2019

Annual Report

Verkkokauppa.com
PROBABLY ALWAYS CHEAPER

CEO's review

The digitalization of the retail industry and the transformation from brick-and-mortar stores to online continued to accelerate in 2019. Specialty retail faced challenges in brick-and-mortar operations, and the shift towards mobile was strong among consumers: an increasing number of consumers begin their purchase process on a mobile device.

Verkkokauppa.com leveraged its own strengths – lower cost structure, wider range of products and the best possible availability – while fighting for market share in the tough consumer electronics market. The price competition became more intense towards the end of the year, increasing the importance of Black Friday and the Christmas sales season even further. Due to successful preparation and effective campaigns, we broke our sales records in all our channels during Black Friday. The functionality of the webstore and the delivery reliability in our logistics were on a very good level despite a record-high number of customers. In 2019, the Company reached an important milestone, as the revenue increased to over 500 million euros. This provides a solid foundation for our next goal of reaching a revenue of one billion euros.

In 2019, the Company grew its sales especially in midsized categories, and the development of our newer categories was very positive, as well. Thanks to its stable financial situation and solid cash position, the Company was able to pay a quarterly growing dividend. The Company's ownership base expanded during the year, and by the end of the year, Verkkokauppa.com had 8,067 shareholders.

Personalized customer experience and growing range of products

The development projects implemented throughout the year focused on customer experience in different channels. We made several improvements in the usability and speed of our website. Today nearly all content on our website is personalized, and we use artificial intelligence to optimize the content. Reliability also improved significantly during the fall after the webstore was moved into the cloud.

We renewed our product offering and expanded it significantly with the launch of the ball sports category in the spring. The sports category increased by more than 1,300 products, including 10 different ball sports. Thanks to the category expansion, we can reach an even larger consumer segment and attract new customers to our traditional product categories.

In the spring, we also began an extensive marketing campaign around our brand that has helped us improve our nationwide brand awareness and reach new consumer groups. Even in the midst of change, we always remain loyal to our customer promise – probably always cheaper!

"In 2019, the Company reached an important milestone, as the revenue increased to over 500 million euros.

"We will strengthen our position as Finland's most popular webstore.

Strengthened team to lead our development

The Company's Management Team was strengthened when **Taina Suorsa** started as HR Director in January, **Kalle Koutajoki** as Sales Director in February, and **Mikko Forsell** as Chief Financial Officer in September. Commercial Director **Vesa Järveläinen**, CTO **Henrik Weckström** and Logistics Director **Miika Heinonen** continued to serve as part of the Management Team.

The strengthened team allows the further improvement of our omnichannel customer experience and the determined development of our future competitiveness. We will expand our categories in accordance with the selected strategy and will strengthen our position as Finland's most popular webstore. We see significant growth potential in the development of our corporate sales, which will be a focus area for us also this year. To strengthen our shareholder base and increase our share liquidity, in 2020 we will start investigating the possibility of listing to the official list of Nasdaq Helsinki, which we see as a natural continuation of our growth story.

I want to thank all our wonderful colleagues, customers and owners for a fantastic year 2019! Let's keep the ball rolling and challenge the market also in the future. And let's make 2020 even more successful – together!

Panu Porkka
CEO
Verkkokauppa.com Oyj

Retail continues to go online and mobile

Consumer behavior in the retail environment has transformed substantially over the past years, and the change continues. Verkkokauppa.com's operating environment is marked by retail rapidly going online, digitalization and the changes in customer behavior.

Globally, retail is going online at a fast pace: global B2C online retail is expected to increase from USD 2.8 trillion in 2018 to a total of USD 4.8 trillion by 2021 (Statista). According to Statista estimates, the share of e-commerce of all retail was 14.1 percent globally in 2019, and the share is expected to increase to 22 percent in 2023. Online retail is growing rapidly and has become an important sales channel alongside brick-and-mortar stores.

In the Nordics, the estimated online retail consumption in 2018 amounted to EUR 22.4 billion (PostNord, E-commerce in the Nordics, 2018). According to the same report, Finnish consumers spent approximately EUR 2.8 billion in online stores in 2018, and already 48 percent of Finnish 18–79-year-olds shop online on a monthly basis.

Growth of online retail heats up competition

Many factors support the growth of online retail, and online shopping has become commonplace for many consumers. This growth is supported by online stores' expanding product assortment, improved product availability, the increased use of the Internet in everyday interactions as well as the ease of online shopping.

As online retail grows, consumers will have access to a continuously expanding offering: shopping opportunities are practically global, and the products offered by foreign webstores are readily available alongside the offering of domestic retailers. The unprecedented number of choices and technological advances mean that domestic retailers will face an increasing number of foreign competitors.

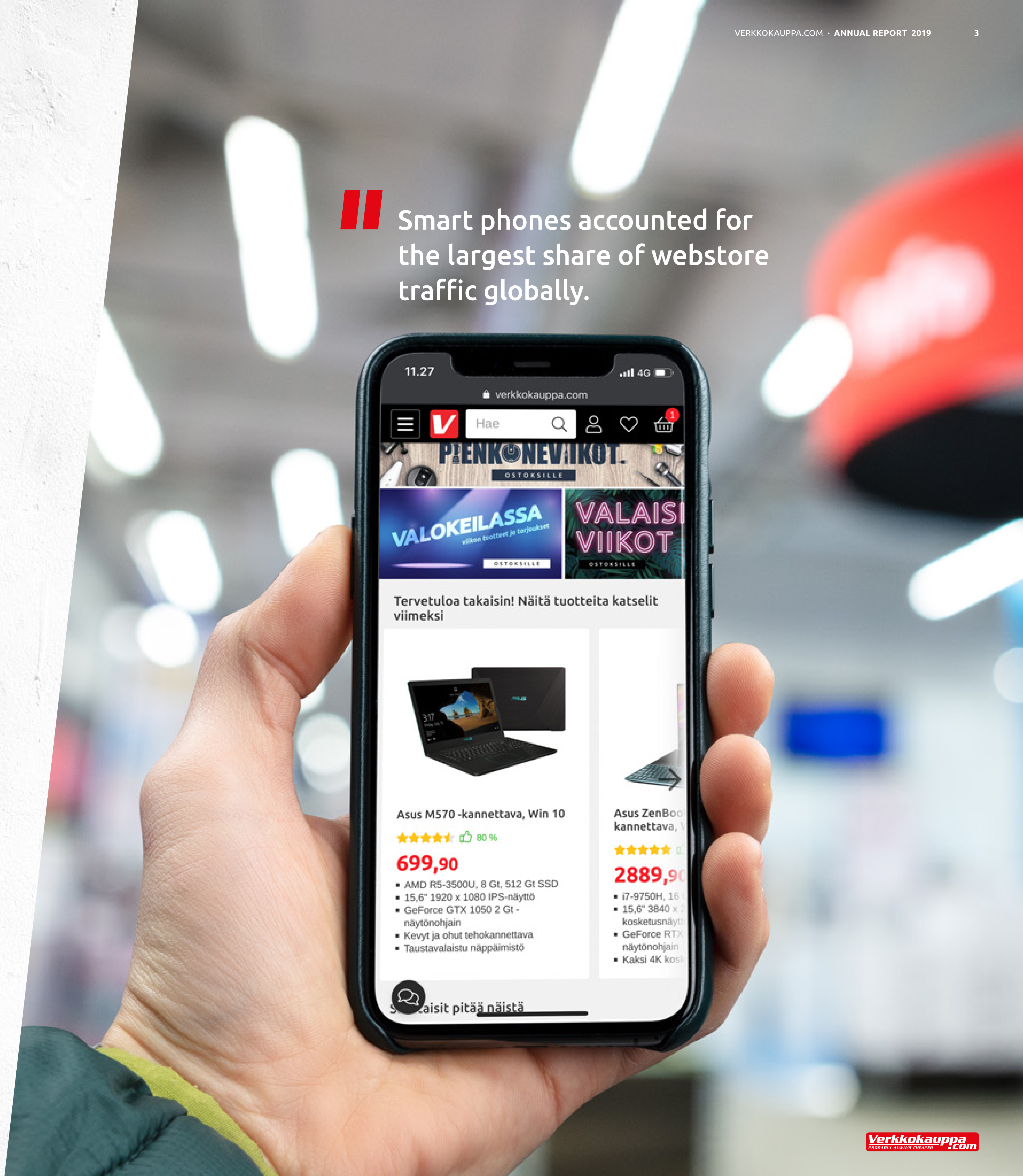
Mobile is gaining in significance

At the same time as retail goes online, shopping and search for information are going rapidly mobile. Already at the end of 2018, globally the number of online purchases made on smart phones was on par with purchases made on computers. Smart phones accounted for the largest share of webstore traffic globally. (Statista)

In Finland, the number of purchases made with a phone have also increased strongly: in December 2018, 37 percent of online shoppers had used their phone for purchasing in the past month, compared to 29 percent at the end of 2017 (PostNord). The growth of mobile shopping challenges both Finnish and foreign webstores to develop their customer experience with special focus on mobile, as consumers expect the same smooth user experience on all devices.

Data facilitates customer understanding and development of shopping experience

The ability to understand consumer trends and consumers' changing needs is emphasized as competition increases. It is vital for webstores to be able to offer customers products in an increasingly personalized and targeted manner. Personalized and tailored recommendations facilitate a positive customer experience and thus increase customer satisfaction and loyalty. Consumers' standards for online customer experiences are increasing in this respect as well – generic or irrelevant product recommendations won't do the trick anymore. Relevant product recommendations help the customer buy products suitable for their own needs, which also facilitates customer satisfaction and decreases webstore return rates. In addition, webstores can use data to offer suitable accessories and services for purchased products and this way offer better service and increase the size of the shopping cart.



> Smart phones accounted for the largest share of webstore traffic globally.

As technology evolves, leveraging data about customers' purchase path and behavior with the help of e.g. artificial intelligence provides an opportunity to offer customers even more specifically targeted products and services. Technology supports also omnichannel customer service – for example, continuously evolving chatbots provide customers with flexible customer service, available 24/7.

Transparency as default

Retail going online also increases transparency: the online environment enables customers to efficiently compare product prices, making them more price aware. The increasing price awareness, in turn, tightens price competition in a growing number of product categories, while webstores' assortments expand with new categories.

The online environment also offers the consumers more opportunities to learn about the products and their features before making the purchase decision, and consumers often look for detailed product information and reviews online. When visiting a brick-and-mortar store, many consumers also look online for additional information on products and services.

Delivery options and speed make a difference

In addition to wide assortment, product availability, low prices and easy shopping experiences, webstores also compete with delivery times: consumers expect to have their online orders fast and easily available. An opportunity to choose between different delivery methods and times is also appreciated.

Thus, developing delivery logistics is one of the key focus areas in retail, with the aim of decreasing delivery times and providing more delivery methods.

Values and responsibility are gaining in significance

Consumers are increasingly more aware of the products they buy, how they use them, and the product's potential impacts on society. Thus, sustainability aspects affect purchase decisions more strongly than before. In its Retail Trends 2019 report, KPMG notes that one third of consumers choose a product based on its social and environmental impacts.

Verkkokauppa.com's strategy responds to changes in retail business

Verkkokauppa.com's progress is driven by profitable growth and growing market share also in the future. Verkkokauppa.com's vision is to be a Nordic leader in retail through cost-efficiency, brand image and omnichannel and scalable business model. The Company's management estimates that Verkkokauppa.com's business operations will develop positively within a medium-term time frame and believes that the Company will succeed in growing its market share in chosen segments. The growth is supported by the strong balance sheet that enables the Company to continue expanding its operations in accordance with its strategy.

In 2019, Verkkokauppa.com achieved a revenue of EUR 504 million, exceeding the EUR 500 million milestone for the first time. The Finnish consumer electronics market continued to consolidate between three key players, which kept the market very competitive and price-driven. In this Annual Report, we will describe in more detail how Verkkokauppa.com responded to retail going online in 2019. In addition, we will describe how Verkkokauppa.com focused on developing customer experience both online and in its megastores.

> **Verkkokauppa.com's vision is to be a Nordic leader in retail.**

> The carefully planned store network offers the largest stores in their region with the best experiences.

Verkkokauppa.com as a retail industry pioneer

Verkkokauppa.com's operations are based on an omnichannel business model: customers are able to shop in the webstore or in four megastores, choosing from an offering of 65,000 products. As retail goes online and mobile, Finland's most popular webstore is the Company's most valuable competitive advantage.

In addition to Finland's most popular webstore (Posti, Online shopping survey 2019), Verkkokauppa.com serves its customers in the megastores of Oulu, Pirkkala and Raisio, as well as in the flagship store in Jätkäsaari, Helsinki. The carefully planned store network offers the largest stores in their region with the best experiences and a broad range of products, and they attract customers from a wide area geographically. Thus, Verkkokauppa.com is able to reach also those customers who are used to shopping in brick-and-mortar stores or want to pick up their online purchases from a store without delivery fees.

Due to the moderate size of the store network, the Company has a considerably lighter cost structure than its main competitors, or compared to traditional retail operators, which enables the Company to execute its aggressive pricing policies – offering its products at probably always cheaper prices.

Verkkokauppa.com's key customer groups include Finnish consumer customers as well as Finnish businesses of different sizes. Until recently, the Company has focused mainly on developing services for consumer customers, but during the last year, it has invested significantly in the services and customer experience of corporate customers.

Omnichannel business model combines webstore and retail stores

As retail goes online and mobile, Verkkokauppa.com's greatest competitive advantage comes from Finland's best known and most visited webstore, supported by four megastores functioning as showrooms. The definite competitive advantages of the Company's webstore include a wider range of products than in retail stores, at competitive prices, as well as a fast and easy shopping experience.

The webstore plays a significant role in consumers' purchase journey even when the customer ends up buying the product from a brick-and-mortar store. Many purchases begin online, where consumers look for information on, for example, products and prices, as well as product reviews. Fast and easy-to-use web pages are an important part of the customer experience, regardless of the final purchase channel.

Continuously expanding product categories

Verkkokauppa.com's product categories have expanded significantly over the years, and the Company aims to offer a broader range of products than its competitors in its main product categories. Previously known for consumer electronics and home appliances, Verkkokauppa.com's offering today comprises more than 65,000 products in 26 product categories.

In 2019, the largest launch was the expansion of the sports category with more than 1,300 ball sports items. In addition, the kitchen category was expanded with tableware from Marimekko, Iittala and Arabia. Previous additions have included pet products, lamps, and toys, among others.

By expanding the product categories, Verkkokauppa.com aims to create new pillars for growth and profitability, as well as to offer an even more versatile range of products in a familiar and trusted webstore for customers who are used to shopping online. The decreasing number of brick-and-mortar specialty stores in different product categories has enabled Verkkokauppa.com to offer a very comprehensive and competitively priced range of products. For example, the offering comprises close to 500 Lego products and more than 2,000 lamps.

