panostaja

ANNUAL REPORT 2018

Panostaja is an investment company that owns and develops Finnish companies. For Panostaja and its companies, 2018 was an eventful year of development and growth.

Contents

Net sales
199.7 M€

Profit for the financial period
27.1 M€

Personnel
2,043

Market value
52.1 M€

Our core message and operating policy

We are actively seeking financially healthy businesses that we see as having the potential to grow into forerunners in their fields with our support.

Acquisition

- Creating an investment strategy
- Purchasing a majority share and engaging minority shareholders
- Also minority investments are possible
- The net sales of acquired companies is typically MEUR 5–50

Development

- Implementation of investment strategy: growth, corporate acquisitions and operational efficiencys
- Board and strategy work
- Development of business and management: active support, tools and systems

Divestment

- Continuous monitoring of the corporate acquisitions market and valuation levels
- Realization of value increases in conjunction with the sale of holdings
- The goal is to secure the best possible return on investment

Panostaja's cornerstones of ownership

Partner for growth

Panostaja is an active partner for growth. The company identifies growth potential, supports the growth of the companies it owns and creates tools for business development. The growth is based on a strategic vision, understanding of customers, interactive coaching, co-operation and trust.

Active business developer

To Panostaja, ownership and growth are responsible and sustainable. The growth of a company to the next level requires long-term work from everyone. For each company, a partnership for reaching full business potential is a unique journey that does not depend on time. With Panostaja, this is done through active and corrective development work and guidance.

Community of good leadership

The companies owned and managers coached by Panostaja form a community that supports Panostaja's business model and the development of its investment targets. The members of the community benefit directly from sparring, measurement of operation, training and spreading of the best operation modes. The community grows organically with Panostaja.

CEO's review

My 11th year at the helm of Panostaja is now at its end. The financial period was very eventful, and only some of the goings-on were communicated in the form of stock exchange or press releases. On a personal level, I recall the past year with a certain wistfulness, as my role will be changing at the end of 2018. I do believe, however, that we will once again accomplish many new things, despite the changes in configuration.

I would be remiss not to mention the selling of KotiSun Group early in the year, as this successful divestment laid the groundwork for events that took place later in the financial period. Our success was largely thanks to the company's excellent management and staff. That said, KotiSun Group is also an indication of the things that a long-time owner can bring to a company, besides capital. The management's visions of business growth gained more traction and the owners' appetite for risk increased as the shareholdings and risk positions were brought better in line with the goals of each respective owner.

The spring of the past year was also busy for us in terms of acquisitions. We bought the majority shareholding in Carrot Palvelut Oy, followed by the majority of Oscar Software Group Oy's share capital only a few weeks later. Our corporate acquisition team were under a lot of pressure in the spring, but both deals were concluded in an exemplary manner, largely thanks to Miikka, Niko and Henri.

Under Minna's leadership, we have continued our determined efforts to develop our management system and operating methods. AdNet is operating actively, and its members have been involved in assessing new potential investment targets with us. With the help of AdNet and its contacts, we have formed highly professional and innovative Boards for our investment targets. I am particularly happy about the cooperation with the Millennial Board.

Digitalization has been actively on this year's agenda. There is nothing new about digitalization as such. It is a change among many others, but we have now challenged our investment targets to transpose digitalization into the heart of their operational activities and integrate it as an essential element in development projects. In accordance with our values, we believe that reinvention and competence in our segments are key in the efforts to increase owner value.

At the end of June, we reported about financial arrangements that concluded with Panostaja Oyj paying off all of its debts. In my opinion, the arrangement provides us with excellent opportunities to continue as an active investor and owner-partner of growing Finnish SMEs. At the same time, however, it ensures that Panostaja will also continue to provide good dividends. Tapio handled the entire financial arrangement exceptionally well – leading up to it, we pored over and planned the financial structure with him for years on end.

At the end of the financial period, we announced that there would be a change in the top spot at Panostaja. Tapio will assume the duties of CEO as of January 1, 2019, and I will take on the position of Chief Investment Officer. In my new role, I will be actively seeking new investment targets for us and developing existing ones in accordance with the agreed owner strategies.

I am thankful for the 11 years I have had the privilege of serving as the CEO of a great team – there have been both successes and failures along the way, but, thanks to the amazing work community, we have been able to deal with every challenge together. I am very excited about my new role and the fact that I get to remain part of this team that I cherish so much. I would like to thank Jukka for his cooperation as my supervisor and all of Panostaja's board members with whom I have had the pleasure of working.

I would also like to extend my thanks to the personnel of Panostaja Oyj and our investment targets – it has been wonderful to work with you and even more wonderful to continue working together. I also wish to thank all of our partners and interest groups for the shared years – I hope we will continue seeing each other as often as before.

Juha Sarsama,
CEO

Events during the year

SALE OF KOTISUN GROUP

At the start of the financial period, Panostaja sold KotiSun Group Oy to a fund managed by CapMan. With a debt-free total sale price of MEUR 88, Panostaja's 56.6% shareholding was transferred to the new owner. After the conclusion of the trade, Panostaja recorded a sales profit of about MEUR 33 on the deal.

Panostaja gained ownership of KotiSun in 2014. From the get-go, an ambitious strategy was drawn up with the company and implemented with determination. During Panostaja's ownership, the company was forged into a nationwide operator and its service offering was expanded dramatically. In a few years, KotiSun's net sales and EBIT were tripled and owner value, too, saw excellent development.

ACQUISITION OF CARROT PALVELUT OY

In April, Panostaja acquired the share capital of Carrot Palvelut Oy, a company providing staffing, recruitment and outsourcing services, leading to Panostaja owning 63% of the entity formed through the restructuring. In 2017, the company's net sales stood at about MEUR 29 and it employed some 670 people on average.

Carrot is one of the first domestic operators in the HR services sector. Established in 1998, the group operates on a nationwide scale, employing more than 1,000 experts in a variety of fields each year. In addition to this, Carrot also serves as a strategic HR partner to its customers in larger outsourcing projects. Carrot's customers include companies in the fields of construction, industry and logistics, for example.

ACQUISITION OF OSCAR SOFTWARE GROUP OY

A couple of weeks after purchasing Carrot, Panostaja acquired the entire share capital of Oscar Software Group Oy for MEUR 9.1. Panostaja now owns 55% of Oscar, while the company's management and key persons continue as the company's significant minority shareholders. Panostaja's objectives are to promote Oscar's growth and help it develop Finland's leading business platform for SMEs.

Established in 2005, Oscar's net sales have seen strong growth in recent years, amounting to about MEUR 7.5 in the financial period that ended on June 30, 2017. The company, which specializes in the development of enterprise resource planning (ERP) systems and various business services, employs some 100 people. Oscar has around 800 clients and its head office is located in Tampere.

DEBT PAYOFF

At the end of June, Panostaja announced that it had paid off all the interest-bearing debts of the parent company, i.e., roughly MEUR 22.3. This changed the company's risk level, leading to many financial goals being updated. The target for return on equity was set to a minimum of 15 percent (previously 20 percent) and the gearing ratio target is 40 percent. In the same context, an agreement was made on a corporate acquisition limit of MEUR 15.

Paying off the parent company's interest-bearing liabilities supports the goal regarding Panostaja's new financial structure, which is intended to be debt-free in a normal situation. However, the parent company can still take out temporary loans to finance corporate acquisitions between divestments.

INVESTMENTS

Panostaja's investments

Oscar is a software company providing ERP systems, financial management and HR services in addition to eCommerce and online business solutions.

Panostaja's shareholding:
55%

Year of investment
2018

Net sales (six months)
4.4 M€

Personnel service company Carrot offers quality staffing, recruitment and outsourcing services and functions as a strategic HR partner for its clients.

Panostaja's shareholding:
63%

Year of investment
2018

Net sales (six months)
13.0 M€

CoreHW provides high added-value design services in the RF IC sector, developing RF microchips and antenna technology and offering related consulting services.

Panostaja's shareholding:
63%

Year of investment
2017

Net sales
3.7 M€

Hygga is a dental clinic offering a new kind of service concept. The company also offers its ERP system as a licensed service to public and private dental care and health care providers.

Panostaja's shareholding:
79.8%

Year of investment
2015

Net sales
5.4 M€

Selog is Finland's largest wholesaler of ceiling materials, serving contractors and installation companies. Selog's range of services also includes calculation, design and logistics.

Panostaja's shareholding:
100%

Year of investment
2012

Net sales
9.4 M€

Grano is a content and marketing service company which serves its clients from creative planning to production, publication, measuring results and content management across print and digital channels.

Panostaja's shareholding:
52.8%

Year of investment
2008

Net sales
136.6 M€

Heatmasters offers heat treatment services for metals in Finland and internationally. The company also produces, develops and markets heat treatment technology.

Panostaja's shareholding:
80%

Year of investment
2007

Net sales
4.8 M€

Helakeskus is Finland's major wholesale dealer concentrating on furniture fittings. The company imports, markets and sells fittings for the fixture and furniture industries.

Panostaja's shareholding:
100%

Year of investment
2007

Net sales
8.2 M€

KL-Varaosat is an importer, wholesale dealer and retailer of original spare parts and supplies for Mercedes Benz, BMW and Volvo cars. The company operates in Tampere, Jyväskylä, Rovaniemi, Turku and Vantaa.

Panostaja's shareholding:
75%

Year of investment
2007

Net sales
14.4 M€

PANOSTAJA'S MINORITY INVESTMENTS

Spectra is an associated company in which Panostaja has a 39.0% holding. After the financial period Panostaja secured its first minority interest by investing in the shares of Gugguu, entering the company as an owner-partner for the entrepreneurs. During the financial period, Panostaja divested its share of Juuri Partners and after the financial period from Ecosir as well.

The growing and developing software house Oscar joined Panostaja in the spring

Panostaja and Osvcar have been acquainted for as long as a decade now, for the simple reason that Panostaja is Oscar's long-time client. Panostaja was selected as the partner for growth thanks to its expertise, networks and risk management skills.

Some of the companies in Panostaja's ownership have also purchased software services from Panostaja over the years. "We knew Panostaja to be an excellent development company," CEO of Oscar **Simo Salminen** says. Even without counting the change in ownership, Oscar has had quite the eventful year. "We've gained new important clients from among target companies we've been eager to cooperate with, which will enable us to develop our products and service offering even further," says Salminen.

Due to the company's primary focus being SMEs, Oscar's target companies are businesses that strive to make substantial investments in their own operations, particularly through online trade, ERP arrangements and digitalization. The digitalization and networking of services have already become operational necessities in many fields.

Oscar has distinguished itself especially in providing digital support for financial administration. "You can also supplement ERP systems with robotics and analytics that support management in many amazing ways. With steady data flow from ERP to accounting, the automation involved ensures efficient accounting and even produces precise and detailed reporting," Salminen adds. Oscar's ERP system provides the managements of its client businesses with a real-time view of their company's current situation.

ORGANIC GROWTH, RECRUITMENT AND SYSTEM DEVELOPMENT

During the past financial period, Oscar grew organically by about 15%. "Obviously, the result could be better. It's indicative of our efforts to balance between growth and profitability," Salminen says. "For us, growth also means adding people to our team. We see new employees as investments since they always require some training." In the software sector, the high employee turnover is partially attributable to the fierce wage competition.

Oscar views software development and the utilization of new technology as continuous efforts. This year, Panostaja has also participated in these processes by instilling Oscar with new competence through board work. "Panostaja has excellent development programs, which we latched on to right away. As an example, we are currently focusing on improving supervisory work. It's important to take care of your staff." Salminen explains.

During the financial period, Oscar made sizeable investments in product development and will continue them in the coming financial period. Systems are now being developed to be more role-based, mobile and easy-to-use. "Digitalization is now spreading like wildfire. Buying and selling have changed completely in the past 15 years. Online trade is also increasing on the B2B side of things," Salminen says.

FLEXIBILITY, SPEED AND GEOGRAPHICAL PROXIMITY AS COMPETITIVE ADVANTAGES

Oscar's competitors include both international behemoths and Finnish software developers similar to Oscar itself. Oscar has about 800 clients in the upper tier of the SME sector, many of which benefit greatly from Oscar's specific strengths. "We are capable of developing our systems by genuinely listening to our clients. I would venture to say that we are more cost-efficient than our international competitors – we've gained plenty of accounts from larger operators because of their rigidity," Salminen says

In the coming financial period, Oscar will continue investing in product development and client acquisition. The agenda also includes improving satisfaction among the current clients by means of new services and even closer cooperation.

oscar software

Personnel

118

Net sales (six months)

4,4 M€

ENSURING EMPLOYEE COMMITMENT IS KEY AMIDST THE SOFTWARE SECTOR'S LABOR SHORTAGE

Right from the start of our journey together, Panostaja has provided us with amazing support to develop our supervisory efforts. Supervisory work plays an extremely important role in ensuring employee commitment, which is vital especially in our field – a committed staff will shield the company against the chronic labor shortage in the field of software development.

In addition to a company's ability to provide a good workplace, the employer image has become increasingly important. Alongside the basic information regarding the vacancy, impressions about the employer affect the motivation to apply for the position and commit oneself to the work tasks. Impressions are built from many little elements, which is why it is important to be able to consider the matter from a variety of viewpoints.

Simo Salminen, CEO

Carrot focused on the development of processes and systems

At the end of the 2018 financial period, Carrot Palvelut Oy had been in Panostaja's ownership for about six months. The company has conducted active development to enable strong growth. Carrot's services include staffing, HR services and direct recruitment.

Carrot is continuously expanding the opportunities provided by digitalization in the field of staffing services. In recent months, the company has looked for opportunities for growth through corporate acquisitions. The examined companies operate in the context of working life and its various phases – not necessary in the staffing services field.

Over the course of the year, Carrot , which celebrated its 20th anniversary, discontinued some unprofitable operations particularly in the industrial maintenance segment. In addition to this, the year included plenty of investments in personnel and the development of various operations. The company is gearing up for a growth spurt.

MODERNIZING THE ENTREPRENEUR-DRIVEN OPERATING MODEL THROUGH CHANGE MANAGEMENT

In order to enable change, Carrot is building systems, operating methods and organizational arrangements to meet the requirements of the targeted growth. In addition to updates to operating models, investments have been made in staff.

CEO of Carrot **Jouni Arolainen** has personal experience about growth and cooperation with Panostaja. Arolainen, who has been the CEO of Carrot since the summer of 2017, was involved in bringing Vindea Oy's story of growth to fruition. Arolainen was Vindea's CEO when Panostaja decided to sell the company in 2014. "I left the Panostaja roster for three years, but now I'm back with Carrot . I've known Panostaja's operating methods since 2009, and my confidence in them couldn't be stronger," Arolainen says.

A highly competent Board that supports the management was formed during the early stages of Panostaja's ownership. The board work and strategic efforts have benefited the company a great deal in a very short time. "In addition to this, Panostaja has plenty of expertise with regard to corporate acquisitions, which we are currently planning," Arolainen says. In the coming financial period, Carrot will be investing in regional expansion in Finland by opening new offices and possibly making some acquisitions. At the moment, Carrot has eight offices between Oulu and Helsinki. The aim is to establish an even more expansive nationwide presence.

THE STAFFING MARKET IS GROWING ALSO IN FINLAND

Carrot's strategy involves increasing and diversifying its service offering. As the population ages, the availability of labor in Finland is decreasing and, similarly, the accelerated economic growth is amplifying the need for workers. As a result, workers must be brought in from other parts of the EU or even outside it, which is where Carrot intends to expand its operations. Jobseekers and workers are at the center of Carrot 's strategy.

Forecasts indicate that the staffing market will continue its growth in Finland. "Finland is far behind Germany and even other Nordic countries in terms of how much staffing services are used," Arolainen says. The field is also consolidating at a rapid rate – many staffing service companies have been listed and ownership arrangements are under way. On the other hand, Finland currently has more than 500 staffing companies which are primarily very small and local. "A couple of years ago, companies in the field began to be centralized under larger operators, which is what we also want," Arolainen says. Carrot is aiming to become one of the five largest staffing companies in Finland.

carrot®

Personnel
539

Net sales (six months)
13.0 M€

SUPPORTING GROWTH THROUGH MANAGEMENT TRAINING

Panostaja provides the companies in its ownership with a variety of training and coaching programs. Developing the personnel of its companies is absolutely one of Panostaja's strengths. I say this from personal experience since Panostaja has been a significant influence in my professional development – when I was involved in the development of Vindea, I attended Executive MBA training between 2010 and 2012 with Panostaja's support. The training provided me with a diverse set of tools for handling management duties. In my opinion, management training is extremely beneficial especially for companies aiming for growth.

It is also always a joy to attend training days organized by Panostaja, particularly because you get to meet colleagues from other Panostaja companies. We can share advice and spur each other on. Since we are owned by the same majority owner, we can discuss things very openly across company boundaries.

Jouni Arolainen, CEO

The significant product development efforts are beginning to bear fruit

This year, CoreHW, which joined the Panostaja family in 2017, invested heavily in internal product development. The first microchips picked from among numerous fledgling products are now in the laboratory measurement phase.

CoreHW has plenty of product ideas, and the first three of its proprietary microchips are now in the testing phase. All three have their own strengths in terms of commercialization, but require different investment logic. Most likely, two of the microchips being tested will be launched as is, whereas one will be made into an IP, or licensing, product.

In 2018, CoreHW gained new important customer accounts and, as a result, achieved a growth of 10 percent compared to last year in relation to the number of staff. CoreHW, which was previously based in Tampere and Oulu, now also operates in Helsinki and Turku. The previous year's resource challenges were also resolved – the new offices facilitated the recruitment of top professionals.

INVESTMENTS IN THE COMPANY'S OWN PRODUCTS HAMPER PROFIT AND FINANCIAL GROWTH

In 2018, CoreHW's resources were heavily tied down in product development. In project-based business, some of the year's new customer relationships will not be reflected in invoicing until later on. However, investments in product development increase the company's value, because in the future the developed technology can be licensed, along with selling the proprietary microchip components.

CoreHW has also expanded its operations to new areas, in addition to radio technology. Currently, the company conducts analog design for baseband signals, microchip power management and microchip development for imaging devices, for example. Microchip power management efforts particularly focus on IoT devices, with regard to which it is important to ensure that the hardware life span is as long as possible. In the future, power management may also become an important question in the development of artificial intelligence and the mining of cryptocurrencies, for example .

