Changes in fair values of equity investments		-15	-19
Other comprehensive income after taxes, total	7.16	**-15**	**289**
Comprehensive income for the financial year		**9,319**	**9,738**
Comprehensive income for the financial year attributable to			
Equity holders of the Company		9,319	9,738

The notes are an integral part of these financial statements.

3 Statement of financial position (IFRS)

EUR thousand	Note	31 Dec 2018	31 Dec 2017	1 Jan 2017
Non-current assets				
Intangible assets	7.13	1,067	970	1,222
Property, plant and equipment	7.14	1,970	1,976	1,397
Right-of-use assets	7.15	21,764	24,589	22,023
Equity investments	7.21.2	275	294	252
Deferred tax assets	7.16	1,112	1,182	1,220
Trade receivables	7.17	1,544	1,039	231
Other non-current receivables		438	437	121
Non-current assets, total		**28,171**	**30,487**	**26,467**
Current assets				
Inventories	7.18	65,784	47,012	43,302
Trade receivables	7.17	15,266	11,396	7,443
Other receivables	7.17	1,752	1,242	517
Income tax receivables	7.10	199	115	-
Accrued income	7.17	9,823	6,818	4,937
Cash and cash equivalents	7.19	46,746	51,878	41,692
Current assets, total		**139,570**	**118,461**	**97,892**
Total assets		**167,741**	**148,948**	**124,358**

EUR thousand	Note	31 Dec 2018	31 Dec 2017	1 Jan 2017
Equity				
Share capital		100	100	100
Treasury shares		-502	-	-
Fair value reserve		-33	-18	1
Invested non-restricted equity fund		25,585	25,493	25,493
Retained earnings		3,082	1,773	249
Profit for the financial year		9,334	9,449	9,599
Total equity	7.20	**37,565**	**36,797**	**35,441**
Non-current liabilities				
Lease liabilities	7.15	22,753	25,507	24,017
Deferred tax liabilities	7.16	18	9	15
Provisions	7.23	560	637	810
Non-current liabilities, total		**23,331**	**26,154**	**24,842**
Current liabilities				
Lease liabilities	7.15	3,592	3,808	2,522
Advance payments received		4,301	2,558	2,400
Trade payables		80,695	63,149	42,087
Other current liabilities	7.22	4,077	5,225	4,632
Accrued liabilities	7.22	14,181	11,257	11,361
Income tax liabilities		-	-	1,073
Current liabilities, total		**106,845**	**85,997**	**64,075**
Total liabilities		**130,176**	**112,151**	**88,917**
Total equity and liabilities		**167,741**	**148,948**	**124,358**

The notes are an integral part of these financial statements.

4 Statement of cash flows (IFRS)

EUR thousand	Note	2018	2017
Cash flow from operating activities			
Profit before income taxes		11,662	11,812
Adjustments			
Depreciation and amortization	7.7	5,090	4,584
Gain on sales and losses on fixed assets and scrapping		-	57
Finance income and costs	7.9	1,630	1,648
Other adjustments		69	-173
Cash flow before change in working capital		18,451	17,928
Change in working capital			
Increase (-) / decrease (+) in non-current non-interest-bearing trade receivables		-506	-1,124
Increase (-) / decrease (+) in trade and other receivables		-7,384	-6,559
Increase (-) / decrease (+) in inventories		-18,772	-3,710
Increase (+) / decrease (-) in current liabilities		21,276	21,866
Cash flow before financial items and taxes		13,065	28,402
Interest paid		-38	-51
Interest received		9	123
Interest of lease liabilities		-1,632	-1,720
Income tax paid		-2,543	-3,521
Cash flow from operating activities		**8,861**	**23,233**
Cash flow from investing activities			
Purchases of property, plant and equipment		-582	-1,360
Purchases of intangible assets		-774	-376
Purchases of equity investments		-	-297
Proceeds from equity investments		-	543
Cash flow from investing activities		**-1,356**	**-1,490**
Cash flow from financing activities			
Decrease (-) / increase (+) in lease liabilities		-3,939	-3,175
Dividends paid		-8,195	-8,382
Acquisition of treasury shares		-502	-
Cash flow from financing activities		**-12,636**	**-11,557**
Increase (+) / decrease (-) in cash and cash equivalents		**-5,131**	**10,186**
Cash and cash equivalents at beginning of financial year		51,878	41,692
Cash and cash equivalents at end of financial year	7.19	46,746	51,878

The notes are an integral part of these financial statements.

5 Statement of changes in equity (IFRS)

A Share capital
B Treasury shares
C Invested non-restricted equity fund
D Fair value reserve
E Retained earnings
F Company shareholders' equity
G Total equity

EUR thousand	Note	A	B	C	D	E	F	G
Equity 1 Jan 2017 (FAS)		**100**	**-**	**25,493**	**-**	**13,857**	**39,450**	**39,450**
Impact of adoption of IFRS	7.27.1	-	-	-	1	-4,009	**-4,008**	**-4,008**
Equity 1 Jan 2017 (IFRS)		**100**	**-**	**25,493**	**1**	**9,848**	**35,441**	**35,441**
Profit for the financial year		-	-	-	-	9,449	**9,449**	**9,449**
Realized changes in fair values of equity investments		-	-	-	308	-	**308**	**308**
Changes in fair values of equity investments		-	-	-	-19	-	**-19**	**-19**
Comprehensive income for the financial year, total		**-**	**-**	**-**	**289**	**9,449**	**9,738**	**9,738**
Reclassification of disposed equity investment from fair value reserve to retained earnings		-	-	-	-308	308	**-**	**-**
Reclassifications between items		**-**	**-**	**-**	**-308**	**308**	**-**	**-**
Dividend distribution	7.20	-	-	-	-	-8,382	**-8,382**	**-8,382**
Transactions with owners, total		**-**	**-**	**-**	**-**	**-8,382**	**-8,382**	**-8,382**
Equity 31 Dec 2017 (IFRS)		**100**	**-**	**25,493**	**-18**	**11,222**	**36,797**	**36,797**

EUR thousand	Note	A	B	C	D	E	F	G
Equity 1 Jan 2018 (IFRS)		**100**	**-**	**25,493**	**-18**	**11,222**	**36,797**	**36,797**
Profit for the financial year		-	-	-	-	9,334	**9,334**	**9,334**
Changes in fair values of equity investments		-	-	-	-15	-	**-15**	**-15**
Comprehensive income for the financial year, total		**-**	**-**	**-**	**-15**	**9,334**	**9,319**	**9,319**
Dividend distribution	7.20	-	-	-	-	-8,195	**-8,195**	**-8,195**
Acquisition of treasury shares		-	-502	-	-	-	**-502**	**-502**
Disposal of treasury shares - Board fees		-	-	92	-	-	**92**	**92**
Share-based incentives	7.12	-	-		-	54	**54**	**54**
Transactions with owners, total			**-502**	**92**		**-8,141**	**-8,551**	**-8,551**
Equity 31 Dec 2018 (IFRS)		**100**	**-502**	**25,585**	**-33**	**12,416**	**37,565**	**37,565**

6 Accounting policies

In an effort to make it easier to read and understand the financial statements, Verkkokauppa.com Oyj presents part of the accounting policies as part of the note in question, emphasized in a grey text box. The text of the standard will be repeated in the accounting policy if the Company considers it necessary in order to understand the application of said policy.

6.1 Basic information on the Company

Verkkokauppa.com Oyj is the best-known and most-visited Finnish retail store in Finland, and it operates mainly online. Verkkokauppa.com Oyj is a public limited company, the shares of which are quoted on First North of Nasdaq Helsinki Ltd. The business identity code of the Company is 1456344-5 and it is domiciled in Helsinki. The registered address of its head office is Tyynenmerenkatu 11, Helsinki.

These financial statements were authorized for issue by the Board of Directors of the Company on 6 March 2019. In accordance with the Finnish Corporate Act, the shareholders have a right to approve or reject the financial statements in the Annual General Meeting held after the release of the financial statements. The Annual General Meeting also has a possibility to decide upon changes in the financial statements.

6.2 Basis of preparation

These Verkkokauppa.com Oyj separate financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and their IFRIC interpretations, approved for application in the EU on 31 December 2018. The notes to the financial statements also comply with the Finnish accounting and corporate legislation that completes the IFRS.

The financial statements as of 31 December 2018 are Verkkokauppa.com Oyj's first financial statements in accordance with IFRS, containing comparative information for the period ended as of 31 December 2017. The Company's date of transition to IFRS was 1 January 2017, and IFRS 1 First-time Adoption was applied in the transition. Verkkokauppa.com Oyj has not applied any optional exemptions allowed by IFRS 1 in the transition. The financial statements were prepared up to 31 December 2017 in accordance with Finnish Accounting Standards (FAS). The implementation of IFRS and its effects are described in more detail in the note 7.27 *Transition to IFRS reporting*.

Verkkokauppa.com Oyj decided to early adopt IFRS 16 Leases which is applied fully retrospectively. Application of the standard is not mandatory at the end of the first IFRS financial year on 31 December 2018.

The financial statements are prepared based on the historical cost basis. Exceptions are equity investments that are measured at fair value through other comprehensive income, share-based payments that are measured at fair value at grant date, lease liabilities and right-of-use assets discounted at the present value.

Verkkokauppa.com Oyj has control of the Estonian company Arctecho Oü, of which it owns 100% of the shares. There have been no business activities in said company in more than five years and the company does not have receivables from or liabilities to Verkkokauppa.com Oyj. Thus, Verkkokauppa.com Oyj will not prepare consolidated financial statements based on materiality. The Company has begun the liquidation of the subsidiary at the end of the financial year 2018.

The financial statements have been prepared in euros, the Company's functional and presentation currency. Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the date of the transaction. Receivables and liabilities denominated in foreign currencies are translated at the exchange rates prevailing on the reporting date. Exchange rate differences resulting from operating activities are recognized as adjustments to the purchases.

The figures presented in the financial statements are in thousands of euros. The figures are rounded, and therefore the sum of individual figures may deviate from the aggregate amount presented.

6.3 Accounting policies requiring judgement by the management and key factors of uncertainty related to estimates

The preparation of IFRS financial statements requires judgement by the management to make decisions related to the choice and application of the accounting policies.

In addition, the management has to make accounting estimates and assumptions on the future that may affect the amounts of the assets, liabilities, income and expenses recognized during the reporting period. The actuals may differ from said estimated amounts.

Management judgement related to the choice and application of accounting policies

The management has to make judgement-based decisions related to the choice and application of IFRS accounting policies. This is especially related to cases where the IFRS contain optional modes of recognition, measurement and/or presentation. The following entail significant judgement:

Segment reporting

The management of Verkkokauppa.com Oyj has exercised judgement when it has applied the aggregation criteria to aggregate the operating segments into one reportable segment. The customers are the same across all operating segments that offer the same goods and services under the same terms in one main market i.e. Finland. The key to the Company's business model is a strong integration of webstore and retail stores, joint support functions serving the entire business as well as the volume benefits enabled by centralized business.

Key factors of uncertainty related to estimates

The estimates and assumptions are based on historical knowledge and/or other justifiable assumptions which are considered to be reasonable at the time of preparing the financial statements. It is possible that actuals differ from the estimates used in the financial statements. The factors of uncertainty and assumptions made related to estimates that may produce a significant risk of change in the carrying amounts of assets and liabilities relate to the following items:

Measurement of leases
The lease liabilities and the right-of-use assets that are recognized in the balance sheet are significantly impacted by the discount rate used in calculating their present values and the consideration of extension options. The management of the Company has taken into consideration the Company's business model and the agility expected within it in relation to physical market places in an ever-changing business environment as it estimates the probability of the exercise of extension options. The management has taken into consideration the changes in the financial position of the Company when defining the risk premium of the company-specific discount rate.

Measurement of inventories
A significant part of the Company's balance sheet is formed of inventories which consist of goods held for sale. Inventories bear the risk of the recoverable amount being below cost. To assess the risk, the management of the Company monitors regularly the item turnover rates and compares the sales price to the value of the stock. A write-down is recognized if the sales price of an item at the time of reporting is lower than its cost in the balance sheet. In addition, the Company recognizes write-down separately for aged items based on stock days.

Risk of credit losses of the company-financed Apuraha consumer financing service receivables
The Company offers Apuraha financing to its customers. These receivables contain a risk of credit loss. The Company recognizes the expected credit loss according to the provision matrix model. A more detailed description of the provision matrix can be found in the note 7.21.3 *Financial risk management*. The sufficiency of credit loss percentages is being monitored regularly. In assessing the amount of the expected credit losses and the sufficiency of credit loss percentages, changes in the customers' payment behavior are being monitored as well as the amount of the realized credit losses.

Rebates related to inventory
The amount and timing of inventory-related rebates are subject to uncertainty. The realization of contractual targets generates uncertainty in the amount of rebates recognized. The management of the Company regularly assesses the recognized amount of the rebates based on objectives by monitoring both actual purchase volumes and possibly realized supplier rebates. When the contract time extends over the balance sheet date, the amount to be accrued entails judgement by the management.

Provisions
The Company recognizes provisions related to the following items: product warranties and the expected credit losses of financial guarantee contracts. The probability and amount of the provisions entail estimates. The management of the Company regularly assesses the amount of realized costs based on historical actuals.

6.4 The impacts of not yet effective IFRS

No published but not yet effective IFRS, IFRIC interpretations or annual improvements or amendments to IFRS are expected to have a material impact on the financial statements.

7 Notes to the financial statements

7.1 Segment reporting

Verkkokauppa.com Oyj reports the operating segments in a manner that is uniform with the internal reporting delivered to the chief operating decision maker. The chief operating decision maker of Verkkokauppa.com Oyj is the Board of Directors together with the CEO. The chief operating decision maker is responsible for allocating resources to the operating segments and for assessing their performance.

Verkkokauppa.com Oyj has one reportable segment. All the aggregated operating segments share similar characteristics. The customers are the same across all operating segments that offer the same goods and services in uniform conditions in one main market i.e. Finland. The key to the Company's business model is a strong integration of webstore and retail stores, common support functions serving the entire business as well as the volume benefits enabled by centralized business.

Due to the large amount of customers and the nature of the business, sales to one single customer have not exceeded 10 percent of the entire revenue in 2018 nor in the comparative year 2017. The entire revenue of the Company is principally generated from one geographical area, Finland.

7.2 Revenue from contracts with customers

Revenue streams

The revenue streams of the Company consist of the sale of goods and services. There are over 65,000 products in the range of products from 26 different main product areas which the Company sells to consumers through its own webstore and four retail stores in Finland. The sale of services rendered by the Company includes, for example, installation and maintenance services, subscription sales, and visibility sales. The customers of Verkkokauppa.com Oyj are consumers and companies.

Revenue recognition from sale of goods

The sale of goods to the customer through the retail store is recognized upon handover of the good when control is transferred. If the customer has opted for transportation, the sale will be recognized when the customer assumes control of the goods.

The transaction price of sale of goods consists of the list price of the goods, the variable consideration related to the right to return, as well as the transportation fee in those cases where the customer has opted for transportation. In relation to the right to return, the Company calculates the estimate of goods returned within the 32 days of right to return using the expected value method and recognizes the refund liability (included in accrued liabilities) and the asset (included in accrued income) related to the returned goods.

Verkkokauppa.com Oyj offers its customers different payment methods of which the most significant is the Apuraha consumer financing service. Regardless of the payment method, the price of the good always remains the same. By paying through the Apuraha service, the customer is granted a payment time for the purchase and Verkkokauppa.com Oyj receives interest on capital. In addition to Verkkokauppa.com Oyj, also a third party may function as the financier. Whenever the customer selects Apuraha as payment method and a third party functions as the financier, the income generated by customer financing is treated as the variable element of the transaction price. The management of the Company considers that the estimate of said variable consideration has been constrained. If the income from customer financing were recognized at the time of transfer of control, a significant reversal of revenue could potentially occur. Thus, Verkkokauppa.com Oyj recognizes the revenue from customer financing on a monthly basis according to the actuals. In the case that Verkkokauppa.com Oyj finances the customer, the income from this financing component is accordingly recognized on a monthly basis according to the actuals. At the end of 2018, the Company terminated a partnership agreement with a third party that financed private customers. The partnership agreement and related liabilities were terminated. The use of a third party continues to a small degree in corporate customer financing.