Focus on good availability and fast deliveries

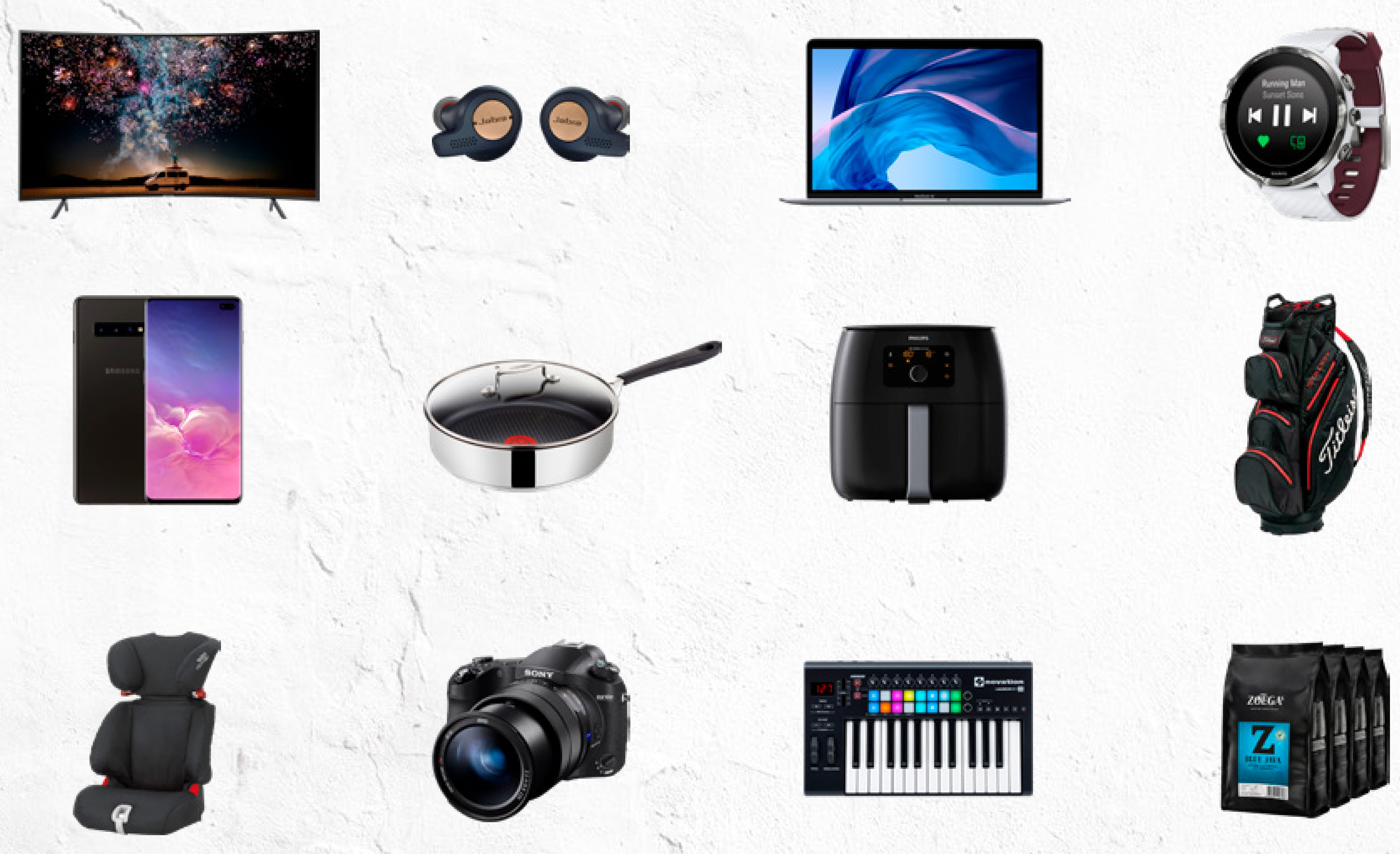
Verkkokauppa.com has two warehouses in Finland. The warehouse in Jätkäsaari, Helsinki, is supported by Posti's warehouse in Voutila, Vantaa, where the Company concentrated all its outsourced warehouse operations during 2019. Posti's warehouse in Voutila is Finland's largest warehouse focused on e-commerce, and it offers flexible warehouse capacity for changing needs especially during high seasons.

Local warehouses give Verkkokauppa.com a competitive advantage, as they enable good availability and fast deliveries for products.

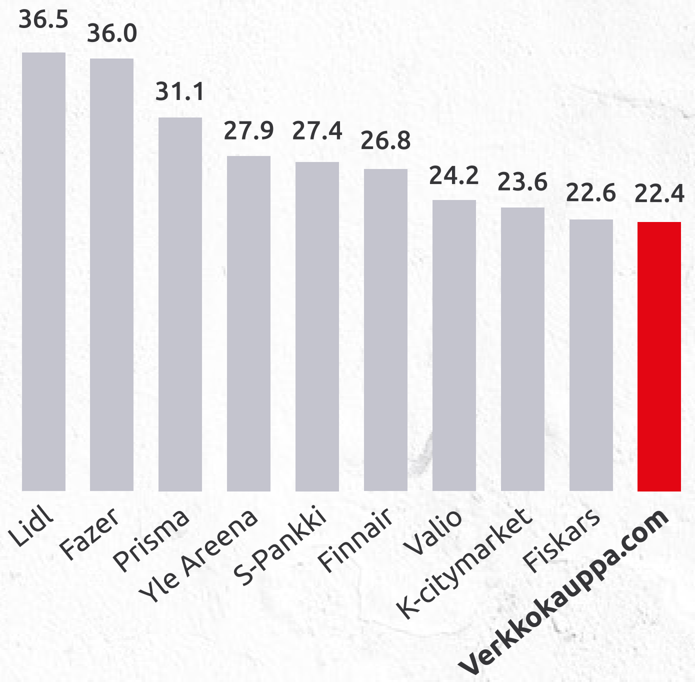
A strong and well-known brand

Verkkokauppa.com's national brand awareness is already over 90 percent. According to research firm YouGov's Brandindex ranking, Verkkokauppa.com was the most recommended brand in 2019 in its comparison group and was one of the Top 10 most talked about Finnish brands.

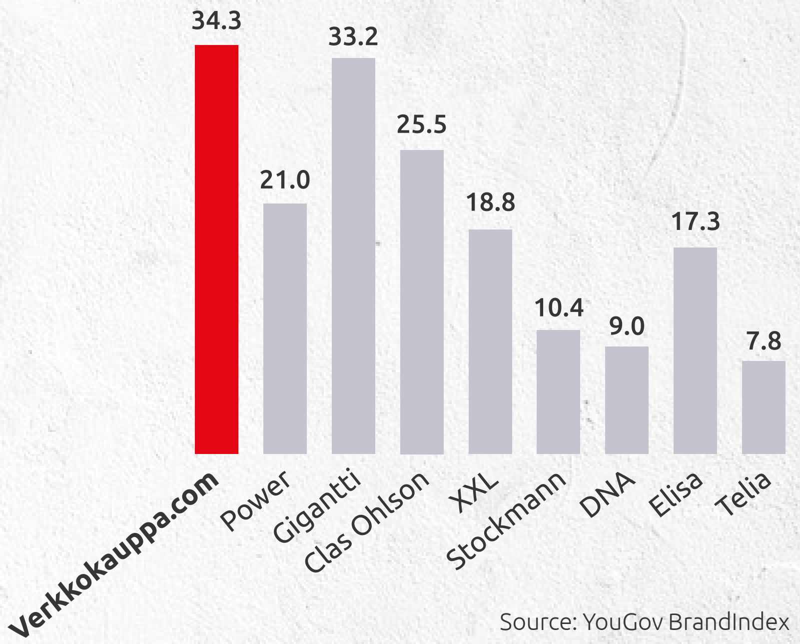
In 2020, Verkkokauppa.com aims to continue visible marketing in order to maintain its top-of-mind position among customers as well as to develop its marketing towards a more targeted and relevant direction by leveraging its own data even more efficiently than earlier.



Finland's most positively talked about brands, Net score



Which of the following brands would you recommend to a friend or colleague?



Source: YouGov BrandIndex

> Verkkokauppa.com among Top 10 most talked about Finnish brands.

Verkkokauppa.com and the year 2019

Verkkokauppa.com continued its growth in 2019. Business development focused on developing customer experience and brand. Corporate customers received new webstore services that facilitate customer interaction.

Tight competition in the consumer electronics market continued throughout 2019. The Finnish consumer electronics market continued to consolidate between three key players, which kept the market very competitive and price-driven. According to GfK, the market grew by 2.9 percent. Verkkokauppa.com gained market share especially in small appliances, domestic appliances and cameras. The market share in computers, televisions and phones remained unchanged from the previous year. In addition, revenue increased in sports, toys, home & lighting as well as audio & hi-fi.

During the first half of the year, Verkkokauppa.com increased its revenue by 9 percent, while the result decreased 30 percent year on year. Tough competition increased the cost of growth during the year, and during whole year of 2019, the Company's revenue grew by 5.5 percent.

The Company's financial position remained strong throughout the year, enabling the payment of growing dividend and offering the possibility to make investments when necessary.

Focus on developing the customer experience

In its strategy, updated in 2018, Verkkokauppa.com named customer experience as one its key focus areas. In 2019, the Company executed several projects aimed at developing customer experience both in retail stores and in the webstore.

One example of developing the customer experience is moving website hosting to the cloud. The renewal was put to the test during Black Friday, when the webstore handled a record-breaking number of visitors and purchase volumes without difficulty. In addition, many other website development projects were executed in 2019 to improve the site's speed and personalization of content.

Thanks to the improved personalization, most of the website's content is tailored to each customer: the site aims to offer customers products that interest them via the search function, category pages, product highlights and campaign pages, when possible. The recommendations are based on data on the customers' shopping behavior and purchase history. Customers that do not have recorded data or have denied its use in their settings are offered products based on optimized results generated by other users' behavior.

New services for corporate customers

The largest development project in the Company's history was carried out in the corporate customer webstore, launching a number of new services for corporate customers. One example of the new services is an automated offer request tool that allows corporate customers to submit a request for quotation to Verkkokauppa.com directly from the webstore's shopping cart and receive an answer within minutes.

In the retail stores, the largest updates were made in the Jätkäsaari megastore in Helsinki, where the television department was completely renovated. In addition, a new service was launched for pick-up customers that enables them to start the pick-up process even before arriving at the store, which makes picking up items even faster and smoother than before. At the end of the year, the Jätkäsaari megastore began a buy-back pilot for used iPhones in collaboration with Swappie. In Oulu, the store's customer path was completely reorganized, making pick-ups easier and increasing the product offering available at the store especially in computers, which reflected positively in customer satisfaction.

Focus on brand

Verkkokauppa.com's plans and investments are guided by targeting improved profitability and sustained growth. In 2019, the Company increased its marketing and brand development efforts significantly from earlier. Media mix saw changes already at the end of 2018, when the Company launched a national TV ad campaign that continued throughout 2019. Increased investments and changes to the media mix aimed at increasing national brand awareness and developing the product offering image in order to attract new customers and increase customer volumes. The efforts made a visible impact especially in the webstore, where the number of visits grew by 28 percent during the year.

Posti's Online shopping survey 2019 listed Verkkokauppa.com as the most popular webstore in Finland and the second most popular of all webstores, preceded only by the international operator Zalando. Verkkokauppa.com placed sixth in a customer loyalty survey conducted by Data & Marketing Association Finland and Avaus.

The proceeds of Verkkokauppa.com's company-financed customer financing service Apuraha totaled EUR 3.3 (3.1) million in 2019.

504 million

Revenue in 2019, EUR

5.5 %

Revenue growth in 2019

11.3 million

Operating profit in 2019, EUR

Value creation for diverse stakeholders

> We create value for several stakeholders, such as our employees, customers, suppliers and shareholders.

Resources and enablers:

Professionals of Verkkokauppa.com
- Company employed an average of 699 persons during the year 2019

Omnichannel marketplace
- The most popular webstore in Finland*
- Four megastores

Enablers of business
- Procurement chain and supplier relations (over 700 suppliers)
- Local warehouses
- Fast and versatile deliveries
- The Company's own and continuously evolving ERP system and webstore platform

Intellectual capital
- Brand image and brand awareness
- Concept of omnichannel customer experience
- Product knowhow and category management
- Customer and transaction data
- Product information and reviews

Financial resources
- Balance sheet total EUR 160.2 million
- Cash and cash equivalents EUR 42.5 million

Light and scalable business model

Cost-efficiency

Customer experience

Courage

Transparency

Agility

Community

Added value and its effects:

Personnel
- Career paths
- Developing competence
- Wages and salaries EUR 25.9 million

Customers
- More than 65,000 products
- Probably always cheaper
- Easy and fast shopping on all devices
- Personalized customer experience
- Tailored services to businesses of all sizes
- Customer satisfaction

Suppliers
- A modern distribution channel to reach consumer and corporate customers
- Purchases over EUR 420 million

Shareholders
- Profit for the financial year EUR 7.8 million
- Increasing quarterly dividend
- Dividends paid in 2019 EUR 8.9 million

Society
- Taxes and tax-like payments EUR 24.2 million

Environment
- Recycled electrical and electronic equipment 251 tonnes
- Renewable electricity in retail stores
- 99.99% of waste produced by the Company is recycled

**Source: Posti's Suuri verkkokauppa 2019 online store survey*

Seamless customer experience in the best Finnish webstore of the year

The cornerstones of Verkkokauppa.com's customer experience are fast and seamless omnichannel transactions, a broad product range in selected categories, and probably always cheaper prices. These are supported by skilled customer service in all channels, as well as extensive product information and reviews, which together facilitate independent shopping experiences.

Taking the speed and reliability of the webstore to a new level

Consumers visiting the webstore value the functionality and speed of the site: any seemingly unnecessary waiting increases the risk of the customer not completing the purchase process. The functionality of the webstore is equally crucial for customers at our retail stores, as many customers begin the purchase process online and seek additional information on our website when visiting our brick-and-mortar store.

During the first half of 2019, Verkkokauppa.com carried out an extensive customer survey to identify the most important factors influencing the customer experience from both the webstore customers' and retail store customers' viewpoint. Several development projects were started based on the survey insights. The most important projects focused on the webstore and the pickup process at retail stores.

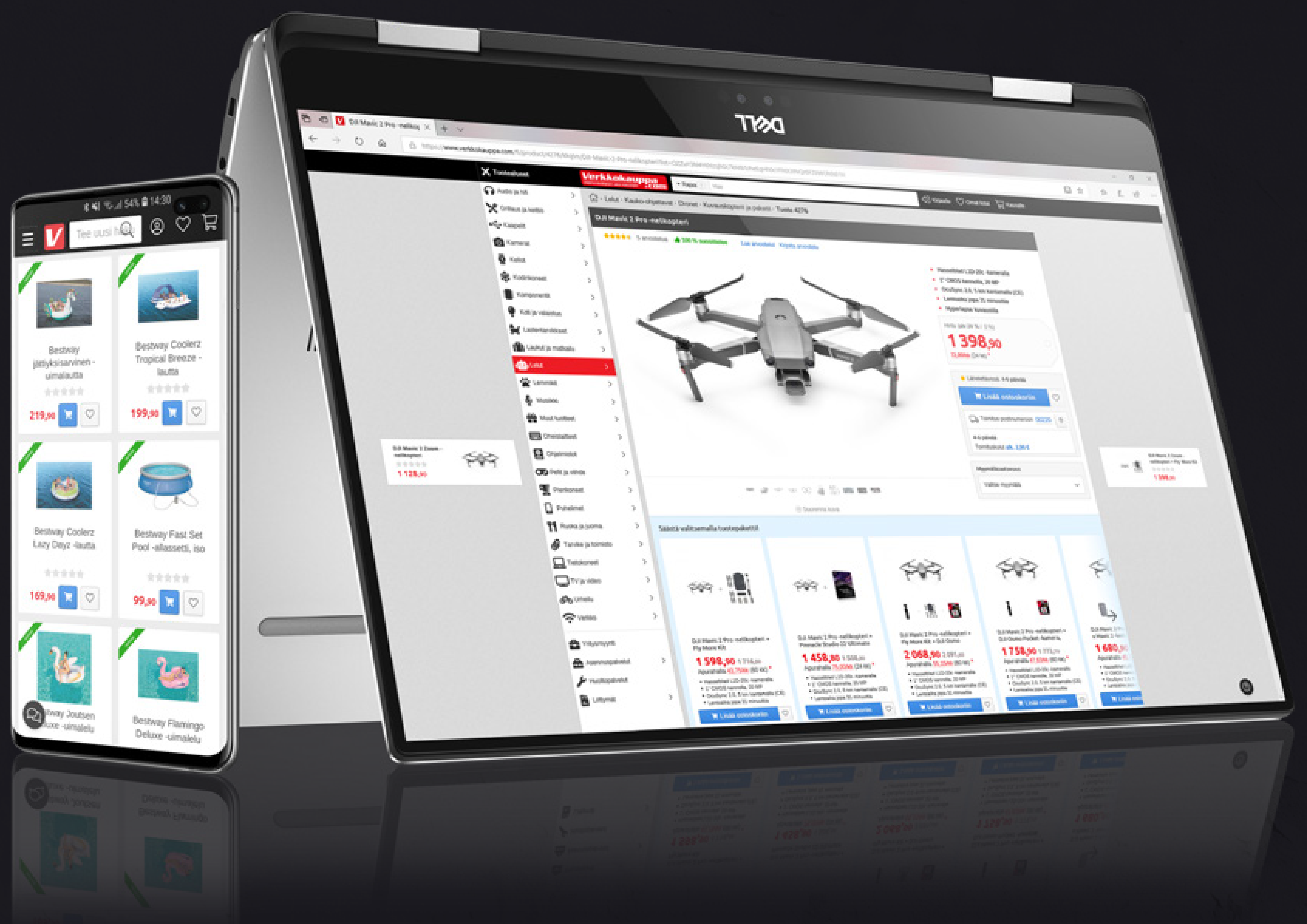
Continuous development of the webstore is at the core of Verkkokauppa.com's operations. A significant change that took place during the first half of 2019 involved transferring the webstore to a new technology platform called Single Page Application. Compared to the previous platform used by Verkkokauppa.com, the new solution expedites the site's functionality significantly by loading only the necessary section of the page at a time, which reduces the number of server calls. Several other, smaller optimizations to the online and mobile use of the site were also carried out during the year. As a result, the pages now load more than 20 percent faster than before these improvements.