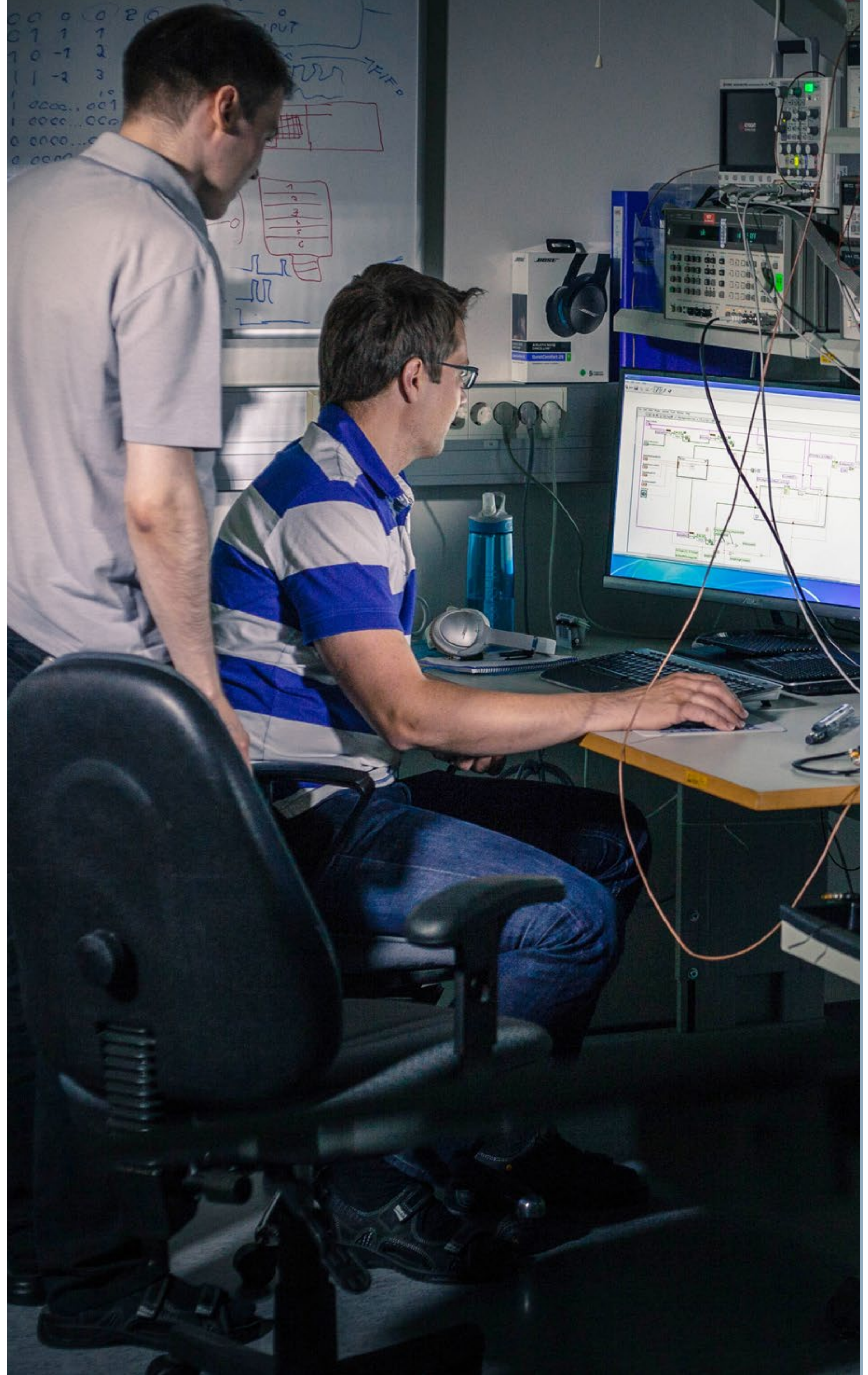
Perhaps the most significant challenge of the year has been the long sales cycles of the more expansive projects and the periodically complicated agreement negotiations. "One of the challenges I think we met successfully this year was bringing our reporting to bear with the requirements of Panostaja or, in other words, a listed company. The process was arduous and challenging, especially early in the year, but it enabled us to grow to a completely new level as a company. We now have plenty to draw from on our path to further growth," says CoreHW's CEO **Tomi-Pekka Takalo**. Early in the year, the company also gained the ISO9001 certificate.

DRIVING GROWTH THROUGH IP LICENSING BUSINESS

As early as the beginning of 2018, CoreHW found that it had accumulated some 150 IPs, or intellectual properties. At the end of the financial year, there were more than 200. For the purpose of the IP licensing, the company hired a person to manage the development of this business area.

Another strategically important development target is the customer base, without is own design team, but the need for customized components is there. CoreHW provides design, testing and production services. Currently, the production is handled in cooperation with partners.

The opportunities for creating proprietary products are extremely enticing. Generally speaking, the field is linked to numerous global trends, such as artificial intelligence, the shifts in the automotive industry, IoT and 5G. All of these growth areas have a substantial impact on the demand for semiconductors and design work, due to the shortage of relevant experts on an international level. Finland has a globally significant concentration of experts in this field, which CoreHW, too, taps into, maintains and develops.



CoreHW

Personnel
48

Net sales
3.7 M€

A GOOD BOARD OF DIRECTORS IS AGILE AND OPEN TO CHANGES

During our first full year together, Panostaja has provided plenty to think and be inspired about. The Johdon Forum held in the summer addressed themes such as disruption in an interesting way. You never know what benefits gaining some new inspiration may bring at a later time.

However, the most valuable cooperation with Panostaja has taken place through the Board of Directors, focusing on our company's strategy. The Board provided us with the confidence to develop our own products and the courage to make the necessary investments.

Naturally, you can never predict the future. Although you can certainly write a story that you would like to become reality, you can only live in the present. The fact of the matter is that new situations and opportunities sometimes pop up from unexpected angles. A good and efficient board remains agile and keeps its eyes peeled for any opportunities and necessary changes. For a growth company such as we are, this is extremely important.

Tomi-Pekka Takalo, CEO

Megaklinikka become Hygga over the course of an eventful year

In addition to the rebranding, Hygga made some changes to the Management Team, product development organization and strategy. More investments in marketing will also be made in the wake of the reformations.

Hygga's new CEO **Jussi Heiniö** took up his post in January 2018. During the past financial period, the Management Team went through other changes, too, with the replacement of the clinic head and the CBO. Before the summer, an in-depth strategy review was also conducted to address the competitive situation and customer segments, and decide on the guidelines of the clinic and licensing business. "We intend to build synergies between these two business areas by demonstrating our licensing business solutions at our clinic, which will serve as a showroom of sorts," Heiniö says. "We are outlining a pioneering clinic of the future."

The licensing business is already up and running in Finland and Sweden, where the focus is on customers in public health care. In conjunction with updating the strategy, a decision was made to seek growth through basic health care, in addition to oral health care, where there is a clear demand for Hygga's solutions.

In Sweden, Hygga cooperates closely with the Stockholm-based Aqua Dental, seeking to expand its operations to the private sector as well. A number of provinces in Sweden have expressed interest toward the ERP system provided by Hygga. In the public sector, however, sealing a deal may take some angling – the negotiations, including any competitive bidding arrangements, may often take a surprisingly long time. In addition to Sweden, Hygga is aiming to expand to other parts of Europe. The company is making active efforts to find partners for this purpose.

HEAVY FRANCHISING OF MEDICAL CLINICS IN THE LEAD-UP TO THE SOCIAL AND HEALTH SERVICES REFORM

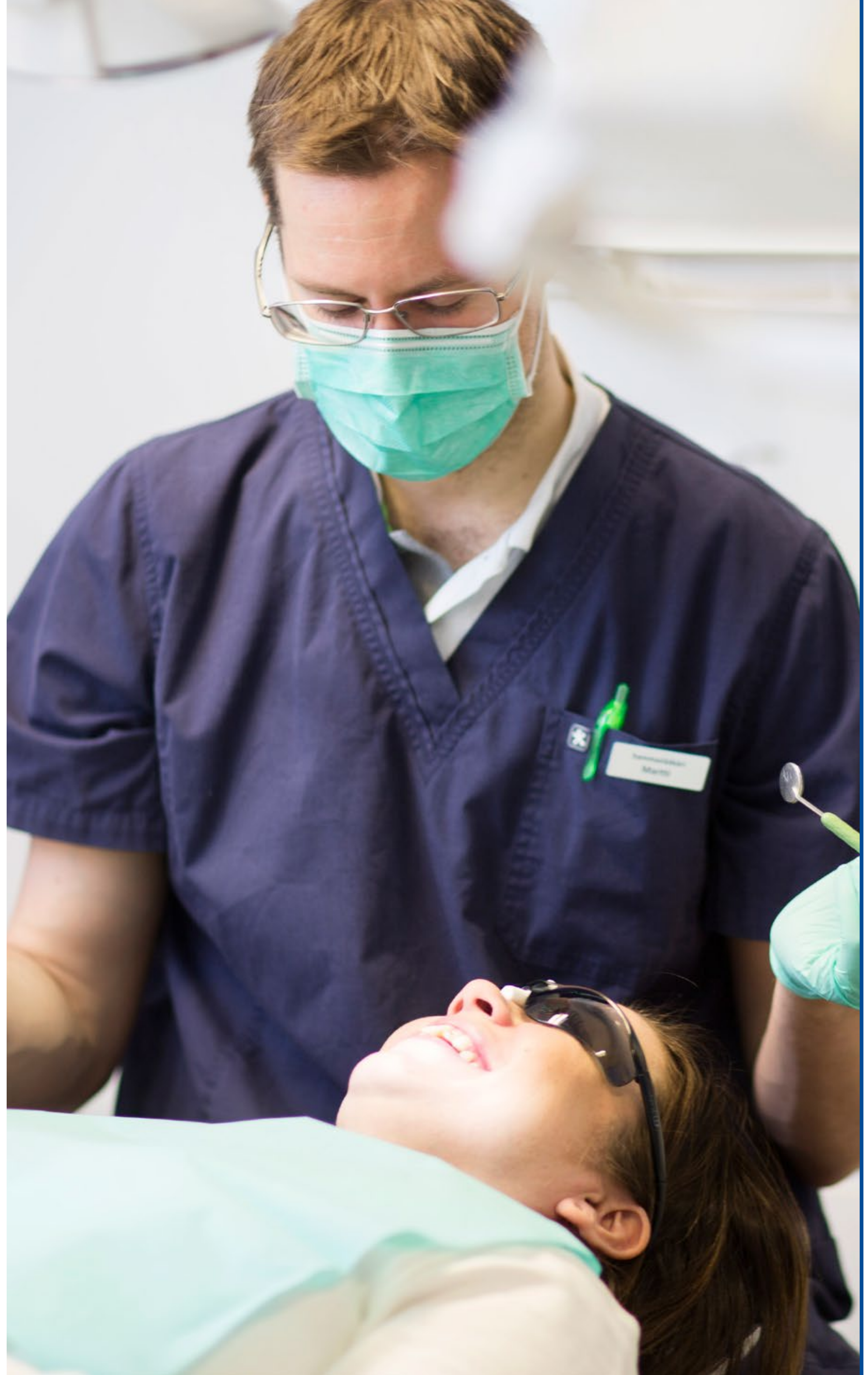
In conjunction with the strategy update, Hygga reviewed the effects of the social and health services reform on its business. "The reform will provide us with opportunities to develop our business. Granted, it is currently also a point of uncertainty, since we don't know whether the reform will be implemented or not. Public bodies have frozen their projects since the schedule of the reform remains open," Heiniö explains. Significant decisions on the reform are unlikely before the general election in the spring of 2019. "The initial goal is to begin proper mobilization with regard to basic health care customers next year," Heiniö says.

Dental clinics have become even more franchised during the past few years. Companies are making active efforts to distinguish themselves from their competitors. "I believe that, in this respect, our operating model will be the most efficient in meeting future needs. There are plenty of people in Finland whose dental problems we can take care of in one go," Heiniö states. Hygga's customer satisfaction has been measured to be high for quite some time. Yet, the satisfaction improved even further over the course of the past financial period.

MANAGEMENT OF HEALTH CARE RESOURCES RISES TO THE FORE

In the future, the funds allocated to health care will most likely decrease. It will become essential to manage patient flows as smoothly as possible while also ensuring staff well-being. "We have prepared a five-year strategy that places special emphasis on these matters related to health care resourcing," Heiniö says.

Next year's goals include building a partner network and developing OEM cooperation arrangements, i.e., customized solutions, for select partners. Capabilities related to internationalization will be developed heavily in the coming year. The brand update will bring with it substantial investments in marketing, even on an international scale.



hygga.

Personnel
77

Net sales
5.4 M€

THE NEW BRAND PLAYS AN IMPORTANT ROLE IN THE MOBILIZATION OF THE STRATEGY

The rebranding was Hygga's most significant effort during the past financial year. Panostaja was involved with the massive project from start to finish. The mobilization of the new strategy also required strong communication toward the markets.

Megaklinikka has done excellent work over the years and achieved a solid status as an oral health care provider. However, we felt that developing the brand to reflect the core values of our operations was called for at this time. Courage, Cooperation and Joy, the values we have defined together, are mirrored by all of our company's operations. Our customer promise involves much more than just getting things done in one go – in addition to efficiency, we want to focus our messaging on quality.

The new brand was introduced at the end of October and will be mobilized among the company staff and throughout the corporate and consumer customer interfaces. A new monthly-charged service focusing on aesthetic and preventive oral care was also launched in conjunction with the rebranding. We think that especially young people will pay more and more attention to oral health as part of their comprehensive well-being.

Jussi Heiniö, CEO

Selog's development vision is refreshed by a new CEO and Chairman of the Board

The most important events during Selog's year were Panostaja gaining ownership of the entire share capital and the entry of a new CEO. Reijo Siekkinen took up his duties as Selog's CEO in September.

The past year also included personnel changes, particularly in sales. This enables the company to head into the new financial period with renewed strength. "The challenge for next year is the tightened competition, which we are ready to face," Siekkinen says.

Selog's result lagged slightly behind the previous year. The result and net sales decreased, but, on the other hand, the upcoming year looks more promising as the ceiling market is perking up. In the construction sector, housing production is predicted to decrease, but this will not significantly impact the ceiling business. This year, Selog won a number of public office and hospital projects, thanks to which growth is expected for next year.

Toward the end of the financial period, Selog's Board of Directors gained a new Chairman, **Pekka Rantamäki**. He has extensive experience in the ceiling business and wide-ranging knowledge particularly with regard to construction materials. The composition of Selog's Board remained the same for a long time, which is why some new blood was needed to develop the company.

Siekkinen, who began his career around the same time as Rantamäki, is a long-time expert in construction materials with solid experience in sales and marketing tasks. "I have a very positive impression of Selog, since I used to work for one of its partners, and this impression has only strengthened during my time here," Siekkinen says. "The ceiling business and Selog seemed like interesting challenges and I haven't regretted taking this opportunity for a second."

SELOG IS THE LARGEST OPERATOR IN ITS FIELD

The ceiling business is a very particular field and fairly susceptible to trend fluctuations. Next year, however, the field is expected to grow compared to this year. "Over the long term, I see Selog's position to be very strong. We are the foremost expert and largest operator in the field. We forge ahead with confidence," Siekkinen says. Especially the recruitment of new sales representatives has solidified the trust in the company's ability to maintain its position as the largest operator.

Naturally, the future holds uncertainties, too. "Our ability to continue to serve our customers well depends on successful recruitment," Siekkinen says. He does not believe in a sudden shift in the market that could lead to sales plummeting heavily. "Our biggest challenge is absolutely related to HR – securing the human resources that we need for growth," Siekkinen says.

NEXT FINANCIAL PERIOD TO BE KICKED OFF WITH A SIZEABLE DEAL

At the end of the past financial period, Selog already new that a large deal and delivery, worth almost half a million euros, would be finalized at the beginning of the coming period. This will have a positive effect on next year's net sales. "We are currently seeking growth through budgeting. Acquisition of new customers is another one of our focuses," Siekkinen says. Recruitments of new sales representatives will have a significant impact on the coming financial period.

Panostaja, in turn, will help Selog develop its supervisors through training provided over the course of the period. All Selog supervisors are participating in the course that began in November 2018 and is provided by Panostaja in cooperation with the selected partner. "As an owner, Panostaja helps its companies to better utilize their internal resources through training, coaching and courses. This is absolutely necessary on the path to growth," Siekkinen says.

SELOG

Personnel
13

Net sales
9.4 M€

DIGITAL SURVEY PROVIDES NEW IDEAS TO SUPPORT DECISION-MAKING AND STRATEGY

This year, we took part in a digital survey, i.e., the Digital Due Diligence project, that involved a number of companies in Panostaja's ownership. The survey was conducted by a digitalization expert belonging to Panostaja's extensive Advisor Network.

The project examined Selog's digital capabilities. At the same time, the aim was to explore new customer contact possibilities as well as opportunities to improve or change business models by means of digitalization. The project led us to analyze some deficiencies in our operational management and determine some improvements. For example, the decision to discontinue our online shop was made due to its low utilization rate and added value to customers.

The digital survey will continue to the next financial period. As a likely result of the survey, we will also open a new language version of our website. Comprehensive customer service is an element of Selog's core expertise, and we will strive to leverage digitalization in that context wherever it is reasonable.

Reijo Siekkinen, CEO

Grano invested in the integration and digitalization of its operations

In 2017, Grano carried out multiple corporate acquisitions, which led to 2018 being characterized by integration processes and the efforts to bolster the new business areas.

Last year's acquisitions increased Grano's number of employees by several hundred people, which is why some overlaps have been eliminated through employer-employee negotiations. Many operations have been successfully centralized through integration. This year, too, Grano made two smaller acquisitions, which expanded its operations to Rovaniemi. Grano currently operates in all Finnish university cities. In Vaasa, for example, Grano has the most efficient printing unit in Finland with a fully modernized range of equipment.

The year has also included further investments in digitalization. **Petteri Ormio** stepped in as the new Head of Digital, and Grano has invested particularly in the development of its own software and customer systems. In October 2018, Grano introduced a new digital version of its SokoPro software at the FinnBuild trade fair. The solution is a digital information management, sharing and archiving service, which is intended especially for the real estate sector and which already has 80,000 users.

Previously, Grano's operations were clearly focused on the graphical sector, but this year has seen the company honing its digital strategy to strengthen its identity in terms of content business. Digital products are already generating an increasing portion of Grano's net sales.

CORPORATE ACQUISITIONS BOOST NET SALES ALONGSIDE THE ORGANIC GROWTH OF CERTAIN PRODUCT AREAS

As a result of the corporate acquisitions, Grano's net sales increased substantially. Although the current year was characterized by a general decrease in the amount of media advertisement and demand of coated paper, some product segments have shown good organic growth – packaging and labels, illuminated advertisements and large-scale prints, in particular. In addition to this, the favorable trends in construction have supported the development of operations in the construction field. The Helsinki-based Grano Diesel, which focuses on digital services, has expanded its market share in terms of focused marketing especially in the automotive and transport sectors.

The corporate acquisitions increased the number of employees heavily. The overlaps were addressed through employer-employee negotiations. "We've also faced some challenges with integration. The unification of corporate cultures doesn't happen overnight. It can easily take a few years for everything to work seamlessly. I will say that six acquisitions has been a sizeable bite to chew. The expansion of operations always entails challenges," CEO of Grano **Jaakko Hirvonen** says. In practice, the integration process will carry over to the next financial period.

The year 2018 has also involved HR challenges. Coders are in short supply, as are installers of large-format prints. Currently, there is also a significant deficit of vehicle decal installers in Finland. This labor shortage has led to an increase in subcontracting costs. To solve the problem, Grano is cooperating with a vocational institute in Jyväskylä, which is training 15 people as decal installers and providing Grano with the opportunity to eventually hire them all, if it so desires.

THE FIELD BENEFITS FROM THE DIGITAL REVOLUTION

Grano's position in the competitive field of marketing is strong, and the intention is to strengthen it even more in the future. Through proprietary software, the company can serve its customers more efficiently than before.

This year, Grano has invested in television, internet, radio and roadside marketing. The aim has been to meet one of the challenges imposed by the diverse offering: the fact that some customers may feel that they are not aware of all the services and products that Grano provides.

After the financial period, Jaakko Hirvonen retired and the new CEO **Mikko Moilanen** joined Grano.