The contracts with customers of Verkkokauppa.com do not contain separate performance obligations recognized at different times. The product warranties offered by the Company, third-year warranty, as well as the warranties of the Company's own brands are treated as assurance-type warranties, because they do not render additional service to the customer. Assurance-type warranties are recognized as provisions. More detailed principles are found in the note 7.23 *Provisions*.

Revenue recognition of sale of services

The Company recognizes revenue from installation and service contracts with customers when the service has been rendered. The duration of rendering services is short, and the duration of services is usually defined in the hours. The Company recognizes revenue from visibility sales mainly over time, based on passage of time. The method of defining the time-based measurement of progress corresponds to the input. The customer benefits from the visibility during the service. The transaction price of contracts with customers of sale of services does not contain variable elements and instead consists mainly of fixed prices. A contract asset will be recognized if the invoicing of visibility services is below the recognized revenue based on passage of time. The Company presents the receivables connected to these as part of accrued income in the balance sheet.

Gift cards

Verkkokauppa.com Oyj sells gift cards for the sum chosen by the customer. On the gift card sales transaction, a gift card liability is recognized. When the gift card is redeemed, revenue is recognized. The unredeemed gift cards are recognized as revenue when they have expired. The gift card is valid for one year after its purchase.

Presentation of revenue

Verkkokauppa.com Oyj presents sales revenues from contracts with customers less indirect taxes in the revenue. Verkkokauppa.com Oyj is the principal for the goods and services it sells except for subscriptions sold on behalf of telecommunications operators, in which case Verkkokauppa.com Oyj functions as an agent and presents the commission portion in the revenue.

The management of the Company has exercised judgement when it has classified the income from the company-financed Apuraha consumer financing service in the revenue instead of presenting it under finance income. The interpretation of the management of the Company is that offering customer financing represents an integral part of the Company's business and business model.

The visibility that the Company sells in the store, online, and in different advertising media is presented as a part of the revenue because it forms a part of the business model of Verkkokauppa.com Oyj and a part of its ordinary business. As far as the received consideration is tied to the amounts that Verkkokauppa.com Oyj purchases, the considerations received from visibility are presented mainly as purchase adjustments.

Disaggregation of revenue

The Company's revenue consists of revenue from contracts with customers. For other types of income, see note 7.3 *Other operating income* and 7.9 *Finance income and expenses*. The Company's entire revenue is generated in its functional currency i.e. the euro, and in one principal market area, Finland.

The timing of satisfying performance obligations

The revenue recognized at a point in time is related to the sales of goods. Revenue from services is mainly recognized over time.

EUR thousand	2018	2017
At a point in time	470,971	424,061
Over time	6,862	7,810
Revenue, total	**477,833**	**431,870**

Income recognized from customer financing

The Company presents all the income from customer financing as part of the revenue in the primary financial statements.

The table below describes the income recognized from company-financed Apuraha customer financing service for the reporting period divided into income recognized using the effective interest rate method and other income. Other income consists of other fees.

EUR thousand	2018	2017
Interest income recognized using effective interest rate method	1,123	414
Other income from company-financed customer financing	2,019	1,075
Income from company-financed Apuraha, total	**3,142**	**1,489**

Contract assets and liabilities

EUR thousand	31 Dec 2018	31 Dec 2017	1 Jan 2017
Contract assets	1,329	1,077	1,116
Contract liabilities	1,612	1,323	1,265

Contract assets are related to unbilled services rendered up to the balance sheet date as well as assets related to the right to return. Contract assets related to already rendered services are transferred to trade receivables at the time of their invoicing. The invoicing interval depends on contracts with customers. On average, the invoicing interval is three months. There have been no significant changes in the contract assets and liabilities between reporting periods.

Contract liabilities contain the gift card liability as well as the refund liability related to the right to return. The unredeemed gift cards are recognized as sales revenues when they expire. The gift card is valid for one year from its purchase. If the customer does not take advantage of the right to return, the asset related to right to return and refund liability is reversed. The increase in contract liabilities is due to the increase in the amount of gift cards and the rise in the refund liability brought on by higher sales.

The amount of revenues recognized during the financial year 2018 that was included in the contract liabilities at the beginning of the year was 776 thousand euros (755).

Performance obligations

In 2018, the revenue recognized from the performance obligations satisfied in previous years was 462 thousand euros (721). These revenues recognized are related to the sales contracts of the Apuraha customer financing wherein a third party is the financier. The income received from third-party-financed sales contracts are treated as variable consideration that has not been included in the transaction price at the time of the transfer of control of the good because of the constraint applied on the assessment.

The Company applies the practical expedient and does not present the aggregate amount of the transaction price allocated to the performance obligations partially unsatisfied at the balance sheet date nor an explanation of when they will be satisfied.

7.3 Other operating income

In other operating income, the Company presents rental income, gain on sale of property, plant and equipment, and other income that are not directly related to the Company's ordinary business operations.

Lease income is related to the sub-leasing of right-of-use asset items. More detailed principles related to it are found in the note 7.15 *Leases*.

EUR thousand	2018	2017
Lease income from sub-leasing rights-of-use items	247	62
Other income	142	18
Other operating income, total	**389**	**81**

7.4 Materials and services

EUR thousand	2018	2017
Purchases during the financial year	423,450	366,056
Change in inventories	-18,772	-3,710
External services	1,135	7,074
Materials and services, total	**405,813**	**369,420**

7.5 Employee benefits

Obligations related to current employee benefits

Current employee benefits are wages and salaries, including fringe benefits, and annual leave paid within the 12- month period. Current employee benefits are recognized for work completed up to the balance sheet date in other liabilities and are measured to the amount that is expected to be paid when the liabilities are settled.

Pension obligations

The pension plan of Verkkokauppa.com Oyj is a defined contribution plan. The payments of a defined contribution pension plan are made to the pension insurance companies after which the Company does not have any other payment obligations anymore. Payments made due to a defined contribution pension plan are recognized as expenses in the income statement for the financial year they are attributed to.

EUR thousand	2018	2017
Wages and salaries	24,257	20,489
Pension expenses -defined contribution plans	4,407	3,857
Share-based payments	54	-
Other personnel-related expenses	894	1,006
Voluntary employee benefits	1,069	1,042
Total employee benefits before capitalization	**30,681**	**26,394**
Capitalized employee benefits for the financial year		
Wages and salaries	-313	-252
Pension expenses -defined contribution plans	-57	-47
Other personnel-related expenses	-12	-10
Capitalized employee benefits for the financial year	-382	-309
Total employee benefits	**30,300**	**26,084**

Capitalized employee benefits are related to the development of the Company's enterprise resource planning system, of which there is more information in the note 7.13 *Intangible assets.*

	2018	2017
Number of personnel at the end of the financial year	683	633

The average numbers of personnel do not include temporary agency workers.

Information about the key management's employee benefits are presented in note 7.6 *Remuneration of key management personnel.*

More information about share-based payments can be found in the note 7.12 to the financial statements, *Share-based payments.*

7.6 Remuneration of key management personnel

Members of the key management personnel comprise of the Board of Directors, the CEO and the management team.

The Nomination and Remuneration Committee of the Board of Directors prepares the framework for remuneration of the Company's CEO and the management team, and the Board of Directors resolves on the remuneration of the CEO. The chairperson of the Board of Directors approves the remuneration and other benefits of the management team operating under the CEO.

Remuneration of the CEO and the management team

Short-term employee benefits

The short-term employee benefits of the CEO comprise a fixed base salary and fringe benefits (such as rights to company car and phone) as well as an incentive bonus related to the achievement of financial and operational targets. The short-term employee benefits of the management team comprise a base salary and fringe benefits (such as rights to company car and phone) as well an incentive bonus related to the achievement of financial and operational targets. The basic salary can consist of hourly wage or monthly wage. Certain management team members are entitled to additional pay in accordance with the collective agreement for commercial sector (FI: kaupan alan työehtosopimus) for work outside normal working hours.

The short-term incentives consist of an annual bonus program with performance targets. The Board of Directors decides annually on the performance criteria and the determination of the incentives based on the proposal of the Nomination and Remuneration Committee. For 2018, the performance targets were based 50% on the 2018 sales target and 50% on the 2018 comparable EBITDA target. The Board may also, in its absolute discretion, resolve on separate one-off compensations (bonus) from time to time.

Post-employment benefits

The CEO or management team members do not have any post-employment benefits.

Termination benefits

The notice period of the CEO is 12 months. If the Company dismisses the CEO, the CEO is pursuant to the CEO agreement entitled to a compensation corresponding to his base salary for six (6) months. The notice period for other members of the management team is as a rule six (6) months, and the corresponding severance pay for certain individuals corresponds to six months cash salary at the time of the agreement's termination.

Share-based payments

On 16 May 2018, the Company announced that the Board of Directors of the Company had resolved to launch a share-based incentive scheme for key management. The scheme, which commenced in 2018, includes three matching periods for 2018–2020. In the matching share plan, the participant receives a fixed amount of matching shares against an investment in Verkkokauppa.com Oyj's shares. The prerequisite for receiving reward on the basis of the plan is that a person participating in the plan allocates freely transferable Company shares held by him or her or acquires Company shares up to the number determined by the Board of Directors. Furthermore, the reward payment is based on the participant's employment or service upon the reward payment. The share-based payments are described in more detail in the note 7.12 *Share-based payments.*

The table below presents the remuneration of the CEO and the management team. The sums are presented on an accrual basis. The share-based payments are based on estimates at year-end of their realization. The share-based payments contain the accrued and recognized costs for the financial year, independent of when the shares are delivered.

2018

EUR Thousand	CEO Panu Porkka	CEO Samuli Seppälä	Management team	2018, total
Short-term employee benefits				
Fixed basic salaries and fringe benefits	317	1	866	**1,183**
Incentive bonus	90	-	-	**90**
Statutory pension	74	-	156	**230**
Share-based payments				
Share-based payments	27	-	27	**54**
Total	**508**	**1**	**1,048**	**1,557**

2017

EUR Thousand	CEO Samuli Seppälä	Management team	2017, total
Short-term employee benefits			
Fixed basic salaries and fringe benefits	2	901	**903**
Incentive bonus	-	9	**9**
Statutory pension	-	166	**166**
Share-based payments			
Share-based payments	-	-	**-**
Total	**2**	**1,075**	**1,078**

Remuneration of the Board of Directors

The General Meeting of Verkkokauppa.com Oyj elects the members of the Board of Directors annually and resolves on their remuneration. The term of office lasts until the end of the Annual General Meeting following their election. The members of the Board of Directors are not included in the share-based plan and neither are they employed by the Company.

The fees of the members of the Board of Directors consist of an annual fee paid for the Board membership as well as Committee fees paid either as an annual fee or meetings fees. The fees also vary depending on the member's role as Chair or member of the Committee or the Board. In addition, reasonable accrued travel and lodging expenses as well as other potential costs related to Board and Committee work are compensated. No fees have been paid to members of the Board of Directors who are employed by the Company.

The Annual General Meeting of Verkkokauppa.com Oyj resolved on 21 March 2018 that half of the annual fee of the members of the Board of Directors is paid in shares of the Company after each quarterly release and the remaining part of the annual fee is paid in cash, which is used to cover taxes arising from the fees. During the financial year 2018, the Company transferred a total of 17,687 treasury shares for the payment of annual fees. The shares given as remuneration to Board members are not subject to any ownership restrictions or lock-up provisions.

The below table presents the total remuneration of the Board of Directors. The sums are presented on an accrual basis.

EUR Thousand	2018	2017
Board members 31 Dec 2018		
Christoffer Häggblom, Chairman of the Board, Chairman of the Nomination and Remuneration Committee	70	40
Kai Seikku, Chairman of the Audit Committee	42	20
Samuli Seppälä, Chairman of the Strategy Committee	54	-
Arja Talma (Board member from 21 March 2018)	32	-
Robert Burén	29	18
Mikael Hagman	28	20
Former Board members		
Minna Kurunsaari (Board member until 21 March 2018)	-	20
Panu Porkka (Board member until 21 March 2018)	-	18
Henrik Weckström (Board member until 21 March 2018)	-	-
Remuneration of the Board of Directors, total	**255**	**137**

7.7 Depreciation and amortization

EUR thousand	2018	2017
Intangible assets		
Development costs	496	556
Intangible assets	62	72
Amortization of intangible assets, total	**559**	**628**
Tangible assets		
Machinery and equipment	588	533
Other tangible assets	118	191
Depreciation of tangible assets, total	**707**	**724**
Right-of-use assets		
Premises and facilities	3,496	2,825
Machinery and equipment	329	407
Depreciation of right-of-use assets, total	**3,825**	**3,232**
Depreciation and amortization, total	**5,090**	**4,584**

7.8 Other operating expenses

Other operating expenses

EUR thousand	2018	2017
Premises maintenance and operation expenses	4,214	3,658
Financial transactions expenses	2,245	1,777
Marketing	6,589	4,944
Administrative services	6,337	2,762
Other expenses	4,311	5,262
Other operating expenses, total	**23,696**	**18,403**

Auditors' fees

EUR thousand	2018	2017
Statutory audit	105	72
Other services	33	16
Auditors' fees, total	**137**	**89**

The audit firm elected by the annual general meeting is Pricewaterhou-seCoopers Oy. Other services consisted mainly of consultancy on transi-tion to IFRS.

7.9 Finance income and costs

Finance income

EUR thousand	2018	2017
Interest income	9	123
Finance income, total	**9**	**123**

Finance costs

EUR thousand	2018	2017
Lease liability interest	1,632	1,720
Other interest costs	14	19
Other finance costs	24	33
Finance costs, total	**1,670**	**1,771**

7.10 Income taxes

Taxes calculated on the basis of the taxable profit for the financial year, tax adjustments for earlier reporting periods as well change in deferred tax liabilities and assets are recognized in the income taxes item in the income statement. The tax effect of the items recognized directly in equity is respectively recognized as a part of equity. The current tax charge is calculated based on the tax rate in force.

Income taxes in the income statement

EUR thousand	2018	2017
Current taxes	2,246	2,326
Change in deferred taxes	82	37
Income taxes, total	**2,328**	**2,363**

Taxes entered with a positive value are recognized as expenses and taxes with a negative value are recognized as income.

The Company has no pending cases of tax disputes.

Reconciliation of the effective tax rate

EUR thousand	2018	2017
Profit before income taxes	11,662	11,812
Taxes calculated at the Finnish tax rate 20%	2,332	2,362
Effect of tax-exempt income and non-deductible expenses	-4	0
Income taxes recognized in the income statement, total	**2,328**	**2,363**
Effective tax rate (%)	20.0%	20.0%

The Finnish tax rate in the financial statements of the financial years 2018 and 2017 was 20 percent.

Income taxes related to other comprehensive income items

2018

EUR thousand	Before taxes	Tax effect	After taxes
Changes in fair values of equity investments	-19	4	-15
Other comprehensive income items of the financial year, total	**-19**	**4**	**-15**

2017

EUR thousand	Before taxes	Tax effect	After taxes
Realized changes in fair values of equity investments	312	-4	308
Changes in fair values of equity investments	-24	5	-19
Other comprehensive income items of the financial year, total	**288**	**0**	**289**

Changes in deferred tax assets and liabilities are presented in note 7.16 *Deferred tax assets and liabilities.*

7.11 Earnings per share

The basic earnings per share is calculated by dividing the result for the financial year attributable to the shareholders with the weighted outstanding average number of shares during the financial year.

When calculating the earnings per share adjusted by dilution, the weighted average of the number of shares takes into account the diluting effect resulting from changing into shares all potentially dilutive shares.

	2018	2017
Earnings per share, basic		
Profit for the year attributable to the shareholders, EUR thousand	9,334	9,449
Weighted average number of outstanding shares, pcs.	45,042,616	45,065,130
Basic earnings per share, EUR	0.21	0.21
Earnings per share, diluted		
Profit for the year attributable to the shareholders, EUR thousand	9,334	9,449
Potentially dilutive shares of share-based incentive plan, pcs.*	50,000	-
Diluted weighted average number of shares outstanding, pcs.	45,092,616	45,065,130
Diluted earnings per share, EUR	**0.21**	**0.21**

*The share-based incentive plan was started in 2018. There were no potentially dilutive shares of the share-based incentive plan in the comparative year 2017.

More information on the number of shares is presented in note 7.20 *Equity.*

7.12 Share-based payments

The Company has a share-based incentive plan that is classified as an equity-settled share-based payment arrangement with a net settlement feature. The Company will, on behalf of the employee, withhold an amount of shares of the share reward that will cover the taxes and parafiscal charges paid in cash.