Another goal for the year was to improve the scalability of the webstore to manage even larger peaks in visitor numbers, which resulted in the decision to move the online service to a cloud environment. Spanning several months, the project was completed before the end-of-the-year season. The change allowed for a seamless customer experience even with the large number of visitors during Black Friday, when the load of the webstore increased at best to over 30 times its normal load. Thanks to the shift to cloud environment, even significant momentary capacity increases can be carried out in a cost-efficient way.

Retail store renewals improved customer experience

A project was started to improve the omnichannel customer experience, with the aim of making especially pick-ups at retail stores easier. The pick-up process was made smoother at the Oulu and Helsinki stores. The store in Oulu was updated according to the latest store concept. At the same time, the pick-up service was relocated within the store to make pick-ups easier. A new service was launched for the Helsinki store's customers in October, enabling them to start the order pick-up online, for example, on their mobile phone when on the sofa at home. The service helped to expedite pick-ups at the Helsinki store significantly, and customer feedback was

" Thanks to the shift to cloud environment, even significant momentary capacity increases can be carried out in a cost-efficient way.



highly positive already during the first test weeks. After full deployment of the new service, more than 70 percent of all pick-ups in Helsinki are started before arriving at the store.

The large renovation carried out at the television department of the Helsinki store in the fall was also aimed at improving customer experience. The renewed department offers Finland's largest selection of more than 130 televisions and an immersive experience for testing and comparing different television models. As part of developing the omnichannel service, the self-service concept was also renewed during the renovation of the television department: the customer can order a television on display so that it is ready for pick-up within 15 minutes using a QR code on their phone. The overall goal was to develop as seamless a customer experience as possible – regardless of the customer's service need or their customer journey. The changes implemented in stores resulted in customer satisfaction increasing by more than 15 percent compared to the previous year.

Competent and personalized service in all channels

One of the strengths of Verkkokauppa.com is the competent and personalized service provided in all channels, both in retail stores and online. In 2019, Verkkokauppa.com invested in developing automation and self-service in customer service. A chat channel was introduced as a new customer channel, providing efficient, high-quality service especially during the busiest sales season. Increasing self-service and piloting automation solutions for emails brought scalability and efficiency to customer interactions. The development work that focused on quality of content resulted in 77 percent comparable growth in the number of visitors to the customer self-service portal. The number of customer interactions remained on the previous year's level, although customers were introduced to chat services as an easily accessible service channel.

We also developed the self-service features in the customer service portal of our webstore by offering a more extensive set of answers and solutions to the most common customer questions and possible technical issues. Despite the increased number of orders, the new and developed functions helped to reduce the number of customer calls by 10 percent.

The search engine is one of the most crucial factors affecting the smoothness of shopping and finding products in a webstore. During the second half of the year, we renewed the webstore's search function. The new search engine enables personalized search results based on the user's own preferences and user history. This makes the search results even more relevant and tailored to the customer. The search engine also develops as it is used and it can, for example, detect misspellings. In addition to the search engine, the product and campaign listings of the webstore are also now personalized.

" **The changes implemented in stores resulted in customer satisfaction increasing by more than 15 percent compared to the previous year.**

Service renewal supports Verkkokauppa.com's competitiveness among corporate customers

Consumerization is a growing phenomenon in B2B sales, and the share of online purchases is increasing. In 2019, Verkkokauppa.com responded to this change by introducing new services that facilitate purchases.

During 2019, B2B commerce has, according to estimates, relatively caught up with B2C commerce in global online purchases. Globally, 12.1 percent of B2B sales are carried out online, and 89 percent of background research regarding purchases begins online.

Kalle Koutajoki, who started as Sales Director of Verkkokauppa.com in February 2019, sees significant growth potential in the corporate segment.

"B2B commerce is becoming increasingly more consumerized. Persons responsible for companies' purchasing expect the same features in B2B online purchasing as in B2C buying. A personalized customer experience, transparency, smooth purchases, fast deliveries and delivery reliability are drivers for online purchasing in B2B commerce as well," says Koutajoki.

"This market transformation affects small and medium enterprises especially, but there is an increasing interest also in larger companies towards modernizing purchasing. Ease of purchasing, Verkkokauppa.com's extensive and competitively priced range of products and good product availability attract both large companies and the public sector," Koutajoki continues.

Verkkokauppa.com's corporate customer business has grown over the years alongside consumer business and has become a significant part of the Company's operations. In 2019, the Company already had more than 55,000 registered corporate customers. Thanks to its wide product offering, Verkkokauppa.com is able to provide companies with a comprehensive range of products for different needs, from employees' personal equipment to breakroom refreshments and office lighting solutions.

"Traditionally, corporate customers have purchased, for example, laptops, computers and phones from Verkkokauppa.com, but fast and easy purchasing has contributed to an increasing number of businesses making more varied purchases from Verkkokauppa.com," Koutajoki says, shedding light on the growth potential of B2B sales.

Significant service renewal for corporate customers

Verkkokauppa.com improved its services for corporate customers significantly in 2019 by creating, for example, a corporate customer relationship model based on purchase volumes and by developing new services that facilitate purchases. In the new corporate customer relationship model, customers reach a silver, gold or platinum level depending on their purchase volume and receive benefits, such as discounts from purchase prices, accordingly. The service development is based on feedback gathered from corporate customers that Verkkokauppa.com's software development team used to develop the new service with its several functions.

The new service for corporate customers was launched in the last quarter on verkkokauppa.com/yritysmyynti. The service, which requires login, contains numerous new features that help corporate customers. The service is tailored according to the corporate customer's needs, starting from the front page, and offers the possibility to create customer-specific categories, among other things. In addition, the new service has an offer tool integrated directly into the purchase process. With the tool, the customer can easily request an offer for a larger batch by adding the products into the shopping cart. The service uses a fully automated pricing engine developed by Verkkokauppa.com to automate the traditional request for quotation process. The customer can also get a report on all their purchases in a specified format from their customer account.

"By automating the entire order and supply chain, Verkkokauppa.com seeks to make companies' purchasing processes faster and more efficient. The new pricing system based on automation enables avoiding manual work and delivering a customer-specific offer within minutes. Combined with fast deliveries, a broad product range and affordable prices, the service makes Verkkokauppa.com even better equipped to serve corporate customers," says Sales Director Koutajoki.

In connection with the service renewal, a so-called punchout order integration was announced for e.g. Handi and Opus Capita procurement systems to support purchasing by large companies and the public sector.

"The integration means that in practice, Verkkokauppa.com's service works directly in corporate customers' purchasing systems, which is a requirement for many larger companies. The renewal enables Verkkokauppa.com also to participate in more public tenders than before," Koutajoki says.

The development project also included some updates to account management. Using the new functions, the customer can manage account users, change purchasing roles and set account-specific purchase limitations. The functions contribute to further increasing the competitiveness of Verkkokauppa.com in the B2B market and make large customers' transactions and ordering faster and easier.

Kalle Koutajoki
Sales Director

Corporate responsibility at Verkkokauppa.com

Key themes in Verkkokauppa.com's corporate responsibility include customer service, well-being at work, leadership, supply chain management and energy and material efficiency. This section reports on key events and developments in 2019 related to both personnel and environmental matters. The Report of the Board of Directors describes the role of corporate responsibility in Verkkokauppa.com'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 plays a key role in Verkkokauppa.com's growth

In 2019, a key personnel-related theme was co-development of employee satisfaction. Verkkokauppa.com employees were visibly and in different ways included in the development of new practices. The collaborative work of the past year will lay the foundation for 2020, with the Company actively continuing to develop supervisory work and supervisor trainings.

Supervisory work supports strategy implementation

According to a personnel survey conducted at the beginning of 2019, Verkkokauppa.com employees praise their job content and duties, the working conditions, and the good spirit. The survey provided valuable feedback for further development of supervisory work, among other things.

Based on the collected observations, three workshops were carried out, with approximately 60 Company employees working on developing supervisory work. Co-development of supervisory work will continue, for instance, in March 2020, when Verkkokauppa.com organizes its first Supervisor Days. The event will focus on defining the framework for supervisory work, comparing it with Company values, while taking into account the importance of supervisory work in the implementation of the Company's strategy.

In the fall of 2020, supervisor trainings will be organized related to themes raised in the co-development work. The trainings will focus on aspects that support Verkkokauppa.com's strategy, such as interaction and change situations. In addition, the HR department will organize trainings supporting day-to-day management. Supervisors can choose training modules that suit them best.

Developing supervisory work aims at supporting employee well-being and job satisfaction even better than before, recognizing that both of these have a clear link to customer experience, which is important for Verkkokauppa.com.

Values and committed personnel are visible in day-to-day operations

In 2018, the Company's values were created based on the views of the personnel. They form the common foundation for the work carried out by all Verkkokauppa. com employees and help them discover the best ways to achieve their goals. The values are courage, transparency, agility, and community, which emerged in value work consistently throughout the organization.

During the past year, the values were discussed in working groups, defining the ways in which the values are reflected and felt in everyday life. At the same time, discussion continued on how the values are linked to the Company's strategy and its implementation. Adopting the values in daily work will continue in 2020. The framework for supervisory work defined during 2020 will be examined through the lens of the Company values, further increasing the role of the values in the Company's day-to-day management in the future.

Ideas for common practices

Verkkokauppa.com seeks to recognize and reward everyday successes and new ideas. In 2019, an idea box was launched on the Company intranet, enabling every Verkkokauppa.com employee to be even more closely involved in developing common practices and processes. The Company's idea team reviews the proposals and presents them to the Management Team, which will reward the presenter of the best idea each quarter. The first ideas were rewarded in February 2020.

Growing and diversifying personnel

The number of employees at Verkkokauppa.com continued to increase in line with revenue growth. The Company employed an average of 699 persons during the year (677). At the end of the year, Verkkokauppa.com employed 758 persons. The number of employees peaked in November–December, when many young employees again took part in creating the record-breaking year-end sales season last year. Verkkokauppa.com hired more employees under a direct contract than before for the sales seasons, instead of using leased employees.

The average age of the personnel was 31.7 years. Verkkokauppa.com has always employed both young adults starting their work career and seasoned retail experts. In 2019, a significant number of new Verkkokauppa.com employees were recruited for specialist roles in, for example, purchasing, IT, and HR functions. While retail has traditionally been a female-dominated industry, women accounted for 27 percent and men for 73 percent of Verkkokauppa.com's employees at the end of the year.

Personnel highlights in 2019

Co-development of supervisory work continued

Common practices and supervisory work were at the forefront of discussions as some 60 Verkkokauppa.com employees participated in workshops, exploring new ways to further influence personnel development, job satisfaction, and ultimately, the implementation of the Company's strategy. The discussions create a solid basis for the year 2020, when the Company will define the framework for supervisory work and focus on supervisor trainings.

Internal career paths offered to even more Verkkokauppa.com employees

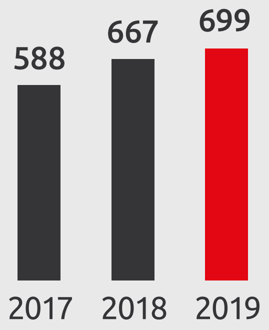
Internal career paths are part of the DNA of Verkkokauppa.com. Opportunities to transition to new positions were actively promoted in personnel information sessions – Verkkokauppa.com recognizes the value of employees seeking new roles within the Company.

In 2019, several employees were again able to transition to new positions within the Company. Internal career opportunities were offered to a total of 52 professionals. A significant part of the transfers were to expert roles. In addition, transitions were made, for example, from the store to logistics and vice versa. A strong knowledge and understanding of the Company and its business facilitate a successful career transition. Offering opportunities to move into new roles within the Company is also seen as an effective way of building employee commitment and engagement.

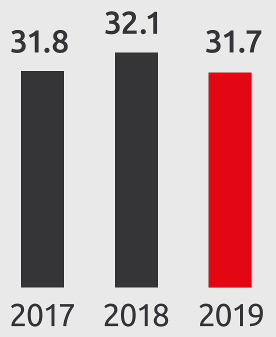
New careers are also created through work trials. Verkkokauppa.com wants to enable employees to try out new tasks at an early stage if their ability to work appears to be reduced. Internal transfers have been well received by employees for many years and have helped create new careers in situations where previous tasks have become challenging due to health issues.

5,000 euro challenge

The Company's development is seen as a duty of and opportunity for every Verkkokauppa.com employee – everyday ideas and joint discussions can create new ways of developing the Company. In addition to the idea box, a 5,000 euro challenge was held in 2019, offering a reward of 5,000 euros to the employee presenting the best idea for the development of the Company. The first idea was rewarded at the end of the year, and the plan is to implement the idea in the summer of 2020.



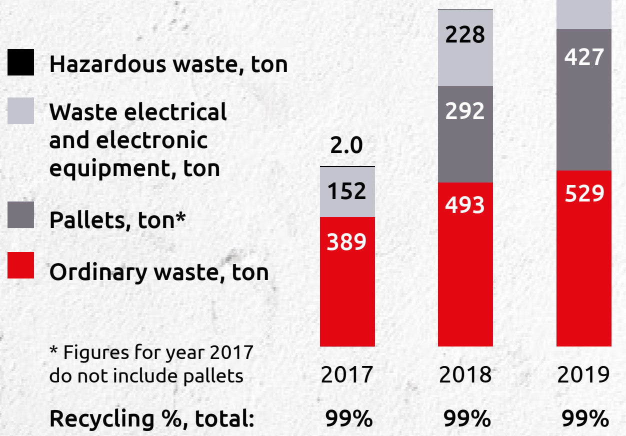
Average number of personnel



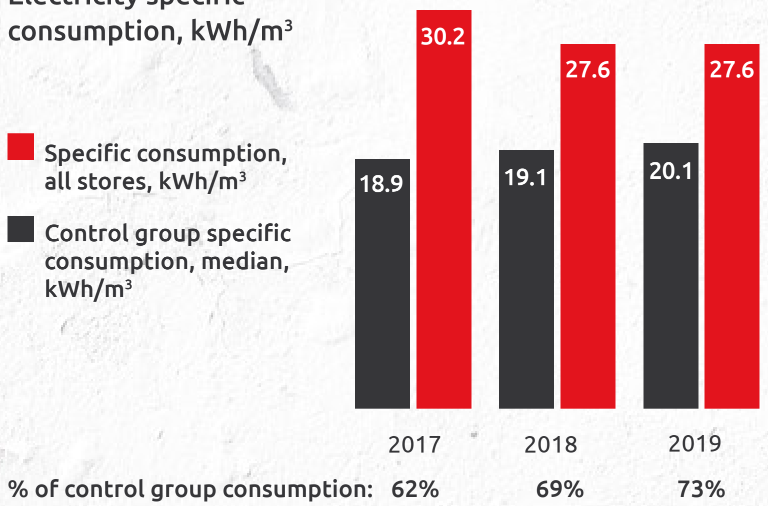
Average age of personnel as of Dec. 31

> "Verkkokauppa.com seeks to recognize and reward everyday successes and new ideas.