GRANO

Personnel

1,128

Net sales

136.6 M€

PERSISTENT DEVELOPMENT EFFORTS SECURE GROWTH

Over the years, Panostaja has influenced Grano's development on many fronts. Together we have kept an eye on the developments in the field and engaged in an active dialogue about where we are today and where we are going.

A significant push was made in this respect during the past financial period. We honed and solidified our position on the market with precision and explored our own potential in relation to other operators in the field. The Board has been actively involved in the joint efforts to determine our market position and particularly in defining the competence we will need on our path toward meeting our full potential.

Naturally, this work has been on-going for our entire decade-long journey together. Under Panostaja's ownership, we have transformed from a graphic industry operator to a comprehensive content provider with its own software solutions and diverse digital order channels. We have invested in the old through centralization while developing new things continuously at the same time. We now have a wealth of products and services to meet any need.

Jaakko Hirvonen, CEO

Heatmasters develops and mobilizes a new service strategy

In addition to the service strategy updated in 2018, Heatmasters has worked to consolidate its operational companies in Finland. Initiated last year, the Heatmasters United initiative aims to dismantle silos and ensure that everyone is pulling in the same direction.

Over the course of the past financial period, Heatmasters streamlined its operational activities, which means that it remained about the same size as before. Instead of growth, the goal was to improve operational profitability, and the scales have now been successfully tipped. Compared to previous years, the past financial period included fewer large-scale products, but the same level of net sales was still reached through numerous smaller income streams.

IMPROVING CUSTOMER CONTACT IS ESSENTIAL FOR DEVELOPMENT

One area in the development of the service strategy is the analysis and development of customer contact. In this process, the company has utilized a model tested in other Panostaja companies. The aim of Heatmasters' service strategy is to provide customers with a wide range of services instead of heat treatment alone. The service selection has been diversified by ensuring that the offering includes collections of services that yield genuine savings in time and money. "This is one opportunity to distinguish ourselves from our foreign competitors, since we can offer unique service packages on the domestic market," CEO of Heatmasters **Ilkka Mujunen** explains.

In order to develop customer contact, Heatmasters has examined its every phase from the initial instance of contact to the customer satisfaction survey sent to the customer. The aim is to create an increasingly positive customer experience that leaves an unforgettable and impeccable impression. The Heatmasters staff has been actively involved in the development of customer contact. Everyone has worked together to examine the phases and consider the current situation and what could be done to improve it.

Heatmasters' services can be divided into two business areas, one of which takes place on company premises and supports parts production in engineering workshops, while the other assists the maintenance, modernization or construction of process facilities at customer worksites. On-site work tasks were selected as the theme for the pilot focusing on the development of customer contact. The intention was to accumulate learning and expand the good practices found to customer service activities at Heatmasters' own facilities. Correspondingly, in-house customer service will serve as the pilot for launching a new, more expansive service selection.

GROWTH OPPORTUNITIES ARE SOUGHT ACTIVELY

Heatmasters has a significant market share in Finland. By diversifying its offering with added-value services and service packages, Heatmasters is enabling growth while strengthening the commitment of existing customers. In terms of the total average, the customer feedback collected in 2018 has been very positive.

The previous strategy aimed for growth through expansion and, on an international level, the acquisition of other heat treatment companies. Unfortunately, businesses that would have genuinely gelled with Heatmasters' strategy were not found. In the current financial period, the efforts to mobilize the service strategy will continue and entirely new services will also be included. The efficiency of marketing and communications will be increased in cooperation with partners, and, alongside establishing added-value services, the aim is to secure growth in the Central European markets in particular. "Poland is our focus among foreign markets, and there the market situation looks good. The location provides us with excellent growth opportunities, which enabled us to work in the Netherlands and Germany, for example, during the past financial period," Mujunen says.

40 years of heat treatment HEATMASTERS. the wizards of metal

Personnel
39

Net sales
4.8 M€

TOWARD A BETTER CUSTOMER EXPERIENCE THROUGH JOINT DEVELOPMENT

In the development of the customer experience, we have utilized a model that has proven its worth at other Panostaja companies. This enables us to ensure customer understanding and set clear goals for the customer experience.

We discuss things with employees working in all phases of the customer interface first in small groups and then collectively. Personnel from practical implementation, sales, financial administration and customer service all come together around the same table. The different employees' views and observations about operations outside their own areas have been very fruitful and productive in this process.

In addition to joint internal development, we need to establish a dialogue with customers – i.e., meet with, listen to and value our customers. The customer discussions have highlighted a good number of matters on our development agenda, such as various digitalization measures. At its best, collaborative development tightens and deepens the customer relationship.

Ilkka Mujunen, CEO

Toward the next financial period through reinvention

During the past financial period, the existing strategy was updated and specified. The field Helakeskus operates in is fairly traditional, which means that the customer base and markets do not change overnight. The mobilization of the strategy has been successfully honed by specifying the operational focuses.

Early on in the past financial period, Helakeskus gained a new CEO. **Martti Niemi** has worked in wholesale before but not the fittings business, specifically. "Still, by meeting with and learning about our customers, suppliers and staff, I got the hang of our business very quickly. The market is currently undergoing some changes, which is why this is a good time to consider where we could find the best tools to ensure growth," Niemi says.

The Board has worked on the company's strategy under the leadership of the new CEO. Growth opportunities have been explored particularly through customer structure and product selection. "We have fine-tuned our product selection as well as sales and sales guidance. All-in-all, we have clarified the structure of our sales organization this year," Niemi explains. In addition to this, some overlaps in the tasks of sales representatives have been eliminated. "The personnel management index prepared in the spring indicated that enthusiasm is increasing. "This is also mirrored by the reduction of absences due to illness, compared to the previous year.

In the kitchen segment, the most significant challenges of the financial period are related to a substantial increase in imports, fierce price competition and the slight but steady decline of the traditional furniture industry. The customers lost in the previous year are clearly evident in the result of the financial period, which fell well short of the target.

THE SHARE OF PROJECT TRADE IS INCREASING

For most of our customers, the share of project trade has increased due to the lackluster development in consumer trade. During the financial period, semi-production, which was previously housed elsewhere, was transferred to Helakeskus' own premises, which will improve the service level of these operations.

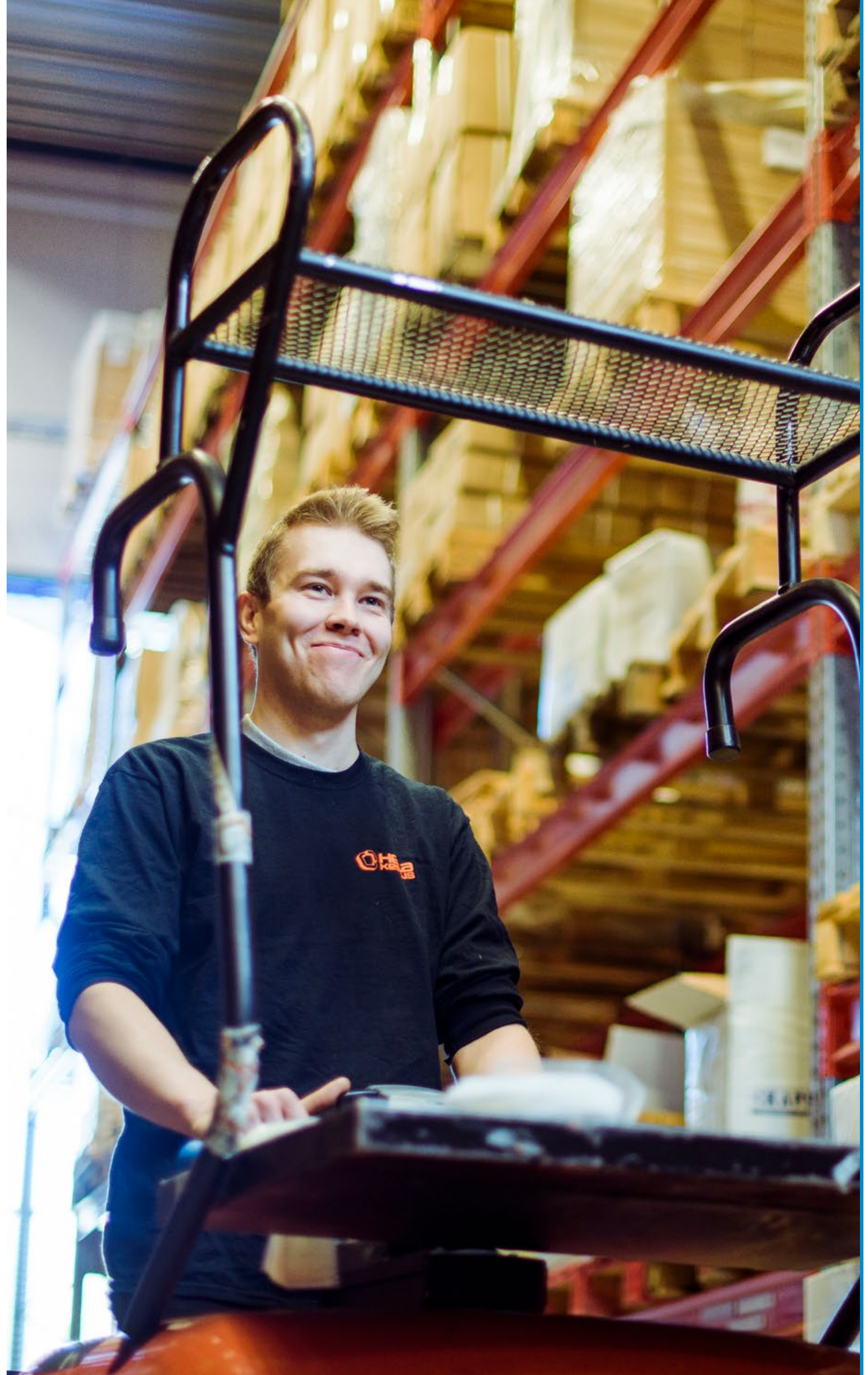
Construction has a strong effect on Helakeskus' operations. At the moment, the construction field overall is doing fine, and the next couple of years are estimated to remain moderately good. "Although some clouds have appeared on the horizon, I believe that the general positive atmosphere will, for now, be enough to ensure a positive effect and provide good opportunities for business development despite any fluctuations in economic trends," Niemi says.

AIMING TO IMPROVE MARKET POSITION AND COMPETITIVENESS

In the past years,, the increased volume of imports is creating more and more challenges for domestic kitchen fixture manufacturers, especially on the consumer side. "Import fixtures have increased their proportion of the total trade, which is a significant change within the market. In addition to this, Helakeskus has plenty of SME customers that have discontinued their operations due to the lack of someone to buy or take the reins of their business. Some are obviously doing well, but buyers or successors are often not that easy to find, even for excellent companies," Niemi says.

Digitalization will also play an increasingly important role in the future. "We trade only with professional customers within the corporate sector, where online trade is steadily gaining popularity. If digitalization is properly utilized, this may lead to increasingly cost-efficient operating models," Niemi states.

In the next financial period, Helakeskus will focus on developing the basics of its operations – sales will be increased through the development of the product selection and leading products, and by investing in added sales and comprehensive solutions. The further improvement of the customer experience is on next year's agenda.



Personnel

20

Net sales

8.2 M€

A SKILLED BOARD OF DIRECTORS PROVIDES THE NEW CEO WITH RESOURCES AND CONSTRUCTIVE FEEDBACK

We have an excellent connection with Panostaja through board work. Helakeskus has had the same Board of Directors for quite a while now. As the new CEO, I found their expertise and insight to be extremely useful in our joint "sparring" sessions – it's always a good idea to bounce your ideas and views off of the Board, which is obviously very knowledgeable about the field and the company's history. Over the course of this year, this has been of great help especially in terms of managing the product selection.

In my opinion, the division of duties between the Board and CEO is very clear. Helakeskus has an experienced and highly professional Board of Directors, which provides enough free rein to get things done. At the same time, the excellent dialogue enables operational development in an inspiring and proficient atmosphere.

Martti Niemi, CEO

The development and growth of digital trade continue strong

In 2018, KL-Varaosat, which has focused its considerable expertise on a select range of premium brands, began selling Audi spare parts to repair shops. During of the year, the construction of a new facility in Lahti began and investments were made in digitalization.

The Lahti facility to be opened in late 2018 will feature a wholesale outlet, which will initially primarily serve corporate customers. There has been a demand for the Lahti facility, since many of KL-Varaosat's customers are based in the region. The new facility enables efficient distribution to repair shops in the surrounding areas.

The development of digital trade continued strong during the financial period, as did its growth. The extensive and thorough groundwork for accelerating digital trade was laid in 2016 and 2017. "At the time, we made the exact right choices, and partially thanks to the positive development in digital trade, the profit and turnover of KL-Varaosat are far better than in the previous year," CEO of KL-Varaosat **Juha Kivinen** describes. Implemented in early 2017, the digital catalogue alone has dramatically increased the volume of KL-Varaosat's online trade. The digital catalogue enables repair shops to find the right products and make their orders directly to KL-Varaosat.

THE BENEFITS OF INTERNAL MOBILITY ARE FOSTERED AND DEVELOPED ACTIVELY

New projects have increased the number of staff employed by KL-Varaosat. The staff have also been encouraged to develop their expertise. During the past financial period, the company initiated training on logistics, inventory management, spare parts sale and supervisory work, for example. KL-Varaosat has made use of the training offered by Panostaja and cooperated with local training units to implement customized training projects.

As a growth-oriented company, KL-Varaosat has naturally faced recruitment challenges, but methods for tackling them have also been developed. KL-Varaosat is a desirable employer and, for many, the next positive step on their career path. The recruitment drives of 2018 brought in even more highly competent and development-oriented employees.

Internal mobility is also a point of pride within the the company – for example, some have progressed from the spare parts division to cooperating with the management team to support the digitalization of the company. "When we give our employees more responsibility, we also gain access to new ideas on the development of the company," Kivinen says. "We currently specialize in the specific brands we serve, and the in-depth knowledge we have on them is something that can't really be taught on a course. This is extremely motivational to the staff, since when they know the brands better than anyone, this leads to a positive cascade of development in terms of customer service and competence exchange within the work community." This is something the company intends to continue to foster.

THE STRATEGIC DEVELOPMENT OF THE YEAR HIGHLIGHTS THE ROLE OF DIGITALIZATION

Through the Board of Directors, Panostaja has offered insight and tools for the development of KL-Varaosat throughout the year. The strategic cooperation has involved analyses and strategic efforts, which have involved addressing changes and especially the digitalization of the company.

Panostaja's scenario analysis model gets lots of praise from KL-Varaosat. Working in the changing automotive industry requires the ability to anticipate future developments. The field is currently undergoing a great deal of changes, but the future looks bright for KL-Varaosat. "All in all, the digitalization is progressing swiftly and the systems are being integrated with each other. Individual services are merging to form comprehensive collections that achieve never-before-seen utilization rates as they become more and more user-oriented," Kivinen says. Next year, KL-Varaosat will focus on developing its digital services even further.

KL-VARAOSAT
Mercedes-Benz & BMW varaosien erikoisliike

Personnel
52

Net sales
14.4 M€

DRIVING STRUCTURAL CHANGES WITH THE MANAGEMENT INDEX

In 2015, we made some structural changes in the company to meet the demands of management and operational activities. The management index survey received from Panostaja was a significant help in completing and establishing the changes. The consistent management-related and operational information it provided has been an immense help as we adapt to the changing markets and efficiency requirements.

In the context of the management index, we decided to place special focus on the development of project work, internal communications and strategic mobilization. Supervisory work has been one of our strong suits, but we also bolstered and emphasized it even further. We invested in engaging our staff, fostering professional pride and ensuring customer-orientation in our operations. The change has been particularly clear in the improvement of the motivation of our staff and management team.

In addition to this, the management index yields benefits due to the comparability over time and between companies within Panostaja Group.

Juha Kivinen, CEO

Board of Directors

Jukka Ala-Mello, born 1963

Chairman of the Board since 2011, Board member since 2006
M.Sc. (Econ.)
Director and Secretary to the Board of Directors of Kone Oyj
Independent of the company and of major shareholders

Eero Eriksson born 1963

Board member since 2011
Master of Social Sciences
CEO of Fennia Asset Management Ltd and Chief Investment Officer of Fennia
Independent of the company and of majorshareholders

Mikko Koskenkorva, born 1982

Board member since 2011
Bachelor of Computer Science
IT Project Manager of Pajakulma Oy
Independent of the company

Tarja Pääkkönen, born 1962

Board member since 2016
D.Sc. (Tech.), M.Sc. (Tech.)
Partner and Chair of the Board at Boardman Oy, Brand Compass Group
Independent of the company and of major shareholders

Kalle Reponen, born 1965

Board member since 2018
M.Sc. (Econ.), professional board member
Independent of the company and of major shareholders

Senior Management Team

Juha Sarsama, born 1965

CEO since 2007
LLM, M.S.M. (Boston University Brussels)
Previous work experience: Managing Director of OpusCapita Oy, Administrative Director of Saarioinen Oy, CFO of OpusCapita Oyj
Other positions of trust: Board member of Finland Chamber of Commerce, Chariman of the Board of Fondia Oyj

Miikka Laine, born 1972

Investment Director since 2015
M.Sc. (Econ.), LL.M.
Previous work experience: Shareholder and CFO of Finnsweet Holding Oy Group, Investment Director and shareholder at investment company Profita Management Oy, Director of Nokia Oyj's corporate acquisitions unit, various positions in the investment banking sector (FIM, Pohjola)

Tapio Tommila, born 1978

Financial and Investment Director and Executive Vice President since 2015
M.Sc. (Econ.), eMBA
Previous work experience: Panostaja Oyj Investment Director, Deloitte Corporate Finance Oy, PricewaterhouseCoopers Oy

Minna Telanne, born 1964

Development Director since 2013
Licentiate of Administrative Sciences
Previous work experience: Business Director of Leading Partners Oy, HR Director of OpusCapita Oy, Profit Center Manager of MPS Finland Consulting Oy, Development Manager of Suomen Posti Oy

Panostaja as a minority owner

Panostaja's made its first minority investment by investing in Gugguu Oy in November 2018. Gugguu is thus the first investment target of which Panostaja became a minority shareholder in the beginning. Minority investments are a great addition to Panostaja's operating model, which will surely lead to interesting investment opportunities in the future.

As for majority investments, also for the new minority investments Panostaja is an active shareholder. Panostaja supports the implementation of the investment strategy and develops the business of its investments. The operating model for minority investments is founded on strong partnership.

SPECTRA

Spectra is a Finnish company founded in 1999. Spectra is responsible for the maintenance and back office operations of Finnish grocery stores and shopping malls, guaranteeing their ability to serve their customers in a well maintained, secure and pleasing environment. Spectra is in charge of cleaning, guarding, shopping trolley retrieval and bottle recycling, for example.

Panostaja's shareholding:
39.0%

Net sales
6.4 M€

GUGGUU

Gugguu is a children's clothing company founded in 2012. Gugguu designs and produces high quality ecological clothing for children. Gugguu launches two collections each year, available from its webstore and also through retailers. The company invests in the sustainability and transparency of all of its products.

Panostaja's shareholding:
43%

Net sales
4.5 M€

ECOSIR

Established in 1996, Ecosir specializes in demanding logistic vacuum transfer solutions for buildings and urban environments. The company's most important business is in demanding healthcare applications. Ecosir's high-quality expertise is also utilized in urban residential areas and specialty buildings, such as skyscrapers. After the financial year, Ecosir's ownership was transferred from Panostaja to an international investor group.