The benefits granted are measured to the fair value of the Verkkokauppa.com Oyj share at grant date and expensed over the earning and commitment periods. The expense is presented in the employee benefit expenses. For equity-settled share-based payment arrangements, an increase corresponding to the expensed amount is recognized in equity.

Information on the share-based incentive plan

The Board of Directors of Verkkokauppa.com Oyj has resolved on 16 May 2018 to establish a new share-based incentive plan for the key employees of the Company. The Matching Share Plan 2018–2020 includes three matching periods, calendar years 2018–2020, 2019–2021 and 2020–2022. The Board will resolve annually on the commencement and details of matching periods.

During 2018, the Board of Directors decided to start the first Matching Share Plan 2018–2020. The key management personnel within this share-based incentive plan have the opportunity to receive a conditional reward, so called matching shares. In order to receive the conditional reward, a key person must already own or acquire a specified number of Company shares, or a percentage thereof, by a specified date. The number and date are set by the Board of Directors. If they do so, key personnel will then be granted one matching share for each share acquired, as long as their employment or service contract remains valid and they retain ownership of these shares until the conditional reward is paid. The total amount of the reward paid in the plan is the gross earning of the shares, from which the applicable payroll tax is deducted, and the remaining net value is paid in shares. The earning period for the conditional reward is the calendar years 2018–2020.

In 2018, six persons were part of the share plan 2018–2020, and the maximum reward paid out to them is equivalent in total to a maximum of 85,000 Verkkokauppa.com Oyj share values, including the part paid out in cash.

	Plan 2018–2020
Grant date	18 Jun 2018 / 7 Aug 2018
Vesting start date	1 Jan 2021
Vesting conditions	Share ownership and employment
Payment method	Shares and cash
Share price at grant date, EUR*	6.02/5.79
Fair value of share at grant date, EUR	6.43/6.20
Estimated number of plan participants at end of vesting period, %	100%
Estimated change in shares associated with the plan, %	2%
Number of plan participants	6

*The fair value of the share at grant date is the current value of the share less the estimated dividends paid out during the commitment period.

Effect of share-based payments on the operating result

EUR thousand	2018	2017
Expenses related to share-based payments in the income statement	54	-
Total	**54**	**-**

Effect of share-based payments on the balance sheet

EUR thousand	2018	2017
Recognized in equity	54	-
Total	**54**	**-**

7.13 Intangible assets

The intangible assets of Verkkokauppa.com Oyj consist of intangible rights and capitalized development expenditures.

An intangible asset is recognized in the statement of financial position when the cost of the asset can be measured reliably, and it is probable that the expected economic benefits that are attributable to the asset will flow to the entity. The residual value of assets as well as the useful lives are controlled at the end of each financial year at least and adjusted when necessary to reflect the changes in the expectations of economic benefit. The Company does not have intangible assets that would have an indefinite useful life nor interest expenses related to the purchase of assets that would be capitalized as part of the cost.

Annual impairment tests are conducted for those intangible assets that are not yet ready for use. Furthermore, on every balance sheet date, the management of the Company assesses whether there is any evidence of impairment regarding other intangible assets. In the case that there is such evidence, an assessment is made of the recoverable amount of the asset which is the fair value of the asset less the costs to transfer or a value in use higher than this. In many cases, the recoverable amount is defined for the cash-generating unit of which the asset forms part of. The impairment is recognized in the income statement. The recognized impairment losses are reversed if there is a change in the estimates used in defining the recoverable amount of the asset. The reversal is made up to the carrying amount that would have been determined for the asset (net of depreciation) had no impairment loss been recognized for the asset in prior periods.

Intangible rights

Intangible rights include software license fees and, among others, licenses, including their advance payments. Intangible rights are recognized at cost in the statement of financial position and are depreciated over their useful lives according to the straight-line method. The estimated useful lives of intangible rights are five years.

Research and development expenditures

Research and development expenditures are expensed when incurred, except for those development expenditures that meet the capitalization criteria. Development expenditures are capitalized as intangible assets when it can be established that a development project will generate probable economic benefit and the expenditure incurred at the development stage can be reliably measured. The capitalized development expenditure is presented as a separate item and depreciated during its useful life. Development expenditures recognized as an expense are not capitalized in subsequent periods.

The Company has its self-developed enterprise resource planning system, the development expenditures of which the Company capitalizes as far as the capitalization criteria is seen to be met. The directly attributable costs of production have been capitalized as cost of the asset. The capitalized development expenditures are depreciated over their useful lives according to the straight-line method. The estimated useful lives of capitalized development expenditures are three years.

EUR thousand	Development expenditure	Intangible assets	Advance payments and work in progress	Total
Cost 1 Jan 2018	1,869	1,203	116	**3,189**
Increases	623	36	655	**1,314**
Disposals	-	-	-	**-**
Transfers between items	-	-	-	**-**
Cost 31 Dec 2018	2,492	1,239	772	**4,503**
Accumulated amortization and impairment 1 Jan 2018	-1,115	-1,104	-	**-2,219**
Accumulated amortization on disposals	-	-	-	**-**
Transfers between items	-	-	-659	**-659**
Amortization for the financial year	-496	-62	-	**-559**
Accumulated amortization and impairment 31 Dec 2018	-1,611	-1,166	-659	**-3,436**
Carrying amount 1 Jan 2018	**754**	**100**	**116**	**970**
Carrying amount 31 Dec 2018	**881**	**73**	**113**	**1,067**

EUR thousand	Development expenditure	Intangible assets	Advance payments and work in progress	Total
Cost 1 Jan 2017	1,611	1,167	34	**2,813**
Increases	258	36	378	**672**
Disposals	-	-	-	**-**
Transfers between items	-	-	-296	**-296**
Cost 31 Dec 2017	1,869	1,203	116	**3,189**
Accumulated amortization and impairment 1 Jan 2017	-559	-1,031	-	**-1,591**
Accumulated amortization on disposals	-	-	-	**-**
Transfers between items	-	-	-	**-**
Amortization for the financial year	-556	-72	-	**-628**
Accumulated amortization and impairment 31 Dec 2017	-1,115	-1,104	-	**-2,219**
Carrying amount 1 Jan 2017	**1,052**	**136**	**34**	**1,222**
Carrying amount 31 Dec 2017	**754**	**100**	**116**	**970**

Capitalized development expenditures are related to the development of new features of the Company's enterprise resource planning system. The Company does not have investment commitments related to intangible assets.

7.14 Tangible assets

The tangible assets of Verkkokauppa.com Oyj include land areas, servers, other office and warehouse equipment and devices as well as major improvements to rented real estate.

Tangible assets are recognized on the statement of financial position at cost less depreciation and impairment. Tangible assets are depreciated on a straight-line basis over their estimated useful lives from the day they are available for use. Land areas are not subject to depreciation. Estimated useful lives of tangible assets are as follows:

Machinery and equipment 3–10 years

Other tangible assets 5–10 years

The residual value of assets as well as the useful lives are controlled at the end of every financial year at least and adjusted when necessary to reflect the changes in the expectations of economic benefit.

Normal maintenance and repair costs are expensed in the income statement as incurred. Significant improvements or additional investments are capitalized as part of the acquisition cost of the corresponding asset and depreciated over the remaining useful life of the asset to which they pertain, provided that it is likely that the Company will derive future economic benefit from the asset. Gains on disposal of tangible assets are presented in other operating income, and losses in other operating expenses. The Company does not have interest costs of the acquisitions of assets that would have been capitalized as part of the acquisition cost.

In assessing impairment, the same principles are followed as with intangible assets. The principles are presented as a part of the notes on intangible assets.

EUR thousand	Land	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Cost 1 Jan 2018	2	5,043	2,439	160	**7,644**
Increases	-	791	69	-	**861**
Disposals	-	-	-	-	**-**
Transfers between items	-	-	-	-2	**-2**
Cost 31 Dec 2018	2	5,834	2,509	158	**8,503**
Accumulated depreciation 1 Jan 2018	-	-3,692	-1,976	-	**-5,668**
Accumulated depreciation on disposals	-	-	-	-	**-**
Transfers between items	-	-	-	-158	**-158**
Depreciation for the financial year	-	-588	-118	-	**-707**
Accumulated depreciation 31 Dec 2018	-	-4,280	-2,094	-158	**-6,532**
Carrying amount 1 Jan 2018	**2**	**1,351**	**464**	**160**	**1,976**
Carrying amount 31 Dec 2018	**2**	**1,553**	**415**	**-**	**1,970**

EUR thousand	Land	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Cost 1 Jan 2017	2	4,099	2,240	-	**6,341**
Increases	-	978	212	1,263	**2,453**
Disposals	-	-34	-13	-	**-47**
Transfers between items	-	-	-	-1,103	**-1,103**
Cost 31 Dec 2017	2	5,043	2,439	160	**7,644**
Accumulated depreciation 1 Jan 2017	-	-3,159	-1,785	-	**-4,944**
Accumulated depreciation on disposals	-	-	-	-	**-**
Depreciation for the financial year	-	-533	-191	-	**-724**
Accumulated depreciation 31 Dec 2017	-	-3,692	-1,976	-	**-5,668**
Carrying amount 1 Jan 2017	**2**	**940**	**455**	**-**	**1,397**
Carrying amount 31 Dec 2017	**2**	**1,351**	**464**	**160**	**1,976**

The Company does not have investment commitments related to tangible assets.

7.15 Leases

Leases wherein the Company is the lessee

Recognition of leases

At the inception of the contract, the Company makes an assessment on whether the contract is a lease or whether the contract contains an element of a lease. At the inception of a lease, the Company recognizes right-of-use asset as well as lease liability except for short-term leases (lease term less than 12 months) or low value leases. The lease costs of short-term leases and low value leases are recognized in other operating costs in the income statement on a straight-line basis over the period of the lease.

Measurement and recognition of lease liability

The lease liability is measured at the present value of those lease payments that have not been paid at the commencement date. The lease payments will be discounted at the interest rate implicit in the lease if the rate in question is readily determinable. If the rate in question is not readily determinable, the Company's incremental borrowing rate will be used. The Company's incremental borrowing rate has been used as the discount rate in all other leases except with the Jätkäsaari real estate. The changes in the Company's financing position have been taken into consideration in determining the incremental borrowing rate in determining the risk premium. The discount rates vary between 1.3% and 7.1%.

The lease payments included in the value of the lease liability at the commencement of the lease consist of fixed payments less the lease incentives receivable, variable lease payment that depend on an index, the exercise prices of purchase options (when using them is reasonably certain), amounts of residual value guarantees, as well as the payments of penalties for terminating the lease, if the lease term reflects the lessee exercising the option to terminate the lease.

There are no options to terminate the lease in Verkkokauppa.com Oyj's leases that would have been considered in the measurement. The leases carrying a purchase option are related to machinery and equipment and are not significant.

The lease liability is measured at amortized cost using the effective interest method. The remeasurement of the lease liability is carried out in the case that the lease term changes, the use of purchase option becomes or ceases to be reasonably certain, the index utilized in calculating variable leases changes, or the expected payments based on residual value guarantees change. The discount rate used in the remeasurement depends on the nature of the change.

The payments of all the leases of the Company's real estate and facilities have been linked to the cost of living index. The Company will make a remeasurement to the lease liability and right-of-use asset when the index changes.

In those leases where the lease component and non-lease component must be separated, the separation is made based on relative stand-alone selling prices. The Company has office space leases wherein the lease component has been separated from the service component. The stand-alone price has been assessed using the estimated level of leases in the area in question.

The lease term used in the measurement of lease liability is the non-cancellable period of a lease, together with the periods covered by an option to extend and/or to terminate if it is reasonably certain that the lessee uses the extension option or does not use the option to terminate.

The Company has extension options related to its real estate. These have not been taken into consideration in the lease term. The decision on extension options is made on a commercial basis when the lessor is to be informed on the use of extension option. The management of the Company has taken into consideration the business model of the Company and the agility expected in it in relation to the physical market place in an ever-changing business environment when assessing the probability of the realization of extension options.

Measurement of right-of-use assets

The right-of-use asset is measured at cost at the commencement date of the lease. The cost comprises of the amount of initial measurement of the lease liability at the commencement date, any lease payments at or before the lease commencement date less any lease incentives received, initial direct costs as well as any restoration costs.

The Company has not identified initial direct costs in its leases. The amount of restoration costs is estimated to be low, taking into consideration the nature of the business, and no provision has been recognized as far as they are concerned.

The Company measures the right-of-use assets according to the cost model. According to the cost model, the right-of-use asset is measured at cost less accumulated depreciation, adjusted with the item resulting from the remeasurement of the lease liability. The right-of-use assets are depreciated on a straight-line basis over their estimated useful lives from the day they are available for use. In case the lease term is shorter than the estimated useful life, depreciations are done over the lease term. Estimated useful lives are as follows:

Machinery and equipment 4–7 years

Real estate and premise 2–15 years

Subleases

The Company has short-term subleases that are recognized on a straight-line basis over the period of the lease. The lease income is presented in other operating income in the income statement. These subleases are not material.

Description of the Company's lease portfolio

The Company's lease portfolio consists of real estate and facilities leases, leasing cars and other machinery and equipment. The real estate lease means the Jätkäsaari real estate that comprises the stores as well as the logistics, office and other spaces. In other aspects, the retail stores are real estate leases.

Real estate leases contain several short extension options. The leases are not tied to sales but to the cost of life index, and thus the lease payments have been taken into consideration in measuring the lease liability. The leases do not contain residual value guarantees or purchase options.

The cars and other machinery and equipment leased by the Company form a marginal part of the lease portfolio.

Right-of-use assets

EUR thousand	Premises and facilities	Machinery and equipment	Total
Cost 1 Jan 2018	29,436	1,367	**30,804**
Increases	-	284	**284**
Disposals	-	-	**-**
Increase/decrease due to remeasurement	716	-	**716**
Cost 31 Dec 2018	30,152	1,652	**31,803**
Accumulated depreciation 1 Jan 2018	-5,397	-817	**-6,214**
Accumulated depreciation on disposals	-	-	**-**
Depreciation for the financial year	-3,496	-329	**-3,825**
Accumulated depreciation 31 Dec 2018	-8,893	-1,146	**-10,039**
Carrying amount 1 Jan 2018	**24,039**	**550**	**24,589**
Carrying amount 31 Dec 2018	**21,259**	**506**	**21,764**

EUR thousand	Premises and facilities	Machinery and equipment	Total
Cost 1 Jan 2017	23,736	1,269	**25,005**
Increases	5,686	98	**5,784**
Disposals	-	-	**-**
Increase/decrease due to remeasurement	14	-	**14**
Cost 31 Dec 2017	29,436	1,367	**30,804**
Accumulated depreciation 1 Jan 2017	-2,572	-410	**-2,982**
Accumulated depreciation on disposals	-	-	**-**
Depreciation for the financial year	-2,825	-407	**-3,232**
Accumulated depreciation 31 Dec 2017	-5,397	-817	**-6,214**
Carrying amount 1 Jan 2017	**21,164**	**859**	**22,023**
Carrying amount 31 Dec 2017	**24,039**	**550**	**24,589**

The remeasurements done during 2018 relate to index adjustments and a change to the Jätkäsaari lease agreement based on the original contract terms. The additions made in 2017 relate to the new lease contracts of the stores in Raisio, Oulu and Pirkkala.

Lease liabilities

Maturity analysis, contractual undiscounted cash flows

EUR thousand	31 Dec 2018	31 Dec 2017	1 Jan 2017
Less than one year	5,043	5,451	4,297
From one to five years	20,652	21,512	18,063
Over five years	7,335	10,589	14,029
Undiscounted lease liabilities, total	**33,029**	**37,552**	**36,390**

Lease liabilities in the balance sheet

EUR thousand	31 Dec 2018	31 Dec 2017	1 Jan 2017
Current lease liabilities	3,592	3,808	2,522
Non-current lease liabilities	22,753	25,507	24,017
Lease liabilities, total	**26,344**	**29,315**	**26,539**

Items recognized in the income statement

EUR thousand	2018	2017
Depreciations on rights-of-use assets	3,825	3,232
Interests on lease liabilities	1,631	1,720
Lease income from subleasing rights-of-use items	247	62
Expenses related to short-term leases	28	23
Expenses related to leases of low-value assets	51	51

Items recognized in the cash flow statement

EUR thousand	2018	2017
Total cash outflow for leases	-5,571	-4,895

7.16 Deferred tax assets and liabilities

The deferred tax is calculated from the temporary differences between taxation and accounting, at either the tax rate in force on the reporting date or a known tax rate that will come into force at a later date. A deferred tax asset is recognized only to the extent that it is likely that there will be future taxable profit against which the temporary difference can be utilized.