Waste management and recycling percentage, all stores



Electricity specific consumption, kWh/m³



Environmental and energy work continued

Recycling volumes continued to increase

Customers are able to bring waste of electrical and electronic equipment (WEEE) for recycling at all Verkkokauppa.com stores: the stores accept all WEEE-related devices and batteries for recycling. In total, Verkkokauppa.com recycled more than 251 tonnes (228 tonnes in 2018 and 150 tonnes in 2017) of WEEE waste in 2019. 1.4 tonnes of batteries were recycled.

All waste produced by Verkkokauppa.com is sorted, and in 2019, all of the waste was put to reuse. A total of 956 tonnes of municipal solid waste was produced in 2019, approximately 72% of which (59% in 2018, 71% in 2017) was recycled as material or reused. A good example are pallets, which accounted for 44% of the Company's municipal solid waste in 2019. Approximately 22,000 pallets in total passed through Verkkokauppa.com in 2019, and 73% of them were sold to be reused. Pallets that cannot be repaired for reuse are sent to incineration.

At the end of 2019, Verkkokauppa.com started recycling all plastic film produced by the Helsinki store as recovered material. The goal is to expand plastic film recycling to cover the Company's three other megastores during 2020.

All stores use 100% renewable electricity

All electricity purchased by Verkkokauppa.com is certified and emission-free electricity produced with hydropower. District heating is used for heating all stores, and environmentally friendly district cooling is used for the cooling of the Helsinki flagship store. The Helsinki store property is also be heated partly using the waste heat generated by IT hardware. Cooling was introduced in the Raisio store and the Jätkäsaari warehouses, with the aim of improving the working comfort of the personnel during the summer heat.

In 2019, the Company investigated opportunities to use solar power. The investigation will continue further at Verkkokauppa.com's Oulu store property. Geothermal heat was introduced in the Pirkkala store property in 2019 to produce part of the heating.

Energy efficiency on the agenda from different perspectives

The total comparable electricity consumption of all of Verkkokauppa.com's stores in 2019 was 73 percent of the median (69% in 2018) . 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.

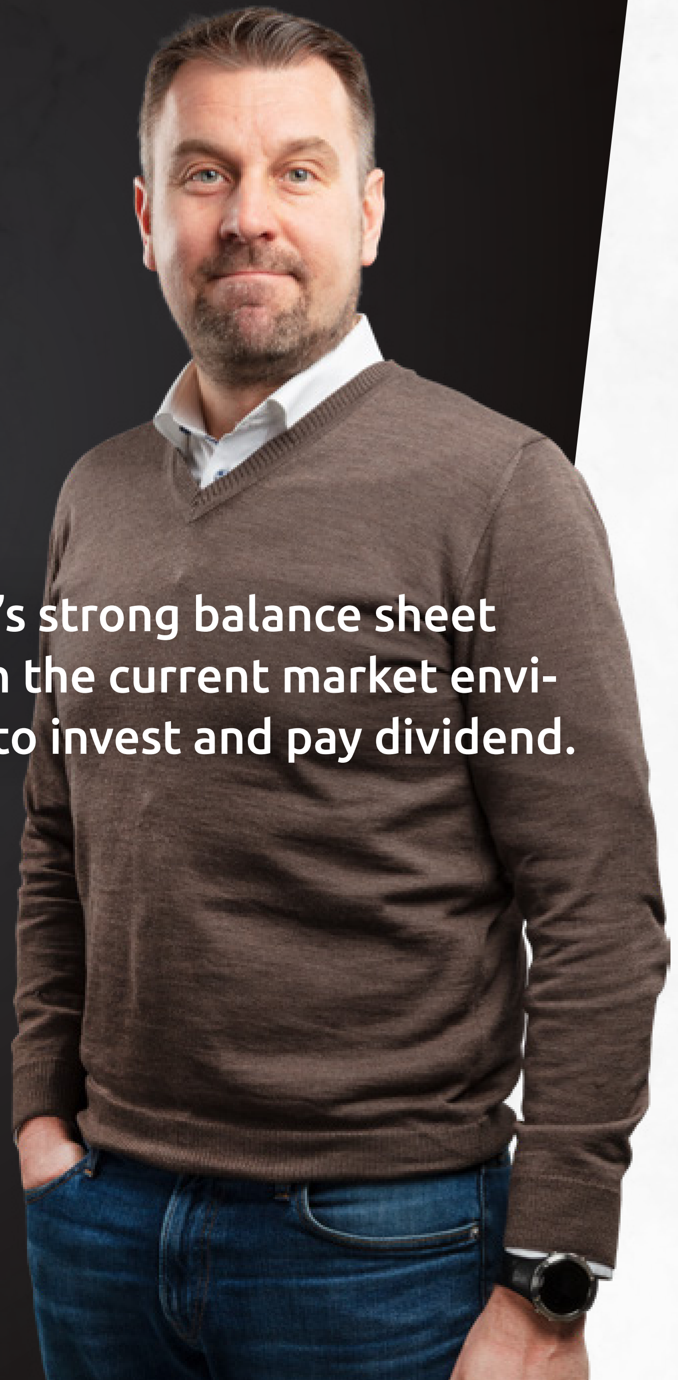
Verkkokauppa.com aims to continuously improve its energy efficiency. All new light fixtures installed are energy-efficient LED light fixtures. Opportunities provided by building services engineering and building automation are utilized for optimizing heating, cooling and lighting, which contributed to a decrease in both the relative and absolute energy consumption of the Jätkäsaari store in Helsinki in 2019. In 2020, Verkkokauppa.com will also investigate possibilities offered by artificial intelligence for the building automation system.

Verkkokauppa.com's flagship store and headquarters in Jätkäsaari, Helsinki 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.

> " All waste produced by Verkkokauppa.com is sorted.

Verkkokauppa.com as an investment

Verkkokauppa.com's goal is to be a Nordic leader in retail. The Company is currently evaluating the possibility of transferring to the official list of Nasdaq Helsinki Stock Exchange during 2020.



" Company's strong balance sheet enables in the current market environment to invest and pay dividend.

Mikko Forsell
CFO

Omnichannel and scalable business model

Verkkokauppa.com's agile and scalable business model effectively combines a webstore and four megastores. The competitive advantages and strengths also include low cost structure, well-known brand as well as the Company's own ERP system and eCommerce platform.

The continuously evolving, omnichannel service concept ensures a superior customer experience. Verkkokauppa.com offers more than 65,000 products in 26 different product categories. The customer promise of the Company is to sell its products at probably always cheaper prices.

Strong market position as retail goes online

The constant changes in consumer behavior and in the retail sector support the shift towards online and mobile. Verkkokauppa.com's webstore received more than 70 million visits in 2019. It is Finland's best-known and most visited webstore.

Verkkokauppa.com has a strong foothold in consumer electronics in Finland. Despite the very competitive and price-driven market, Verkkokauppa.com has succeeded in outgrowing the market.

Stable financial position supports growth

Verkkokauppa.com is a debt-free company with a strong balance sheet position. The cash reserves are appropriate for business development and enable the determined pursuit of growth.

Verkkokauppa.com's goal is to be a Nordic leader in retail and grow to a company with a billion-euro revenue.

Growing company

The Company targets an annual revenue growth of 10–20% in the medium term. In addition, Verkkokauppa.com targets a growing operating profit and an operating profit margin of 2.5–4.5% in the medium-term.

Verkkokauppa.com's goal is to pay out a quarterly growing dividend. The annual dividend payout has increased every year since 2015.

The Board of Directors of the Company has decided to investigate Verkkokauppa.com's possible transfer to the official list of Nasdaq Helsinki. The goal is to complete the transfer to the official list during 2020. Verkkokauppa.com was listed on the Nasdaq First North Growth Market Finland marketplace in 2014.

Report of the Board of Directors and Financial Statements 2019

REPORT OF THE BOARD OF DIRECTORS

Report of the Board of Directors 2019

Year 2019 in brief

Verkkokauppa.com's revenue increased by 5.5% to EUR 504.1 (477.8) million. Operating profit was EUR 11.3 (13.3) million and profit for the financial year EUR 7.8 (9.3) million.

Revenue and profitability development

Revenue grew by 5.5% in January–December 2019 year on year. Revenue grew by EUR 26.3 million, totaling EUR 504.1 (477.8) million. 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 2.9% in January–December 2019.

In the reporting period, personnel costs increased by 7.6% to EUR 32.6 (30.3) million. The increase resulted mainly from the growing personnel costs in retail stores, purchasing and IT.

During the reporting period, other operating expenses increased by 7.6% to EUR 25.5 (23.7) million. The increase resulted mainly from the renewal and increase of Verkkokauppa.com's marketing efforts year on year.

Verkkokauppa.com's company-financed customer financing service Apuraha grew from the previous year. Its proceeds totaled EUR 3.3 (3.1) million, including both interest income and fee income. customers. Verkkokauppa.com sold past due receivables as part of its risk management. As of April 2019, Verkko-kauppa. com has been selling past due receivables in a so-called continuous debt sales model, where receivables overdue more than 60 days will be sold to third parties. The credit loss allowance increased to EUR 0.6 (0.5) million. This decreases company's accounts receivable risk.

Operating profit in January–December 2019 was EUR 11.3 (13.3) million. 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 2019, Verkkokauppa.com Oyj focused on improving organic growth opportunities in the customer financing service.

Key events during the financial year

Taina 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. CFO **Jussi Tallgren** left his position on 20 August 2019 and **Mikko Forsell** was appointed as the new CFO and Management Team member as of 2 September 2019.

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

On 12 February 2019 Verkkokauppa.com published its income statement, financial position and key figures for the year ended 31 December 2017, for the interim periods in 2017 and 2018 and the financial position as at the IFRS transition date 1 January 2017.

On 13 February 2019 Verkkokauppa.com gave a positive profit warning and preliminary information on the company's revenue and comparable EBITDA for the year 2018.

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

On 16 May 2019 Verkkokauppa.com started to acquire the Company's own shares and ended the process on 29 May 2019. The Company acquired a total of 52,000 Treasury shares.

In 2019, the Company transferred a total of 35,337 treasury shares as part of the remuneration of Board members.

Verkkokauppa.com announced on 1 July 2019, that it had signed revolving credit facilities (RCF) totaling EUR 20 million. Of these credit facilities, EUR 15 million are for three years, and EUR 5 million for five years.

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 18 December 2019 that the Finnish GDP will grow by 1.0% during 2020. According to the market research institute GfK, the consumer electronics market grew by 2.9% during January–December 2019 in Finland.

Financing and cash flow

Operating cash flow was EUR 9.7 (8.9) million. The operating cash flow was increased due to reduction of net working capital. The cash flow from investments was EUR -1.1 (-1.4) million. Net finance costs were EUR 1.5 (1.7) million.

The Company is solid. Liquid assets totaled EUR 42.5 (46.7) million. Interest-bearing liabilities totaled EUR 23.4 (26.3) million including lease liabilities and interest-bearing net debts totaled EUR -19.1 (-20.4) million. Equity ratio was 23.4% (23.0%).

Key figures

	2019	2018	2017
Revenue, EUR million	**504**	478	432
Operating margin, of revenue	**2.2%**	2.8%	3.1%
Equity ratio, %	**23.4%**	23.0%	25.1%
Gearing, %	**-52.1%**	-57.3%	-61.3%
Investments, EUR million	**1.2**	1.4	1.5
Operating CF as presented at Cash Flow statement, EUR million	**9.7**	8.9	23.2
Personnel at the end of period	**758**	683	633

Investments

During the reporting period the Company invested in new IT systems and in development of new ERP features, and as a result capitalized EUR 0.1 (0.4) million of the IT department's employee benefit expenses and external technology consulting fees. Net capital expenditures were EUR 1.2 (1.4) million in January–December 2019.

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. In 2019, the Company's revenue increased to EUR 504 million (478), and profit for the period totaled EUR 7.8 million (9.3).

Efficiency of operations, responsibility, quality products, skilled personnel and customer experience are at the core of the Company's strategy. Verkkokauppa.com's business model effectively combines a webstore and four megastores, offering its customers 65,000 products in 26 product categories. The Company's supply chain includes both domestic and international suppliers, approximately 700 in total.

Continuous development is part of our daily work in a changing market environment, where shopping is moving online and mobile. In the market, the strengths of Verkkokauppa.com's business model 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
- Own ERP system and webstore platform
- Stable ownership base

The Company's key stakeholders consist of personnel, customers, suppliers and shareholders. The Company's strengths, combined with a stable financial position, make 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. To its suppliers, Verkkokauppa.com offers a modern distribution channel for the products it purchases. The Company is also a stable payer of dividends, and the goal is to pay out a quarterly growing dividend.

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.

In 2020, Verkkokauppa.com aims to specify the key themes of corporate responsibility and develop a corporate responsibility program, corporate responsibility targets and KPIs. At the same time, the Company will further develop its corporate responsibility management model and clarify the identification and management of corporate responsibility risks.

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 for bribery and corruption
- Occupational health and safety
- Promotion of energy efficiency
- Encouragement 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

Verkkokauppa.com has a General Policy of Purchasing Goods which is attached to orders placed by the Company. In accordance with the purchasing policy, the Company's suppliers must commit to its Supplier Compliance Policy which addresses topics such as legal and regulatory compliance, anti-bribery and anti-corruption, social responsibility and environmental responsibility.

Other policies guiding the Company's operations include, for example, employees' training and equality plan. In early 2020, the Company will specify its risk management policy as well as the principles and operating models related to the prevention of money laundering.

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.

In 2019, the Company launched a specific notification channel that Verkkokauppa.com employees and other stakeholders can use to submit notifications on possible observations of unethical conduct. No reports of suspected unethical conduct were brought to the management's attention in 2019, 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 direct 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. Indirect impacts relate to manufacturing, transport and use of the products sold.

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 purchased by the Company is generated by hydropower. 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. Geothermal heat was introduced in the Pirkkala store property in 2019 to produce part of the heating.

In all domestic transports, Verkkokauppa.com favors environmentally friendly partners such as Posti Green and Matkahuolto.

The total comparable electricity consumption of all of Verkkokauppa.com's stores in 2019 was 73% (69%) of the median. Electricity consumption saw a slight rise in comparison to the previous year. 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. The Company continuously seeks to improve its energy efficiency, for instance, by using LED lights and utilizing opportunities provided by building services engineering and building automation. In 2020, Verkkokauppa.com will also investigate possibilities offered by artificial intelligence for the building automation system.

Material recycling

All waste produced by the Company is sorted, and in 2019, all of it (99.9%) could be recovered. Most of the produced waste is reusable packaging cardboard, pallets and waste that is burned for energy. Approximately 72% of municipal solid waste was recycled as material or reused.

As part of WEEE collecting, the Company recycles electric and electronic waste it produces and receives from customers. In 2019, Verkkokauppa.com recycled more than 251 tons (228 tons) of WEEE-waste and nearly 1.4 (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 2019, 4 (4) audits were carried out. No implications of use of child or forced labor nor other faults necessitating intervention were discovered in the audits. Verkkokauppa.com will increase the number of audits in 2020.

In addition, the Company carries out independent testing and quality assurance of the private label devices it sells. Product safety is a matter of utmost importance for Verkkokauppa.com, and the Company ensures, for its part, that the products sold comply with the requirements of Finnish and EU legislation as well as applicable standards and are safe to use. The labeling and instructions for use comply with legal requirements and authorities' recommendations.

Employee well-being and management

In the strategy of Verkkokauppa.com, employees play a key part in the realization of the Company's business objectives. Instead of a personnel policy, the Company has a personnel training and equality plan that addresses issues such as training, principles related to working hours and working time and accommodating to employees' life situations. The personnel and equality plan will be developed further in 2020, e.g. with regards to remote working principles.

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, where learning at work plays a key role. 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 2019, Verkkokauppa.com Oyj had 758 (683) employees. The Company hired more employees under a direct contract than before for the sales seasons, instead of using leased employees. Verkkokauppa.com's goal is to hire personnel under permanent employment contracts – people are employed for a fixed term only for duly justified reasons in carefully considered situations. Due to the nature of the work duties, some of the employment relationships are established on a part-time basis. Part-time employees are treated equally when allocating work hours.