Panostaja's shareholding:
38.6%

Net sales
4.1 M€

Panostaja as an investment target

ACTIVE OWNER OF GROWTH COMPANIES

Panostaja provides a unique channel for investing in SME sector companies with high return expectations. We select leading companies in different sectors and usually acquire a majority shareholding in them. We develop and support their growth in close cooperation with the executive management of partnering shareholders. Our aim is for the company's value to have clearly increased once we divest it. This is how we increase shareholder value.

Target-oriented developer of shareholder value	Unique channel for investing in the Finnish SME sector	Diverse and balanced investment portfolio

FINANCIAL OBJECTIVES

Panostaja's objective is the constant increase of shareholder and market value so that the overall yield of shares exceeds the average long-term yield of the NASDAQ OMX Helsinki Small Cap Index.

Return on equity is at least	15 %	with the internal rate of return (IRR) being more than 22% for each investment target
Gearing ratio is at least	40 %	

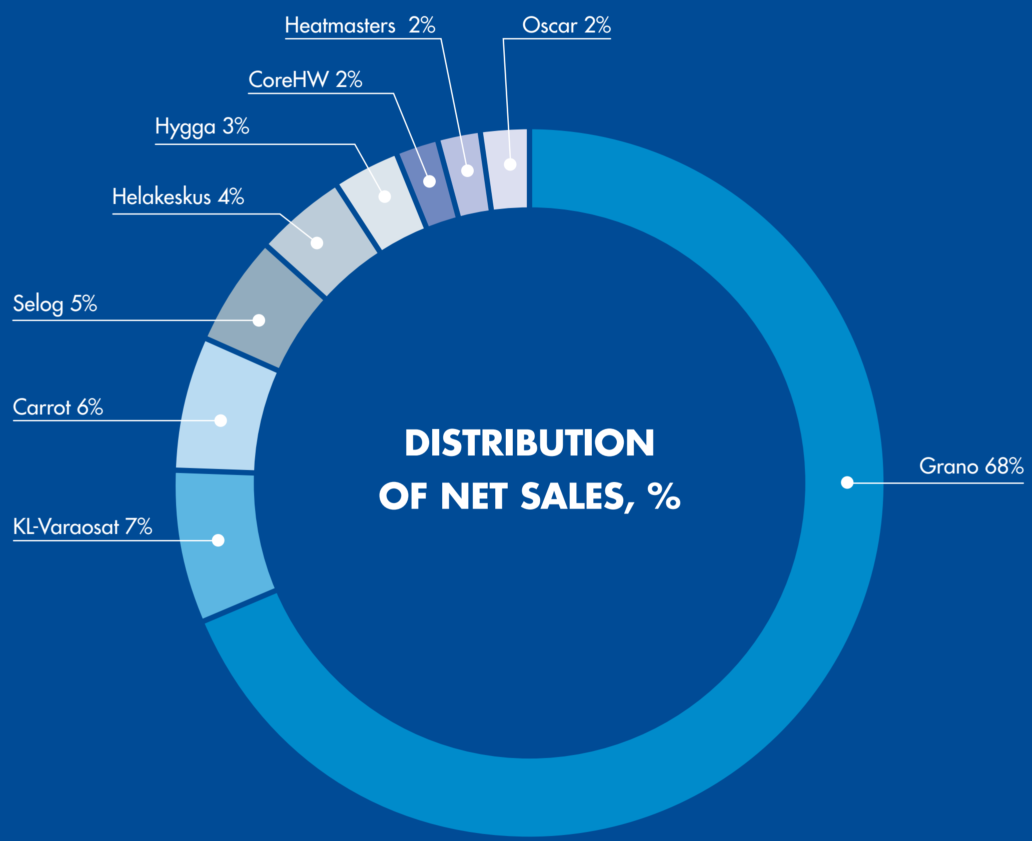
In a normal situation the financial structure of the parent company is debt-free. The parent company can take out temporary loans to finance corporate acquisitions between divestments.

Distribution of profits reflects the development of the Group's result in the long term, and the primary aim is to ensure the continuity of the Group's investment activity, after which it will be possible to distribute at least half of the annual consolidated profit targeted at the parent company shareholders, either as dividends, capital repayments or the repurchase of shares.

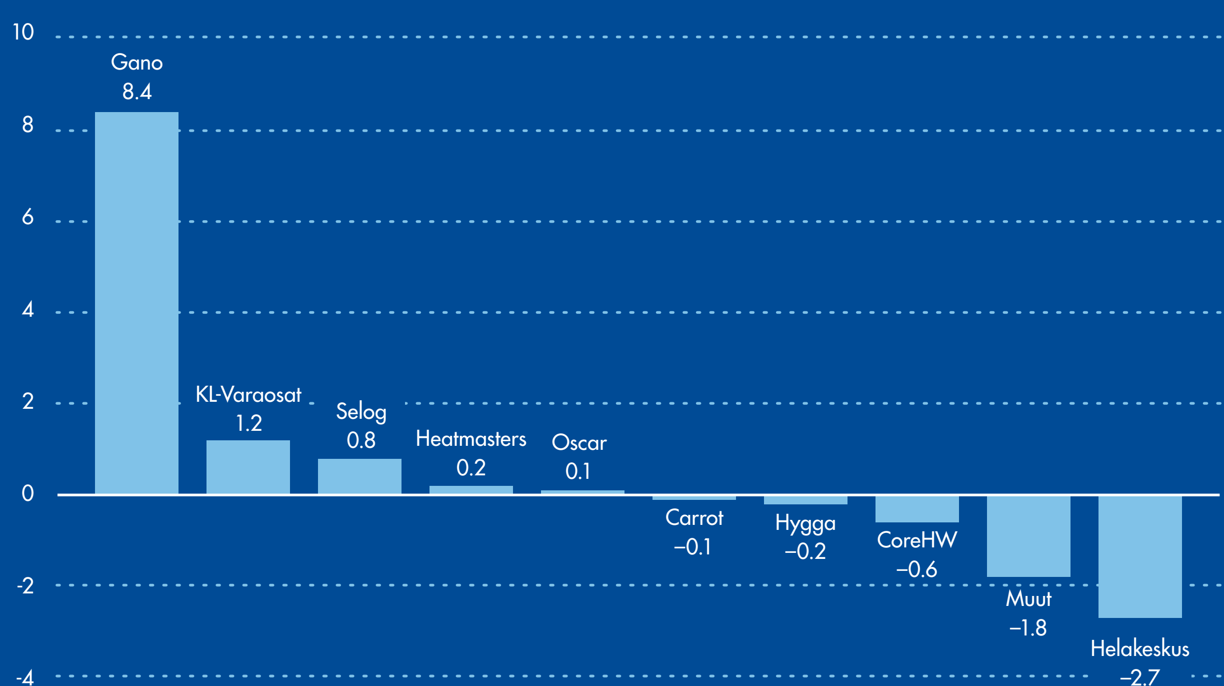
panostaja

FINANCIAL STATEMENTS AND INVESTOR INFORMATION

2018



DISTRIBUTION OF EBIT, MEUR



Net sales

199.7 M€

Profit for the financial period

27.1 M€

Personnel

2,043

2018 FINANCIAL STATEMENTS AND INVESTOR INFORMATION

FOR THE FINANCIAL PERIOD NOVEMBER 1, 2017–OCTOBER 31, 2018

CONTENTS

Panostaja Group	2018 November 1, 2017–October 31, 2018	2017 November 1, 2016–October 31, 2017
Net sales, MEUR	199.7	150.7
EBIT, MEUR	5.3	2.9
Profit before taxes, MEUR	2.7	1.2
Profit/loss from continuing operations, MEUR	0.6	3.4
Profit/loss from sold or discontinued operations, MEUR	26.5	3.4
Profit/loss for the financial period, MEUR	27.1	6.9
Earnings per share, undiluted (EUR)	0.46	0.04
Equity per share (EUR)	1.02	0.59

Annual Report Of Panostaja Oyj's Board of Directors

THE GROUP'S ECONOMIC DEVELOPMENT

Panostaja Group's net sales for the finished review period were MEUR 199.7 (MEUR 150.7). Exports amounted to MEUR 6.1, or 3.1% (MEUR 5.0, or 3.3%), of net sales. The corporate acquisitions made during the previous and current financial period affected the MEUR 48.9 increase in net sales by MEUR 51.8. Of the nine investment targets, five exceeded the reference period's cumulative net sales level.

EBIT improved and was MEUR 5.3 (MEUR 2.9). The profit/loss for the review period is encumbered by corporate acquisition costs at MEUR 0.5 (MEUR 1.0) as well as the goodwill impairment loss of MEUR 3.0 recorded for the Helakeskus segment. The profit/loss for the review period includes MEUR 0.9 in sales profit from fixed assets and the recognition of the Panostaja parent company's VAT receivable at MEUR 1.3. Six investment targets out of nine exceeded the EBIT for the reference period.

Profit from discontinued operations was MEUR 26.5. The consolidated income statement does not include the income statement for operations sold or discontinued in 2017. Instead, the result is entered separately in the consolidated income statement under 'Profit/loss from sold or discontinued operations.'

The Group's net financial expenses for the review period were MEUR –3.0 (MEUR –2.0). The Group's liquidity remained good and operating cash flow was MEUR 8.2 positive.

During the financial year, the Group employed an average of 1,927 (1,622) people. At the end of the financial period, the Group employed 2,043 (1,810) persons.

The net sales of the parent company, Panostaja Oyj, amounted to MEUR 0.0 (MEUR 0.0). EBIT totaled MEUR 37.3 (MEUR –4.1). The parent company's profit in the financial period was MEUR 31.5 (MEUR –4.2).

GROUP STRUCTURE

KotiSun

On December 19, 2017, Panostaja, together with the other owners of KotiSun Group Oy, signed an agreement to sell the company's share capital to the Buyout X fund managed by CapMan. The deal made Capman a majority shareholder in KotiSun Group, alongside Suomen Teollisuussijoitus Oy and Varma Mutual Pension Insurance Company. Panostaja Oyj owned 56.6% of the subsidiary. Once the competition authorities had given their approval, the trade was carried out on January 9, 2018.

Carrot

On April 20, 2018, Panostaja signed an agreement for the acquisition of the staffing, recruitment and outsourcing services provider Carrot Palvelut Oy. After the trade, Panostaja owns 63% of the entity formed through the restructuring. Carrot formed a new segment for Panostaja.

Oscar

On May 8, 2018, Panostaja Oyj signed an agreement for the purchase of Oscar Software Group Oy, a company providing ERP systems and financial management services to SMEs. After the trade, Panostaja will own 55% of the entity formed through the restructuring, while the company's management and key persons continue as the company's significant minority shareholders. Oscar Software formed a new segment for Panostaja.

PANOSTAJA GROUP'S BUSINESS SEGMENTS

The segmentation of Panostaja Group is based on investments with majority holdings that produce products and services that differ from each other. The investment targets are also monitored as separate business operations. The investments in which Panostaja has majority holdings compose the company's operation segments. In addition to that there is the segment Others, in which associated companies and non-allocated items are reported, including the parent company. Panostaja Group's business segments are Grano, KL-Varaosat, Selog, Helakeskus, Hygga (formerly Megaklinikka), Heatmasters, CoreHW, Carrot, Oscar Software and Others.

The Group's segment reporting is based on its business segments.

Grano

Grano is Finland's leading content and marketing services company, which helps its customers to realize business-supporting content projects from start to finish, from planning to production, publication, result measures and content management across print and digital channels that are essential to the customer's target audience. Grano has facilities in more than 20 municipalities throughout Finland, from Rovaniemi to Helsinki. It also operates in Tallinn and St. Petersburg. The CEO of the group for the duration of the past financial period was Jaakko Hirvonen. Mikko Moilanen has been appointed as the new CEO as of December 10, 2018. At the end of the review period, Panostaja's shareholding in the Group stood at 52.8%.

Grano continued on its path of growth thanks to the corporate acquisitions made at the end of the previous financial period. Net sales in the segment increased by 30%, from MEUR 105.3 to MEUR 136.6. Demand for the company's services has varied greatly over the course of the financial period, and there was also significant variation in the development of the net sales of different business operations. Paper printing services have decreased whereas the demand for largescale printing services, digital construction services and other digital services has been good.

Grano's EBIT improved from MEUR 6.3 in the reference period to MEUR 8.4. The EBIT is improved by the corporate restructurings finalized in accordance with the employer-employee negotiations of late 2017. The MEUR 0.9 in sales profit from machinery sold as part of the production restructuring efforts also improved the result. At the same time, the company has continued to implement its Content as a Service strategy, which has contributed to an increase in employees and marketing costs. In the review period, the significant increase in large print and illuminated advertisement projects and the resulting challenges for installation operations caused considerable extra subcontracting and personnel costs. For this reason, the company has developed its operating processes in the installation business to meet the needs of large customer projects. The EBIT for the review period is also encumbered by the depreciations of increased corporate acquisitions and equipment purchases. During the financial period, the company purchased the business operations of Arsmat Oy in Kuopio. At the end of the financial period, the segment employed 1,128 (1,122) staff.

KL-Varaosat

KL-Varaosat Oy is an importer, wholesale dealer and retailer of original spare parts and supplies for Mercedes Benz, BMW and Volvo cars. It operates in Tampere, Jyväskylä, Rovaniemi, Turku and Vantaa. KL-Varaosat Oy is part of KL Parts Group, in which Panostaja's holding is 75.0%. KL-Varaosat Oy's Managing Director is Juha Kivinen.

Overall, KL-Varaosat's market situation in the review period was good, although seasonal changes have naturally caused some fluctuation in monthly and weekly sales levels. Cars have been sold at a good rate, and the amount of imported used cars is also high. The clear majority of imported used cars consists of brands served by KL-Varaosat. Efforts to strengthen expansion measures implemented during previous periods were continued during the review period while working to explore new potential operating locations. Investments on the expansion of the Service-Partner network, electronic trade and digital marketing were also continued. Net sales in the KL-Varaosat segment increased by 7% from MEUR 13.5 to MEUR 14.4. The increase in net sales also improved EBIT to MEUR 1.2 (MEUR 1.0). At the end of the financial period, the segment employed 52 (48) staff.

Selog

Established in 2005, Selog Oy is Finland's largest wholesaler of ceiling materials, serving contractors and installation companies in the field. The range of services also includes calculation, design and logistics. Selog's services cover renovation and restoration projects and new construction sites. The company's offices are in Helsinki, Tampere and Lappeenranta. Selog Oy is part of Selog Group, in which Panostaja's holding was 100% at the end of the financial period. Reijo Siekkinen has served as Selog Oy's CEO since September 24, 2018.

Selog's demand for the financial period was primarily good, but the seasonal changes were significant. The commencement of many significant installations was delayed, which led to many customers having less work than expected. Some changes in key personnel also made it more difficult for the company to reach its sales goals. The entry of new small operators into the market increases competition. Although the positive trend in construction was strong, Selog's net sales decreased by 12% in the financial period from MEUR 10.8 to MEUR 9.4. However, EBIT remained at the level of the previous year at MEUR 0.8 due to decreased personnel costs, among other things. At the end of the financial period, the segment employed 13 (14) staff.

Helakeskus

Suomen Helakeskus Oy, based in Seinäjoki, is a major wholesale dealer concentrating on furniture fittings. The company imports, markets and sells fittings for the fixture and furniture industry. The company is part of the Suomen Helasto Group, in which Panostaja has a 100% holding.

The CEO of Suomen Helakeskus Oy is S. Martti Niemi.

In terms of net sales, Helakeskus' financial period was weaker than expected, and the targeted sales growth goals were not achieved despite the upward trend in construction. Helakeskus' net sales decreased by 9% during the review period from MEUR 8.9 to MEUR 8.2. Project trade still forms a large part of the total sales volume. Furniture manufacturers continue to face challenges, and consumer trade among kitchen manufacturers has still not properly taken off under the pressure of furniture imports. The operating EBIT for the review period weakened from MEUR 0.5 to MEUR 0.3. Due to the segment's weakened prospects, a consolidated goodwill impairment loss of MEUR 3.0 was recorded in the profit/loss of the fourth quarter, leaving the reported EBIT for the year at MEUR –2.7. At the end of the financial period, the segment employed 20 (23) staff.

Hygga

Hygga (formerly Megaklinikka) is a dental clinic offering a completely new kind of service concept. Its operations are based on a customer-centered approach in which the customer is offered all dental care services in one visit, with top quality and without having to wait in line. The company also offers its ERP system as a licensed service to public and private dental care and health care providers. Jussi Heiniö has been the company's CEO as of January 16, 2018. At the end of the financial year, Panostaja owns 79.8% of the group.

Hygga's net sales decreased during the review period from MEUR 6.0 to MEUR 5.4. This reduction in net sales is due to the effects of the Stockholm clinic during the first half of the review period. In terms of the clinic business, the market situation remained challenging: the customer numbers were low and the competition for customers was fierce. Investments have been made in improving the operational efficiency and increasing the visibility of the clinic business. At the end of the financial year, the company implemented a major brand update, which involved changing the company's name. As regards the service business built around the ERP system licensing business, the market outlook in Finland remains good and there is a clear demand for the company's operating model. On the other hand, the entry of competing solutions into the market and the relatively small size of the market will stiffen competition in the future. New growth areas are being actively explored with regard to the service business, and active sales efforts directed at Swedish public sector customers will also be continued. Hygga's EBIT increased in the review period from MEUR –1.6 to MEUR –0.2. The profit/loss of the reference period is heavily encumbered by the losses of the Stockholm clinic. The profit/loss for the review period is weighed down by the brand update and the costs related to replacing the CEO. At the end of the review period, the segment employed 77 (84) persons.

Heatmasters

Heatmasters Group offers heat treatment services for metals in Finland and internationally, as well as produces, develops and markets heat treatment technology. Heatmasters Group includes two companies engaging in business operations in Finland – Heatmasters Lämpökäsittely Finland Oy and Heatmasters Technology Oy – operating in Lahti and Kouvola. The Group also has a subsidiary in Poland. Panostaja's holding in the Group is 80.0%. Heatmasters Group Oy's CEO is Ilkka Mujunen.

Heatmasters' net sales decreased during the review period from MEUR 5.3 to MEUR 4.8. The demand for heat treatment services is moderate in Finland and Poland, but the equipment business fell significantly short of the reference year's level with fewer large furnace deals in the review period compared to the reference period. In the review period, the company launched a new service concept, which involves leveraging partners to provide customers with service packages optimized around heat treatment. Despite the decrease in net sales, the company's EBIT trend was successfully reversed, leading to a positive result: EBIT increased from MEUR –0.2 in the reference period to MEUR 0.2. At the end of the financial period, the segment employed 39 (43) staff.

CoreHW

Established in 2013, CoreHW is a company that provides high added-value design services in the RF IC sector, developing RF microchips and antenna technology and offering related consulting services. The company's business is divided into design services, consulting and the development of proprietary and licensed technologies (IP). The CEO of the company is Tomi-Pekka Takalo. Panostaja's shareholding in the segment is 63.0%.

The company was incorporated into the Panostaja Group as of September 1, 2017, which is why reference information is only available for two months. CoreHW's net sales for the review period stood at MEUR 3.7 (MEUR 1.0) while EBIT was MEUR –0.6 (MEUR 0.0). The demand for the company's services during the review period has remained good. The level of investments and demand in the 5G and IoT markets remain high on a global scale. The agreement negotiations and customer decisions for larger projects have taken longer than expected, which was reflected in the company's number of projects, keeping the net sales and EBIT for the review period at a low level. Still, the company has been able to utilize available resources to develop its own products, which has been a stronger focus during the review period. At the end of the review period, the segment employed 48 (45) persons.