Change in deferred tax assets

EUR thousand	1 Jan 2018	Recognized through profit or loss	Recognized in equity	31 Dec 2018
Leases	915	-19	-	896
Financial instruments	5	-	4	8
Inventories	135	-50	-	85
Share-based payments	-	11	-	11
Provisions	127	-15	-	112
Deferred tax assets, total	**1,182**	**-73**	**4**	**1,112**

EUR thousand	1 Jan 2017	Recognized through profit or loss	Recognized in equity	31 Dec 2017
Leases	903	11	-	915
Financial instruments	6	-6	5	5
Inventories	148	-13	-	135
Provisions	162	-35	-	127
Deferred tax assets, total	**1,220**	**-43**	**5**	**1,182**

Change in deferred tax liabilities

EUR thousand	1 Jan 2018	Recognized through profit or loss	Recognized in equity	31 Dec 2018
Depreciation difference	9	9	-	18
Deferred tax liabilities, total	**9**	**9**	**-**	**18**

EUR thousand	1 Jan 2017	Recognized through profit or loss	Recognized in equity	31 Dec 2017
Financial instruments	0	-	-0	-
Depreciation difference	15	-6	-	9
Deferred tax liabilities, total	**15**	**-6**	**-0**	**9**

7.17 Trade receivables and other receivables

Trade receivables are receivables that result from selling goods or delivering services to customers in the ordinary course of business. Other receivables are contract assets, other accrued income and financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables and other receivables are classified as current assets if customer payment is expected to be received within one year. Otherwise they are presented as non-current assets.

Principles related to impairments are covered in note 7.21.3 *Financial risk management.*

EUR thousand	31 Dec 2018	31 Dec 2017	1 Jan 2017
Non-current			
Trade receivables	1,544	1,039	231
Other non-current receivables	438	437	121
Non-current receivables, total	**1,982**	**1,476**	**352**
Current			
Trade receivables	15,266	11,396	7,443
Contract assets	1,329	1,077	1,116
Other accrued income	8,494	5,741	3,821
Income tax receivables	199	115	-
Other receivables	1,752	1,242	517
Current receivables, total	**27,040**	**19,571**	**12,898**
Non-current and current receivables, total	**29,022**	**21,047**	**13,250**

The changes in contract assets are explained in note 7.2 *Revenue from contracts with customers.*

Ageing analysis of trade receivables

	31 Dec 2018		31 Dec 2017		1 Jan 2017	
EUR thousand	Trade receivables	Loss allowance	Trade receivables	Loss allowance	Trade receivables	Loss allowance
Not due	12,553	212	9,951	43	6,345	14
Past due 1–60 days	4,305	173	2,607	228	1,351	90
Past due 61–120 days	455	136	346	198	141	59
Past due over 121 days	33	14	250	250	52	53
Total	**17,345**	**535**	**13,154**	**719**	**7,889**	**215**

In 2018, the Company recognized a net amount of credit losses from trade receivables amounting to 1,964 thousand euros (720).

At the end of 2018, the Company sold past due receivables from company-financed Apuraha consumer financing service as part of its risk management. The credit risk related to these receivables was transferred in its totality to the buyer, and Verkkokauppa.com was left with no liability. The sold receivables were derecognized.

7.18 Inventory

The Company's inventory consists of finished goods for sale, instore demonstration equipment and serviced products.

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs of sales.

The cost of inventory is assigned by using the FIFO (first-in, first-out) formula. The cost contains direct costs of purchase less rebates.

The goods inventory turnover and possible reduction in the net realizable value below cost is assessed regularly and a write-down of inventory is recognized when necessary. In addition, the Company furthermore recognizes a write-down of aged products, based on inventory days.

EUR thousand	31 Dec 2018	31 Dec 2017	1 Jan 2017
Goods	65,784	47,012	43,302
Total	**65,784**	**47,012**	**43,302**

The expenses recognized for inventory, through which the carrying amount was reduced to net realizable value, were not significant.

7.19 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks. Cash and cash equivalents are included in the category of financial assets measured at amortized cost. Impairment of cash and cash equivalents is not recognized since cash and cash equivalents are in Nordic banks with solid ratings.

EUR thousand	31 Dec 2018	31 Dec 2017	1 Jan 2017
Cash in hand and at banks	46,746	51,878	41,692
Total	**46,746**	**51,878**	**41,692**

The Company's cash and cash equivalents were fully available at the balance sheet date.

7.20 Equity

Treasury shares

Acquisition of treasury shares and transaction costs are presented as a deduction of equity.

Distribution of dividends

The proposed dividend by the Board of Directors to the annual general meeting is not recognized as a deduction of equity. Instead, the dividends are recognized based on the decision of the annual general meeting.

Share capital and treasury shares

	Outstanding shares, pcs. (1,000)	Number of treasury shares, pcs. (1,000)	Number of shares, pcs. (1,000)	Share capital carrying amount, EUR thousand
1 Jan 2017	45,065	-	45,065	100
31 Dec 2017	**45,065**	**-**	**45,065**	**100**

	Outstanding shares, pcs. (1,000)	Number of treasury shares, pcs. (1,000)	Number of shares, pcs. (1,000)	Share capital carrying amount, EUR thousand
1 Jan 2018	45,065	-	45,065	100
Acquisition of treasury shares	-83	83	-	-
Transfer of treasury shares to members of the Board of Directors	18	-18	-	-
31 Dec 2018	**45,000**	**65**	**45,065**	**100**

Verkkokauppa.com Oyj has one class of shares. The share has no nominal value. Each share entitles to one vote at the Annual General Meeting. All issued shares have been fully paid. At the end of the financial year 2018, the share capital of Verkkokauppa.com Oyj was 100,000 euros and the number of shares was 45,065,130 shares of which 64,633 were treasury shares held by the Company.

The Company did not hold treasury shares in the comparative year. The average acquisition price of treasury shares was 6.05 euros, and the portion of the share capital and of the voting rights of all shares was 0.14%.

Fair value reserve

The fair value reserve is a reserve that accrues the equity investments measured at fair value.

Invested unrestricted equity fund

Invested unrestricted equity fund includes the share subscription prices to the extent that they are not entered into share capital on the basis of a separate decision.

Capital management

The Company's capital management aims at supporting the Company's business by means of an optimal capital structure, ensuring normal operating conditions. The Company assesses the development and adequacy of its capital structure and equity ratio. Capital management seeks to ensure cost-effectively that the Company's operational capacity is maintained at a competitive level in all cyclical conditions, that risk-carrying capacity is adequate, and that the Company is able to service its borrowings and to pay a good dividend. The objective of capital management is to increase shareholder value and achieve the best possible profit. At the end of the financial year 2018 the Company did not have open commitments with applicable covenants. The company regularly assesses its capital structure.

Dividends

Dividends paid

2018

For the previous year	Date of payment	Dividend per share, EUR
	3 April 2018	0.044
	16 May 2018	0.045
	21 August 2018	0.046
	6 November 2018	0.047
Total dividends, EUR thousand		**8,195**

2017

For the previous year	Date of payment	Dividend per share, EUR
	24 March 2017	0.040
	10 May 2017	0.020
	10 May 2017	0.041
	25 July 2017	0.042
	31 October 2017	0.043
Total dividends, EUR thousand		**8,382**

Dividend proposed

The Board of Directors of the Company proposes a dividend of EUR 0.198 per share. The dividend will be paid in four instalments.

7.21 Funding

Financial assets

The most significant financial assets of the Company are trade receivables, receivables from contracts with customers as well as cash and cash equivalents.

Classification and measurement

The Company classifies financial assets at initial recognition into the following measurement categories: financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income. The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial assets are derecognized when the contractual right to the cash flows expire or when substantially all the risks and rewards are transferred to a party outside the Company.

Verkkokauppa.com Oyj has made an irrevocable choice and measures equity investments at fair value through other comprehensive income. Changes in the fair values are recognized in other comprehensive income. Dividends are recognized in finance income in the income statement. Changes in fair values of equity investments are presented in other comprehensive income, and there is no subsequent reclassification of those items to profit or loss following the derecognition of the investment. Verkkokauppa.com Oyj recognizes changes in the fair values in the equity fair value reserve from where they are transferred into retained earnings at their sale.

Financial assets measured at amortized cost are financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. This category includes Verkkokauppa.com Oyj's trade and other receivables, which consist of non-current rental guarantee receivables. Trade receivables are initially recognized at transaction price if the do not contain a significant financing component. Other receivables of this category are initially recognized at fair value, with transaction costs, and are subsequently measured at amortized cost using the effective interest rate method. Gains or losses on financial asset measured at amortized cost are recognized in profit or loss when the asset is derecognized or impaired. The impairments of trade receivables and other receivables are recognized in other operating expenses in the income statement.

Impairment of financial assets

Impairment is described in more detailed in the note 7.21.3 *Financial risk management*.

Financial liabilities

The financial liabilities of the Company are trade payables and lease liabilities. Their principles of recognition and measurement are described in the respective notes related to them, 7.22 *Other current liabilities and accrued liabilities* and 7.15 *Leases*.

The Company does not have external interest-bearing liabilities.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a liability debt instrument.

The Company has had two financial guarantee contracts with financial institutions that acted as financiers in the Apuraha consumer financing service. According to the guarantee contract, the financier and Verkkokauppa.com Oyj together share an agreed amount of generated income and incurred credit losses. The Company no longer has a receivable in the balance sheet because the receivable no longer exists when the money has been received from the financing Company. The guarantee risk related to the guarantee contract is described in more detail in note 7.21.3 *Financial risk management*.

Impairment of financial guarantee contracts

The Company recognizes an expected credit loss from the financial guarantee contract. The impairments are described in more detail in note 7.21.3 *Financial risk management*.

7.21.1 Financial assets and liabilities by measurement category

2018, EUR thousand Measurement category	Recognized at fair value through other comprehensive income	At amortized cost	Lease liabilities	Carrying amount
Non-current financial assets				
Equity investments	275	-	-	**275**
Trade and other receivables*	-	1,982	-	**1,982**
Non-current financial assets, total	**275**	**1,982**	**-**	**2,257**
Current financial assets				
Trade receivables	-	15,266	-	**15,266**
Cash and cash equivalents	-	46,746	-	**46,746**
Current financial assets, total	**-**	**62,012**	**-**	**62,012**
Financial assets by measurement category, total	**275**	**63,994**	**-**	**64,269**
Non-current financial liabilities				
Lease liabilities	-	-	22,753	**22,753**
Non-current financial liabilities, total	-	-	**22,753**	**22,753**
Current financial liabilities				
Lease liabilities	-	-	3,592	**3,592**
Trade payables	-	80,695	-	**80,695**
Current financial liabilities, total	-	**80,695**	**3,592**	**84,287**
Financial liabilities by measurement category, total	**-**	**80,695**	**26,344**	**107,039**

2017, EUR thousand Measurement category	Recognized at fair value through other comprehensive income	At amortized cost	Lease liabilities	Carrying amount
Non-current financial assets				
Equity investments	294	-	-	**294**
Trade and other receivables*	-	1,476	-	**1,476**
Non-current financial assets, total	**294**	**1,476**	**-**	**1,770**
Current financial assets				
Trade receivables	-	11,396	-	**11,396**
Cash and cash equivalents	-	51,878	-	**51,878**
Current financial assets, total	**-**	**63,274**	**-**	**63,274**
Financial assets by measurement category, total	**294**	**64,750**	**-**	**65,044**
Non-current financial liabilities				
Lease liabilities	-	-	25,507	**25,507**
Non-current financial liabilities, total	-	-	**25,507**	**25,507**
Current financial liabilities				
Lease liabilities	-	-	3,808	**3,808**
Trade payables	-	63,149	-	**63,149**
Current financial liabilities, total	-	**63,149**	**3,808**	**66,957**
Financial liabilities by measurement category, total	**-**	**63,149**	**29,315**	**92,464**

*Other receivables include non-current receivables presented in the balance sheet, which consist of rental guarantee receivables classified as financial assets.

There have been no transfers between measurement categories during the financial year or the comparative year. The balance sheet values of trade receivables and other receivables categorized as financial assets are substantially equivalent to their fair values.

7.21.2 Information on equity investments

The Company has equity investments that are classified at fair value through other comprehensive income. The Company has irrevocably classified these investments in this class because the investments are considered strategic from a business perspective.

Determining fair values

Level 1: Fair values are based on the (unadjusted) quoted prices of identical assets or liabilities publicly traded in active markets.

Level 2: Financial instruments are not traded in active and liquid markets, but their fair values are calculable based on market data.

Level 3: Measuring of financial instruments is not based on verifiable market data, nor are other factors influencing the fair value of the instruments available or verifiable.

	31 Dec 2018	
EUR thousand	level 2	level 3
Financial assets		
Equity investments	9	266
Total	**9**	**266**

	31 Dec 2017		1 Jan 2017	
EUR thousand	level 2	level 3	level 2	level 3
Financial assets				
Equity investments	27	266	51	201
Total	**27**	**266**	**51**	**201**

The equity investments in level 2 contain shares for which the Company receives an OTC market price.

The equity investments in level 3 contain unquoted shares. The fair value is estimated for the shares and a change to fair value recognized in case needed. The change to the fair value has not been recognized based the estimate. There have been no changes in fair value levels during the financial year or the comparative year.

Level 3 reconciliation statement

EUR thousand	2018	2017
Equity investments		
Carrying amount 1 Jan	266	201
Increases	-	297
Decreases	-	-232
Carrying amount 31 Dec	**266**	**266**

There have been no changes during the financial year 2018. In the comparative year, the Company sold its entire investment of Vitvaruexperten.com Nordic AB and completed a reinvestment into the same company. The reason for the divestment and reinvestment was the ownership reorganization of Vitvaruexperten.com Nordic AB at the time when it received a new majority owner.

7.21.3 Financial risk management

General

In its business operations, Verkkokauppa.com Oyj is exposed to financial risks, mainly securing funding, liquidity, credit, counterparty and foreign exchange rate risks. The aim of risk management of these risks is to reduce uncertainty concerning the possible impacts that changes in the financial markets could have on the Company's result, cash flow and value. The management of financial risks forms a part of the charter of the Board of Directors. The Board of Directors defines the general risk management principles. Verkkokauppa.com Oyj does not have a separate treasury function; instead the CFO is responsible regarding the Company's funding, management of liquidity, relations with financiers and funding risks. The audit committee monitors the development of the Company's funding situation. The Company does not have a separately approved financial policy.

Funding and liquidity risk

The Company seeks to ensure the availability of funding and adequate liquidity. A business that generates positive cash flow and a solid management of net working capital enable an optimal capital structure, availability of funding and no net debt. The Company evaluates and monitors constantly the amount of funding demanded by the business so that the Company has sufficient liquid assets to fund its activities and settle the payables due. In accordance with normal seasonal fluctuation, cash in hand, cash flow and payables peak at the turn of the year and have a low point at the end of the second quarter.

The Company does not have interest-bearing liability. According to the maturity analysis, the most significant part of the liabilities is due upfront within one year. Trade payables are always due in less than one year because they have short payment terms. The maturities of lease liabilities depend on the contract, and they are due according to the contract, evenly distributed during the contract period. A significant part of the lease liabilities is, however, due in less than five years. The maturity and maximum liability amount of the financial guarantee contracts depend on the creditworthiness of the customer and the share percentage applied to the financial guarantee contract. The maturity is distributed to several counterparties. The maximum period of credit granted to one customer is three years. The open positions of the financial guarantee contracts are reduced as the customers pay their monthly repayments. If customers seek new credit, their creditworthiness will always be reassessed. Seeking new credit is only possible with a new purchase. According to the maturity analysis, the liabilities related to the financial guarantee contracts were significantly reduced in 2018 since, at the end of 2018, the Company terminated the use of a shared portfolio which was used in financing private customers. The partnership agreement and related liabilities were terminated. Financial guarantee contract liabilities amounted to 197 thousand euros in total at year-end 2018 because a shared portfolio is continually used in corporate customer financing.