Occupational well-being and safety

At Verkkokauppa.com, occupational safety and wellbeing are monitored and developed in cooperation with HR, an occupational health and safety committee, and occupational health services. The occupational health and safety committee defines an occupational health and safety action program to be adopted by the management of Verkkokauppa.com.

Well-being at work is promoted by supporting employees' health, work and operational capacity as well as quality of life in various ways. The occupational health action plan, which is prepared each year, guides the development and priorities of occupational well-being. For example, Verkkokauppa.com uses the early support model for the work community. The early support model considers employee well-being from a holistic perspective so that, in addition to health issues affecting people's ability to work, other possible challenges are also recognized. 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, for example, by organizing safety walks.

In 2019, the sickness absence rate to theoretical total work days was 4.5% (4.9) among Verkkokauppa.com employees. The accident rate* was 3.88 (1.91).

* 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 a personnel survey conducted at the beginning of 2019, Verkkokauppa.com employees praise their job content and duties, the working conditions, and the good spirit. The survey provided valuable feedback for further development of supervisory work, among other things. Employees experience Verkkokauppa.com as a pioneer to be are proud of. The next personnel survey will be conducted in early 2020.

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 2019, development of supervisory work continued, for example, in joint workshops with approximately 60 Verkkokauppa.com employees. The development work created a basis for the year 2020, when the Company will redefine the framework for supervisory work and focus on supervisor trainings. The skills of all employees are developed comprehensively through job induction, training, job rotation and career paths.

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.

Management of corporate responsibility risks

Corporate responsibility risks are identified and managed as part of the Company's overall risk management. Risk management is part of Verkkokauppa.com's management system, and the process is led based on an annual clock. Corporate responsibility topics, also from the viewpoint of risks, are regularly discussed at Management Team meetings, and they form a part of the Board of Directors' reporting package, as well.

Verkkokauppa.com's risk management is based on the ISO 31000 standard and other commonly known good practices such as the VAHTI information security instructions. Risk management is carried out in accordance with the Company's risk management policy, which describes the risk management principles, responsibilities and practices of Verkkokauppa.com. In line with the policy, the Company aims to be proactive also in addressing uncertainties or deviations related to corporate responsibility. The risk management policy will be specified in early 2020. The Board of Directors approves the risk management policy.

The most significant risks and uncertainties related to corporate responsibility relate to ensuring responsibility in the supply chain (including fair treatment of employees and environmental responsibility), product safety, information security, employee well-being, climate change and the environmental impact of the Company's own operations.

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 2019, including treasury shares. The Company has one share series with equal rights to vote and dividend.

Over the reporting period 6,813,481 shares, representing 15.1% of all shares in the Company, were traded at the Nasdaq First North Finland marketplace. The highest share price was EUR 4.455 and the lowest EUR 2.85. The average price in share trading was EUR 3.67. The total of share trading was EUR 25 million. The closing price was EUR 3.53, and the market capitalization of all shares was EUR 159 million at the end of the period.

The Company held 81,296 (64,633) treasury shares on 31 December 2019. These treasury shares accounted for 0.18% 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 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 plan.

In the Matching Share Plan 2018–2020, the participant may earn a number of matching shares, determined by the Board of Directors, based on their investment in Verkkokauppa.com Oyj's shares. The Matching Share Plan includes three matching periods: 2018–2020, 2019–2021 and 2020–2022. The Board of Directors will resolve annually on the commencement and details of matching periods. The prerequisite for receiving a reward is that a person participating in the plan allocates freely transferable company shares, held by them, in the plan, or acquires company shares up to the number confirmed by the Board of Directors. Furthermore, the payment of reward is based on the participant's valid employment or service upon reward payment.

The rewards to be paid on the basis of the matching period 2018–2020 correspond to the value of an approximate maximum total of 50,000 Verkkokauppa. com Oyj's shares, and on the basis of the matching period 2019–2021 to the value of an approximate maximum total of 45,000 Verkkokauppa.com Oyj's shares, including also the proportions to be paid in cash. The target group of both matching periods consists of approximately ten persons, including the CEO and members of the Management Team.

The Board of Directors of Verkkokauppa.com Oyj has on 13 February 2020 resolved to establish a new share-based incentive plan for the CEO and the members of the Management Team. The aim of the new plan is to align the objectives of the shareholders and the management in order to increase the value of the company in the long term, to encourage the management to personally invest in the company shares, to retain the members of the Management Team at the company and to offer them a competitive reward plan that is based on acquiring, earning and accumulating the company's shares.

In the new Performance Matching Share Plan 2020–2022, a person may earn a number of matching shares based on their investment in Verkkokauppa. com Oyj's shares and the Total Shareholder Return (TSR) of the share. The Performance Matching Share Plan includes one performance period, calendar years 2020–2022. The reward to be paid to participants is based on the achievement of the required TSR levels set by the Board of Directors. A maximum of three performance-based matching shares is paid for each allocated share. The prerequisite for participation and receiving of reward is that a participant allocates freely transferable company shares, held by them, in the plan, or acquires the company's shares up to the number determined by the Board of Directors. Furthermore, payment of reward is based on the participant's valid employment or service upon reward payment.

The rewards from the plan will be paid partly in the company's shares and partly in cash in 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.

The target group of the plan consists of eight persons, the CEO and all other members of the Management Team. The rewards to be paid on the basis of the plan correspond to the value of an approximate maximum total of 540,000 Verkkokauppa.com Oyj's shares, including also the proportion to be paid in cash.

The last Matching Period 2020–2022 of the company's Matching Share Plan 2018–2020 will not be implemented at all because it will be replaced by this newly established Performance Matching Share Plan 2020–2022.

Board authorizations

The Annual General Meeting held on 28 March 2019 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

At the Annual General Meeting held on 28 March 2019 the Board members **Christoffer Häggblom**, **Robert Burén**, **Mikael Hagman**, **Kai Seikku**, **Samuli Seppälä** and **Arja Talma** were re-elected as members of the Board.

The constitutive meeting of the Board of Directors, convened after the Annual General Meeting, **Christoffer Häggblom** was re-elected as the Chairman of the Board of Directors.

Annual General Meeting

The Annual General Meeting was held in Helsinki on 23 March 2019. The financial statements for the year 2018 were approved and the Board Members and the CEO were discharged from liability. It was decided to pay a dividend of EUR 0.048 per share, totaling EUR 2,160,382.33. The Board of Directors was authorized to decide at its discretion on the distribution of dividends not exceeding EUR 0.150 per share or EUR 6,759,769.50 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 21 May 2019, 20 August 2019 and 5 November 2019.

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

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

Dividend

Verkkokauppa.com's Annual General Meeting authorized the Board of Directors to decide at its discretion on the distribution of dividends not exceeding EUR 0.150 per share to be paid in three instalments during 2019.

The Board resolved on 10 May 2019 to pay a dividend of EUR 0.049 per share (EUR 2,208,191.37 in total).

The Board resolved on 9 August 2019 to pay a dividend of EUR 0.050 per share (EUR 2,253,256.50 in total).

The Board resolved on 25 October 2019 to pay a dividend of EUR 0.051 per share (EUR 2,298,321.63 in total).

Corporate governance statement

A corporate governance statement is available in the Company's Annual Report 2019 and on the Company's website at www.verkkokauppa.com/fi/investors/governance.

Most significant risks and uncertainties

Verkkokauppa.com's risks and uncertainties are mainly related to the Company's industry and operating environment, its operations, as well as the regulatory environment.

Competition in the consumer electronics market is fierce. As a result, the Company's operating result and profitability are subject to changes and uncertainties in the market and the industry, including changes in consumer behavior and the development of the Finnish economy. The Company's business is seasonal and focused on the fourth quarter. The Company is also dependent on the uninterrupted operation of its website and IT systems. The further development of the Company requires expertise and change management skills from key personnel. The Company is affected by risks associated with the implementation of the business strategy and investments. Operational business risks include logistics and supply chain management, as well as business continuity in the event of exceptional situations. The geographical concentration of product manufacturers into certain countries or areas in those countries increases risks related to the supply chain and the availability of goods. Delays and disruptions in the supply chain, logistics or information systems and uncertainties related to logistics partners may have a negative impact on operations. Every effort is made to manage these operational risks by developing appropriate backup systems and alternative operating models, and by investing in the uninterrupted operation of IT systems. Operational risks are also covered by insurance policies.

Changes and increasing complexity in legislation may require significant changes in operations and may result in additional costs. Noncompliance with laws may result in fines or claims for damages. The

Company's reputation, brand awareness and trust among consumers are a competitive advantage – negative publicity related to, for example, regulation or the product safety or sustainability of the Company's own brands could have adverse financial impacts on the Company. In addition, Verkkokauppa.com aims to produce and publish reliable and timely financial information to the market. There is a risk that the Company's reporting might fail to meet the requirements. A prolonged business disruption or poor profitability could impact the Company's liquidity or financial position.

The aforementioned risks and uncertainties may affect the Company's operations, financial position and performance positively or negatively. The risks are managed and governed in accordance with the Company's risk management policy.

Subsequent events

On 13 February 2020 Verkkokauppa.com announced that the Company is currently evaluating the possibility of transferring to the official list of Nasdaq Helsinki during 2020.

On 13 February 2020 Verkkokauppa.com announced to establish a new share-based incentive plan for the CEO and the members of the Management Team.

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 35,952,543.57.

The Board of Directors proposes to the Annual General Meeting that the Company's profit for the financial year of EUR 7,810,067.76 shall be transferred to the retained earnings/losses account and a dividend of EUR 0.214 per share shall be paid for the year 2019.

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 18 December 2019 that the Finnish GDP will grow by 1.0% during 2020.

Financial guidance

In 2020, the Company's revenue is expected to be between EUR 510–530 million (2019: EUR 504 million) and comparable operating profit to be between EUR 12–15 million (EUR 11.3 million).

Major shareholders at 31 December 2019

Shareholder	Number of shares	% of shares
Seppälä Samuli	22,110,096	49.1
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	842,723	1.9
Sijoitusrahasto Evli Suomi Pienyhtiöt	694,000	1.5
Skogberg Ville Johannes	634,266	1.4
Sr Danske Invest Suomen Pienyhtiöt	467,380	1.0
Sijoitusrahasto Aktia Nordic Micro Cap Ytj	450,000	1.0
10 biggest shareholders total	**33,298,580**	**73.9**
Other shareholders	11,766,550	26.1
Total	**45,065,130**	**100.0**

Distribution of shareholders at 31 December 2019

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1–100	3,158	31.1	148,288	0.3
101–500	3,104	38.5	801,715	1.8
501–1 000	957	11.9	732,364	1.6
1 001–5 000	679	8.4	1,408,016	3.1
5 001–10 000	76	0.9	544,098	1.2
10 001–50 000	67	0.8	1,373,358	3.0
50 001–100 000	6	0.1	397,611	0.9
100 001–500 000	10	0.1	2,385,922	5.3
500 001–	10	0.1	37,273,758	82.7
Total	**7,622**	**100.0**	**45,065,130**	**100.0**
Nominee-registered	6		5,033,788	11.17

Shareholder breakdown by sector at 31 December 2019

	Number of shareholders	% of shareholders	Number of shares	% of shares
Companies	248	3.1	1,196,235	2.7
Financial institutions and insurance companies	23	0.3	9,238,254	20.5
Public bodies	4	0.1	5,079,855	11.3
Non-profit organisations	14	0.2	141,371	0.3
Households	7,757	96.2	27,115,884	60.2
Non-Finnish nationals	21	0.3	2,293,531	5.1
Total	**8,067**	**100.0**	**45,065,130**	**100.0**

Alternative performance measurement

In this release, Verkkokauppa.com Oyj presents certain key figures that are not accounting measures defined under IFRS and therefore are considered as Alternative Performance Measures (APM). Verkkokauppa.com Oyj applies in the reporting of alternative performance measures the guidelines issued by the European Securities and Market Authority (ESMA).

Verkkokauppa.com Oyj uses alternative performance measures to reflect the underlying business performance and to enhance comparability between financial periods. The company's management believes that these key figures provide supplementing information on the income statement and financial position.

Alternative performance measures do not substitute the IFRS key ratios.

Share performance indicators

	IFRS 1–12/2019	IFRS 1–12/2018	IFRS 1–12/2017
Financial key figures			
Revenue, thousand euros	504,113	477,833	431,870
Gross profit, thousand euros	73,874	72,020	62,450
Gross margin-%	14.7%	15.1%	14.5%
EBITDA, thousand euros	16,330	18,414	18,044
EBITDA-%	3.2%	3.9%	4.2%
Operating profit, thousand euros	11,290	13,324	13,460
Operating profit-%	2.2%	2.8%	3.1%
Profit for the financial year, thousand euros	7,810	9,334	9,449
Equity ratio, %	23.4%	23.0%	25.1%
Gearing, %	-52.1	-54.3	-61.3
Personnel at the end of the period	758	683	633
Share performance indicators			
Basic earnings per share, euros	0.17	0.21	0.21
Diluted earnings per share, euros	0.17	0.21	0.21
Number of issued shares	45,065,130	45,065,130	45,065,130
Number of treasury shares	81,296	64,633	0
Weighted average number of shares outstanding	44,944,424	45,042,616	45,065,130
Dilutes weighted average number of shares outstanding	45,042,007	45,092,616	45,096,433
Equity per share, €	0.81	0.83	0.82
Dividend per share, €*	0.214	0.198	0.182
Payout ratio, %	114%	96%	87%
Effective dividend yield, %	6.1%	4.8%	2.6%
Price per earnings ratio (P/E ratio)	20.3	19.8	33.8
Lowest share price	2.85	4.01	6.63
Highest share price	4.46	8.09	10.01
Average share price	3.67	5.20	7.78
Period end share price	3.53	4.10	7.08
Market value of the shares at period end, MEUR	159.0	184.8	319.0
The number of traded shares	6,813,481	7,062,002	7,553,034
Traded shares of all shares, %	15.1%	15.7%	16.8%

* 2019: Board of directors' proposal including dividend payment authorization

Calculation of key ratios

Gross profit	Revenue – materials and services	
Gross margin, %	(Revenue – materials and services) / Revenue	x 100
EBITDA	Operating profit + depreciation + amortization	
EBITDA, %	(Operating profit + depreciation + amortization) / Revenue	x 100
Operating profit (ebit)	Result for the period before income taxes and net finance income and costs	
Operating margin (ebit), %	Operating profit / Revenue	x 100
Items affecting comparability	Material items which are not part of normal operating activities such as expenses related to planned transfer to official list of Nasdaq Helsinki, restructuring costs including workforce redundancy and other restructuring costs, impairment losses of fixed assets, gain or losses recognized from disposals of fixed assets/businesses, transaction costs related to business acquisitions, compensations for damages and legal proceedings	
Comparable operating profit	Operating profit before taxes and financial net adjusted with items affecting comparability	
Comparable operating profit, %	Comparable operating profit / revenue	x 100
Equity ratio, %	Total equity/Balance sheet total – advance payments received	
Interest-bearing net debt	Lease liabilities – cash and cash equivalents	
Gearing, %	Lease liabilities – cash and cash equivalents / Total equity	x 100
Investments	Purchases of intangible and tangible assets during reporting period	
Net capital expenditures	Investments – proceeds from sale of intangible and tangible assets	
Earnings per share, Basic	Profit for the period attributable to equity holders of the company/Weighted average number of shares outstanding	
Earnings per share, diluted	Profit for the period attributable to equity holders of the company / Weighted average number of shares outstanding + dilutive potential shares	
Equity per share	Equity / Number of shares at reporting day	
Dividend per share	Dividend / Number of shares at reporting day revised by share split	
Dividend payout ratio, %	Dividend per share revised by share split / Earnings by share revised by share split	x 100
Effective dividend yield %	Dividend per share / Share price at reporting day	x 100
Price per earnings ratio (P/E ratio)	Share price at reporting day / Earnings per share	
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 2019

1 Income statement

EUR thousand	Note	2019	2018
Revenue	7.2	**504,113**	**477,833**
Other operating income	7.3	555	389
Materials and services	7.4	-430,239	-405,813
Employee benefit expenses	7.5	-32,595	-30,300
Depreciations and amortizations	7.7	-5,040	-5,090
Other operating expenses	7.8	-25,504	-23,696
Operating profit		**11,290**	**13,324**
Finance income	7.9	64	9
Finance costs	7.9	-1,591	-1,670
Profit before income taxes		**9,763**	**11,662**
Income taxes	7.10, 7.16	-1,953	-2,328
Profit for the financial year		**7,810**	**9,334**
Profit for the financial year attributable to			
Equity holders of the Company		7,810	9,334
Earnings per share calculated from the profit for the financial year attributable to equity holders			
Earnings per share, basic and diluted (EUR)	7.11	0.17	0.21

2 Statement of comprehensive income

EUR thousand	Note	2019	2018
Profit for the financial year		**7,810**	**9,334**
Items that will not be reclassified to profit or loss			
Changes in fair values of equity investments		0	-15
Other comprehensive income after taxes, total	7.16	**0**	**-15**
Comprehensive income for the financial year		**7,810**	**9,319**
Comprehensive income for the financial year attributable to			
Equity holders of the Company		7,810	9,334

The notes are an integral part of these financial statements.