Carrot

Carrot is a new segment, which was created through Panostaja purchasing a majority shareholding in Carrot Palvelut Oy, a company providing staffing, recruitment and outsourcing services, in April 2018.

The Carrot Palvelut Oy group, which was established in 1998 and specializes in human resources services, provides nationwide high-quality staffing, recruitment and outsourcing services and serves as a strategic HR partner to its customers. Carrot employs more than a thousand experts in various fields annually, meets a variety of recruitment needs and serves as a partner to its customers in wider outsourcing projects. The company's customers include companies in the fields of construction, industry and logistics, for example. Carrot has a head office in Helsinki and smaller offices in nine municipalities in Finland.The Group's CEO is Jouni Arolainen. Panostaja's shareholding in the segment is 63.0%.

The segment was consolidated into the Panostaja Group as of May 1, 2018, which is why no reference information is available. Carrot's reported net sales for the review period stood at MEUR 13.0 while its EBIT was MEUR –0.1. The market situation has been good. As such, the growth is often limited by the availability of human resources, and the company is directing its investments heavily into marketing and the development of its employer image. The company is currently in the process of developing operating models and the organization's capabilities, the costs of which are partially weighing down the profit/loss. Carrot's EBIT is also encumbered by the costs of the corporate acquisition at MEUR 0.2 and the discontinuation of the industrial business in the Uusimaa region. At the end of the review period, the segment employed 539 persons.

Oscar

Oscar Software is a new segment, which was formed when Panostaja acquired a majority shareholding in Oscar Software Group Oy, a company providing ERP systems and financial management services to SMEs, in May 2018.

Oscar Software Group Oy, established in 2005, is a software service company specialized in the development of enterprise resource planning (ERP) systems and various business services. In addition to the diverse ERP systems, Oscar provides financial management and HR services as well as software for webstores and services for online business. Oscar has a wide customer base, which includes SMEs from various sectors. The company has around 800 customers and its HQ is located in Tampere. The company's CEO is Simo Salminen. Panostaja's shareholding in the segment is 55.0%.

The segment was consolidated into the Panostaja Group as of May 1, 2018, which is why no reference information is available. Oscar Software's reported net sales in the financial period were MEUR 4.4 and EBIT stood at MEUR 0.1. The demand in terms of ERP software has remained good, and it seems that companies are continuing their investments in digitalization. As regards financial outsourcing services, demand is also at a good level. However, the labor market for software business and financial outsourcing services is currently very active and the competition for experts is stiff, which results in rapid employee turnover. The company has continued its active recruitment efforts, which partially weaken the profit/loss. Moreover, the company's net sales are encumbered by the costs of the corporate acquisition, MEUR 0.3. At the end of the review period, the segment employed 118 persons.

Others

There were no significant changes in the net sales of the Others segment. In the review period, two associated companies, Ecosir Group Oy and Spectra Yhtiöt Oy, issued reports to the parent company. The profit/loss of the reported associated companies in the review period was MEUR 0.3 (MEUR 0.3), which is presented on a separate row in the consolidated income statement. The company divested its share of Juuri Partners Oy in the review period. After the end of the financial period, Panostaja also fully divested its shareholding in Ecosir Group Oy, as an international group of investors assumed majority ownership of the company's business operations.

FINANCE

Operating cash flow deteriorated and was MEUR 8.2 (MEUR 15.6). Liquidity remained good. The Group's liquid assets were MEUR 19.3 (MEUR 19.5) and interest-bearing net liabilities MEUR 58.1 (MEUR 88.6). The gearing ratio fell and was 69.0% (137.5%). The net gearing ratio dropped significantly over the course of the financial period, resulting from the divestment of KotiSun in January. In addition to the KotiSun divestment, the increase in equity ratio was affected by the payment of all interest-bearing debts of the parent company during the financial period. The Group's net financial expenses for the review period were MEUR –3.0 (MEUR –2.0), or 1.5% (1.3%) of net sales.

Panostaja has a MEUR 15.0 corporate acquisition limit, which enables the withdrawal of three-year loans to fund Panostaja's corporate acquisitions and/or additional investments in the Group's companies. MEUR 15.0 of Panostaja's corporate acquisition limit remains to be withdrawn.

The Group's equity ratio at the end of the review period was 40.4% (28.8%). Return on equity was 36.5% (10.1%). Return on investment increased to 18.6% (4.9%).

INVESTMENTS AND DEVELOPMENT EXPENSES

The Group's gross capital expenditure for the review period was MEUR 23.5 (MEUR 39.0), or 11.8% (25.8%) of net sales. Investments were mainly targeted at tangible and intangible assets and corporate acquisitions.

During the financial period, MEUR 2.9 (MEUR 0.1) of development expenses were activated. The change for the financial period includes MEUR 0.4 of activated development costs that were recorded in the balance as a result of the acquisition of Oscar Software.

RELATED PARTY LOANS AND LIABILITIES

At the time of closing the books, there were no payables to relatedparty companies.

The totals and the main loan conditions of the loans issued to management are presented in Note 35 to the financial statements.

RISKS

The Group takes controlled risks to utilize opportunities for business operations in an optimal manner. The Group's conventional business risks concern the market and competitive situations of the investment targets, customer and supplier risks, corporate acquisitions and the risks involved in related financing.

The nine investment targets in which Panostaja has a majority shareholding operate in different fields. The aim is to ensure that the Group's financial performance is not substantially dependent on the development and results of a single investment target but, depending on the market conditions and as a business area grows, its significance for the Group is emphasized, which may mean that the risk is substantial. The Group's financial performance and development are not normally dependent on a single customer, but losing one or more important customers may have financial consequences for the results and development of a single investment target.

The general trend development and especially the development of the Finnish economy may have a significant effect on the Group's financial performance and development. The Group's results and development are also affected by the seasonal nature of the business. The seasonal variations of the business operations have the effect that ordinarily the first half of the year is weaker than the second. The continuous changes in competition, such as price competition and new rivals for an individual investment target, may affect the Group's financial performance and development, although the Group and its investment targets work continuously to develop their activities to meet the competitive situation. The risks involved in the price and availability of the raw materials that the different investment targets use in their operations may also significantly influence the financial performance and development of a single investment target, but will normally not affect the whole Group's development and results in any substantial way.

Exchange rate, interest, financial and credit loss risks have normally no significant effect on the Group's financial performance and development, but they may have a substantial influence on the financial performance and development of a single investment target. The Group and its various investment targets strive significantly to hedge against these risks in different ways, but it is not always possible.

The risks connected to the Group's staff may influence the Group's and its investment targets' development and financial performance if the Group is unsuccessful in the recruitment of key persons and other employees or in committing them to the Group.

If unsuccessfully managed, the risk of weakening reputation or trust due to negative publicity or the realization of some other risk may impact the development and financial result of the Group or its segments. Risks related to reputation are managed by maintaining an ethical corporate culture, ensuring timely and sufficient communications, implementing compliance activities and instructions, understanding the expectations of interest groups and preparing crisis management plans.

If unsuccessfully managed, risks concerning the environment may affect the development and financial performance of the Group and its investment targets. The Group complies with the legislation concerning environmental issues and takes the responsibilities they bring into account especially carefully and in all its operations strives to observe the principles of sustainable development. The Group has no knowledge of any significant risks concerning environmental issues.

The Group has extensive insurance coverage that covers material damage in accordance with the insurance terms and conditions. The insurance level of property risks is monitored regularly. If unsuccessful in managing them, risks concerning guarantees, suspension, product liability and repair may affect the development and financial performance of the Group and its investment targets. All Group companies endeavor to minimize these risks by investing in the management of the supply chain, the quality of their own activities, product development and the regular assessment of risks. If possible, such risks are covered by insurance protection.

If unsuccessfully managed, risks concerning the corporate acquisitions may affect the development and financial performance of the Group and its investment targets. The Group also aims to grow through corporate acquisitions. The goodwill associated with corporate acquisitions entered in the consolidated balance sheet amounts to approximately MEUR 94.7. Goodwill is not written off annually on a regular basis but, instead of depreciations, an impairment test is performed at least annually, or when there are indications of amortization. Values are normally checked during the second half of the year in connection with the budgeting process. Such a change might make goodwill writedowns necessary.

Official regulations may affect the development and financial performance of the Group and its investment targets. Amendments to regulations are followed carefully within the Group and the different investment targets, and efforts are made to react to them in advance if possible.

ADMINISTRATION AND GENERAL MEETING

Panostaja Oyj's Annual General Meeting was held on February 1, 2018 in Tampere. The number of Board members was confirmed at five (5), and Jukka Ala-Mello, Eero Eriksson, Mikko Koskenkorva and Tarja Pääkkönen were reelected to the Board for the term ending at the end of the next Annual General Meeting, and Kalle Reponen was accepted as a new member.

Auditing service network PricewaterhouseCoopers Oy and Authorized Public Accountant Markku Launis were elected as auditors for the period ending at the end of the next Annual General Meeting 2019. Auditing service network PricewaterhouseCoopers Oy has stated that Authorized Public Accountant Lauri Kallaskari will serve as the chief responsible public accountant.

The General Meeting confirmed the financial statements and consolidated financial statements presented for the financial year November 1, 2016–October 31, 2017 and resolved that the shareholders be paid EUR 0.04 per share as dividends.

The Meeting also resolved that the Board of Directors be authorized to decide at its discretion on the potential distribution of assets to shareholders should the company's financial status permit this, either as dividends or as repayment of capital from the invested unrestricted equity fund. The maximum distribution of assets performed on the basis of this authorization totals EUR 4,700,000. The authorization includes the right of the Board to decide on all other terms and conditions relating to said asset distribution. The authorization will remain valid until the beginning of the next Annual General Meeting. The General Meeting granted exemption from liability to the members of the Board and to the CEO.

The General Meeting resolved that the remuneration of the Board of Directors remain unchanged and that the Chairman of the Board be paid EUR 40,000 as compensation for the term ending at the end of the next Annual General Meeting, and that the other members of the Board each be paid compensation of EUR 20,000. It was further resolved at the General meeting that approximately 40% of the compensation remitted to the members of the Board be paid on the basis of the share issue authorization given to the Board, by issuing company shares to each Board member if the Board member does not own more than one (1%) percent of the company's shares on the date of the General Meeting. If the holding of a Board member on the date of the Meeting is over one percent (1%) of all company shares, the compensation will be paid in full in monetary form. It was further resolved that the travel expenses of the Board members will be paid on the maximum amount specified in the valid grounds of payment of travel expenses ordained by the Finnish Tax Administration.

In addition, the Board was authorized to decide on the acquisition of the company's own shares in one or more installments so that the number of the company's own shares to be acquired may not exceed 5,200,000 in total, which corresponds to about 9.9% of the company's total share capital. By virtue of the authorization, the company's own shares may be obtained using unrestricted equity only. The company's own shares may be acquired at the date-of-acquisition price in public trading arranged by NASDAQ Helsinki Oy or otherwise at the prevailing market price. The Board of Directors will decide how the company's own shares are to be acquired. The company's own shares may be acquired while not following the proportion of ownership of the shareholders (directed acquisition). The authorization issued at the Annual General Meeting of January 31, 2017 to decide on the acquisition of the company's own shares is cancelled by this authorization. The authorization will remain valid until August 1, 2019.

Immediately upon the conclusion of the General Meeting, the company's Board held an organizing meeting in which Jukka Ala-Mello was elected Chairman and Eero Eriksson Vice Chairman.

On October 26, 2018, Panostaja announced that the Group's current CEO Juha Sarsama will be relinquishing his post on December 31, 2018. Sarsama will continue with the company as the Chief Investment Officer and a member of the Board of Directors, with a focus on finding new investment targets and developing the existing segments. Panostaja's Board of Directors appointed the current Executive Vice President Tapio Tommila as the new CEO as of January 1, 2019.

SHARE CAPITAL AND THE COMPANY'S OWN SHARES

At the close of the review period, Panostaja Oyj's share capital was EUR 5,568,681.60. The number of shares is 52,533,110 in total.

The total number of own shares held by the company at the end of the review period was 390,756 (at the beginning of the financial period 470,512). The number of the company's own shares corresponded to 0.8% of the number of shares and votes at the end of the entire review period.

In accordance with the decisions by the General Meeting on January 31, 2017 and by the Board, Panostaja Oyj relinquished a total of 36,261 individual shares as share bonuses to the company management on December 15, 2017. On December 15, 2017, the company relinquished to the Board members a total of 13,333 shares as meeting compensation. In accordance with the Board decision of February 1, 2018, Panostaja relinquished a total of 10,638 shares on March 2, 2018, a total of 10,000 shares on June 1, 2018 and a total of 9,524 shares on September 7, 2018, as meeting compensation.

SHARE PRICE DEVELOPMENT AND SHARE OWNERSHIP

Panostaja Oyj's share closing rate fluctuated between EUR 0.88 (lowest quotation) and EUR 1.21 (highest quotation) during the financial period. During the review period, a total of 9,374,954 shares were exchanged, which amounts to 18.0% of the share capital. The October 2018 share closing rate was EUR 1.00. The market value of the company's share capital at the end of October 2018 was MEUR 52.1 (MEUR 47.5). At the end of October 2018, the company had 4,487 shareholders (4,095).

BOARD'S PROPOSAL TO THE GENERAL MEETING

The company's Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.05 per share be paid for the past financial period.

The Board also proposes that the General Meeting authorize the Board of Directors to decide, at its discretion, on the potential distribution of assets to shareholders, should the company's financial status permit this, either as dividends or as repayment of capital from the invested unrestricted equity fund. The maximum distribution of assets performed on the basis of this authorization shall total no more than EUR 4,700,000. It is proposed that the authorization include the right of the Board to decide on all other terms and conditions relating to said asset distribution. It is also proposed that the authorization remain valid until the start of the next Annual General Meeting.

Panostaja Oyj's Annual General Meeting will be held on January 31, 2019 in Tampere.

EVENTS AFTER THE REVIEW PERIOD

Sale of associated company Ecosir

Panostaja sold its shareholding in Ecosir Group. The export of domestic health technology and city solutions will be expedited even further with an international group of investors gaining majority ownership of Ecosir Group's operations. Ecosir Group Oy's CEO Mauri Leponen will continue as a shareholder and CEO in the company. With regard to the deal, Panostaja will record a sales profit of MEUR 1.4 before taxes in the profit/loss for November 2018.

New CEO for Grano

On November 8, 2018, Panostaja announced that the current CEO of Grano Jaakko Hirvonen would be retiring at a time to be specified later. On that date, he will step down as the CEO of Grano.

On December 10, 2018, Grano's Board of Directors appointed Mikko Moilanen as the company's new CEO.

Minority investment in the shares of Gugguu Oy

Panostaja Oyj secured its first minority interest by investing in the shares of Gugguu Oy, entering the company as an owner-partner for the entrepreneurs. Gugguu is a company established in 2012 that designs and manufactures first-rate children's clothing from ecological high-quality materials. The company's products include indoor and outdoor clothing for children as well as children's accessories. After the restructuring, Panostaja's holding in the company is 43%.

PROSPECTS FOR THE NEXT FINANCIAL YEAR

The corporate acquisitions market remained generally active in the period under review, and the availability of new opportunities has been good. The need to exploit ownership arrangements and growth opportunities in SMEs will continue, and as our own activity complements the supply of possible acquisitions from outside, there are plenty of possibilities for corporate acquisitions on the market. Panostaja aims to implement its growth strategy by means of controlled acquisitions in current investments, and new potential investments are also being actively studied. Divestment possibilities will also be assessed as part of the ownership strategies of the investment targets.

The demand situation for different investments is thought to develop in the short term as follows:

- the demand for Selog, Helakeskus, CoreHW, KL-Varaosat, Carrot and Oscar Software will remain good
- the demand for Grano and Heatmasters will remain satisfactory, while the demand for Hygga (formerly Megaklinikka) will improve to a satisfactory level (previously poor) as the focus on the licensing business increases

REPORT ON NON-FINANCIAL INFORMATION

This is Panostaja Oyj's report on non-financial information. In this report, we provide information on how Panostaja as a Group handles environmental and social matters as well as employees, human rights and anti-corruption efforts.

Panostaja's Board of Directors approves the report on an annual basis. Panostaja is publishing the report on non-financial information for the first time in conjunction with the 2018 financial statement. The report is issued by the parent company for the entire Group, covering the period from November 1, 2017 to October 31, 2018.

Based on Directive 2014/95/EU, the Accounting Act requires listed companies to report on the aforementioned matters. As regards each of them, the company must report the following, for example:

- operating principles (policies) and the due diligence (DD) methods applied
- risks and risk management
- results
- the most important key figures in terms of business, other than KPIs*

ENVIRONMENT	SOCIAL MATTERS AND EMPLOYEES	HUMAN RIGHTS	ANTI-CORRUPTION EFFORTS
Energy consumption Carbon footprint	Occupational safety and health Absences due to illness Employee training Employee satisfaction	Human rights Ethical guidelines Training attendance	Anti-corruption and -bribery efforts Ethical guidelines Training attendance

**In this context, KPI (Key Performance Indicator) is a key figure specified by Panostaja for non-financial information.*

Panostaja companies strive to adhere to the principle of continuous improvement. This means taking a systematic approach with regard to problems or challenges and their possible causes. The correct resources are used to plan and implement preventive and corrective measures. In addition to the above, results are monitored and analyzed to ensure the success and sustainability of the operations.

Panostaja has published an ethical Code of Conduct on its website. The Code of Conduct includes guidelines regarding our principles and practices, as well as our responsibilities toward our business environment, employees, business partners and society.

Business model

Panostaja is an investment company developing Finnish SMEs in the role of an active shareholder. At Panostaja, ownership is active partnership, development of management work, identification of growth potential and facilitation of reaching full potential. To Panostaja, growth and ownership are responsible and long-term work for success.

Panostaja actively seeks financially healthy companies it believes can rise to the top tier of its field with the Group's support. Panostaja provides business-related and strategic expertise to the company, along with tools that support management. Panostaja also assists the companies in securing financing and implementing corporate acquisitions. The increased owner value is realized upon divestment after the development phase.

Financial responsibility within the group refers to continuous efforts to ensure operational profitability. Profitable operations enable continuous development in order to maintain the competitiveness of the business operations. This is also a requirement for the Group being able to take care of its personnel, fulfil its responsibilities toward society and partners, and take the necessary responsibility for the development of environmental matters. Panostaja adheres to the effective acts, decrees and regulations.

The financial goal must be reached by responsible and ethical means, with due consideration to environmental and social responsibilities. In the long term, responsible operations according to the principles of sustainable development is the cornerstone of profitable business.

ENVIRONMENTAL MATTERS

Panostaja Group is aware of its responsibility in environmental matters and strives to consistently reduce its environmental load and foster the principles of sustainable development. Panostaja's most significant environmental impacts are related to energy consumption, use of printing materials, and the distribution and transportation of products. The company seeks to prevent and minimize detrimental environmental effects through efficient operations and materials use as well as responsible procurement arrangements. The Group aims to protect and conserve the environment by complying with environmental law, improving the energy efficiency of its operations and reducing the amount of generated waste. This area is covered by Panostaja's Code of Conduct.