Contractual cash flows based of financial liabilities and financial guarantee contracts

31 Dec 2018

EUR thousand	< 1 year	1–5 years	> 5 years	Total
Lease liabilities	5,043	20,652	7,335	**33,029**
Trade payables	80,695	-	-	**80,695**
Financial guarantee contracts	49	147	-	**197**
Total	**85,787**	**20,799**	**7,335**	**113,921**

31 Dec 2017

EUR thousand	< 1 year	1–5 years	> 5 years	Total
Lease liabilities	5,451	21,512	10,589	**37,552**
Trade payables	63,149	-	-	**63,149**
Financial guarantee contracts	1,275	5,001	-	**6,276**
Total	**69,875**	**26,513**	**10,589**	**106,977**

1 Jan 2017

EUR thousand	< 1 year	1–5 years	> 5 years	Total
Lease liabilities	4,297	18,063	14,029	**36,390**
Trade payables	42,087	-	-	**42,087**
Financial guarantee contracts	1,507	5,508	-	**7,014**
Total	**47,891**	**23,571**	**14,029**	**85,491**

A significant part of the balance sheet consists of liquid funds (28% in 2018). The Company diversifies the risk of raising finance (counterparty risk) by establishing diverse committed revolving credit facilities with Nordic banks with solid ratings. By varying the amounts as well as the term of the revolving credit facilities, the Company manages the counterparty and maturity risk. The Company policy is also to maximize the use of cash discounts in the current interest environment.

The Company's liquidity reserves at the end of the financial year 2018 consisted of liquid funds. At the end of the financial year, the amount of liquid funds was 46,746 thousand euros (51,878). The funds were freely available. At the end of the financial year 2018, the Company did not have available committed revolving credit facilities. In 2017, the unused committed revolving credit facilities totaled 15 million euros. Ordinary covenants were applied to the conditions of committed revolving credit facilities (among others, equity ratio and interest-bearing net liabilities in relation to the EBITDA). The Company has always been able to fulfill the covenants.

Credit and counterparty risk

Credit risks arise when a counterparty is unable to meet its contractual obligations, causing the Company to suffer a financial loss. Trade receivables and other receivables expose the Company to credit risk. The most significant credit risk is related to the company-financed Apuraha consumer financing service.

The Company has employed profit-sharing models in the third party financed Apuraha consumer financing service (profit-sharing model). According to the contract, the financier and Verkkokauppa.com Oyj have shared together an agreed amount of generated income and incurred credit losses. These contracts have been treated as financial guarantee contracts. The guarantee risk has arisen from the financial assets (receivables) derecognized from the balance sheet.

The Company's principal credit risk consists of the receivables from the company-financed Apuraha consumer financing service as well as traditional trade receivables from companies. The open position is larger and longer in the trade receivables of the company-financed Apuraha than in conventional corporate trade receivables. On account of this, the credit risk from the company-financed Apuraha is greater than from conventional corporate finance receivables. The rotation of trade receivables is also faster in corporate trade receivables. The Company has defined a credit policy for customer receivables, the objective of which is to increase profitable sales by recognizing and managing credit risks in advance. The credit policy dictates the minimum principles of Verkkokauppa.com Oyj's credit sales and debt recovery. The Company's credit committee defines the credit risks.

The Board of Directors of the Company defines and approves the strategy of the company-financed Apuraha consumer financing service. In its own customer financing, the Company employs credit policies which describe the principles of risk-taking and risk management. Furthermore, the Company has credit rules which, among others, define the principles of making credit-granting decisions, credit limit amounts as well as the measurement principles of trade receivables. The Board of Directors constantly monitors the development of customer financing. The credit committee is responsible for reporting on the financing risks to the Board of Directors. The risk of customer-financing receivables is not concentrated, but instead consist of a large amount of receivables, the capital of which are 3,000 euros at the most. To minimize credit risk, the customer's credit report and possible credit history are controlled before the credit-granting decision is made.

As part of risk management, Verkkokauppa.com terminated, at year-end 2018, the use of a shared portfolio which was used in financing private customers. The partnership agreement and related liabilities were terminated. The portfolio was financed by a co-operating party and there was a profit-sharing model in use. Consequently, the Company's proceeds and accounts receivables from financing consumer customers are expected to grow in the future. In financing corporate customers, the Company continues to use the Apuraha Yritys product, to which a profit-sharing model is applied. The Company has a marginal guarantee risk related to said product.

At the end of 2018, the Company sold past due receivables from company-financed Apuraha consumer financing services as part of its risk management. The credit risk related to these receivables was transferred in its totality to the buyer, and Verkkokauppa.com was left with no liability. Thus, all the sold receivables were derecognized. Due to this sale, the credit loss allowance decreased to 0.5 million euros (0.7).

The counterparty risk involved with cash and cash equivalents is managed through depositing the cash and cash equivalents on the accounts of large Nordic banks with solid ratings. The Company's cash and cash equivalents are fully available. The counterparty risk arising from purchasing activities is managed through using, when necessary, letters of credit as payment method, thus ensuring contractual delivery. The Company uses documentary credits.

Impairment

The Company's most significant financial assets subject to the expected credit loss model required by IFRS 9 are cash and cash equivalents, traditional trade receivables from companies and the receivables from the company-financed Apuraha consumer financing service. In addition, it is necessary to apply the impairment model on the financial guarantee contracts. The Company's cash and cash equivalents are deposited in the accounts of solid Nordic banks and are consequently not recognized for impairment. In addition to the aforementioned financial assets, the contract assets are subject to impairment. Expected credit loss is not recognized for contract assets because their amount is estimated to be immaterial and there have been no historical credit losses incurred. The management of the Company monitors the development of the counterparty risk.

The Company recognizes the expected credit losses for the trade receivables over the entire economic life based on the simplified procedure. The model based on expected credit losses is anticipative, and the expected portion of credit losses is based on the amounts of historical credit losses. The historical percentage of credit losses is adjusted when necessary, taking into consideration the macroeconomic impact on the customers' solvency. The expected credit losses over the entire life of the receivable are calculated by multiplying the gross value of the trade receivables with the expected loss portion in all maturity classes. In addition, the Company assesses separately on each reporting date whether there is further evidence of the receivable's impairment for instance due to insolvency. In these cases, the Company recognized the impairment at once. Impairment losses are recognized in the income statement under other operating expenses. The recovered credit losses are recognized in the income statement under other operating expenses.

The Company has defined different matrix models for traditional trade receivables from companies as well as the company-financed Apuraha consumer financing service receivables due to their different risk characteristics. The customers of the company-financed Apuraha consumer financing service are individuals.

The company-financed Apuraha consumer financing service was launched in February 2016. Up to June 2018, the model used in the impairment of the receivables from company-financed Apuraha consumer financing service was based on the management's empirical view within the line of business, given that information on historical actuals was not available. Information on historical actuals was gathered from the launch, and the Company adopted a historical model in June 2018 when there was historical information for a statistically sufficient period of time. In defining the percentages of credit losses for private customers, the customers' historical payment behavior, the ageing of receivables and their development were reviewed. The percentages of credit losses are regularly updated based in historical credit losses and the 12-month rolling model. The maximum amount of exposure to credit risk is equivalent to the total amount of trade receivables. The Company has not received guarantees on trade receivables. The expected credit losses are recognized as reducing trade receivables.

In defining the percentages of credit losses for corporate customers, the customers' historical payment behavior, the ageing of receivables and their development were reviewed.

The expected credit loss model of the financial guarantee contract is based on a fixed percentage of credit losses which was defined through a review of historically incurred credit losses covering the shared portfolio for six months. The receivable exposed to credit risk was not included in the balance sheet and hence the expected credit loss was presented in the balance sheet as a provision.

The changes in the expected credit losses are recognized in other operating expenses in the income statement. The net amount of credit losses recognized in the financial year 2018 were 1,964 thousand euros (720).

Foreign exchange rate risk

Foreign exchange rate risk is the uncertainty of cash flows, profit and balance sheet, resulting from changes in foreign exchange rates.

Foreign exchange rate risk of Verkkokauppa.com Oyj predominantly arises from the purchase of goods, given that the Company has purchasing activities in several different currencies. However, the Company's management holds that the foreign exchange rate risk is not material, since most of the purchases are made in euros. For purchases made in foreign currencies, trade payables in the balance sheet are exposed to foreign exchange rate risk. In addition, the Company has advance payments in foreign currencies in the balance sheet, with short open positions.

From a commercial point of view, the foreign exchange rate risk is managed through rapid inventory turnover and aiming to transfer possible foreign currency changes into sales prices or changing the supplier. The Company does not hedge against foreign exchange rate risk. Revenue is not exposed to foreign exchange rate risk, given that the entire revenue is generated in euros.

At the end of the financial year 2018, the amount of currency-denominated open trade payables was 1,354 thousand euros (1,284). The exchange differences were immaterial in 2018 and in the comparative year.

7.22 Other current liabilities and accrued liabilities

EUR thousand	31 Dec 2018	31 Dec 2017	1 Jan 2017
Contract liabilities	1,612	1,323	1,265
Accrued personnel expenses	5,074	5,611	5,310
Other accrued liabilities	9,107	5,646	6,051
Withholding tax liability	892	440	440
VAT liability	1,572	3,462	2,928
Other current liabilities and accrued liabilities, total	**18,257**	**16,483**	**15,993**

Payables related to contracts with customers are presented in the note 7.2 *Revenue from contracts with customers.*

7.23 Provisions

A provision is recognized when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of liability can be reliably measured. The amount recognized as provision should be the best estimate of the management on required cash flows to fulfil the liability at the end of the reporting period. On each balance sheet date, the management assesses the amounts of provisions and updates them to correspond to the best estimate available at the balance sheet date. The changes in provisions are recognized in profit and loss in the same line item in the income statement as the original provision has been recognized. Provisions have not been discounted because of the minor effect of the discounting.

The provisions recognized by the Company are related to the product guarantees of the Company's proprietary products, third year warranty and the expected credit losses of profit-sharing models used with co-operating parties of the Apuraha consumer financing service.

The product guarantee provision is recognized on the sale of the goods, according to an assessment by the management of the Company on the percentage of breakage of goods that is based on historical actuals. The provision for expected credit losses is recognized based on historical actuals. The profit-sharing model adopts the expected credit loss model according to IFRS 9, the principles of which are described in more detail in note 7.21.3 *Financial risk management*.

EUR thousand	Product warranties	Expected credit losses from financial guarantee contracts	Total
Provisions 1 Jan 2018	606	31	**637**
Reversal of unused provisions	-49	-29	**-77**
Provisions 31 Dec 2018	**557**	**3**	**560**

EUR thousand	Product warranties	Expected credit losses from financial guarantee contracts	Total
Provisions 1 Jan 2017	810	-	**810**
Reversal of unused provisions	-355	-	**-355**
Increases in provisions	150	31	**182**
Provisions 31 Dec 2017	**606**	**31**	**637**

7.24 Transactions with related parties

Verkkokauppa.com Oyj's related parties comprise the Board of Directors, the CEO as well as the other members of the management team and the close members of the family of said persons as well as their controlled entities. Transactions with related parties have been carried out on usual commercial terms.

Transactions with related parties

EUR thousand	2018	2017
Sales of goods and services		
To key management personnel and their related parties	31	87
Purchases of goods and services		
From key management personnel and their related parties	19	65

EUR thousand	31 Dec 2018	31 Dec 2017	1 Jan 2017
Closing balances from purchases/sales of goods/services			
Trade receivables from key management personnel and their related parties	7	6	11
Trade payables to key management personnel and their related parties	2	1	-

7.25 Guarantees and commitments

EUR Thousand	31 Dec 2018	31 Dec 2017	1 Jan 2017
Collateral given for own commitments			
Mortgages	0	27,001	27,001
Guarantees	2,850	3,662	2,056
Other commitments and contingent liabilities	14	14	10

Mortgages are related to revolving credit facilities.

7.26 Subsequent events

There are no material events after the reporting date.

7.27 Transition to IFRS reporting

The following is a presentation on the effects that the adoption of IFRS has had on an income statement prepared according to Finnish Accounting Standards (FAS) in the financial year ending 31 December 2017 as well as on the balance sheet on 1 January 2017 and 31 December 2017. In addition to the reconciliations, the changes are described after the tables.

7.27.1 Statement of financial position 1 January 2017

EUR thousand	Reference	1 Jan 2017 FAS	Reclassification	Leases	Financial instruments	Other adjust-ments	Effect of IFRS adjustments	1 Jan 2017 IFRS
Non-current assets								
Intangible assets		1,222	-	-	-	-	-	1,222
Property, plant and equipment		1,397	-	-	-	-	-	1,397
Right-of-use assets	2)	-	-	22,023	-	-	22,023	22,023
Equity investments	3b)	251	-	-	1	-	1	252
Deferred tax assets	5)	-	-	903	6	310	1,220	1,220
Trade receivables	3a)	231	-	-	-	-	-	231
Other non-current receivables		121	-	-	-	-	-	121
Non-current assets, total		**3,223**	**-**	**22,926**	**7**	**310**	**23,244**	**26,467**
Current assets								
Inventories	4b)	44,044	-	-	-	-742	-742	43,302
Trade receivables	3a)	7,475	-	-	-32	-	-32	7,443
Other receivables		517	-	-	-	-	-	517
Accrued income		4,937		-	-	-	-	4,937
Cash and cash equivalents		41,692	-	-	-	-	-	41,692
Current assets, total		**98,665**	**-**	**-**	**-32**	**-742**	**-774**	**97,892**
Total assets		**101,888**	**-**	**22,926**	**-24**	**-432**	**22,470**	**124,358**
Equity								
Share capital		100	-	-	-	-	-	100
Fair value reserve	3c)	-	-	-	1	-	1	1
Invested non-restricted equity fund		25,493	-	-	-	-	-	25,493
Retained earnings	1), 2), 3), 4), 5)	13,857	-	-3,612	-25	-371	-4,009	9,848
Total equity		**39,450**	**-**	**-3,612**	**-25**	**-371**	**-4,008**	**35,441**
Non-current liabilities								
Lease liabilities	2)	-	-	24,017	-		24,017	24,017
Deferred tax liabilities	5)	-	-	-		15	15	15
Depreciation difference	4a)	75	-	-	-	-75	-75	-
Provisions		810	-	-	-		-	810
Non-current liabilities, total		**885**	**-**	**24,017**		**-60**	**23,957**	**24,842**
Current liabilities								
Lease liabilities	2)	-	-	2,522	-	-	2,522	2,522
Advance payments received		2,400		-	-	-	-	2,400
Trade payables		42,087	-	-	-	-	-	42,087
Other current liabilities		4,632		-	-	-	-	4,632
Accrued liabilities	1c)	12,434	-1,073	-	-	-	-1,073	11,361
Income tax liabilities	1c)	-	1,073	-	-	-	1,073	1,073
Current liabilities, total		**61,553**	**-**	**2,522**	**-**	**-**	**2,522**	**64,075**
Total liabilities		**62,438**	**-**	**26,539**		**-60**	**26,479**	**88,917**
Total equity and liabilities		**101,888**	**-**	**22,926**	**-24**	**-432**	**22,470**	**124,358**