3 Statement of financial position

EUR thousand	Note	31 Dec 2019	31 Dec 2018
Non-current assets			
Intangible assets	7.13	592	1,067
Property, plant and equipment	7.14	2,381	1,970
Right-of-use assets	7.15	18,770	21,764
Equity investments	7.21.2	266	275
Deferred tax assets	7.16	1,195	1,112
Trade receivables	7.17	1,882	1,544
Other non-current receivables		435	438
Non-current assets, total		**25,521**	**28,171**
Current assets			
Inventories	7.18	66,702	65,784
Trade receivables	7.17	14,620	15,266
Other receivables	7.17	1,143	1,752
Income tax receivables	7.10	278	199
Accrued income	7.17	9,424	9,823
Cash and cash equivalents	7.19	42,495	46,746
Current assets, total		**134,662**	**139,570**
Total assets		**160,183**	**167,741**

EUR thousand	Note	31 Dec 2019	31 Dec 2018
Equity			
Share capital		100	100
Treasury shares		-701	-502
Fair value reserve		0	-33
Invested non-restricted equity fund		25,707	25,585
Retained earnings		3,647	3,082
Profit for the financial year		7,810	9,334
Total equity	7.20	**36,563**	**37,565**
Non-current liabilities			
Lease liabilities	7.15	19,676	22,753
Deferred tax liabilities	7.16	7	18
Provisions	7.23	660	560
Non-current liabilities, total		**20,343**	**23,331**
Current liabilities			
Lease liabilities	7.15	3,758	3,592
Advance payments received		3,819	4,301
Trade payables		73,068	80,695
Other current liabilities	7.22	7,892	4,077
Accrued liabilities	7.22	14,741	14,181
Income tax liabilities		-	-
Current liabilities, total		**103,277**	**106,845**
Total liabilities		**123,620**	**130,176**
Total equity and liabilities		**160,183**	**167,741**

The notes are an integral part of these financial statements.

4 Statement of cash flows

EUR thousand	Note	2019	2018
Cash flow from operating activities			
Profit before income taxes		9,763	11,662
Adjustments			
Depreciation and amortization	7.7	5,040	5,090
Finance income and costs	7.9	1,527	1,630
Other adjustments		476	69
Cash flow before change in working capital		16,806	18,451
Change in working capital			
Increase (-) / decrease (+) in non-current non-interest-bearing trade receivables		-335	-506
Increase (-) / decrease (+) in trade and other receivables		1,653	-7,384
Increase (-) / decrease (+) in inventories		-918	-18,772
Increase (+) / decrease (-) in current liabilities		-3,650	21,276
Cash flow before financial items and taxes		13,557	13,065
Interest paid		-59	-38
Interest received		7	9
Interest of lease liabilities		-1,483	-1,632
Income tax paid		-2,333	-2,543
Cash flow from operating activities		**9,690**	**8,861**
Cash flow from investing activities			
Purchases of property, plant and equipment		-1,016	-582
Purchases of intangible assets		-186	-774
Proceeds from equity investments		57	-
Cash flow from investing activities		**-1,145**	**-1,356**
Cash flow from financing activities			
Decrease (-) in lease liabilities		-3,690	-3,939
Dividends paid	7.21	-8,908	-8,195
Acquisition of treasury shares		-198	-502
Cash flow from financing activities		**-12,796**	**-12,636**
Increase (+) / decrease (-) in cash and cash equivalents		**-4,251**	**-5,131**
Cash and cash equivalents at beginning of financial year		46,746	51,878
Cash and cash equivalents at end of financial year	7.19	42,495	46,746

The notes are an integral part of these financial statements.

5 Statement of changes in equity

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

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

EUR thousand	Note	A	B	C	D	E	F
Equity 1 Jan 2019		**100**	**-502**	**25,585**	**-33**	**12,416**	**37,565**
Profit for the financial year		-	-	-	-	7,810	**7,810**
Changes in fair values of equity investments		-	-	-	33	-	**33**
Comprehensive income for the financial year, total		**-**	**-**	**-**	**33**	**7,810**	**7,843**
Dividend distribution	7.20	-	-	-	-	-8,908	**-8,908**
Acquisition of treasury shares		-	-198	-	-	-	**-198**
Disposal of treasury shares - Board fees		-	-	122	-	-	**122**
Share-based incentives	7.12	-	-		-	139	**139**
Transactions with owners, total		**-**	**-198**	**122**	**0**	**-8,769**	**-8,845**
Equity 31 Dec 2019		**100**	**-701**	**25,707**	**0**	**11,457**	**36,563**

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 Growth 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 3 March 2020. 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 2019. The notes to the financial statements also comply with the Finnish accounting and corporate legislation that completes the IFRS.

Verkkokauppa.com Oyj decided to early adopt IFRS 16 Leases which is applied fully retrospectively. Application of the standard was 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 liquidation of the subsidiary was finalized during October 2019.

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 7.22.3 *Financial risk managemen*t. 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 2019 nor in the comparative year 2018. 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. As of April 2019, Verkkokauppa.com has been selling past due receivables in a so-called continuous debt sales model, where receivables overdue more than 60 days will be sold to third parties. This decreases company's accounts receivable risk.

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 7.24 *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 costs*. 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	2019	2018
At a point in time	498,343	470,971
Over time	5,770	6,862
Revenue, total	**504,113**	**477,833**

Revenue by external customers' location

EUR thousand	2019	2018
Finland	422,540	423,185
Rest of the world	61,573	54,648
Revenue by external customers' location	**504,113**	**477,833**

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	2019	2018
Interest income recognized using effective interest rate method	1,293	1,123
Other income from company-financed customer financing	1,983	2,019
Income from company-financed Apuraha, total	**3,276**	**3,142**

Contract assets and liabilities

EUR thousand	31 Dec 2019	31 Dec 2018
Contract assets	1,507	1,329
Contract liabilities	1,727	1,612

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 2019 that was included in the contract liabilities at the beginning of the year was EUR 961 (776) thousand.

Performance obligations

In 2019, the revenue recognized from the performance obligations satisfied in previous years was EUR 0 (462) thousand. 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	2019	2018
Lease income from sub-leasing rights-of-use assets	396	247
Other income	159	142
Other operating income, total	**555**	**389**

7.4 Materials and services

EUR thousand	2019	2018
Purchases during the financial year	430,352	423,450
Change in inventories	-918	-18,772
External services	804	1,135
Materials and services, total	**430,239**	**405,813**

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	2019	2018
Wages and salaries	26,003	24,257
Pension expenses -defined contribution plans	4,535	4,407
Share-based payments	139	54
Other personnel-related expenses	822	894
Voluntary employee benefits	1,188	1,069
Total employee benefits before capitalization	**32,686**	**30,681**
Capitalized employee benefits for the financial year		
Wages and salaries	-76	-313
Pension expenses -defined contribution plans	-13	-57
Other personnel-related expenses	-2	-12
Capitalized employee benefits for the financial year	**-91**	**-382**
Total employee benefits	**32,595**	**30,300**

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*.

	2019	2018
Number of personnel at the end of the financial year	758	683

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 2019, the performance targets were based 50% on the 2019 sales target and 50% on the 2019 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.

2019

EUR Thousand	CEO Panu Porkka	Management team	2019, total
Short-term employee benefits			
Fixed basic salaries and fringe benefits	520	1,480	**2,000**
Incentive bonus	109	30	**139**
Statutory pension	90	242	**332**
Share-based payments			
Share-based payments	29	109	**139**
Total	**749**	**1,861**	**2,610**
Number of shares	60,000	122,038	**182,038**
% of shares	0.13%	0.27%	**0.40%**

2018

EUR Thousand	CEO Panu Porkka	CEO Samuli Seppälä	Management team	2019, 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**

Number of shares	45,000	22,285,048	**87,507**	**22,417,55**
% of shares	0.10%	49.45%	**0.19%**	**49.74%**

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 26 March 2019 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 2019, the Company transferred a total of 35,337 (17,867) 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 next table presents the total remuneration of the Board of Directors. The sums are presented on an accrual basis.

EUR Thousand	2019	2018
Board members 31 Dec 2019		
Christoffer Häggblom, Chair of the Board, Chair of the Nomination and Remuneration Committee	84	70
Kai Seikku, Chair of the Audit Committee	51	42
Samuli Seppälä	45	54
Arja Talma (Board member from 21 March 2018)	45	32
Robert Burén	35	29
Mikael Hagman	35	28
Remuneration of the Board of Directors, total	**295**	**255**

Shares owned by Board of Directors Dec 31

Number of shares	2019	2018
Board members 31 Dec		
Christoffer Häggblom, Chair of the Board, Chair of the Nomination and Remuneration Committee	15,204	5,107
Kai Seikku, Chair of the Audit Committee	122,986	117,938
Samuli Seppälä	22,110,096	22,285,048
Arja Talma (Board member from 21 March 2018)	7,600	2,552
Robert Burén	13,600	8,552
Mikael Hagman	10,712	5,664
Number of shares, total	**22,280,198**	**22,424,861**

% of shares	2019	2018
Board members		
Christoffer Häggblom, Chair of the Board, Chair of the Nomination and Remuneration Committee	0.03%	0.01%
Kai Seikku, Chair of the Audit Committee	0.27%	0.26%
Samuli Seppälä	49.06%	49.45%
Arja Talma (Board member from 21 March 2018)	0.02%	0.01%
Robert Burén	0.03%	0.02%
Mikael Hagman	0.02%	0.01%
% Shares, total	**49.43%**	**49.76%**

7.7 Depreciation and amortization

EUR thousand	2019	2018
Intangible assets		
Development costs	528	496
Intangible rights	27	62
Amortization of intangible assets, total	**555**	**559**
Tangible assets		
Machinery and equipment	605	588
Other tangible assets	107	118
Depreciation of tangible assets, total	**711**	**707**
Right-of-use assets		
Premises and facilities	3,473	3,496
Machinery and equipment	301	329
Depreciation of right-of-use assets, total	**3,774**	**3,825**
Depreciation and amortization, total	**5,040**	**5,090**

7.8 Other operating expenses

Other operating expenses

EUR thousand	2019	2018
Premises maintenance and operation expenses	5,091	4,214
Financial transactions expenses	2,394	2,245
Marketing	8,389	6,589
Administrative services	6,506	6,337
Other expenses	3,123	4,311
Other operating expenses, total	**25,504**	**23,696**

Auditors' fees

EUR thousand	2019	2018
Statutory audit	97	105
Other services	24	33
Auditors' fees, total	**121**	**137**

The audit firm elected by the annual general meeting is Pricewaterhou-seCoopers Oy. Other services consisted mainly of consultancy on transi-tion to IFRS during year 2018 and 2019.

7.9 Finance income and costs

Finance income

EUR thousand	2019	2018
Interest income	7	9
Capital gain on other financial investments	57	-
Finance income, total	**64**	**9**

Finance costs

EUR thousand	2019	2018
Lease liability interest	1,483	1,632
Other interest costs	20	14
Other finance costs	39	24
Impairment losses on other financial investments	50	-
Finance costs, total	**1,591**	**1,670**

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	2019	2018
Current taxes	2,055	2,246
Change in deferred taxes	-102	82
Income taxes, total	**1,953**	**2,328**

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	2019	2018
Profit before income taxes	9,763	11,662
Taxes calculated at the Finnish tax rate 20%	1,953	2,332
Effect of tax-exempt income and non-deductible expenses	0	-4
Income taxes recognized in the income statement, total	**1,953**	**2,328**
Effective tax rate (%)	20.0%	20.0%

The Finnish tax rate in the financial statements of the financial years 2019 and 2018 was 20 percent.

Income taxes related to other comprehensive income items

2019

EUR thousand	Before taxes	Tax effect	After taxes
Changes in fair values of equity investments	-	-	-
Other comprehensive income items of the financial year, total	**0**	**0**	**0**

2018

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

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.

	2019	2018
Earnings per share, basic		
Profit for the year attributable to the shareholders, EUR thousand	7,810	9,334
Weighted average number of outstanding shares, pcs.	44,944,424	45,042,616
Basic earnings per share, EUR	**0.17**	**0.21**
Earnings per share, diluted		
Profit for the year attributable to the shareholders, EUR thousand	7,810	9,334
Potentially dilutive shares of share-based incentive plan, pcs.*	97,583	50,000
Diluted weighted average number of shares outstanding, pcs.	45,042,007	45,092,616
Diluted earnings per share, EUR	**0.17**	**0.21**

*The share-based incentive plan was started in 2018.

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 50,000 Verkkokauppa.com Oyj share values, including the part paid out in cash.

	Plan 2018–2020	Plan 2019–2022
Grant date	18 Jun 2018/ 7 Aug 2018	2 Jan 2019/ 25 Feb 2019/ 17 Sep 2019
Vesting start date	1 Jan 2021	1 Jan 2022
Vesting conditions	Share ownership and employment	Share ownership and employment
Payment method	Shares and cash	Shares and cash
Share price at grant date, EUR*	6.02/5.79	4.23/4.07/3.28
Fair value of share at grant date, EUR	6.43/6.20	4.87/4.71/3.92
Estimated number of plan participants at end of vesting period, %	100%	100%
Estimated change in shares associated with the plan, %	2%	2%
Number of plan participants	6	8

*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	2019	2018
Expenses related to share-based payments in the income statement	139	54
Total	**139**	**54**

Effect of share-based payments on the balance sheet

EUR thousand	2019	2018
Recognized in equity	193	54
Total	**193**	**-**

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 amortization) 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 amortized 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 amortized 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 amortized 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 rights	Advance payments and work in progress	Total
Cost 1 Jan 2019	2,492	1,239	113	**3,845**
Increases	6	8	110	**123**
Disposals	-	-	-43	**-43**
Transfers between items	152	21	-173	**0**
Cost 31 Dec 2019	2,650	1,268	6	**3,924**
Accumulated amortization and impairment 1 Jan 2019	-1,611	-1,166	-	**-2,777**
Accumulated amortization on disposals	-	-	-	**-**
Transfers between items	-	-	-	**-**
Amortization for the financial year	-528	-27	-	**-555**
Accumulated amortization and impairment 31 Dec 2019	-2,140	-1,193	-	**-3,332**
Carrying amount 1 Jan 2019	**881**	**73**	**113**	**1,067**
Carrying amount 31 Dec 2019	**510**	**75**	**6**	**592**

EUR thousand	Development expenditure	Intangible rights	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**

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 2019	2	5,834	2,509	158	**8,503**
Increases	-	320	126	677	**1,122**
Disposals	-	-	-	-158	-158
Transfers between items	-	566	111	-677	**0**
Cost 31 Dec 2019	2	6,720	2,745	0	**9,467**
Accumulated depreciation 1 Jan 2019	-	-4,280	-2,094	-158	**-6,532**
Accumulated depreciation on disposals	-	-	-	158	158
Transfers between items	-	-	-	-	**-**
Depreciation for the financial year	-	-605	-107	-	**-711**
Accumulated depreciation 31 Dec 2019	-	-4,885	-2,200	-	**-7,086**
Carrying amount 1 Jan 2019	**2**	**1,553**	**415**	**-**	**1,970**
Carrying amount 31 Dec 2019	**2**	**1,834**	**545**	**-**	**2,381**

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**

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 Jätkäsaari real estate lease is discounted with the interest rate implicit and in all other leases the Company's incremental borrowing rate has been used as the discount rate. The Jätkäsaari real estate lease represent 75% of the total lease liabiity. 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 depreciation periods 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 2019	30,152	1,652	**31,803**
Increases	-	113	**113**
Disposals	-	-47	**-47**
Increase/decrease due to remeasurement	658	42	**700**
Cost 31 Dec 2019	30,810	1,759	**32,569**
Accumulated depreciation 1 Jan 2019	-8,893	-1,146	**-10,039**
Accumulated depreciation on disposals	-	14	**14**
Depreciation for the financial year	-3,473	-301	**-3,774**
Accumulated depreciation 31 Dec 2019	-12,367	-1,432	**-13,799**
Carrying amount 1 Jan 2019	**21,259**	**506**	**21,764**
Carrying amount 31 Dec 2019	**18,443**	**327**	**18,770**

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**

The remeasurements made during 2018 and 2019 relate to index adjustments, renegotiations of lease agreements and during 2018 also the change to the Jätkäsaari lease agreement based on the original contract terms.