Panostaja's subsidiary Grano uses a certified environmental management system ISO14001:2015. The principles of continuous development are observed in accordance with the standard. In terms of its other subsidiaries, Panostaja is in the process of developing methods that ensure due diligence.

Panostaja has identified energy consumption and carbon footprint as the most important environmental KPIs. The Group companies operate in different fields, which is why there is variation between them in terms of energy consumption. Panostaja does not operate in an energy-intensive field of industry and estimates its environmental risk to be low.

The companies report their energy consumption for all properties involved in their operations. Consumption data is collected from energy company reports, and the companies' figures are aggregated. The Group's key figure for energy consumption (MWh) is 11,683 (8,718). The most significant reason for the increase in energy consumption from the reference year is the expansion of the Group's business operations.

Greenhouse gas emissions are reported in accordance with the international GHG Protocol reporting principles. The Group monitors carbon dioxide emissions in adherence to the Scope 2 key figures (tn CO_2).

The relevant key figure encompasses the emissions caused by energy procured within subgroups. The energy consumption data have been obtained from the companies' electricity providers. This information has been collected from all facilities of all companies and then consolidated. Scope 2 emissions are calculated and reported in two ways:

1. MARKET BASED (method based on contractual greenhouse gas emissions/residual mix). The market-based emission amount caused by energy consumption is 3,085 $tnCO^2$ (2,302)

The market-based value is calculated using the following formula:

$$\frac{\text{Energy consumption (kWh) * emission factor (gCO2/kWh)}}{1{,}000{,}0000}$$

2. LOCATION BASED (method based on average greenhouse gas emissions from Finnish energy production). The emission amount caused by location-based energy consumption is 1,916 $tnCO_2$. (1,334)

The location-based emission value is calculated by multiplying the energy consumption with the average emission factor of Finnish energy production 164 g CO_2/kWh. In 2017, the emission factor was 153 g CO_2/kWh.

The most significant reason for the increase in greenhouse gas emissions from the reference year is the expansion of the Group's business operations.

The most significant reason for the increase in greenhouse gas emissions from the reference year is the expansion of the Group's business operations.

SOCIAL MATTERS AND EMPLOYEES

The Group has identified risks related to employee health, occupational safety and the work environment. The Group's Code of Conduct details relevant principles, practices and responsibilities.

Social responsibility is a key factor in terms of employee well-being. Panostaja wishes to create safe and healthy work conditions that are based on respect and fairness.

Panostaja does not tolerate any forms of harassment, threats, bullying or discrimination. The company respects its employees and treats them equally. Panostaja provides its employees with equal opportunities to advance their careers, regardless of their gender, age, values or other personal characteristics.

The Group strives to promote work well-being and improve the quality of working life within the work community. The equal treatment of personnel and the promotion of equality are the principles guiding supervisory work. Management work also considers the varying life situations, values and expectations among employees of different ages.

Panostaja takes care of work well-being by investing in high-quality management and supervisory work, smooth interaction and internal communications, and a healthy and trusting atmosphere at work.

Numerous training and discussion events are organized for the management personnel of companies each year. In addition to this, supervisor and sales training is provided, along with arranging a variety of events related to business development. A Management Index survey is conducted annually to measure the development of management with regard to a number of areas.

Work satisfaction and related factors among personnel are analyzed each year. The results of the Management Index survey conducted at the beginning of 2018 indicated that work satisfaction is at a good level at Panostaja, with the total index standing at 4.4 (scale 1–6). Work satisfaction has remained good for the entire five-year-period during which surveys have been carried out. Work atmosphere and its development within the companies is also monitored through occupational health.

The Group finds it important that the employees are competent enough to perform their tasks in a responsible manner. Therefore, orientation training is provided to new employees and staff training is organized actively. Training is considered an element of day-to-day work activities. The Group companies have their own training systems, and employees have personal development plans.

The companies pay attention to preventive health care and encourage their employees to engage in sports and exercise. They also have in place an early support model aimed at ensuring the recognition of factors related to work capability and well-being and their sufficiently early recognition. It is important to Panostaja to ensure that employees are enthusiastic about their own work and the work atmosphere remains good.

Each subgroup must handle matters related to occupational safety and health at individual worpcsaces. Heatmasters Group has the occupational health and safety certificate OHSAS 18001.

Panostaja monitors employee absences and work-related accidents on a monthly basis. HR management records employee absences, any accidents that occur and average training days among personnel. The occupational health service issues regular reports on the statistics it collects. This information is used to derive the following non-financial key figures for the Group:

	2018	2017
Number of work accidents	85	47
Work accidents in proportion to working hours (Lost time incident frequency*)	21.7	17.6
Sickness absence rate %**	2.7	2.8
Number of training days	1,518	459

**Number of work accidents that led to at least one day of sick leave / working hours completed * 1,000,000*
Absences during illness or injury and in relation to the illness of a child are counted toward the time of absences for the financial period.
***Number of sick days in the financial period November 1–October 31 / (theoretical regular working hours during the financial period in days) * 100*

The change in the key figures from the reference year is primarily due to the expansion of the Group's business operations and the new business operations. The number of work accidents increased due to a higher number of employees working in construction.

HUMAN RIGHTS

Panostaja has estimated its risk in relation to respecting human rights to be low. That said, there is always the risk that the Group may violate human rights in its own operations or through its supply chain. These infringements may have a negative effect on individual persons and harm Panostaja's reputation.

Panostaja respects all internationally recognized human rights and strives to construct its methods and practices in a manner that ensures the consideration of human rights across all of the company's operations. The Group observes the labor legislation, collective agreements and rights defined in the Universal Declaration of Human Rights, adopted by the United Nations, that include equality between people, prohibition of discrimination and freedom of religion and opinion. In its Code of Conduct, Panostaja provides guidelines to employees on how to report possible infringements. No human rights violations were reported in 2018.

In its Code of Conduct, Panostaja prohibits all activities that may violate human rights. At the end of the financial period, 54% of the Group's entire staff have completed training on the content of the Code of Conduct. Grano Group completed the training courses on November 30, 2018. This increased the percentage of employees who have completed the training to 80% within the group.

ANTI-CORRUPTION AND -BRIBERY EFFORTS

Panostaja adheres to the effective acts, decrees and regulations. Panostaja's companies always compete in a fair and honest manner in compliance with competition law. The Group's companies do not participate in cartels or discuss contract terms, prices or other matters related to competition with our competitors. Panostaja prohibits corruption and bribery in all our operations, and we do not accept services, goods, trips or anything else from any of our cooperation partners or suppliers that exceeds the limits of normal hospitality This area is covered by Panostaja's Code of Conduct.

The identification and assessment of corruption-related risks are part of the general risk assessment measures conducted by Panostaja and business units. However, corruption and bribery can occur in Panostaja's own operations or its supply chain. Cases of corruption and bribery may lead to legal sanctions. Although, based on these assessments, Panostaja's own operations and services do not entail a high risk of corruption, it strives to incorporate responsible business practices into all areas of its operations.

Panostaja has provided guidelines to employees on how to report possible infringements. No instances of corruption or bribery were reported in 2018.

Key figures

GROUP KEY FIGURES

		2018	2017	2016
Net sales, MEUR		199.7	150.7	162.3
EBIT, MEUR		5.3	2.9	10.1
% of net sales		2.7	1.9	6.2
Profit for the financial period, MEUR		27.1	6.9	9.2
Return on equity (ROE), %		36.5	10.1	13.1
Return on investment (ROI), %		18.6	4.9	9.4
Equity ratio, %		40.4	28.8	38.1
Gearing, %	1)	69.0	137.5	70.4
Current ratio		1.2	1.2	1.4
Gross capital expenditure, MEUR		23.5	39.0	10.9
% of net sales		11.8	25.9	6.7
Avg. no. of Group employees		1,927	1,622	1,337
Earnings per share (EPS), EUR, undiluted	*	0.46	0.04	0.07
Earnings per share (EPS), EUR, diluted	*	0.46	0.04	0.07
Equity per share, EUR		1.02	0.59	0.77
Dividend per share, EUR	2)	0.05	0.04	0.04
Dividend/Earnings % undiluted		10.8	114.3	58.0
Dividend/Earnings % diluted		10.8	114.3	58.0
Effective dividend income %		5.0	4.4	4.3
Average number of outstanding shares in the financial period (1,000)		52,125	52,082	51,736
Number of shares at the end of the financial period (1,000)		52,533	52,533	52 533
Weighted average of the number of issue-adjusted shares during the financial period, (1,000)		52,125	52,082	51,736
Closing rate for the financial period, EUR		1.00	0.91	0.92
Lowest share price, EUR		0.88	0.82	0.81
Highest share price, EUR		1.21	0.98	1.04
Average share price in the financial period, EUR		1.03	0.88	0.89
Market value of stock, MEUR		52.1	47.5	48.3
Shares exchanged, 1,000		9,375	7,864	5,959
Shares exchanged, %		18.0	15.1	11.5

1) Liabilities include the equity convertible subordinated loan
2) Board of Directors' proposal
* Audited key figure

Key figures provide a brief overview of the business development and financial position of a company as well as profit distribution.

The key figures for the 2016 financial period have not been changed due to divestment or discontinuation of businesses during the past financial period.

FORMULAE FOR CALCULATING KEY FIGURES

Return on investment (ROI) %	=	Profit/loss after financial items + financial costs + profit/loss on discontinued operations x 100 / Balance sheet total – non-interest bearing liabilities (average in the financial period)
Return on equity (ROE) %	=	Profit for the financial period x 100 / Equity (average in the financial period)
Equity ratio, %	=	Equity x 100 / Balance sheet total – advances received
Interest-bearing net liabilities	=	Interest-bearing liabilities – Interest-bearing receivables – financial assets
Gearing, %	=	Interest-bearing net liabilities / Equity
Equity per share	=	Equity attributable to parent company shareholders / Adjusted number of shares on the balance sheet date
Earnings per share (EPS)	=	Result for the financial period attributable to parent company shareholders / Adjusted number of shares on average during the financial period
Current ratio	=	Current assets / Current liabilities
Dividend per share	=	Dividend distributed in the financial period / Adjusted number of shares on the balance sheet date
Dividend / Earnings %	=	Dividend / share x 100 / Earnings per share (EPS)
Effective dividend income, %	=	Dividend per share / Share price on the balance sheet date

Reconciliation of key figures – interest-bearing liabilities and interest-bearing net liabilities

MEUR	October 31, 2018	October 31, 2017
Liabilities total	124.5	159.7
Non-interest-bearing liabilities	42.0	48.1
Interest-bearing liabilities	**82.5**	**111.6**
Trade and other receivables	34.8	38.4
Non-interest-bearing receivables	29.7	34.9
Interest-bearing receivables	**5.1**	**3.5**
Interest-bearing liabilities	82.5	111.6
Interest-bearing receivables	5.1	3.5
Cash and cash equivalents	19.3	19.5
Interest-bearing net liabilities	**58.1**	**88.6**

2018 Financial statements

CONSOLIDATED INCOME STATEMENT, IFRS

EUR 1,000	Note	1.11.2017–31.10.2018	1.11.2016–31.10.2017
Net sales		**199,652**	**150,718**
Other operating income	9	2,862	985
Materials and services		71,592	59,612
Staff expenses	11	80,938	54,040
Depreciations, amortizations and impairment	12	12,650	7,255
Other operating expenses	13	32,037	27,888
EBIT		**5,298**	**2,909**
Financial income	14	274	329
Financial expenses	15	–3,231	–2,313
Share of associated company profits	10	350	278
Profit before taxes		2,691	1,203
Income taxes	16	–2,086	2,240
Profit/loss from continuing operations		**605**	**3,443**
Profit/loss from sold and discontinued operations	7	26,511	3,411
Profit/loss for the financial period		**27,116**	**6,853**
Attributable to			
Shareholders of the parent company		24,069	2,137
Minority shareholders		3,046	4,717
Earnings per share calculated from the profit belonging to the shareholders of the parent company, EUR:			
Earnings per share from continuing operations	17		
Undiluted		–0,047	–0,031
Diluted		–0,047	–0,031
Earnings per share from sold and discontinued operations	17		
Undiluted		0,509	0,066
Diluted		0,507	0,066
Earnings per share on continuing and discontinued operations	17		
Undiluted		0,462	0,035
Diluted		0,460	0,035
Extensive consolidated income statement			
Result for the period		27,116	6,853
Items of the extensive income statement			
Translation differences		–190	–20
Extensive income for the period		**26,926**	**6,833**
Attributable to			
Shareholders of the parent company		23,879	2,117
Minority shareholders		3,046	4,717

The notes constitute an integral part of the financial statements

CONSOLIDATED BALANCE SHEET, IFRS

EUR 1,000	Note	October 31, 2018	October 31, 2017
ASSETS			
Non-current assets			
Goodwill	18	94,838	94,714
Other intangible assets	18	16,569	13,485
Property, plant and equipment	19	17,525	23,234
Interests in associated companies	20	1,140	4,037
Other non-current assets	21	8,525	6,772
Deferred tax assets	23	6,453	11,328
Non-current assets total		145,049	153,571
Current assets			
Stocks	24	9,474	12,698
Trade and other receivables	25	34,235	37,257
Tax assets based on taxable income for the period	25	547	1,160
Cash and cash equivalents	26	19,348	19,466
Current assets total		63,605	70,582
Assets in total		208,656	224,154
EQUITY AND LIABILITIES			
Equity attributable to parent company shareholders			
Share capital	27	5,569	5,569
Share premium account	27	4,646	4,646
Other funds	27	0	0
Invested unrestricted equity fund	27	13,393	13,325
Translation difference		−292	−157
Retained earnings		29,500	7,546
Total		52,816	30,928
Minority shareholders' interest		31,342	33,522
Equity total		84,158	64,451
Non-current liabilities			
Deferred tax liabilities	23	5,655	4,621
Financial liabilities	28	63,831	94,034
Non-current liabilities total		69,487	98,656
Current liabilities			
Current financial liabilities	28	18,790	19,119
Tax liabilities based on taxable income for the period		3,331	328
Trade payables and other liabilities	29	32,890	41,600
Current liabilities total		55,011	61,047
Liabilities total		124,498	159,703
Equity and liabilities in total		208,656	224,154

The notes constitute an integral part of the financial statements

CONSOLIDATED CASH FLOW STATEMENT, IFRS

EUR 1,000	Note	2018	2017
Business operations			
Profit/loss for the financial period before the minority share		27,116	6,853
Adjustments:			
Depreciations	12	12,650	9,969
Financial income and costs	14,15	2,957	2,250
Share of associated company profits	10	−350	−278
Taxes	16	2,086	−969
Sales profits and losses from property, plant and equipment	9,13	−718	−102
Other earnings and expenses with no payment attached		−27,606	2,022
Operating cash flow before change in working capital		16,135	19,746
Change in working capital			
Change in non-interest-bearing receivables		1,866	−5,575
Change in non-interest-bearing liabilities		−6,877	8,570
Change in stocks		261	−1,288
Change in working capital		−4,750	1,707
Operating cash flow before financial items and taxes		11,384	21,453
Financial items and taxes:			
Interest paid		−2,882	−2,432
Interest received		207	70
Taxes paid		−495	−3,465
Financial items and taxes		−3,171	−5,827
Operating net cash flow		8,214	15,626
Investments			
Investments in intangible and tangible assets		−6,473	−10,823
Sales of intangible and tangible assets		2,897	739
Acquisition of subsidiaries with time-of-acquisition liquid assets deducted	6	−17,001	−28,137
Sale of subsidiaries with time-of-sale liquid assets deducted	7	39,397	2,351
Acquisition of associated companies		0	0
Financial assets acquired and sold entered at fair value through profit and loss		0	0
Capital gains from sales of other shares		70	14
Loans receivable and repayments granted		−3,080	341
Investment net cash flow		15,808	−35,516
Finance			
Share issue		3,186	3,090
Hybrid loan			−7,500
Loans drawn		10,492	39,987
Loans repaid		−34,023	−16,259
Disposal of own shares		69	61
Dividends paid		−3,854	−6,595
Finance net cash flow		−24,130	12,785
Change in liquid assets		−108	−7,105
Liquid assets at the beginning of the period		19,466	26,573
Effect of exchange rates		−10	−2
Liquid assets at the end of the period		19,348	19,466

The notes constitute an integral part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Equity attributable to parent company shareholders								
EUR 1,000	Note	Share capital	Share premium account	Invested unrestricted equity fund	Other funds	Translation differences	Retained earnings	Total	Minority shareholders' interest	Equity total
Equity as of November 1, 2016		5,569	4,646	13,260	7,390	–124	9,277	40,018	31,127	71,145
Extensive income										
Profit/loss for the financial period							2,136	2,136	4,717	6,853
Translation differences						–33	13	–20		–20
Extensive income for the financial period total		0	0	0	0	–33	2,149	2,116	4,717	6,833
Transactions with shareholders										
Dividend distribution	27						–2,081	–,2081	–4,188	–6,269
Repayment of capital	27							0	–558	–558
Share issue								0		0
Interest on equity convertible loan							–841	–841		–841
Acquisition of the company's own shares								0		0
Disposal of own shares	27, 35			65				65		65
Options as shares and payments								0		0
Stock options issued										
Other changes					–7,390		179	–7,211		–7,211
Reward scheme	35						15	15		15
Transactions with shareholders, total		0	0	65	–7,390	–33	–2,728	–10,053	–4,746	–14,799
Disbursement of equity convertible loan										
Changes to subsidiary holdings										
Share of minority shareholders resulted from the acquisition of subsidiaries									1,399	1,399
Sales of shares in subsidiaries without change in controlling interest							416	416	1,835	2,251
Changes in shares of subsidiaries own-ed resulting in loss of controlling interest									602	602
Acquisitions of minority shareholdings	8						–1,569	–1,569	–1,412	–2,981

		Equity attributable to parent company shareholders								
EUR 1,000	Note	Share capital	Share premium account	Invested unrestricted equity fund	Other funds	Translation differences	Retained earnings	Total	Minority shareholders' interest	Equity total
Equity as of November 1, 2017		5,569	4,646	13,325	0	–157	7,545	30,929	33,522	64,451
Extensive income										
Profit/loss for the financial period							24,069	24,069	3,046	27,116
Other extensive income items (adjusted with tax effect)								0		0
Cash flow hedging								0		0
Held-for-sale investments								0		0
Net investment hedging								0		0
Translation differences						–133	–55	–190		–190
Extensive income for the financial period total		0	0	0	0	–135	24,014	23,879	3,046	26,926
Transactions with shareholders										
Dividend distribution	27						–2,084	–2,084	–1,785	–3,869
Repayment of capital	27							0		0
Acquisition of the company's own shares								0		0
Disposal of own shares	27, 35			68				68		68
Options as shares and payments								0		0
Stock options issued								0		0
Other changes							356	356		356
Reward scheme	35						11	11		11
Transactions with shareholders, total		0	0	68	0	0	–1,717	–1,649	–1,785	–3,434
Disbursement of equity convertible loan								0		0
Changes to subsidiary holdings										
Share of minority shareholders created from subsidiary acquisition	8								3,179	3,179
Sales of shares in subsidiaries without change in controlling interest								0		0
Changes in shares of subsidiaries owned resulting in loss of controlling interest								0	–5,829	–5,829
Acquisitions of minority shareholdings	8						–341	–341	–792	–1,133
Equity as of October 31, 2018		5,569	4,646	13,393	0	–292	29,501	52,818	31,341	84,159

Notes to the consolidated financial statements

1. Basic information about the company

The parent company, Panostaja Oyj, invests in Finnish SMEs primarily by purchasing majority shareholdings in them. Panostaja Oyj, together with its subsidiaries, (hereinafter referred to as “Panostaja” or ”the Group”) form a group whose primary market area is Finland. At the time of closing the books, Panostaja has a majority holding in nine investment targets.