7.27.2 Statement of financial position 31 December

EUR thousand	Reference	31 Dec 2017 FAS	Classification	Leases	Financial instruments	Other adjustments	Effect of IFRS adjustments	31 Dec 2017 IFRS
Non-current assets								
Intangible assets		970	-	-	-	-	-	970
Property, plant and equipment		1,976	-	-	-	-	-	1,976
Right-of-use assets	2)	-	-	24,589	-	-	24,589	24,589
Equity investments	3b)	316	-	-	-23	-	-23	294
Deferred tax assets	5)	-	-	915	5	263	1,182	1,182
Trade receivables	3a)	1,039	-	-	-	-	-	1,039
Other non-current receivables		437	-	-	-	-	-	437
Non-current assets, total		**4,739**		**25,504**	**-18**	**263**	**25,748**	**30,487**
Current assets								
Inventories	4b)	47,689	-	-	-	-677	-677	47,012
Trade receivables	3a)	11,396	-	-		-	-	11,396
Other receivables		1,242	-	-	-	-	-	1,242
Income tax receivables	1c)	-	115	-	-	-	115	115
Accrued income	1c)	6,933	-115	-	-	-	-115	6,818
Cash and cash equivalents		51,878	-	-	-	-	-	51,878
Current assets, total		**119,138**	**-**	**-**		**-677**	**-677**	**118,461**
Total assets		**123,877**	**-**	**25,504**	**-18**	**-414**	**25,071**	**148,948**
Equity								
Share capital		100	-	-	-	-	-	100
Fair value reserve	3c)	-	-	-	-18	-	-18	-18
Invested non-restricted equity fund		25,493	-	-	-	-	-	25,493
Retained earnings	1), 2), 3), 4), 5)	5,475	-	-3,612	282	-371	-3,702	1,773
Profit for the financial year		9,782	-	-46	-282	-5	-333	9,449
Total equity		**40,850**	**-**	**-3,658**	**-18**	**-376**	**-4,053**	**36,797**
Non-current liabilities								
Lease liabilities	2)	-	-	25,507	-	-	25,507	25,507
Deferred tax liabilities	5)	-	-	-	-	9	9	9
Depreciation difference	4a)	47	-	-	-	-47	-47	-
Provisions		637	-	-	-	-	-	637
Non-current liabilities, total		**684**	**-**	**25,507**	**-**	**-38**	**25,469**	**26,154**
Current liabilities								
Lease liabilities	2)	-	-	3,808	-	-	3,808	3,808
Advance payments received		2,558	-	-	-	-	-	2,558
Trade payables		63,149	-	-	-	-	-	63,149
Other current liabilities		4,626	-	-	-	-	-	4,626
Accrued liabilities	2)	12,009	-	-153	-	-	-153	11,856
Current liabilities, total		**82,343**	**-**	**3,654**	**-**	**-**	**3,654**	**85,997**
Total liabilities		**83,027**	**-**	**29,162**	**-**	**-38**	**29,124**	**112,151**
Total equity and liabilities		**123,877**	**-**	**25,504**	**-18**	**-414**	**25,071**	**148,948**

7.27.3 Income statement from 1 January to 31 December 2017

EUR thousand	1 Jan 2017– 31 Dec 2017 FAS	Reclassification	Leases	Financial instruments	Other adjustments	Effect of IFRS adjustments, total	1 Jan 2017– 31 Dec 2017 IFRS
Revenue	**431,804**	**66**	**-**	**-**	**-**	**66**	**431,870**
Other operating income	81	-	-	-	-	-	81
Materials and services	-369,485	-	-	-	65	65	-369,420
Employee benefit expenses	-25,042	-1,042	-	-	-	-1,042	-26,084
Depreciation and amortization	-1,352	-	-3,232	-	-	-3,232	-4,584
Other operating expenses	-24,305	976	4,895	32	-	5,902	-18,403
Operating profit	**11,701**		**1,663**	**32**	**65**	**1,759**	**13,460**
Finance income	434	-	-	-312	-	-312	123
Finance costs	-51	-	-1,720	-	-	-1,720	-1,771
Profit before income taxes	**12,084**		**-57**	**-280**	**65**	**-272**	**11,812**
Appropriations	28	-	-	-	-28	-28	
Income taxes	-2,330	-	11	-2	-42	-33	-2,363
Profit for the financial year	**9,782**		**-46**	**-282**	**-5**	**-333**	**9,449**
Profit for the financial year attributable to							
Equity holders	9,782						9,449
Earnings per share calculated from the profit attributable to equity holders	**0.22**						**0.21**
Earnings per share, basic and diluted (EUR)	0.22						0.21

7.27.4 Statement of comprehensive income from 1 January to 31 December 2017

EUR thousand	Reference	1 Jan 2017– 31 Dec 2017 FAS	Reclassification	Leases	Financial instruments	Other adjustments	Effect of IFRS adjustments, total	1 Jan 2017– 31 Dec 2017 IFRS
Profit for the financial year		**9,782**						**9,449**
Items that will not be reclassified to profit or loss								
Realized changes in fair values of equity investments	4b)				308		308	308
Changes in fair values of equity investments	1b)				-19		-19	-19
Other comprehensive income after taxes, total					**289**		**289**	**289**
Comprehensive income for the financial year		**9,782**			**289**		**289**	**9,738**
Comprehensive income for the financial year								
Equity holders of the company		9,782						9,738

7.27.5 Description of IFRS transition effects

Outlined below are the accounting policies due to the adoption of IFRS that have had the most significant effects on the income statement, balance sheet, and cash flow statement of Verkkokauppa.com Oyj.

Verkkokauppa.com Oyj has control of, and owns all shares in, the Estonian company Arctecho Oü. Said company has not had any business activities for more than five years and the company does not have receivables from or liabilities to Verkkokauppa.com Oyj. Thus, Verkkokauppa.com Oyj will not prepare consolidated financial statements based on materiality. Therefore, Verkkokauppa.com Oyj will prepare separate financial statements according to IFRS.

Verkkokauppa.com Oyj has not applied any optional exemptions allowed by IFRS 1 standard in the transition.Verkkokauppa.com Oyj has recognized all its lease agreements fully retrospectively and has not applied any exceptions allowed by IFRS 1.

1. Changes in classification

a) Changes in classification of revenue recognition

According to FAS, the Company has presented the income of third-party financed Apuraha consumer financing service less credit losses in the revenue. According to IFRS, the Company presents the gross revenue because it is the principal in the transaction in respect to the customer. Thus, the credit losses deducted from revenue according to FAS are transferred to other operating costs in IFRS.

b) Voluntary personnel costs

According to FAS, the Company has presented all the voluntary personnel costs in other operating costs. In the IFRS financial statements, all personnel costs belonging to employee benefits are presented as part of personnel costs.

c) Income tax receivables and liabilities

According to FAS, the income tax receivables and liabilities based on the taxable profit of the year are presented as part of accrued income and accrued liabilities. In the transition to IFRS, these have been transferred to their respective line items in the balance sheet.

2. Leases

According to FAS, the Company has recognized the lease expenses on a time apportionment basis in other operating costs in the income statement. At financial year-end, the lease obligations have been presented as off- balance sheet items as part of contingent liabilities. According to IFRS, for all leases, the Company must recognize the asset and liability corresponding to the present value of minimum lease payments in the balance sheet at the commencement date of the lease. The standard contains practical expedients, under which low-value leases and short-term leases (under 12 months) can be exempted from recognition. Verkkokauppa.com Oyj has decided to apply both expedients. The right-of-use asset and the lease liability, which are based on a right to control an asset, are calculated by discounting the future minimum lease payments. With the accounting treatment based on IFRS, the lease expenses presented in FAS are replaced with the depreciation of the right-of-use asset. In addition, the interest costs of the lease liabilities, which are presented in the finance costs in the income statement, are recognized. If lease payments have been accrued, they have been transferred from accrued liabilities to lease liabilities.

3. Financial instruments

a) Impairment of financial assets and financial guarantee contracts

IFRS requires that the model of expected credit losses is applied in assessing and recognizing impairment of financial assets, financial guarantee contracts as well as assets based on contracts with customers. According to IFRS, the Company recognized the impairment losses in the opening balance based on the new model. In the FAS financial statements of 2017, the Company has recognized credit losses from receivables of the company-financed Apuraha consumer financing service according to the ageing of the receivable. In the transition to IFRS, the Company has developed impairment models also for other trade receivables as well as financial guarantee contracts.

b) Classification of equity investments at fair value through other comprehensive income

IFRS requires financial assets classification based on business model. In the transition to IFRS, the Company has assessed the business model of equity investments and has irrevocably decided to classify said equity investments at fair value through other comprehensive income. According to FAS, the Company has accounted for the investments at historical cost. According to IFRS, changes in fair values will be recognized in other comprehensive income. On disposal of equity investments, any accumulated related balance within other comprehensive income is reclassified as retained earnings.

c) Fair value reserve for equity investments classified at fair value through other comprehensive income

Fair value changes in equity investments, which have been recognized through other comprehensive income, are accumulated in the fair value reserve. When such equity investments are derecognized, the accumulated amounts from this reserve is transferred to retained earnings. According to FAS, the disposals of these investments have been recognized as finance costs or income in the income statement. In the IFRS transition, the gains from disposal of the equity investment recognized according to FAS was therefore transferred to retained earnings.

Other adjustments

a) Depreciation difference

In the FAS financial statements, the Company had a depreciation difference that has been eliminated in the transition to IFRS to form part of retained earnings and deferred tax liabilities.

b) Annual inventory rebates

Under FAS, not all the annual rebates have been allocated in full to the inventory cost. IFRS requires that in defining the inventory purchase costs, the annual rebates have been deducted from it. Because of this, the Company has adjusted the carrying amount of the inventory and has recognized deferred taxes on the adjustment. The effect in the income statement is shown in the materials and services item, in change of inventories, and in change of deferred taxes.

The effect of IFRS adoption on the cash flow statement

Transition to IFRS mainly affects the cash flow from operating activities and cash flow from financing activities in the statement of cash flows, as realized rent payments are allocated to cash flow from operating activities for the portion corresponding to finance costs and to cash flow from financing activities for the portion corresponding to part payment of debt.

Signatures for the financial statements and the Board of Directors' report

Helsinki 6 March 2019

Christoffer Häggblom
Chairman

Robert Burén
Board member

Mikael Hagman
Board member

Kai Seikku
Board member

Samuli Seppälä
Board member

Arja Talma
Board member

Panu Porkka
Managing director

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Verkkokauppa.com Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion, the financial statements give a true and fair view of the company's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and comply with statutory requirements.

What we have audited

We have audited the financial statements of Verkkokauppa.com Oyj (business identity code 1456344-5) for the year ended 31 December, 2018. The financial statements comprise the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

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

Independence

We are independent of the company in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and that financial statements comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the company or to cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 6 March 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Ylva Eriksson
Authorised Public Accountant (KHT)

CORPORATE GOVERNANCE STATEMENT

Corporate governance statement

Verkkokauppa.com Oyj (hereinafter, the "**Company**" or "**Verkkokauppa.com**") is a public Finnish limited liability company. The shares of the Company are traded on the First North Helsinki market place of Nasdaq Helsinki Ltd. ("**First North**"). The Company's governance is subject to applicable EU securities market legislation (including the Market Abuse Regulation), the Finnish Companies Act, the Securities Market Act, the Accounting Act, the rules of First North Helsinki as well as the Company's Articles of Association.

As the Company's shares are not listed on the main list of Nasdaq Helsinki Ltd. the Company is not subject to the Finnish Corporate Governance Code 2015 ratified by the Securities Market Association (the "**CG Code**"). However, to the extent practicable, the Company seeks to comply with the CG Code as applicable. Compliance with the CG Code is based on a comply-or-explain principle, whereby departures from the CG Code shall be explained and disclosed. The CG Code is available at the website of the Securities Market Association www.cgfinland.fi/en.

The Company complies with all of the recommendations of the CG Code.

The Company's Corporate Governance Statement is available on the Company's website www.verkkokauppa.com/en/investors/governance.

Group structure

The parent company of the group is Verkkokauppa.com Oyj. The domicile of the Company is Helsinki, Finland. The parent company is the main operating company of the Verkokauppa.com group of companies. The Company has a subsidiary, Arctecho Oü located in Estonia. The subsidiary is dormant and has been dormant for over the past seven (7) years. The Company has commenced a liquidation procedure for the dissolution of Arctecho Oü.

The Company's governance is organised through the General Meeting, the Board of Directors and the Chief Executive Officer. Further, the Company has a management team and an extended management team led by the Chief Executive Officer.

General Meeting

The highest decision-making power in Verkkokauppa.com is exercised by the Company's shareholders at General Meetings, in which the shareholders may exercise their right to speak, ask questions and vote. The Annual General Meeting is held by the end of June each year and it handles the matters that fall under its authority according to the Articles of Association as well as any matters proposed to a General Meeting.

Extraordinary General Meetings are convened by the Board of Directors if needed to handle specific matters proposed to a General Meeting. Shareholders holding a minimum of 10% of all shares and the Company's auditor may request the handling of a specified matter at a General Meeting, which the Board of Directors shall then convene.

Usually General Meetings handle the matters placed on its agenda by the Board of Directors. According to the Finnish Companies Act, shareholders may also request the Company's Board of Directors to place a matter on the agenda of the next General Meeting. The Company states well in advance on its website the date by which a shareholder must declare his or her demands for matters to be dealt with at the Annual General Meeting. The demand is deemed to have arrived in sufficient time, if the Board of Directors has been notified of the demand four (4) weeks before the delivery of the notice of the General Meeting at the latest. The Board of Directors prepares the proposals to the General Meeting relating to the composition of the Board of Directors and the remuneration of the Board of Directors.

Major matters subject to the decision-making power of a General Meeting include:

- amendments to the Articles of Association;
- increases or decreases in share capital;
- issuance of shares;
- decisions on the number, election and remuneration of members of the Board of Directors;
- adoption of the financial statements; and
- distribution of profits / allocation of losses.

Notice to the General Meeting

The shareholders of the Company are summoned to the General Meeting by publishing the notice on the Company's website. The notice shall be published not earlier than three (3) months before and not later than nine (9) days prior to the General Meeting record date. In addition, the Board of Directors may publish a summary notice of the General Meeting in one (1) or more national daily newspapers. The notice shall state the matters to be handled at the General Meeting and other information required in Finnish Companies Act and CG Code.

The notice and the proposals of the Board of Directors to the General Meeting are also published by means of a company release.

The notice to the General Meeting and the following information are made available on the Company´s website at least three (3) weeks before the General Meeting:

- The proposals and, if the General Meeting is to deal with the financial statements, the financial statements, the annual report and the auditor's report. At a minimum, this information shall further be kept available at the venue of the General Meeting;
- The documents to be submitted to the General Meeting; and
- Draft resolutions to the General Meeting.

If a decision pertains to a share issue, the issue of option rights or other special rights entitling to shares, the increase of the share capital from reserves, the payment of dividend, the distribution of reserves of unrestricted equity, the decrease of the share capital, the acquisition or redemption of own shares, or the Company going into liquidation, and the financial statements are not to be dealt with at the meeting, the following information is made available on the Company´s website at least three (3) weeks before the General Meeting:

- The latest financial statements, annual report and auditor's report;
- The possible decisions on the distribution of assets, made after the end of the preceding financial period;
- Any interim reports prepared as of a date after the end of the preceding financial period; and
- A statement by the Board of Directors on the events occurring after the latest financial statements or interim report and having an essential effect on the state of the Company

Attendance

Shareholders registered in the Company's shareholder register kept by Euroclear Finland Ltd on the record date of the General Meeting have the right to attend the General Meeting and exercise their voting rights. Shareholders may exercise their rights at the General

Meeting either in person or through an authorized proxy representative.

The minutes of the General Meeting including the voting results and any appendices that are part of a decision made by the General Meeting shall be posted on the Company website within two (2) weeks after the General Meeting. The decisions of the General Meeting are also published by means of a company release immediately after the General Meeting. The documents related to the General Meeting shall be available on the Company´s website at least for five (5) years after the General Meeting.

Attendance of the members of the Board of Directors and the Chief Executive Officer

The Chief Executive Officer, the chairperson and the members of the Board of Directors shall attend the General Meeting. In addition, the auditor shall be present at the Annual General Meeting. A candidate proposed to be elected to the Board of Directors shall participate in the General Meeting that decides on his or her election.

Decision-making

The Company has one (1) series of shares, which entitle its holders to one (1) vote per share owned at the General Meeting. Most resolutions by the General Meeting require a simple majority of the votes cast at the meeting. In an election, the person receiving the highest number of votes shall be deemed elected. The General Meeting may, however, prior to an election, decide that to be elected, a person shall receive more than half of the votes cast. However, there are several matters, such as directed share issues, which according to the Finnish Companies Act require a 2/3 majority of the votes cast and of the shares represented at the meeting.

The Articles of Association of Verkkokauppa.com include no redemption clauses or voting limitations.

Board of Directors

Composition and term

Under the Articles of Association, the Board of Directors consists of at least four (4) and at most eight (8) members. The members of the Board of Directors are elected by the Annual General Meeting of the shareholders and the term of office of the members of the Board of Directors expires at the end of the Annual General Meeting following their election.

The Articles of Association set no limitations regarding the number of terms that Directors may serve, nor do they restrict in any other way the decision-making power of the General Meeting in electing members of the Board of Directors. However, the General Meeting may take into account all recommendations stipulated by the CG Code regarding the composition of the Board of Directors, especially with regards to meeting the independence and other requirements applicable to publicly or multilaterally listed companies in Finland. The Board of Directors elects one of its members as the chairperson of the Board of Directors and may elect a deputy chairperson.