Lease liabilities

Maturity analysis, contractual undiscounted cash flows

EUR thousand	31 Dec 2019	31 Dec 2018
Less than one year	5,083	5,043
From one to five years	19,816	20,652
Over five years	3,836	7,335
Undiscounted lease liabilities, total	**28,734**	**33,029**

Lease liabilities in the balance sheet

EUR thousand	31 Dec 2019	31 Dec 2018
Current lease liabilities	3,758	3,592
Non-current lease liabilities	19,676	22,753
Lease liabilities, total	**23,434**	**26,344**

Items recognized in the income statement

EUR thousand	2019	2018
Depreciations on rights-of-use assets	3,774	3,825
Interests on lease liabilities	1,483	1,631
Lease income from subleasing rights-of-use items	396	247
Expenses related to short-term leases	17	28
Expenses related to leases of low-value assets	51	51

Items recognized in the cash flow statement

EUR thousand	2019	2018
Total cash outflow for leases	-5,173	-5,571

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 2019	Recognized through profit or loss	Recognized in equity	31 Dec 2019
Leases	896	18	-	914
Financial instruments	8	-8	-	0
Inventories	85	2	-	88
Share-based payments	11	28	-	39
Provisions	112	42	-	154
Deferred tax assets, total	**1,112**	**82**	**-**	**1,195**

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**

Change in deferred tax liabilities

EUR thousand	1 Jan 2019	Recognized through profit or loss	Recognized in equity	31 Dec 2019
Depreciation difference	18	-11	-	7
Deferred tax liabilities, total	**18**	**-11**	**-**	**7**

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

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. Non-current trade receivables are related to Apuraha consumer trade receivables and in current trade receivables Apuraha consumer trade receivables present 55% (54%) out of total current trade receivables.

Principles related to impairments are covered in note 7.22.3 *Financial risk management.*

EUR thousand	31 Dec 2019	31 Dec 2018
Non-current		
Trade receivables	1,882	1,544
Other non-current receivables	435	438
Non-current receivables, total	**2,317**	**1,982**
Current		
Trade receivables	14,620	15,266
Contract assets	1,507	1,329
Other accrued income	7,918	8,494
Income tax receivables	278	199
Other receivables	1,143	1,752
Current receivables, total	**25,466**	**27,040**
Non-current and current receivables, total	**27,782**	**29,022**

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

Ageing analysis of trade receivables

	31 Dec 2019		31 Dec 2018	
EUR thousand	Trade receivables	Loss allowance	Trade receivables	Loss allowance
Not due	12,226	101	12,553	212
Past due 1–60 days	4,399	331	4,305	173
Past due 61–120 days	419	110	455	136
Past due over 121 days	17	17	33	14
Total	**17,061**	**559**	**17,345**	**535**

The bad debt allowance for trade receivables as at 31 December reconcile to opening bad debt allowance as follows:

EUR thousand	2019	2018
Opening bad debt allowance at 1 January	535	719
Increase in bad debt allowance recognized in profit or loss during year	1,238	1,446
Receivables written of during the year as uncollectible	-761	-911
Unused amount reversed	-453	-719
Closing bad deb allowance at 31 December	**559**	**535**

In 2019, the Company recognized a net amount of credit losses from trade receivables amounting to EUR 843 (1,964) thousand. 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.

As of April 2019, Verkkokauppa.com has been selling past due receivables in a so-called continuous debt sales model, where receivables overdue more than 60 days will be sold to third parties. This decreases company's accounts receivable risk.

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 2019	31 Dec 2018
Goods	66,702	65,784
Total	**66,702**	**65,784**

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 2019	31 Dec 2018
Cash in hand and at banks	42,495	46,746
Total	**42,495**	**46,746**

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 2019	45,000	65	45,065	100
Acquisition of treasury shares	-52	52	-	-
Transfer of treasury shares to members of the Board of Directors	35	-35	-	-
31 Dec 2019	**44,984**	**81**	**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 2019, the share capital of Verkkokauppa.com Oyj was 100,000 euros and the number of shares was 45,065,130 shares of which 81,296 (64,633) were treasury shares held by the Company.

The Company acquired treasury shares total 52,000 (82,500) during reporting period. The average acquisition price of treasury shares was EUR 3.76 (6.05), and the portion of the share capital and of the voting rights of all shares was 0.18% (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.

The Company has not applied for a credit rating from any external credit rating institution. Capital management is based on continuous monitoring of targets set by the Board of Directors and limit values related to external financing, as well as on approving and executing balancing measures in case of any deviations. Based on information it is provided, the Board of Directors evaluates the impact of possible deviations and makes the necessary decisions during the financial period. The Company's net gearing target is defined and monitored as part of normal reporting. The 52% (54%) net gearing is a key indicator in overall balance sheet management. Regarding the cyclical nature of business, as well as potential business acquisitions, the Company evaluates financing needs on a case by case basis.

At the end of the financial period, the Company had revolving credit facilities totaling EUR 20 million, which had not been utilized.

The terms of the covenants are described in the attachment 7.22.3 *Financial risk management*.

EUR thousand	2019	2018
Net debt	42,495	46,746
Total sharesholders' equity	-23,434	-26,344
Net debt to equity ratio	52%	54%

The net det to equity ratio decrease to 52% from 54%. Both net det and gross assets decreased during reporting period 2019.

Dividends

Dividends paid

2019

For the previous year	Date of payment	Dividend per share, EUR
	8 Apr 2019	0.048
	21 May 2019	0.049
	20 Aug 2019	0.050
	5 Nov 2019	0.051
Total dividends, EUR thousand		**8,908**

2018

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

Dividend proposed

The Board of Directors of the Company proposes a dividend of EUR 0.214 per share. The dividend will be paid in four instalments.

7.21 Cash flow information

Specification of net debt and net debt changes. The Company does not have interest-bearing debt.

Net debt reconciliation:

Net debt

EUR thousand	2019	2018
Cash and cash equivalents	42,495	46,746
Lease liabilities	-23,434	-26,344
Net debt	**19,061**	**20,402**

EUR thousand	2019	2018
Cash	42,495	46,746
Gross debt - leases	-23,434	-26,344
Net debt	**19,061**	**20,402**

	Liabilities from financing activities		Other assets	
EUR thousand	Leases	Sub-total	Cash and cash equivalents	Total
Net debt Jan 1, 2018	-29,315	-29,315	51,878	22,563
Cash flows	3,939	3,939	-5,132	-1,193
Acquisitions - leases	-968	-968	-	-968
Changes in index	-	-	-	-
Net debt Dec 31, 2018	**-26,344**	**-26,344**	**46,746**	**20,402**
Cash flows	3,690	3,690	-4,251	-561
Acquistions - leases	113	113	-	113
Changes in index	-894	-894	-	-894
Net debt Dec 31, 2019	**-23,434**	**-23,434**	**42,495**	**19,061**

7.22 Funding

Financial assets

The most significant financial assets of the Company are trade receivables and 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 7.22.3 *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, 7.23 *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 7.22.3 *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 7.22.3 *Financial risk management.*

7.22.1 Financial assets and liabilities by measurement category

2019, 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	266	-	-	**266**
Trade and other receivables*	-	2,317	-	**2,317**
Non-current financial assets, total	**266**	**2,317**	-	**2,583**
Current financial assets				
Trade receivables	-	14,620	-	**14,620**
Cash and cash equivalents	-	42,495	-	**42,495**
Current financial assets, total	-	**57,116**	-	**57,116**
Financial assets by measurement category, total	**266**	**59,432**		**59,698**
Non-current financial liabilities				
Lease liabilities	-	-	19,676	**19,676**
Non-current financial liabilities, total	-	-	**19,676**	**19,676**
Current financial liabilities				
Lease liabilities	-	-	3,758	**3,758**
Trade payables	-	73,068	-	**73,068**
Current financial liabilities, total	-	**73,068**	**3,758**	**76,826**
Financial liabilities by measurement category, total	**-**	**73,068**	**23,434**	**96,502**

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**

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

7.22.2 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 2019		31 Dec 2018	
EUR thousand	**level 2**	**level 3**	**level 2**	**level 3**
Financial assets				
Equity investments	-	266	9	266
Total	**-**	**266**	**9**	**266**

The equity investments in level 2 contain shares for which the Company receives an OTC market price. During reporting period The Company impaired the shares held in Zenterio Ab, as it was decleared bankrupt. No changes during comparative year.

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	2019	2018
Equity investments		
Carrying amount 1 Jan	266	266
Increases	-	-
Decreases	-	-
Carrying amount 31 Dec	**266**	**266**

7.22.3 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 EUR 0 (197) thousand in total at year-end 2019 because a shared portfolio is continually used in corporate customer financing.

Contractual cash flows based of financial liabilities and financial guarantee contracts

31 Dec 2019

EUR thousand	< 1 year	1–5 years	> 5 years	Total
Lease liabilities	5,083	19,816	3,836	**28,734**
Trade payables	73,068	-	-	**73,068**
Financial guarantee contracts	-	-	-	**-**
Total	**78,151**	**19,816**	**3,836**	**101,803**

1 Jan 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**

A significant part of the balance sheet consists of liquid funds (27% in 2019). 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 2019 consisted of liquid funds. At the end of the financial year, the amount of liquid funds was EUR 42,495 (46,476) thousand. The funds were freely available.

Verkkokauppa.com announced on 1 July 2019, that it had signed revolving credit facilities (RCF) totaling EUR 20 million. Of these credit facilities, EUR 15 million are for three years, and EUR 5 million for five years. Ordinary covenants is applied to the conditions of committed revolving credit facilities (among others, equity ratio and interest-bearing net liabilities in relation to the EBITDA).

The equity ratio is always over 25 percent and net debt in relation to EBITDA does not exceed 3.3. According to the agreement, financial covenants are calculated in accordance with the accounting principles applied by the Company in preparing its financial statements for 2017 (Finnish Accounting Standards, FAS). The Company has changed its accounting principles by adopting the IFRS standards. The Company undertakes to provide the lender with an account of the differences between the accounting principles used in the calculation of financial covenants (FAS) and the Company's official financial statements or half-year report (IFRS).

At the end of the financial year 2019, the unused committed revolving credit totaled EUR 20 million. The Company has 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 EUR 3,000 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. As of April 2019, Verkkokauppa.com has been selling past due receivables in a so-called continuous debt sales model, where receivables overdue more than 60 days will be sold to third parties. This decreases company's accounts receivable risk. The credit loss allowance increased to EUR 0.6 (0.5) million.

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 2019 were EUR 843 (1,964) thousand.

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 2019, the amount of currency-denominated open trade payables was EUR 1,350 (1,354) thousand. The exchange differences were immaterial in 2019 and in the comparative year.

7.23 Other current liabilities and accrued liabilities

EUR thousand	31 Dec 2019	31 Dec 2018
Contract liabilities	1,727	1,612
Accrued personnel expenses	7,142	5,074
Other accrued liabilities	7,713	9,107
Withholding tax liability	936	892
VAT liability	5,114	1,572
Other current liabilities and accrued liabilities, total	**22,632**	**18,257**

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

7.24 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 7.22.3 *Financial risk management*.

EUR thousand	Product warranties	Expected credit losses from financial guarantee contracts	Total
Provisions 1 Jan 2019	557	3	**560**
Increases in provisions	183	0	**183**
IReversal of unused provisions	-80	-3	**-83**
Provisions 31 Dec 2019	**660**	**-**	**660**

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**

7.25 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. Samuli Seppälä, member of Board of Directors and related party, owns 49.1% of shares and voting rights at the time of reporting date.

Transactions with related parties

EUR thousand	2019	2018
Sales of goods and services		
To key management personnel and their related parties	46	31
Purchases of goods and services		
From key management personnel and their related parties	-	19

EUR thousand	31 Dec 2019	31 Dec 2018
Closing balances from purchases/ sales of goods/services		
Trade receivables from key management personnel and their related parties	7	7
Trade payables to key management personnel and their related parties	0	2

7.26 Guarantees and commitments

EUR Thousand	31 Dec 2019	31 Dec 2018
Collateral given for own commitments		
Mortgages	-	0
Guarantees	2,652	2,850
Other commitments and contingent liabilities	11	14

Mortgages are related to revolving credit facilities.

7.27 Subsequent events

On 13 February 2020 Verkkokauppa.com announced that the Company is currently evaluating the possibility of transferring to the official list of Nasdaq Helsinki during 2020.

On 13 February 2020 Verkkokauppa.com announced to establish a new share-based incentive plan for the CEO and the members of the Management Team.

There are no material events after the reporting date which would have any impacts on this financial statement.

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

Helsinki 3 March 2019

Christoffer Häggblom
Chair of the Board

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, 2019. 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 3 March 2020

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 Growth Market 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 2020 adopted 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.

Company structure

Verkkokauppa.com Oyj, domiciled in Helsinki, Finland is the sole operating company and it has no subsidiaries. During 2019, the Company dissolved its dormant subsidiary, Arctecho Oü located in Estonia.

The Company's governance is organised through the General Meeting, the Board of Directors (the "**Board**"), and the Chief Executive Officer (the "**CEO**"). Further, the Company has a management team led by the CEO. The Company has one reporting segment.

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.

Usually General Meetings handle the matters placed on its agenda by the Board and its committees. According to the Finnish Companies Act, shareholders may also request the Company's Board to place a matter on the agenda of the next General Meeting. The Company states well in advance on its website investors.verkkokauppa.com/en the date by which a shareholder must declare his or her demands for matters to be dealt with at the Annual General Meeting.

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

- Adoption of the financial statements;
- Decision on the use of profit, such as dividends;
- Decisions on the number, election and remuneration of members of the Board;
- Discharging the members of the Board and the CEO from liability;
- Election of the Auditor and the decision on the Auditor's remuneration; and
- Other proposals made by the Board or a shareholder, such as:
  - Amendments to the Articles of Association; and
  - Special authorizations to the Board (e.g. authorization to decide on payment of an additional dividend, on a share issue or on the repurchase of the company's own shares)

At the General Meeting, the decisions are primarily made by a simple majority vote. The CEO, the chairperson and the members of the Board 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 shall participate in the General Meeting that decides on his or her election.

A notice of the General Meeting is published as a company release three weeks to three months before the General Meeting. The agenda, decision-making proposals and other meeting documents are available afterwards at investors.verkkokauppa.com/en.

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.

Board of Directors

The Board oversees the management and operations of the Company. It also decides on significant matters related to strategy, investments, organization and finances.

The Board has two committees that report to the Board: the Audit Committee and Nomination and Remuneration Committee. The Board elects the members of these committees from among the Board members at its constitutive meeting after the Annual General Meeting. The Board has confirmed written charters for both committees.