Panostaja Oyj is a Finnish public corporation operating under the legislation of the Finnish state. The company’s shares have been quoted publicly since 1989. The shares are quoted on the Nasdaq Helsinki stock exchange. The company’s registered office is in Tampere and the address of its head office is Kalevantie 2, 33100 Tampere. A copy of its consolidated financial statements is available at this address. At its meeting of December 12, 2018, Panostaja Oyj’s Board of Directors approved these consolidated financial statements for publishing. Under the Finnish Companies Act, the shareholders may approve or reject the financial statements at the Annual General Meeting held after its publication on January 31, 2019. The AGM also has the opportunity to decide on implementing changes to the financial statements.

2. Accounting principles for the financial statements

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), and the IAS and IFRS standards, as well as the SIC and IFRIC interpretations, valid as of October 31, 2018, have been complied with. The International Financial Reporting Standards refer to the standards approved for application in the EU and the interpretations given on them in the Finnish Accounting Act and the provisions based on it in accordance with the procedure enacted in EU Regulation No 1606/2002. The notes to the consolidated financial statements also comply with the requirements of the Finnish legislation on accounting and corporations which complement the IFRSs.

The consolidated financial statements have been prepared based on the original acquisition costs, with the exception of the financial assets and liabilities recorded at fair value through profit and loss. Compiling financial statements in accordance with the IFRSs requires the Group’s management to prepare certain estimates and to use discretion in applying the accounting principles. The data about such discretion the management have used in applying the Group’s accounting principles for the preparation of the financial statements, and which most affect the consolidated financial statements, are presented in Accounting Principles under the section *“Accounting principles requiring the management’s judgement and the principal uncertainties of estimates.”*

CONSOLIDATION PRINCIPLES

Subsidiaries

The consolidated financial statements include the parent company Panostaja Oyj and all its subsidiaries.

Subsidiaries are companies in which the Group has a controlling interest. This controlling interest arises when the Group owns more than half of the voting power, or it otherwise has a controlling interest. The existence of potential voting power has also been taken into consideration in estimating the conditions for the emergence of a controlling interest, when the instruments warranting potential voting power are realizable at the time of observation. Controlling interest refers to the right to dictate the principles of the company’s finances and business activities to gain benefits from its operations.

The Group’s intergroup shareholding has been eliminated by the acquisition method. The consideration given and the acquired company’s separately identifiable assets and equity and liabilities have been valued at fair value at the time of purchase. The expenses connected to the acquisition, apart from the costs incurred by the issuance of liability or equity securities, are recognized as expenditure. The consideration given does not include business operations which are processed as separate from the acquisition. The effect thereof has been observed in connection with the acquisition through profit and loss. Any conditional additional purchase price is valued at fair value at the time of purchase and is classified either as a liability or equity. An additional purchase price that is categorized as a liability is valued at fair value on the closing date of each reporting period, and the profit or loss arising from this is recognized through profit and loss or in other items of extensive income. An additional purchase price that has been classified as equity will not be revalued.

Subsidiaries acquired are integrated in the consolidated financial statements from the moment when the Group has gained a controlling interest, and disposed subsidiaries until such time when the controlling interest ends. All of the Group’s intracompany transactions, receivables, liabilities and unrealized gains as well as its internal profit distribution are eliminated when preparing the consolidated financial statements. Unrealized losses are not eliminated if the loss results from amortization. The distribution of the financial-year profit or loss to the owners of the parent company and minority shareholders is presented in a separate income statement, and the distribution of extensive income to the owners of the parent company and minority shareholders is presented in connection with the extensive income statement. Any minority shareholders’ interest in the procured item is valued either at fair value or to the amount that corresponds to the proportion of minority shareholders’ interest in the separately identifiable net assets of the procured item. The valuation principle is determined separately for each corporate acquisition. Extensive income is allocated to the owners of the parent company and minority shareholders, even if this results in the minority shareholders’ interest being negative. The proportion of equity belonging to minority shareholders is presented in the balance sheet as a separate item as part of equity. The changes to the parent company’s holding in a subsidiary which do not result in the loss of the controlling interest are treated as business operations concerning equity.

When an acquisition takes place in stages, any previous holding is valued at fair value, and the profit or loss arising from this is recognized through profit and loss. When the Group loses its controlling interest in a subsidiary, the remaining investment is valued at the fair value on the date of the loss of the controlling interest, and the difference arising from this is recognized through profit and loss.

Associated companies

Associated companies are enterprises in which the Group has substantial authority. Substantial authority is created when the Group owns more than 20% of the company’s voting power, or when the Group has considerable influence in some other manner without having a controlling interest. Associated companies are integrated in the consolidated financial statements using the equity method. If the Group’s share of the associated company’s loss exceeds the book value of the investment, the investment is recognized in the balance sheet at zero value and losses exceeding the book value are not combined, unless the Group has committed itself to fulfilling the associated company’s obligations.

Unrealized profits between the Group and an associate have been eliminated following the holding the Group has. An investment in an associated company includes the goodwill arising from the acquisition. In the Group’s income statement, the result corresponding to the Group’s holding is presented in row Share of associated company profits.

SEGMENT REPORTING

The Group’s segment reporting is based on its business segments. Reports on these business segments are prepared in a manner in line with the internal reporting submitted to the highest operational decision-maker. Panostaja’s Senior Management Team has been defined as the highest operational decision-making body that is responsible for allocating resources to segments and assessing their results.

AMOUNTS IN FOREIGN CURRENCY

The consolidated financial statements are prepared in Euros, which is the functional and presentation currency of the Group’s parent company. Foreign currency transactions are recorded in the functional currency using the rate of exchange prevailing on the date of transaction. At each balance sheet date, monetary receivables and liabilities are translated using the rate on the closing date. The exchange differences arising from such translations are recorded in the income statement. The foreign exchange gains and losses of operations are included in the comparable items above operating profit. Non-monetary items are translated using the rate of the transaction date.

Income statements of foreign Group companies have been translated into euros at the average exchange rate for the period, while balance sheets have been translated using the closing rates of the balance sheet date. The translation of the profit for the financial year using different currencies in the income statement, the extensive income statement and equity causes a translation difference that is recognized in the other items of the extensive income statement, and it is included in equity in the item ‘Translation differences’. The translation differences arising from the elimination of the acquisition costs of foreign subsidiaries and from the translation of equity items accrued after the acquisition are recorded in the items of the extensive income statement. When a foreign unit is sold in part or in full, the translation differences accumulated in equity are recognized through profit and loss as an adjustment of classification as part of sales profit or loss.

NET SALES AND RECOGNITION PRINCIPLES

Net sales consist of income from the sale of products and services at fair value, adjusted according to indirect taxes and discounts. Within the Group, earnings from product sales are primarily recorded once the essential risks and benefits related to ownership of the goods as well as their right of possession and actual control have been transferred to the buyer and payment is likely. Correspondingly, earnings from services are generally recorded once the services have been rendered. The recognition principles of segment-specific net sales are presented in conjunction with segment information in Note 5.

EBIT

The IAS 1 standard on the presentation of financial statements does not define the concept of operating profit or loss. The Group has defined it as follows: EBIT is the net sum arrived at when other operating income is added to net sales and the following expenses deducted from it: acquisition costs adjusted by the changes in the stocks of finished or incomplete goods, expenses incurred in manufacture for the company's own use, employee benefit expenses, depreciation and any amortization or impairment losses or other operating expenses. All other income statement items besides those mentioned above are presented under operating profit. Exchange rate differences are included in EBIT if they arise from business-related items; in other cases, they are recognized in financial items.

INCOME TAXES

Tax expense consists of the taxes based on taxable income and deferred tax liabilities for the financial period. Taxes are recognized through profit and loss, except when they relate directly to the items recorded in equity or other items of the extensive income. In such cases, tax is also recorded in these items.

Deferred taxes are calculated on temporary differences between the book values of assets and liabilities and the tax value of assets and liabilities. Deferred taxes are recorded by the balance sheet date using statutory tax rates. However, deferred tax liabilities are not recorded when an asset item or a liability to be initially recognized in bookkeeping is in question, and when the integration of business operations is not in question, and when the recording of such an asset item or liability item does not affect the accounting result nor taxable income at the time the business transaction takes place.

The most important temporary differences arise from the valuation of the net assets of acquired companies at fair value, and from appropriations and unexploited tax losses. Deferred tax assets are recognized to the extent that it is probable that future taxable income will become available against which the temporary differences may be utilized. In this respect, the requirements for recognizing deferred tax assets are always estimated on the last trading day of the reporting period.

NON-CURRENT ASSET ITEMS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current asset items (or disposal groups) are classified as held for sale when their recoverable amount, equivalent to their book value, will be recovered mainly from their sale and when their sale is extremely probable. If their recoverable amount which corresponds to their book value will mainly be accrued from their sale instead of their continuous use, they are presented at their book value or fair value less costs to sell, depending on which is smaller. Depreciations from non-current asset items are cancelled on the date of classification.

A discontinued operation is a part of the Group that has been disposed of or that has been classified as held for sale and that represents an important separate business area or geographical area of operation, or is a part of one coordinated plan that concerns the renunciation of an important separate business area or geographical area of operation, or is a subsidiary that has been acquired with the sole purpose of reselling it. The profit from discontinued operations is presented in a row of its own in the consolidated income statement.

GOODWILL AND OTHER INTANGIBLE ASSETS

The goodwill arising from the integration of operations is recorded in the amount that makes the combined amount of the consideration given, minority shareholders' interest in procured item and the proportion owned previously exceed the acquired net assets.

Instead of recording goodwill depreciations, goodwill is tested at least once a year for amortization, and it is valued at its original acquisition cost less amortizations. For the purpose of impairment testing, goodwill is allocated to cash-generating units.

Research expenditure is recognized as an expense in the income statement for the period in which it incurs. Development costs are activated when they can reliably be expected to benefit the Group financially in the future and when their acquisition costs can be determined reliably, and when other IAS 38 criteria, such as the product's technical and financial execution criteria, are met. Other development expenditure is recognized as expenses. Development costs that have been previously recorded as expenses are not activated in later financial periods.

Other intangible assets that have limited financial useful lives are recorded in the balance sheet and recognized as expenses in the income statement, marked as depreciations on a straight-line basis, during their financial useful lives. All the company's intangible assets have a limited financial useful life.

Intangible rights include software licenses, joining fees and customer relationships. Other intangible assets include computer software.

The standard times for planned depreciations of intangible assets:

- Development costs 5 years
- Intangible rights 3–5 years
- Other intangible assets 5–10 years

PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment are valued at original acquisition cost less depreciations, amortizations and impairment. Depreciations on a straight-line basis are made on property, plant and equipment within their estimated financial useful lives. No depreciations are made on land.

The estimated financial useful lives are as follows:

- Buildings 20–25 years
- Plant and equipment 3–5 years
- Other tangible assets 3–10 years

The depreciation values and financial useful lives of property, plant and equipment are estimated and adjusted at least at the end of each financial period, and if they differ significantly from previous estimates they will be altered accordingly.

The sales profits and losses of property, plant and equipment are determined by comparing their sales price to their book value, and they are presented in the income statement as other operating income or expenses.

RENTAL AGREEMENTS

Rental agreements where the Group has shouldered a significant share of the risks and rewards integral to ownership are classified as finance leases. A finance lease is recorded in the balance sheet at the fair value of the leased item on the lease's commencement, or a lower present value of the minimum lease payments. Item acquired under finance leases are depreciated over the financial useful life of the asset or over a shorter lease term. The leasing rates payable are divided into the financing cost and the decrease in liabilities. Equivalent leasing rental responsibilities, less costs of funding, are included in non-current and current interest-bearing liabilities according to their expiration. The share of interest of financial expenses is recorded in the income statement during the rental agreement so that the remaining liability has an identical interest rate during each financial period.

Rental agreements where the lessor carries a significant share of the risks and rewards integral to ownership are classified as other rental agreements. Rental liabilities related to other rental agreements are not recorded in the balance sheet, and the related rents are recognized in the income statement as equal-sized items over the lease term.

AMORTIZATION OF TANGIBLE AND INTANGIBLE ASSETS

At each balance sheet closing date, the Group assesses whether there are indications that the carrying amount of an asset item may not be recoverable. If such indications exist, the recoverable amount of the asset item in question will be measured. The recoverable amount is also assessed yearly with reference to the following asset items, regardless of whether there are indications of impairment: goodwill, intangible assets with indefinite useful lives and incomplete intangible assets. The impairment need is examined at the level of cash-generating units.

An impairment loss is recognized if the book value of the asset item or cash-generating unit exceeds the recoverable amount. Impairment losses are recorded in the income statement. An impairment loss of a cash-generating unit is first allocated to decrease the goodwill directed at the cash-generating unit, and thereafter to symmetrically decrease the other asset items of the unit. On the recognition of an impairment loss, the financial useful life of the asset item depreciated is reassessed.

The recoverable amount of tangible and intangible assets is determined either so that it is their fair value less costs to sell, or a higher service value. In determining service value, the estimated deferred cash flows are discounted to their current value based on discount rates which reflect the average capital cost before tax of the cash-generating unit in question. The discount rates used have been determined before taxes, and the special risk of the cash-generating unit in question is also taken into consideration in calculating them.

Impairment loss connected to property, plant and equipment and other intangible assets except goodwill is cancelled if a change has occurred in the estimates used in determining the amount recoverable from an asset item. Impairment loss is cancelled no higher than to the amount that would have been determined as the book value of an asset item (less depreciation) if impairment losses had not been recognized for it in previous years. Impairment loss recorded for goodwill will not be cancelled.

GOVERNMENT ALLOWANCES

Allowances for the acquisition of tangible or intangible assets are reduced from the book value of the asset item in question where there is reasonable reliability that the grant will be received and that the Group will meet all the conditions set for receiving the grant. Allowances are recognized in the form of smaller depreciations during the service life of the asset item.

STOCKS

Stocks are valued at the acquisition cost or a lower net realizable value. Net realizable value is the estimated sales price obtainable in conventional business, from which the estimated costs resulting from manufacturing the item for sale and the estimated costs necessary for carrying out the sale have been deducted.

The value of stocks has been determined using the FIFO method and it includes all the direct costs resulting from the acquisition, as well as other indirect focused costs. In addition to the purchase cost of materials, direct labor costs and other direct expenses, the acquisition cost of manufactured stocks includes a proportion of the general expenses of production, but not the outlay for sales or financing. The value of stocks has been reduced as far as obsolescent property is concerned.

FINANCIAL DERIVATIVES

The Group has no essential derivative agreements other than interest rate swaps.

Derivative agreements are initially recognized in accounting at fair value on the day that the Group becomes a party to a contract, and they are further valued at fair value at a later date. The Group does not apply hedge accounting to interest rate swaps, because they do not meet the conditions for hedge accounting defined in IAS 39. In such a case, a change in the fair value of hedging instruments is immediately recognized in financing income and costs through profit and loss.

FINANCIAL ASSETS AND LIABILITIES

Financial assets

Financial assets are classified as follows: financial assets at fair value through profit and loss, loans and other receivables recognized at fair value through profit and loss, and saleable liquid assets. This classification takes place in connection with the original acquisition based on the purpose of use of the financial assets.

Purchases and sales of financial assets are recognized based on the trading day, i.e., the day when the Group undertakes to purchase or sell an asset item. Investments in financial assets, which are not recognized at fair value through profit and loss, are initially recorded at fair value, to which transaction costs are added. The financial assets recognized at fair value through profit and loss are initially recorded at fair value and transaction costs are recorded as costs in the income statement. Financial assets are not recognized in the balance sheet after the rights to the cash flows of the investment have ceased or been transferred to another party and the Group has transferred a substantial part of the risks and rewards involved in ownership to another party.

Financial assets recognized at fair value through profit and loss consist of financial assets held for the purpose of trading and of financial assets that the Group classifies in this category in connection with the original recording. Financial instruments held for the purpose of trading include the Group's derivatives only. The latter group includes quoted interest fund shares, because the company administers them and their profitability is assessed based on fair value in accordance with a documented risk management strategy, and information concerning the group is produced internally on this basis for key persons belonging to the management of the organization.

Financial assets held at fair value through profit and loss belong to short-term assets, except when their period for falling due exceeds 12 months or management does not intend to divest them within 12 months of the reporting date. Changes in the fair value of financial assets recognized at fair value through profit and loss are recorded on the income statement in 'Financial Items' in the period during which they were created.

Loans and other receivables are investments not belonging to derivative assets. Any charges connected to them are fixed or specifiable. They are not quoted on functioning markets, and the Group does not hold them for the purpose of trade, nor have they been originally recorded as saleable. Loans and other receivables are valued in the allocated acquisition cost using the effective interest method, and those with no fixed maturity date are valued at purchase price. Loans and other receivables are included in current or non-current assets, whichever is applicable, in the balance sheet: as the latter, if they fall due more than 12 months after the date on which the reporting period ends. Trade receivables are valued according to the original invoiced amount, less any amortization.

Saleable liquid assets are investments not belonging to the group of derivative assets. They are either specifically classified to be in this group or they have not been classified to belong to any group. They are current assets, unless the management intends to keep the investment in question for a period longer than 12 months from the balance sheet date. Changes to the fair value of saleable liquid assets are recognized in other items of the extensive income and presented in the fair value fund contained in the equity item Retained earnings, with the tax effects taken into consideration. Unlisted shares whose fair value cannot be reliably determined are recognized in the acquisition value on the balance sheet. The changes accrued in fair value are transferred from equity through profit and loss and recognized as an adjustment resulting from classification changes when the investment is sold or its value has decreased to such an extent that an impairment loss must be recorded on the investment.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, short-term bank deposits and other current, extremely liquid investments whose initial maturity is no more than three months. Used bank account limits are presented in other non-current liabilities.

Amortization of financial assets

On every balance sheet date, the Group estimates whether there is objective evidence of the depreciation of an item part of the financial assets, or of the depreciation of a group of financial assets. A debtor's significant economic difficulties, the likelihood of bankruptcy and a default on a payment are evidence of depreciation. If there is evidence, depreciation is performed on loans and other receivables (including trade receivables) if their balance sheet value is greater than the estimated recoverable amount.

The amount of an impairment loss recognized in the income statement is determined by the difference between the book value of a receivable and estimated deferred cash flows that have been discounted with the effective interest rate. If the amount of the impairment loss decreases during a later financial period and the deduction can objectively be considered to relate to an event taking place after the amortization was entered, the loss recorded will be cancelled through profit and loss.

If it is a question of share investments classified as held for sale, the significant or prolonged amortization of fair value under the acquisition cost is considered to be evidence of the amortization of the asset item. If such evidence exists in relation to financial assets held for sale, the accrued loss, which is defined as the difference between the acquisition cost and its present fair value minus the impairment loss previously recorded through profit and loss on the item in question belonging to financial assets, is removed from equity and recorded through profit and loss. Impairment losses from shares entered in the income statement are not canceled through the income statement.

Financial liabilities

Initially, loans are recognized in accounting at fair value, less transaction costs. After this, they are valued in allocated acquisition costs using the effective interest method; the difference between payment received (less transaction costs) and the amount repayable is recognized as interest costs during the loan period.