The Board of Directors have drawn up a written charter for its work. The essential contents of it are included in the following.

Current composition of the Board of Directors

The Board of Directors consists of the following six (6) members elected at the Annual General Meeting held March 21, 2018 for a term until the close of the next Annual General Meeting: Christoffer Häggblom, Robert Burén, Mikael Hagman, Kai Seikku, Samuli Seppälä and Arja Talma. At the constitutive meeting of the Board of Directors, convened after the Annual General Meeting, Christoffer Häggblom was elected as the Chairman of the Board of Directors.

Based on the evaluation of independence, the Board of Directors concluded that Christoffer Häggblom, Robert Burén, Kai Seikku and Arja Talma are independent of the Company, and that Christoffer Häggblom, Robert Burén, Mikael Hagman, Kai Seikku and Arja Talma are independent of the Company's significant shareholders. Samuli Seppälä is neither independent of the Company nor its significant shareholders.

Information reported on the members of the Board of Directors can be found on the spread "Board of Directors".

Duties of the Board of Directors

The duties of the Company's Board of Directors are set forth in the Companies Act and other applicable legislation. The Board of Directors is responsible for the management of the Company. Its responsibilities include, inter alia, to:

- deliberate and decide on the Company's strategy;
- confirm the business plan and budget as well as financing transactions (as far as not falling into the responsibility of the shareholders);
- deliberate on and approve interim reports and/or interim management statements, the annual accounts and the reports by the Board of Directors;
- confirm internal control and risk management systems and reporting procedures;
- decide on possible bonus and incentive schemes for the management and possible general or special pension schemes, profit sharing schemes or bonus schemes for employees of the Company;
- decide on any contracts which, given the scope and nature of activities of the Company, are of unusual nature, or significant importance such as long-term lease contracts;
- follow-up on related party transactions; and
- appoint or dismiss the CEO. Other employees belonging to the management team of the Company are appointed by the CEO and approved by the Board of Directors.

Board Committees

The Company established three board committees for the preparation of board matters beginning from 2018. The board committees are Audit Committee, Nomination and Remuneration Committee and Strategy Committee. The Board of Directors elects the members of these committees from among the Board members at its constitutive meeting after the Annual General Meeting. The Board of Directors has confirmed written charters for the committees. The committees report to the Board of Directors.

The Audit Committee shall prepare the monitoring and supervision duties of the board in matters related to the Company's financial reporting, efficiency of internal control and audit and risk management function and the independence of the Company's auditor. Until the Annual General Meeting held March 21, 2018, the Audit Committee consisted of Kai Seikku (Chairman), Christoffer Häggblom and Minna Kurunsaari, whereafter it has consisted of Kai Seikku (Chairman), Christoffer Häggblom, Samuli Seppälä and Arja Talma. The majority of the members of the Audit Committee are independent of the Company and the Company's significant shareholders. Qualification requirements regarding the members of the committee have been taken into consideration when appointing the members.

The Nomination and Remuneration Committee shall ensure the efficient preparation of nomination and remuneration matters in relation to board members, the chief executive officer and the other senior members of executive management. Until the Annual General Meeting held March 21, 2018, the Nomination and Remuneration Committee consisted of Christoffer Häggblom (Chairman), Robert Burén and Kai Seikku, whereafter, it has consisted of Christoffer Häggblom (Chairman), Kai Seikku and Samuli Seppälä. The majority of the members of the Nomination and Remuneration Committee are independent of the

Company and the Company's significant shareholders.

The Strategy Committee shall assist the Board with matters relating to the strategy of the Company, including also strategic level considerations in relation to the Company's IT issues and its retail operations. The Strategy Committee has consisted of Samuli Seppälä (Chairman), Christoffer Häggblom, Robert Burén and Mikael Hagman.

Participations in Board and Committee meetings 2018

Name	Board of Directors	Audit Committee	Nomination and Remuneration Committee	Strategy Committee
Christoffer Häggblom	21 / 21 (Chairman)	6 / 6	6 / 6 (Chairman)	4 / 9
Robert Burén	21 / 21	-	1 / 1	3 / 9
Mikael Hagman	21 / 21	-	-	2 / 9
Minna Kurunsaari[1]	5 / 5	1 / 1	-	-
Panu Porkka[1]	5 / 5	-	-	-
Kai Seikku	17 / 21	6 / 6 (Chairman)	6 / 6	-
Samuli Seppälä	21 / 21	4 / 5	5 / 5	9 / 9 (Chairman)
Arja Talma[2]	15 / 16	5 / 5	-	-
Henrik Weckström[1]	5 / 5	-	-	-

1) Member of the Board of Directors until March 21, 2018

2) Member of the Board of Directors from March 21, 2018

The Board of Directors held 21 meetings during 2018. The average ratio of attendance at the meetings was 96 % percent.

Verkkokauppa.com does not have a supervisory board.

Decision-making

Meetings of the Board of Directors are convened by its chairperson. The Board of Directors constitutes a quorum when more than half of the members appointed by the General Meeting are present at the meeting. When votes are cast, the majority opinion will be the Board of Directors' decision and, in the case of a tie, the chairperson will have the casting vote.

The Board of Directors is always obliged to act in the Company's interests and in such a way that its acts or measures are not likely to produce unjustified benefit to any shareholder or other third party at the cost of the Company or another shareholder.

A member of the Board of Directors is disqualified from participating in the handling of a matter pertaining to a contract or other transaction between the member of the Board of Directors and the Company or of such matter where the member is to derive an essential benefit and that benefit may be contrary to the interests of the Company. In principle, a member of the Board of Directors may not participate in the handling of a matter if the member of the Board of Directors is involved in the matter under assessment in another capacity.

Meeting practice

The Board of Directors shall convene as frequently as necessary to discharge its responsibilities. The Chief Executive Officer ensures that the Board of Directors is provided with sufficient information to assess the operations and financial situation of the Company.

The secretary of the Board of Directors was Jussi Tallgren until September 2018, after which Robert Tallberg held the position.

The Board of Directors conducts annual performance self-evaluations, in addition to brief feedback sessions following each physical meeting.

Principles concerning the diversity of the Board of Directors

The Company has defined the principles concerning the diversity of the Board of Directors in accordance with the recommendation 9 of the CG Code.

It is in the Company's and its shareholders' interest that the members of the Board of Directors have a broad expertise from different fields and business areas. The diversity of the Board of Directors supports the Company's business and its development, open discussion and independent decision-making.

In the preparation of the proposal for the composition of the Board of Directors, the requirements placed by the Company's strategy, operations and development phase as well as the sufficient diversity of the Board of Directors are taken into account. The diversity of the Board of Directors is examined from different perspectives. Important factors for the Company are the age and gender distribution, academic and professional background as well as strong, versatile and mutually complementary expertise, experience and knowledge in the different business areas important to the Company.

The proposal regarding the composition of the Board of Directors is based on the competence of the candidate and the Company aims to elect Board members whose experience and profile correspond with the Company's current and future business needs. The Board members are elected annually at the Annual General Meeting of the shareholders.

The Company's goal is that both genders are represented on the Board of Directors and that in the long-term a more balanced representation of both genders on the Board is achieved. As means to achieve this objective, the Board of Directors seeks to include representatives of both genders in the Board candidate search and evaluation process and to actively communicate this objective to the shareholders of the Company.

During this accounting period one Board member was a female and the remaining members were male. The Company's goal concerning the representation of both genders has thus been fulfilled.

Management team

Management team members during 2018

Name	Position	Time period
Panu Porkka	CEO	March 22 – December 31, 2018
Samuli Seppälä	CEO	January 1 – March 21, 2018
Timo Halonen[1)]	Services Director	January 1 – April 3, 2018
Miika Heinonen	Logistics Director	January 1 – December 31, 2018
Esa Hjerppe[1)]	Web Sales and Marketing Director	January 1 – April 3, 2018
Tommi Jylhä-Vuorio	Sales Director	August 6 – September 5, 2018
Vesa Järveläinen	Purchasing Director	January 1 – December 31, 2018
Seppo Niemelä	Marketing and Communications Director	August 6 – December 31, 2018
Markus Pätilä[1)]	Sales Director, retail stores	January 1 – April 3, 2018
Jussi Tallgren	CFO	January 1 – December 31, 2018
Henrik Weckström	CTO	January 1 – December 31, 2018

[1)] Member of the extended management team as of April 3, 2018.

In addition, as of January 1, 2019 the management team includes HR Director Taina Suorsa and as of February 25, 2019 Chief Sales Officer Kalle Koutajoki.

The management team members handle the issues that concern managing of the Company in their respective areas and on the basis of the guidance provided by the Board of Directors.The management team assists the Chief Executive Officer in running the Company. The management team members prepare matters that are to be put before the Board of Directors for decision-making, e.g. the Company's strategies, budgets and policies as well as significant acquisitions and divestments. In addition, the management team handles matters pertaining to reporting, internal and external communication, personnel development, hiring of employees and their terms of employment as well as investor relations. The management team has no formal status under company law.

Information reported on the members of the management team and the Chief Executive Officer can be found on the spread "*Management team*".

Chief Executive Officer

The Chief Executive Officer is responsible for the day-to-day management of the Company in accordance with the instructions and guidance given by the Board of Directors and ensuring that the accounting practices of the Company comply with the law and that the financial management of the Company has been arranged in a reliable manner.

The Chief Executive Officer primarily presents the matters handled in meetings of the Board of Directors and is responsible for preparing draft resolutions. The Board of Directors elects the Chief Executive Officer and decides on the remuneration of the Chief Executive Officer and on other terms of the Chief Executive Officer contract. The Chief Executive Officer may not be elected chairperson of the Board of Directors, nor be a member of the Nomination and Remuneration Committee.

Remuneration

In accordance with the CG Code, the Company annually publishes its Remuneration Statement on the Company's website.

Internal control and risk management

Internal control is under the responsibility of the Board of Directors, and its function is, among other things, to ensure the efficiency and profitability of operations, the reliability of information, and the adherence to rules and regulations. Internal control is a part of day-to-day management and company administration.

Internal audits are an integral part of internal control. The Board of Directors is responsible for organising the internal audit, and the internal audit services are purchased from an external service provider. The internal audit reports its observations to the Audit Committee and the Board of Directors. The internal audit supports the management in directing operations by inspecting and evaluating the efficiency of business operations, risk management and internal control, and by producing information and recommendations to enhance efficiency. The internal audit also inspects the processes of business operations and financial reporting. The operations of the internal audit are based on a risk-focused approach and the focus areas of the business operations and its development.

Risk management

The Company's Board of Directors approved on January 16, 2014 a risk management operating model for the Company. According to the Company's risk management operating model, the objective of risk management is to raise risk awareness and enhance proactive risk management in the organisation, increase the competitiveness of the organisation by reducing negative risks and increasing positive risks, ensure a sufficient level of risk management for the whole organisation, manage risks as part of business activities and define responsibilities of risk management in the organisation. The Board of Directors decides on the Company's risk management policy and defines the framework for the level of risk management in the Company. The Audit Committee monitors and regularly evaluates the risk management systems. The Company's operative management is responsible for actual measures related to risk management in accordance with the Company's risk management policy.

Main features of the internal control and risk management systems pertaining to the financial reporting process

The Board of Directors and the CEO have the overall responsibility for organising the internal control and risk management systems for financial reporting. The Company's Chief Financial Officer and the Finance and Control Department are responsible for the financial reporting. The reporting is based on information from commercial and administrative processes and data produced by the financial management systems. The Company's Finance and Control Department determines the control measures applied to the financial reporting process, which include various guidelines, process descriptions, reconciliations, and analyses used for ensuring the validity of the information used in the reporting and the validity of the reporting itself.

The financial reporting results are monitored and any anomalies in relation to forecasts or in comparison with the previous year's figures are analysed on a regular basis. Such analyses are used to detect any reporting errors and to produce materially accurate information on the Company's finances.

The Company's Finance and Control Department is responsible for the effectiveness of internal control. The Finance and Control Department is responsible for assessments of the reporting processes. The risks pertaining to financial reporting and the related management measures are determined as part of the risk management process.

Disclosure

The guiding principle of the communications of the Company is to continuously provide the market with consistent, correct, relevant, and reliable information on the Company to ensure that capital market participants have as transparent and clear a picture of the Company as possible on the basis of which they can assess the value of the Company's securities. In its communication the Company adheres to the principles of the Finnish Companies Act and Securities Market Act of equal and simultaneous access to information and other applicable regulation and strives to make disclosures without undue delay.

According to the rules of First North, companies, the shares of which are subject to multilateral trading on the First North marketplace of Nasdaq Helsinki, shall have entered into an agreement with a certified advisor. The certified adviser of Verkkokauppa.com is Nordea Bank Oyj (the "**Certified Adviser**").

The Company's official reporting languages are Finnish and English. All published releases, annual reports, details of the current Board of Directors and management team and the name of the Certified Adviser is kept available on the Company's website www.verkkokauppa.com.

The Board of Directors has adopted a disclosure policy in accordance which governs the disclosures of Verkkokauppa.com.

Insider Administration

The Company observes the insider guidelines issued by Nasdaq Helsinki Ltd. and which are applicable to Companies, the shares of which are traded on First North. The Company's insider policy approved by the Company's Board of Directors complements applicable insider regulation and sets out guidelines for the Company's insiders and the insider administration. Verkkokauppa.com's insider policy is regularly updated and compliance therewith monitored on an ongoing basis. The Company has appointed Jussi Tallgren, CFO, as the insider officer.

The Market Abuse Regulation (MAR) entered into force on July 3, 2016, with provisions on the Company's duty of disclosure, management of insider information, reporting and disclosure of management's and their related parties' transactions and insider lists.

Under MAR, the duty of disclosure has been coupled with the emergence of insider information. According to MAR, the disclosure of insider information can be delayed at the issuer's risk if the immediate disclosure would likely prejudice the legitimate interests of the issuer, the delay of disclosure is not likely to mislead the public and issuer can ensure that the said information would stay confidential. The Company must file a written notification on the delay to Finnish Financial Supervisory Authority immediately after the disclosure of the information.

Since the entry into force of MAR, the Company no longer has an obligation to keep an up-to-date list of the ownership of the current public insiders. For the time being, the Company has determined not to establish and maintain a list of permanent insiders but all persons involved in insider projects will be included in the project-specific insider lists instead. In the future, the establishment of a list of permanent insiders of the Company would need to be determined by the Board of Directors.

The persons discharging managerial responsibilities in the Company and persons closely associated with them shall notify their transactions in Company's financial instruments to the Company in accordance with the insider policy in two (2) business days from the transaction and to the Finnish Financial Supervisory Authority in three (3) business days from the transaction. The Company must notify the transactions with a company release in three (3) business days from the transaction. In addition, the persons discharging managerial responsibilities in the Company must notify in writing the persons closely associated with them on the emergence of the duty of notification.

According to MAR, the closed period, during which transactions in the Company's financial instruments are prohibited, is 30 calendar days before the announcement of financial report and the year-end report of the issuer and applies to the persons discharging managerial responsibilities. The Company applies the closed period after the end of each calendar quarter until the day after the announcement of the Company's financial report or year-end report (the "**Closed Window**"). The Closed Window shall, however, always include at least 30 calendar days immediately preceding the announcement of the financial report or the year-end report, as the case may be, and the day of publication of such report. In certain special cases the issuer may on a case-by-case basis allow transactions during the Closed Window.

Audit

The main function of the statutory auditing is to verify that the financial statements provide true, accurate and sufficient information on the Company's performance and financial position for the financial year. The Company's financial year is calendar year.

The auditor´s responsibility is to audit the correctness of the Company's accounting in the respective financial year and to provide an auditors' report to the General Meeting. In addition, Finnish law requires that the auditor also monitors the lawfulness of the Company's administration. The auditor reports to the Board of Directors at least once a year and quarterly to the Audit Committee. The fees received by the auditor shall be reported to the shareholders of the Company.

According to the Articles of Association, the auditor of the Company shall be an Authorized Public Accountants firm approved by the Patent and Registration Office. The Annual General Meeting elects the auditor and the term of an auditor terminates at the end of the Annual General Meeting following the election. The proposal for the auditor by the Board of Directors shall be included in the notice of the General Meeting. The auditor's fees for 2018 were approximately EUR 113 thousand and fees paid to the auditor for non-audit services in 2018 were approximately EUR 23 thousand.