Composition and term

Under the Articles of Association, the Board consists of at least four (4) and at most eight (8) members. The members of the Board are elected by the Annual General Meeting of the shareholders and the term of office of the members of the Board 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. However, the General Meeting may take into account all recommendations stipulated by the CG Code regarding the composition of the Board, especially with regards to meeting the independence and other requirements applicable to the companies listed on a regulated market or on a multilateral trading facility in Finland. The Board elects one of its members as the chairperson of the Board and may elect a deputy chairperson.

Current composition of the Board of Directors

The Board consists of the following six (6) members elected at the Annual General Meeting held March 28, 2019 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, convened after the Annual General Meeting, **Christoffer Häggblom** was elected as the Chairman of the Board.

Based on the evaluation of independence, the Board concluded that **Christoffer Häggblom**, **Robert Burén**, **Mikael Hagman**, **Kai Seikku** and **Arja Talma** are all independent of the Company and its significant shareholders. Samuli Seppälä is neither independent of the Company nor of its significant shareholder as he has been the CEO of the Company in the last three years and he himself is a significant shareholder of the Company.

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

Duties of the Board of Directors

The duties of the Company’s Board are set forth in the Companies Act and other applicable legislation. The Board 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;
- 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.

Duties of the Board Committees

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. During 2019, the Audit Committee has consisted of **Kai Seikku** (Chairman), **Arja Talma** (Vice chairman as of March 28, 2019), Christoffer Häggblom and **Samuli Seppälä**. 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 CEO and the other senior members of executive management. During 2019, the Nomination and Remuneration Committee 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.

During 2019, the Board discontinued the Strategy Committee.

Participations in Board and Committee meetings 2019

Name	Position	Board	Audit Committee	Nomination and Remuneration Committee
Christoffer Häggblom	Chair, Chair of Nomination and Remuneration Committee	21 / 21	5 / 5	3 / 3
Robert Burén	Member	21 / 21	-	-
Mikael Hagman	Member	21 / 21	-	-
Kai Seikku	Member, Chair of Audit Committee	18 / 21	3 / 5	3 / 3
Samuli Seppälä	Member	21 / 21	5 / 5	3 / 3
Arja Talma	Member, Vice Chair of Audit Committee	20 / 21	5 / 5	-

The Board held 21 meetings during 2019 (2018: 21 meetings). The average ratio of attendance at the meetings was 97 percent (2018:96 percent). In addition to the duties specified in the Board’s charter, in 2019, the Board focused on improvements in the financial reporting process and on the effective implementation of the strategy. In addition to the duties specified in the charter, the Nomination and Remuneration Committee’s work was linked to the preparation of the remuneration policy to be presented at the Annual General Meeting 2020, as well as to the development of long-term incentive structures. The Audit Committee focused on financial reporting process as well as the development of risk management procedures.

Decision-making

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

The Board 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 is disqualified from participating in the handling of a matter pertaining to a contract or other transaction between the member of the Board 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 may not participate in the handling of a matter if the member of the Board is involved in the matter under assessment in another capacity.

Meeting practice

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

The secretary of the Board is **Robert Tallberg**.

The Board 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 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 have a broad expertise from different fields and business areas. The diversity of the Board 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, the requirements placed by the Company's strategy, operations and development phase as well as the sufficient diversity of the Board are taken into account. The diversity of the Board 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 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 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 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.

Principles concerning related party transactions

The Board has adopted the principles concerning related party transactions. In accordance with the principles, the Audit Committee of the Board is tasked with monitoring and supervising the Company's policies for related party transactions. The Audit Committee monitors and assess how agreements and other legal acts between the Company and its related parties meet the requirements of ordinary activities and arm's-length terms. The Audit Committee also reviews the reporting of related party transactions in the financial statements and reports to the Board on regular basis. The Board maintains a list of the Company's related parties.

In accordance with the principles, the management team member in charge of the transaction in the Company's operations has the responsibility to, in advance, investigate, assess and identify whether the transaction in question is potentially a related party transaction. Given the Company's business model in the retail sector, the nature of its day-to-day operations and use of standardized general terms and conditions, the related party transactions mainly apply to the procurement of services or potentially significant one-time offers or tender processes. The Company estimates that related party transactions, which would be outside the ordinary course of business or made on other than arm's length basis are fairly infrequent and limited in extent.

Should the management team member or other individual involved identify a transaction to be made with a related party or have reason to believe that the transaction is to be made with a related party, such management team member or other individual involved should escalate the matter to the Board secretary. The Board secretary assists the person to evaluate the nature and materiality of the transaction as well as to assess whether the transaction warrants a decision by the Board. The Audit Committee prepares such matters concerning related party transactions for the Board decision.

Management team

Management team members during 2019

Name	Position	Time period
Panu Porkka	CEO	January 1 – December 31, 2019
Mikko Forsell	CFO	September 2 – December 31, 2019
Miika Heinonen	Logistics Director	January 1 – December 31, 2019
Vesa Järveläinen	Commercial Director	January 1 – December 31, 2019
Kalle Koutajoki	Chief Sales Officer	February 25 – December 31, 2019
Seppo Niemelä	Marketing and Communications Director	January 1 – December 31, 2019
Taina Suorsa	HR Director	January 1 – December 31, 2019
Jussi Tallgren	CFO	January 1 – August 20, 2019
Henrik Weckström	CTO	January 1 – December 31, 2019

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. The management team assists the CEO in running the Company. The management team members prepare matters that are to be put before the Board 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 CEO can be found on the spread "Management team".

Chief Executive Officer

The CEO is responsible for the day-to-day management of the Company in accordance with the instructions and guidance given by the Board 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 CEO primarily presents the matters handled in meetings of the Board and is responsible for preparing draft resolutions. The Board elects the CEO and decides on the remuneration of the CEO and on other terms of the CEO contract.

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, 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 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. 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 has approved 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 decides on the Company's risk management policy, which defines the framework and principles for the risk management. 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 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 Growth Market of Nasdaq Helsinki, shall have entered into an agreement with a certified adviser. The certified adviser of Verkkokauppa.com is Nordea Bank Oyj.

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

The Board 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 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 **Robert Tallberg**, Legal counsel, as the insider officer.

The Market Abuse Regulation (MAR), which entered into force on July 3, 2016, includes 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.

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 reports to the Board 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 shall be included in the notice of the General Meeting. The auditor's fees for 2019 were approximately EUR 94 thousand (2018: 113 thousand) and fees paid to the auditor for non-audit services in 2019 were approximately EUR 24 thousand (2018: 23 thousand).

PricewaterhouseCoopers Oy, a firm of Authorised Public Accountants, has acted as the auditor of the Company since 2016 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 2019

This Remuneration Statement by Verkkokauppa.com Oyj (the “**Company**”) has been prepared in accordance with the Finnish Corporate Governance Code 2015.

Board of Director’s Nomination and Remuneration Committee will present the remuneration policy of the governing bodies to the Annual General Meeting of the Company to be held March 31, 2020 for an advisory resolution of approval. The remuneration policy defines the principles and decision-making processes for the remuneration of the company’s governing bodies, i.e. the board of directors as well as the managing director and possible deputy managing director. In addition, the agenda of the Annual General Meeting to be held March 31, 2020 includes the establishment of the shareholders’ nomination board and the approval of the charter of the shareholders’ nomination board.

For the year 2020, the Company will prepare a remuneration report in accordance with the Corporate Governance Code 2020 for the annual general meeting.

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. The Board of Directors resolves on the remuneration and other benefits of the CEO and the management team operating under the CEO, based on the recommendation by the Nomination and Remuneration Committee.

Valid authorizations concerning remuneration

The Annual General Meeting the Company held on March 28, 2019 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 2019, the Board of Directors repurchased a total of 52,000 shares and resolved to issue a total of 35 337 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 28, 2019, 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 2020 are the following:

- EUR 12,000 for the Chairman of the Audit Committee
- EUR 10,000 for the Vice 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.

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 comprises 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 program 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 2019, the performance targets were based 75% on the 2019 sales target and 25% on the 2019 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. Furthermore, 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).

In the second matching period, which commenced 2019, 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 2019–2021 correspond to the value of an approximate maximum total of 45,000 Verkkokauppa.com Oyj shares (including also the proportion to be paid in cash).

On February 13, 2020, the Company announced a performance matching share plan for the CEO and each of the members of the management team that would span the calendar years 2020–2022. Due to this, the third Matching Period 2020–2022 of the Matching Share Plan 2018–2020 will not be implemented, and the second matching period will thus remain the final matching period of the said Matching Share Plan.

Remuneration Report

Board of Directors

The remuneration paid to the Board of Directors for Board and Committee work and other tasks during 2019 (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	84,000 (69,500)	-	10,097 (5,107)	84,000 (69,500)
Robert Burén	Member	35,000 (29,250)	-	5,048 (2,552)	35,000 (29,250)
Mikael Hagman	Member	35,000 (27,750)	- (19,220 [2])	5,048 (2,552)	35,000 (46,970)
Kai Seikku	Member	51,000 (42,250)	-	5,048 (2,552)	51,000 (42,250)
Samuli Seppälä	Member	45,000 (54,250)	- (514 [3])	5,048 (2,552)	45,000 (54,764)
Arja Talma	Member	45,000 (32,250)	-	5,048 (2,552)	45,000 (32,250)
Total		**295,000 (255,250)**	**- (19,734)**	**35,337 (17,867)**	**295,000 (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 2019, the base salary of the Company's CEO **Panu Porkka** was EUR 419,389.63 including fringe benefits (As of March 22, 2018 EUR 317,347.83). In addition, during the financial period 2019, he received a short-term incentive payout of EUR 109,320 (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 2019 (2018 in brackets) is detailed in the following table:

Remuneration paid during 2019, EUR	CEO Panu Porkka	Other members of the management team (in aggregate) [1]
Basic salary including fringe benefits	419,390 (317,348)	1,227,423 (822,316[2])
Incentive bonus	109,320 (90,000)	30,154 (-)
Long-term incentives	-	-
Total	**519,710 (407,348)**	**1,257,578 (822,316)**

[1] Mikko Forsell, Miika Heinonen, Vesa Järveläinen, Kalle Koutajoki, Seppo Niemelä, Taina Suorsa and Henrik Weckström. Figure includes the remuneration paid to Jussi Tallgren during 2019.
[2] 2018 figure also includes 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 Board of Directors', CEO's and the management team's holdings of shares are presented in the Corporate Governance Statement 2019.

Board of Directors

Christoffer Häggblom
Chair of the Board

Robert Burén
Board Member

Mikael Hagman
Board Member

Kai Seikku
Board Member

Samuli Seppälä
Board Member

Arja Talma
Board Member

Board of Directors

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

15,204 shares

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

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

Independent of the Company and significant shareholders

Robert Burén

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

13,600 shares

Positions of trust

Member of the Board of Directors, Gaming Innovation Group, 2018–

Member of the Board of Directors, Eaton Gate Gaming Ltd, 2016–2020

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

Independent of the Company and significant shareholders

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

10,712 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

Independent of the Company and 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

122,986 shares

Positions of trust

Member of the Board of Directors, Robit Oyj, 2018–

Member of the Board of Directors, Inderes Oy, 2016–

Member of the Board of Directors, Soitec S.A., 2019–

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

Samuli Seppälä

Consultant

Born 1975, High school graduate

Board member since 1998

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

22,110,096 shares

Positions of trust

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

Working experience

Founder, CEO, Verkkokauppa.com Oyj, 1992–2018

Member of Audit Committee

Member of Nomination and Remuneration Committee

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

7,600 shares

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

Vice chair of the Audit Committee

Independent of the Company and significant shareholders

Management team

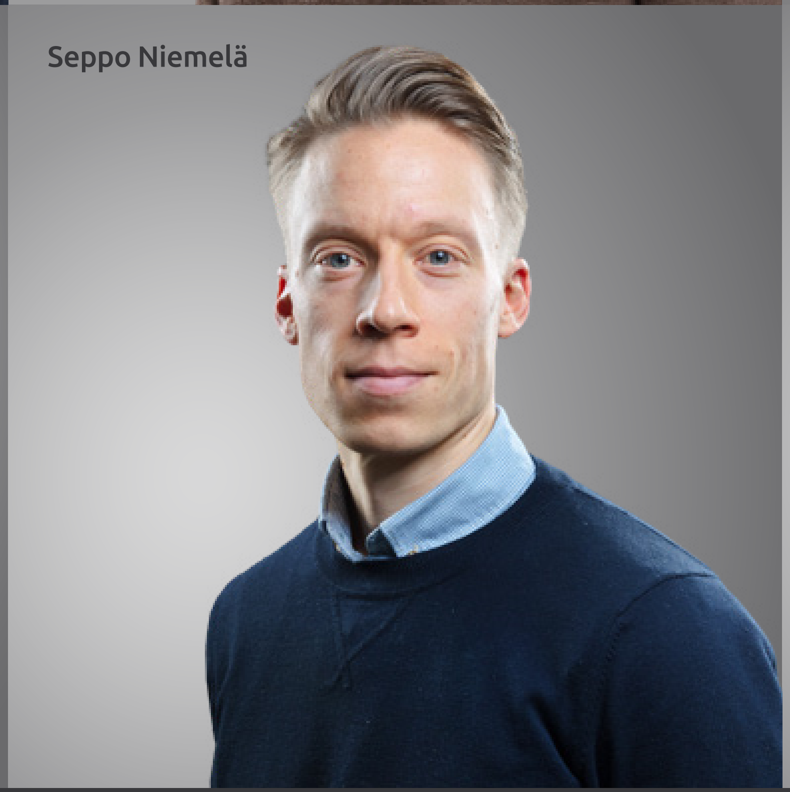

Panu Porkka
Chair


Mikko Forsell


Miika Heinonen


Vesa Järveläinen


Kalle Koutajoki


Seppo Niemelä


Taina Suorsa


Henrik Weckström

Management Team

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

60,000 shares

Positions of trust

Member of the Board of Directors, Solteq Plc, 2019–

Working experience

CEO, Suomalainen Kirjakauppa 2017–2018

Sales director, Tokmanni 2013–2016

COO, Lidl Switzerland 2009–2010

Mikko Forsell

CFO
Verkkokauppa.com Oyj

Born 1974, M.Sc. (Econ), M.Sc. Engineering

Member of the management team since 2019

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

10,000 shares

Working experience

CFO, HKScan Oyj, 2018–2019

CFO, Metsä Tissue Oyj (Metsä Group), 2014–2017

Vice President Purchasing, Metsä Tissue Oyj (Metsä Group), 2012–2013

Vice President Finance projects, Metsä Tissue Oyj (Metsä Group), 2009–2012

Group Controller, Metsä Tissue Oyj (Metsä Group), 2005–2009

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

13,971 shares

Working experience

Warehouse Manager, Verkkokauppa.com Oyj, 2005–2011

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

15,000 shares

Working experience

Purchasing Director, Verkkokauppa.com Oyj, 2018

Vice Purchasing Director, Verkkokauppa.com, 2015–2017

Kalle Koutajoki

Chief Sales Officer
Verkkokauppa.com Oyj

Born 1976, M.Sc. Engineering

Member of the management team since 2019

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

5,000 shares

Working experience

CEO and Founder, Digital Goodie 2009–2019

Vice President and managing director, eCommerce, Wayfinder 2007–2009

Vice President, Product marketing and Operations, Navicore 2005–2007

Seppo Niemelä

Director of Marketing and Communications
Verkkokauppa.com Oyj

Born 1981, M.Sc. Engineering

Member of the management team since 2018

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

14,967 shares

Working experience

Head of marketing and campaign, Lidl Finland 2013–2018

Advertising manager, Lidl Finland 2011–2013

Purchasing manager, Lidl Finland 2006–2011

Taina Suorsa

HR Director
Verkkokauppa.com Oyj

1977, M.Sc. Agriculture and Forestry

Member of the management team since 2019

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

10,000 shares

Working experience

HR manager, Verkkokauppa.com 2014–2018

HR manager, Suur-Seudun Osuuskauppa SSO 2011–2014

Development manager, Suur-Seudun Osuuskauppa SSO 2008–2011

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

15,000 shares

Working experience

CIO, Verkkokauppa.com Oyj, 1999–

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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