PricewaterhouseCoopers Oy, a firm of Authorised Public Accountants, was elected as auditor of the Company on March 21, 2018 with Ylva Eriksson, Authorised Public Accountant, being the auditor-in-charge.

Shareholders' Agreements

The Company is not aware of any shareholders' agreements regarding the shares of the Company.

Remuneration Statement 2018

This Remuneration Statement by Verkkokauppa.com Oyj (the "**Company**") has been prepared in accordance with the Finnish Corporate Governance Code.

Decision-Making Procedure

Board of Directors

The General Meeting resolves annually on the remuneration payable to the Board of Directors as well as the basis for its determination for Board and committee work. The Nomination and Remuneration Committee of the Board of Directors prepares the proposals to the General Meeting relating to the composition of the Board of Directors and the remuneration of the Board of Directors. The recommendation shall be presented after the largest shareholders have been given the opportunity to present views on the composition of the Board.

Chief Executive Officer and Management Team

The Nomination and Remuneration Committee of the Board of Directors prepares the framework for remuneration of the Company's Chief Executive Officer (the "CEO") and the management team and the Board of Directors resolves on the remuneration of the CEO. The chairperson of the Board of Directors approves the remuneration and other benefits of the management team operating under the CEO.

Valid authorizations concerning remuneration

The Annual General Meeting the Company held on March 21, 2018 authorized the Board of Directors to decide on the repurchase of a maximum of 4 506 513 shares in one or more instalments, and further authorized the Board of Directors to resolve on a share issue of either new shares or own shares held by the Company to implement prospective incentive and remuneration schemes. During 2018, the Board of Directors repurchased a total of 82,500 shares and resolved to issue a total of 17,867 shares as part of the annual fee to members of the Board of Directors based on the above authorizations.

Main Principles of Remuneration

Board of Directors

The fees of the members of the Board of Directors consist of an annual fee paid for the Board membership as well as Committee fees paid either as an annual fee or meetings fees. The fees also vary depending on the member's role as a Chair or member of the Committee and the Board.

In accordance with the resolution of the Annual General Meeting held on March 21, 2018, the remuneration payable to the Board of Directors is as follows:

- EUR 70,000 for the chairman; and
- EUR 35,000 for each member.

Half of the annual fee of the members of the Board of Directors is intended to be paid in shares of the Company after each quarterly release and the remaining part of the annual fee is paid in cash, which is used to cover taxes arising from the fees. The shares given as remuneration to Board members are not subject to any ownership restrictions or lock-up provisions.

The annual fees payable to the members of the committees of the Board of Directors for the term until the close of the Annual General Meeting of Shareholders in 2019 are the following:

- EUR 12,000 for the Chairman of the Audit Committee
- EUR 6,000 for each member of the Audit Committee
- EUR 8,000 for the Chairman of the Nomination and Remuneration Committee
- EUR 4,000 for each member of the Nomination and Remuneration Committee.

No annual fee is paid for the Strategy Committee work, but the Chairman of the Strategy Committee will be paid a meeting fee of EUR 3,000 and each member of the Strategy Committee will be paid a meeting fee of EUR 1,500 for each Strategy Committee meeting they attend. The fees of the committees are paid in cash.

In addition, reasonable accrued travel and lodging expenses as well as other potential costs related to Board and Committee work are compensated.

Chief Executive Officer

The remuneration of the CEO comprises a fixed base salary and fringe benefits (such as rights for company car and phone), an incentive bonus related to the achievement of financial and operational targets as well as a share-based incentive scheme for key employees (see "Short-term and long-term incentives" below). The terms of duty have been agreed upon in writing and the CEO is elected for a term continuing until further notice. According to the agreement, the notice period for the CEO is twelve (12) months. The statutory pension age is applied to the CEO. A 12-month non-compete and non-recruiting obligation are applied to the CEO. The CEO is entitled to a compensation corresponding to his base salary for six (6) months, if he is dismissed by the employer without being in breach of contract. This compensation corresponding to the 6-month salary is not paid if the CEO resigns on his own initiative.

The Company pays the CEO's statutory pension insurance premiums. The CEO does not have any additional pension agreements with the Company and there are no other agreements, based on which the CEO would be entitled to any additional benefits at the end of his service contract.

Management Team

The remuneration of the management team consists of a base salary and fringe benefits (such as rights for company car and phone), an incentive bonus related to the achievement of financial and operational targets as well a share-based incentive scheme for key employees (see "Short-term and long-term incentives" below). The basic salary can consist of hourly wage or monthly wage. Certain management team members are entitled to additional pay in accordance with the collective agreement for commercial sector (FIN: kaupan alan työehtosopimus) for work outside normal working hours.

If the employment relationship of a member of the management team is terminated for a reason not attributable to the Company, a non-compete period of six (6) months is observed as a rule. The member of the management team is entitled to a monthly compensation for such period, corresponding to the average monthly salary paid for normal working hours.

The management team members do not have any additional pension agreements with the Company and there are no other agreements, based on which the members of the management team would be entitled to any additional benefits at the end of their employment relationship.

Short-term and long-term incentives

The variable salary component for the CEO and management team consists of a short-term incentive programme as well as a share-based incentive programme linked to the company's long-term targets.

The short-term incentives ("**STI**") consist of an annual bonus programme with performance targets. The Board of Directors decides annually on the performance criteria and the determination of the STI based on the proposal of the Nomination and Remuneration Committee. For 2018, the performance targets were based 50 % on the 2018 sales target and 50 % on the 2018 comparable EBITDA target. The Board may also in its absolute discretion resolve on separate one-off compensations (bonus) from time to time.

On May 16, 2018 the Company announced that the Board of Directors of the Company had resolved to launch a share-based incentive scheme for key management consisting of a matching share plan for three matching periods 2018–2020, 2019–2021 and 2020–2022 ("**LTI**" or "**Matching Share Plan 2018–2020**").

The aim of the plan is to align the objectives of the shareholders and the key employees in order to increase the value of the company in the long-term, to encourage the key employees to personally invest in the company's shares, to retain the key employees at the company, and to offer them a competitive share-based reward plan, which is based on the acquisition, obtaining and accumulation of the Company's shares

In the Matching Share Plan 2018–2020, the participant receives a fixed amount of matching shares against an investment in Verkkokauppa.com Oyj's shares. The Matching Share Plan 2018–2020 includes three matching periods, calendar years 2018–2020, 2019–2021 and 2020–2022. The Board will resolve annually on the commencement and details of each matching period. The prerequisite for receiving reward on the basis of this plan is that a person participating in the plan allocates freely transferable company shares held by him or her or acquires company shares up to the number determined by the Board of Directors. Futhermore, the payment of reward is based on the participant's employment or service upon the reward payment.

The rewards from the Matching Share Plan 2018–2020 will be paid partly in the company's shares and partly in cash in 2021, 2022 and 2023. The cash proportion is intended to cover taxes and tax-related costs arising from the reward to the participant. As a rule, no reward will be paid, if a participant's employment or service ends before the reward payment.

In the first matching period, which commenced 2018, the participant receives one matching share for each allocated share, up to a set amount, free of charge after a three-year vesting period, provided that the other conditions stipulated for the receipt of the share-based incentive by the terms of the plan are still satisfied at the time. The rewards to be paid on the basis of the matching period 2018–2020 correspond to the value of an approximate maximum total of 85,000 Verkkokauppa.com Oyj shares (including also the proportion to be paid in cash).

Remuneration Report

Board of Directors

The remuneration paid to the Board of Directors for Board and Committee work and other tasks during 2018 was as follows:

Name	Position	Board and Committee work	Other benefits from the Company	Number of shares obtained as remuneration[1]	Total (EUR)
Christoffer Häggblom	Chairman	69,500	-	5,107	69,500
Robert Burén	Member	29,250	-	2,552	29,250
Mikael Hagman	Member	27,750	19,220 [2]	2,552	46,970
Kai Seikku	Member	42,250	-	2,552	42,250
Samuli Seppälä	Member	54,250	514 [3]	2,552	54,764
Arja Talma	Member	32,250	-	2,552	32,250
TOTAL		**255,250**	**19,734**	**17,867**	**274,984**

[1] Value of said shares included in the remuneration for Board and Committee work
[2] Remuneration as an advisor of the Company.
[3] Remuneration as CEO of the Company until March 22, 2018.

Chief Executive Officer and Management Team

For the financial period 2018, the base salary of the Company's current CEO Panu Porkka was EUR 317,347.83 including fringe benefits as of March 22, 2018. In addition, during the financial period 2018, he received a short-term incentive payout of EUR 90,000. The CEO and the management team is covered by the Company's short-term incentive programme and share-based incentive programmes. The payout of the incentives under the first matching period of the Matching Share Plan 2018-2020 occurs in 2021.

The remuneration paid to the CEO and the management team in 2018 is stated in the following table:

Remuneration paid during 2018, EUR	CEO Panu Porkka	Other members of the management team (in aggregate)[1]
Basic salary including fringe benefits	317,348	822,316
Incentive bonus	90,000	-
Long-term incentives	-	-
Total	**407,348**	**822,316**

[1] Miika Heinonen, Vesa Järveläinen, Seppo Niemelä, Jussi Tallgren and Henrik Weckström. Figure includes the remuneration paid to Tommi Jylhä-Vuorio as well as Timo Halonen, Esa Hjerppe and Markus Pätilä until the establishment of the Extended Management Team.

The total annual salary with fringe benefits of the previous CEO, Samuli Seppälä, amounted to EUR 514.11 until March 22, 2018, and he did not received any other benefits from the Company during 2018 in relation to this position. The remuneration paid to Samuli Seppälä for Board and Committee work is presented above under "Remuneration Report – Board Directors".

The Board of Directors', CEO's and the management team's holdings of shares are presented in the Corporate Governance Statement 2018.

Board of Directors

Mikael Hagman

CEO and Board member,
Vitvaruexperten.com Nordic AB

Born 1968, DIHM Diploma in Business Administration

Board member since 2014

Shares and share-based rights and corporations over which control is exercised

5,664 shares

Positions of trust

Chairman of the Board,
Mikael Hagman AB
Chairman of the Board, Greasy Lake AB

Working experience

CEO, Media-Saturn Holding Sweden AB, 2008–2013

Member of Strategy Committee

Independent of significant shareholders

Kai Seikku

President and CEO,
Okmetic Oyj

Executive Vice President
National Silicon Industry Group (Shanghai, China)

Born 1965, M.Sc. (Econ.)

Board member since 2013

Shares and share-based rights and corporations over which control is exercised

117,938 shares

Positions of trust

Member of the Board of Directors, Robit Oyj, 2018–
Member of the Board of Directors, Inderes Oy, 2016–

Working experience

CEO, HKScan Corporation, 2005–2009
CEO, Hasan & Partners Oy, 1999–2004

Chairman of Audit Committee
Member of Nomination and Remuneration Committee

Independent of the Company and significant shareholders

Arja Talma

Board professional

Born 1962, M.Sc. (Econ.), eMBA

Board member since 2018

Shares and share-based rights and corporations over which control is exercised

2,552

Positions of trust

Chairman of the Board, Onvest Oy, 2018–
Chairman of the Board, Serena Properties AB, 2016–
Member of the Board of Directors, Chairman of the Audit Committee, Posti Group Corporation, 2016–
Member of the Board of Directors, Chairman of the Audit Committee, Metso Corporation, 2016–
Member of the Board of Directors, Aktia Bank Abp, 2013–, Chairman of the Audit Committee 2017–, Vice Chairman of the Board 2018–

Working experience

Senior Vice President, Store Sites and Investments, Kesko Corporation, 2013–2015
President and CEO, Rautakesko Ltd, 2011–2013
Senior Vice President, Chief Financial Officer (CFO), Kesko Corporation, 2005–2011
Vice President, Corporate Controller, Kesko Corporation, 2004–2005
Executive Vice President, Oy Radiolinja Ab, 2001–2003
Partner, APA, Auditor, KPMG Wideri Oy Ab, 1987–2001

Member of Audit Committee

Independent of the Company and significant shareholders

Christoffer Häggblom

Managing Partner,
Rite Internet Ventures Holding AB

Born 1981, M.Sc. (Econ.)

Board member since 2009

Shares and share-based rights and corporations over which control is exercised

5,107 shares

In addition, ownership through Rite Internet Ventures Holding AB, which owns indirectly 2,172,576 shares in total.

Positions of trust

Chairman of the Board of Directors, Qliro Group AB, 2018–,
Member of the Board (including subsidiaries), 2017–
Member of the Board of Directors, Lemonsoft Oy, 2016–
Member of the Board of Directors, Acervo AB, 2013–
Member of the Board of Directors, Rite Internet Ventures Holding AB, (including subsidiaries), 2007–

Working experience

Founder and Managing Partner of Rite Internet Ventures Holding AB, 2007–

Chairman of Nomination and Remuneration Committee
Member of Audit Committee
Member of Strategy Committee

Independent of the Company and significant shareholders

Samuli Seppälä

Consultant

Born 1975, High school graduate

Board member since 1998

Shares and share-based rights and corporations over which control is exercised

22,285,048 shares

Positions of trust

Member of the Board of Directors, F. Sergejeffin Olut-tehdas Osakeyhtiö 2014–

Working experience

Founder, CEO and Purchasing Director, Verkkokauppa.com Oyj, 1992–2018

Chairman of Strategy Committee
Member of Audit Committee
Member of Nomination and Remuneration Committee

Robert Buren

Consultant

Born 1970, MSc studies, Computer Science and Technology

Board member since 2017

Shares and share-based rights and corporations over which control is exercised

8,552 shares

Positions of trust

Member of the Board of Directors, Qliro AB, 2018–
Member of the Board of Directors, Gaming Innovation Group, 2018–
Member of the Board of Directors, Eaton Gate Gaming Ltd, 2016–
Member of the Board of Directors, Bredband2 i Skandinavien AB, 2014–
Member of the Board of Directors, Cygni AB, 2006–

Working experience

CIO, Bisnode, 2016–2017
CIO, SBAB Bank, 2015
CTO, Unibet, 2011–2015

Member of Strategy Committee

Independent of the Company and significant shareholders

Management team

Henrik Weckström

CTO,
Verkkokauppa.com Oyj

Born 1976, M.Sc. (Tech.)

Member of the management team since 2008

Shares and share-based rights and corporations over which control is exercised
10,824 shares

Working experience
CIO, Verkkokauppa.com Oyj, 2000–2015

Vesa Järveläinen

Commercial Director,
Verkkokauppa.com Oyj

Born 1983, High school graduate

Member of the management team since 2017

Shares and share-based rights and corporations over which control is exercised
10,000

Working experience
Purchasing Director, Verkkokauppa.com Oyj, 2018
Vice Purchasing Director, Verkkokauppa.com Oyj, 2015–2017
Purchasing Manager, Verkkokauppa.com Oyj, 2010–2015

Miika Heinonen

Logistics Director,
Verkkokauppa.com Oyj

Born 1976, BBA

Member of the management team since 2011

Shares and share-based rights and corporations over which control is exercised
8,583

Working experience
Warehouse Manager, Verkkokauppa.com Oyj, 2005–2011

Panu Porkka

CEO,
Verkkokauppa.com Oyj

Born 1977, Studies at commerce

Member of the management team since 2018

Shares and share-based rights and corporations over which control is exercised
45,000 shares

Working experience
CEO, Suomalainen kirjakauppa 2017–2018
Sales director, Tokmanni, 2013–2016

Jussi Tallgren

CFO,
Verkkokauppa.com Oyj

Born 1966, M.Sc. (Econ.)

Member of the management team since 2012

Shares and share-based rights and corporations over which control is exercised
38,100 shares

Working experience
CFO, Veikon Kone Oy, 2009–2012

Seppo Niemelä

Director of Marketing and Communications
Verkkokauppa.com Oyj

Born 1981, M.Sc. Engineering

Member of the management t eam since 2018

Shares and share-based rights and corporations over which control is exercised
10,000 shares

Working experience
Head of marketing and campaign, Lidl Finland 2013–2018

The statements and estimates contained in this Annual Report relating to markets and the future are based on the current views of the management. Due to their nature, they contain uncertainties and are subject to changes in the general economic situation or changes in the situation of the industry.

Verkkokauppa.com Oyj's Certified Adviser acts Nordea Bank Finland PLC.

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