Loans are classified as current, unless the Group has an absolute right to postpone their payment to at least 12 months from the balance sheet date.

Liability costs are recognized as expenses once they materialize. The liability expenses resulting directly from the acquisition, construction or manufacture of an asset item that fulfills the conditions set are activated as part of the asset's acquisition costs when they are likely to produce deferred financial benefits and when the costs can be reliably determined.

EQUITY

The Group classifies the instruments it issues based on their nature either as equity or as a financial liability. An equity instrument is any agreement which demonstrates the right to a share of an organization's assets after the deduction of all its liabilities. Costs that concern the issue or acquisition of the Group's own equity instruments are presented as an equity deductible item. If the Group buys back its own equity instruments, the acquisition cost for these instruments is deducted from equity.

An equity debenture loan (so-called hybrid loan) is recognized as company equity because it has no maturity date, but the Group is entitled, but not obliged, to redeem it. Interest is only paid if the General Meeting decides to distribute dividends. If dividends are not distributed, the

Group may decide separately on the payment of interest. Interest is presented as the distribution of dividends according to their nature.

PENSION LIABILITIES

The Group's pension schemes have been classified as payment-based schemes. A payment-based pension scheme refers to an arrangement in which the company makes fixed payments to a separate corporation. The company is under no legal or actual obligation to pay additional charges if the separate corporation in question does not have enough funds to pay everyone the benefits relating to their work that they have made payments on during the present or earlier financial periods. The payments made to the payment-based scheme are recognized as the expenses of the financial period during which the payment is made.

SHARE-BASED PAYMENTS

The Group has incentive schemes in which payments are made as equity instruments. Expenses incurred by business operations that are paid as equity are determined based on the fair value of the grant date. The company determines fair value using an appropriate pricing method. An expense resulting from business operations paid as equity and a corresponding increase in equity is recognized during the period when the work is performed and/or when the conditions based on the performance of the work are met. This period ends on the date when the persons involved are fully entitled to remuneration ("Time of the origin of entitlement"). The expenses accrued that are recorded by each balance sheet date from business operations that are paid as equity reflect the extent to which the time of the origin of entitlement has elapsed, and the Group's best estimate on the number of the equity instruments to which this right will eventually be created. The profit/loss is presented in the Group's income statement under staff expenses.

PROVISIONS

Provisions are recognized when a company, as a result of past events, has a legal or actual obligation, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision corresponds to the best estimate of the costs that are required for the fulfillment of the existing obligation on the balance sheet date.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS APPLIED

In the financial period from November 1, 2017 to October 31, 2018, no standards were instituted that would have had significance on the Group's financial statements.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS TO BE APPLIED AT A LATER DATE

The IASB has published the following new and amended standards and interpretations, which the Group has not yet applied.

- Annual Improvements to IFRSs 2014–2016 (effective for financial periods beginning on or after January 1, 2017) that cause changes to the following standards: IFRS 1 – short-term relief measures regarding the IFRS 7, IAS 19 and IFRS 10 transition rules were removed as no longer relevant. IAS 28 – Clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- IFRS 15 Revenue from Contracts with Customers (effective for financial periods beginning on or after January 1, 2018) Panostaja will apply the standard as of November 1, 2018. The new standard includes five-phase instructions on the recording of revenue from contracts with customers and replaces the current IAS 18 and IAS 11 standards and related interpretations. Revenue can be recorded over time or at a specific time, and the key criterion is the transfer of control. The standard also increases the number of notes to be presented. The Group has prepared an IFRS 15 impact analysis over the course of 2018. Based on the analysis, the standard will affect calculation principles, but substantial changes to reported figures have not been identified, since the amendments do not significantly apply to the main types of the Group's net sales. Based on the impact analysis, the standard affects the timing of the recognition of commissioning and establishment projects connected to the sale of certain software services, which will be delayed once the standards take effect. However, the identified revenue streams from commissioning and establishment projects are not essential to the Group in terms of their number. Panostaja will apply the transition rule option, which foregoes adjusting the reference periods at the beginning of the application period and involves recording the accumulated effect at the time of implementation on November 1, 2018. The recognition principles and the effects of the new standard have been described on a segment-specific basis on pages 30–31 under Business segments – Net sales and recognition principles.
- IFRS 9 Financial Instruments (effective for financial periods beginning on or after January 1, 2018; earlier application is permitted). Panostaja will apply the standard as of November 1, 2018. The new standard replaces the current standard IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 changes the classification and valuation of financial assets and includes a new model based on anticipated credit losses for assessing the impairment of financial assets. During the 2018 financial period, the Group evaluated the effects of IFRS 9 on the figures to be reported. The implementation of the IFRS 9 standard will only affect the application of the expected credit loss model when assessing the impairment related to doubtful receivables, and the amendment is not estimated to substantially impact the consolidated financial statement. The credit loss impairment provision will be adjusted at the beginning of the 2019 financial period to accrued profits in an estimated amount of MEUR 0.3. Other figures for the reference period will not be adjusted.
- IFRS 16 Leases (effective for financial periods beginning on or after January 1, 2019; earlier application is permitted only if IFRS 15 is implemented at the same time). Panostaja will apply the standard as of November 1, 2019. As a result of the standard, nearly all leases will be recorded in the balance sheet as there will no longer be a distinction between operating and finance leases. The new standard requires the asset item (right to use the leased commodity) and the finance liability regarding rent payment to be recorded in the balance sheet. The only exceptions to this are lease agreements concerning short-term and low-value assets. The accounting process applied by lessors will not be changed significantly. Over the course of the financial period, the Group initiated an analysis of the standard's impact on reported figures. The new standard will have a significant impact on the consolidated income statement, balance sheet and key figures. Off-balance sheet rental liabilities as of October 31, 2018 stand at approx. MEUR 36 (Appendix 34), the majority of which, according to the Group's current assessment, will be recorded in the balance after the implementation of the standard. Panostaja will specify the effects of the standard during the 2019 financial period.
- The classification and measurement of share-based payment transactions – amendments to IFRS 2 (effective for annual periods beginning on or after January 1, 2018). These amendments clarify the measurement principle for cash-settled share-based payment transactions and the accounting process for modifications of share-based payment transactions from cash-settled to equity-settled.

3. Financial risk management

FINANCIAL RISK MANAGEMENT

The Group's financial risks comprise credit and counterparty risk, interest rate risk and liquidity risk. Credit and counterparty risk comprises payments of trade receivables coming from customers, the centralization of the customer base and co-operative banks approved as counterparties. Group companies operate primarily in the eurozone and so are only exposed to transaction risk stemming from exchange rate fluctuations, principally resulting from export activity, to a slight degree. The Group has no significant investments in foreign companies, so it is not exposed to significant translation risk. The effects of changes in interest rates on the value of interest-bearing liabilities and receivables and on the amount of future interest payments cause interest risk.

Panostaja's management of financial risks is handled in a centralized manner within the framework of the parent company's financial operations, under the leadership of Panostaja's Chief Financial Officer. The CFO actively monitors the subsidiaries' financial risks and actively participates in the process of securing funding and the implementation of hedges with the management of subsidiaries. The CFO also supports the management of Panostaja's subsidiaries in other matters related to financial management. The Group subsidiaries do not utilize a mutual fund allocation scheme, and their financial arrangements are independent of each other. The parent company may, by separate decision, allocate its funds to subsidiaries in the form of additional funding based on their financial and liquidity needs. The general principles of the Group's risk management are approved by the Board of Directors and their practical implementation is the responsibility of the parent company together with the subsidiaries.

INTEREST RATE RISK

The Group's income and operating cash flow is largely independent of fluctuations in market interest rates. The Group's interest risk primarily constitutes borrowing. At the end of the financial year, liabilities stood at 67,388,000 (102,800,000). EUR 64,438,000 of the liabilities are variable-interest loans. EUR 2,900,000 of the liabilities are fixed-interest loans.

INTEREST RATE RISK SENSITIVITY ANALYSIS

The following table illustrates how any moderate change in interest rates, other variables remaining constant, would affect the Group's results as a consequence of changes to the cost of interest on debts with floating interest rates. Interest rate risk sensitivity is presented after taxes.

EUR 1,000	1% higher Income statement	2% higher Income statement	1% lower Income statement
Effect of change to interest rate			
2018	–516	–1,031	516
2017	–822	–1,645	822

CREDIT RISK

Credit risk is managed at Group level, with the exception of risk associated with trade receivables. The companies in the Group check the creditworthiness of customers at least when the customer relationship is being established. To minimize credit risk, the aim is to obtain effective collateral if a customer's creditworthiness so requires. The Group has long-established business relationships with its major customers. The Group has no significant risk concentration. Credit risk is primarily focused on outstanding receivables. The Group recorded impairment losses of EUR 139,000 on trade receivables in the financial period (EUR 209,000 in 2017). The maturity distribution of sales receivables is presented in Note 25 to the financial statements

The risk associated with the Group's liquid assets and derivative agreements is low, since these financial agreements are only concluded with banks with a good credit rating in accordance with the Group's risk management principles.

LIQUIDITY RISK

The Group's most important loan covenants are reported to financiers every three, six and twelve months. If the Group breaches the terms and conditions of a loan covenant, the creditor may demand the accelerated repayment of the loans. Management regularly checks the fulfilment of loan covenant terms and conditions. The Group's parent company has provided securities to financiers on behalf of its subsidiaries as security for creditors (Note 29 to the financial statements).

The loan covenant terms are related to the key figure of the Group's separate company or subgroup, the ratio between interest-bearing loans and operation margin (interest-bearing loans/operating margin) and equity ratios or Panostaja Group's equity ratio and the ratio of interest-bearing net liabilities and operating margin.

Negligence related to liabilities, and breaches of contract:

During the financial period, the loan covenant was violated in four subgroups and the Group's parent company. However, in regard to the loans of four subgroups, totaling MEUR 9.7, consent has been received from the financiers that they will not demand the accelerated repayment of the loans before the end of the financial period. Arrangements concerning liabilities and breaches of contract are presented in Note 28 to the financial statements.

Panostaja has a MEUR 15.0 corporate acquisition limit, which enables the withdrawal of three-year loans to fund Panostaja's corporate acquisitions and/or additional investments in the Group's companies. MEUR 15.0 of Panostaja's corporate acquisition limit remains to be withdrawn.

CAPITAL MANAGEMENT

The aim of the Group's capital management is to ensure that the business has the prerequisites for operating normally and to increase the share value over the long term. The capital structure is influenced through dividend distribution, the purchase of own shares, capital repayments, share issues and loan withdrawals and repayments. In Panostaja's operating model, decisions on acquiring and divesting investments are also an important part of capital management. Panostaja's goal is to persistently increase the value of its investments and, over the long term, implement divestments that lead to significant increases in value and strengthen the capital structure.

The trend in the Group's capital structure is monitored with equity ratio and gearing. The Group's equity ratio was 40.4% (28.8%) and its gearing ratio 69.0% (137.5%). The net gearing ratio dropped significantly over the course of the financial period, resulting from the divestment of KotiSun in January. In addition to the KotiSun divestment, the increase in equity ratio was affected by the payment of all interest-bearing debts of the parent company during the financial period.

EUR 1,000	2018	2017
Interest-bearing financial liabilities	82,512	111,575
Interest-bearing receivables	5,111	3,486
Cash and cash equivalents	19,348	19,466
Interest-bearing net liabilities	58,053	88,623
Equity total	84,158	64,451
Gearing ratio	69.0%	137.5%

4. The accounting principles requiring management discretion and the key uncertainties relating to estimates

In preparing the consolidated financial statements and related notes, the management of the company must prepare estimates and make assumptions. Any estimates prepared and discretion exercised are founded on previous experience and other factors, such as presumptions about future events. The estimates prepared and discretion applied are examined on a regular basis. Below is a description of the most important areas in which estimates and discretion have been applied.

VALUATION OF ACQUIRED ASSETS AT FAIR VALUE

IFRS 3 requires the supplier to enter any intangible asset as separate from goodwill, if the entry criteria are met. Recognizing an intangible right at fair value requires the management's estimate of future cash flows. As far as possible, the management has applied the available market values as the basis for the allocation of an acquisition cost in determining fair value. Whenever this is not possible, which is typical with intangible assets especially, valuation is based on the asset item's historical revenue and its intended use in future business. Valuations are founded on discounted cash flows and estimated transfer and replacement prices, and require the management's estimates and assumptions on the future use of the asset items and their effects on the company's financial status. Shifts in the focus and orientation of the company's business activities may, in the future, bring about changes in the original valuation (Note 6 and 18 to the financial statements).

CONDITIONAL PURCHASE PRICES CONCERNING CORPORATE ACQUISITIONS

Management uses significant discretion when assessing the fair value of possible conditional additional purchase prices on the closing day of each reporting period. At the end of the financial period, there were no conditional additional purchase prices for the Group.

IMPAIRMENT TESTS

Intangible and tangible assets are tested for impairment whenever there are signs that their value may have decreased. Goodwill and other intangible assets with infinite useful life are tested for impairment at least once a year. For the purposes of the testing, goodwill and intangible assets with infinite useful life are allocated to cash-generating units. The amount recoverable by cash-generating units is based on calculations of service value. Formulating these calculations requires the use of estimates. Although the presumptions applied in accordance with the management's vision are appropriate, the estimated recoverable amounts may differ significantly from those materializing in the future (Note 18 to the financial statements).

VALUATION OF STOCKS

It is the management's principle to enter any impairment loss from slowly moving and outdated stocks on the basis of the management's best estimation of the potentially unusable stocks possessed at the balance sheet date. The management bases its estimation on a systematic and continuous monitoring and evaluation. The company also applies a valuation code founded on the stocks' turnover ratio.

RECOVERABILITY OF DEFERRED TAX ASSETS

It takes discretion to decide whether deferred tax assets should be entered on the balance sheet. Deferred tax assets are only recognized if it is more likely that they will be realized than not, which is determined by whether sufficient taxable income accumulates in the future. The assumptions for accrual of taxable income are based on the evaluations and assumptions of the management.

These evaluations and suppositions involve risk and uncertainty, and it is therefore possible that changes in circumstances bring about changes to assumptions, and this may in turn affect the deferred tax receivables recorded in the balance sheet as well as any other as yet unrecognized tax losses and temporary differences.

If the taxable income of Group companies turns out to be less than what management predicted when deferred tax receivables were being determined, the value of the receivables will fall or they will become completely worthless. In that case, the amounts entered on the balance sheet may have to be canceled through profit and loss.

There are MEUR 6.5 worth of deferred tax assets on the balance sheet of Panostaja Group.

5. Segment information

The nine investments in which Panostaja has majority holdings compose the company's operation segments. In addition to that there is the segment Others, in which associated companies and non-allocated items are reported, including the parent company. Panostaja Group's business segments are Grano, KL-Varaosat, Selog, Helakeskus, Heatmasters, Hygga, CoreHW, Carrot, Oscar Software and Others.

These reported segments have been formed because they produce products and services that differ from each other. The transactions between segments have taken place on normal commercial terms and conditions.

Reports on these business segments are prepared in a manner in line with the internal reporting submitted to the highest operational decisionmaker. Senior operational decision-making is represented by the Senior Management Team of the Panostaja Group.

The Group has determined Grano Group as a subgroup involving a significant minority shareholding, as specified in IFRS 12. The Grano Group subgroup's financial information is presented in this segment note under the Grano business segment. To specify, the financial information of the subgroup in question corresponds with the segment-specific information in question.

BUSINESS SEGMENTS

Net sales and recognition principles

Net sales consist of income from the sale of products and services at fair value, adjusted according to indirect taxes and discounts.

- Grano's earnings primarily come from the sale of printing services as well as digital marketing and content services. Earnings from product sales are recorded once the essential risks and benefits related to ownership of the goods as well as their right of possession and actual control have been transferred to the buyer and payment is likely. Earnings from services are recorded once the services have been rendered. The IFRS 15 impact analysis conducted during the financial period indicated that the standard will not cause changes in the reported figures as the main net sales types are not significantly impacted by the changes.
- Revenue in the KL-Varaosat segment comes from the import, wholesale and distribution of original spare parts and accessories for cars. Earnings from product sales are recorded once the essential risks and benefits related to ownership of the goods as well as their right of possession and actual control have been transferred to the buyer and payment is likely. The IFRS 15 impact analysis conducted during the financial period indicated that the standard will not cause changes in the reported figures as the main net sales types are not significantly impacted by the changes.
- The Selog segment's revenue comes from wholesale trade in ceiling materials, suspended ceiling products and their support systems. Earnings from product sales are recorded once the essential risks and benefits related to ownership of the goods as well as their right of possession and actual control have been transferred to the buyer and payment is likely. The IFRS 15 impact analysis conducted during the financial period indicated that the standard will not cause changes in the reported figures as the main net sales types are not significantly impacted by the changes.
- Revenue in the Helakeskus segment comes from the wholesale trade of furniture fittings. Earnings from product sales are recorded once the essential risks and benefits related to ownership of the goods as well as their right of possession and actual control have been transferred to the buyer and payment is likely. The IFRS 15 impact analysis conducted during the financial period indicated that the standard will not cause changes in the reported figures as the main net sales types are not significantly impacted by the changes.
- Revenue in the Hygga segment comes from the production of oral health care services and selling licenses to its own ERP system. Earnings from services are recorded once the services have been rendered. The IFRS 15 impact analysis conducted during the financial period indicated that the standard will not cause changes in the reported figures as the current main types of net sales are not significantly impacted by the changes. The impact analysis shows that, in the coming financial periods, the standard is likely to affect the timing of the commissioning and establishment projects connected to the sale of certain software services, which will be delayed once the standards take effect. However, the identified revenue streams from commissioning and establishment projects are not significant in terms of their quantity.
- Revenue in the Heatmasters segment comes from metal heat treatment services, and from the development, manufacture and marketing of machinery and equipment needed in metal heat treatment. Earnings from product sales are recorded once the essential risks and benefits related to ownership of the goods as well as their right of possession and actual control have been transferred to the buyer and payment is likely. Earnings from services are recorded once the services have been rendered. Long-term projects are recognized in part based on their degree of completion. The IFRS 15 impact analysis conducted during the financial period indicated that the standard will not cause changes in the reported figures as the main net sales types are not significantly impacted by the changes.
- Revenue in the CoreHW segment comes from the design service of microchips and antennas used in radio-technology. Earnings from services are recorded once the services have been rendered. Long-term projects are recognized in part based on their degree of completion. The IFRS 15 impact analysis conducted during the financial period indicated that the standard will not cause changes in the reported figures as the main net sales types are not significantly impacted by the changes.
- Revenue in the Carrot segment comes from the sale of staffing, recruitment and outsourcing services. Earnings from services are recorded once the services have been rendered. The IFRS 15 impact analysis conducted during the financial period indicated that the standard will not cause changes in the reported figures as the main net sales types are not significantly impacted by the changes.
- Revenue in the Oscar Software segment mainly comes from the sale of licenses and services related to the proprietary ERP system as well as financial management, HR and other online trade services. Earnings from services are recorded once the services have been rendered. Based on the IFRS 15 impact assessment conducted during the financial period, the company has changed its Software as a Service recognition principles, which means that the implementation of the standard will no longer affect changes in the reported figures. The impact analysis shows that, in the coming financial periods, the standard is likely to affect the timing of the recognition of single-charge licenses and the commissioning and establishment projects implemented in connection to their sale, which will be delayed once the standards take effect.
- The Others segment presents the figures of Panostaja's parent company. In addition to this, the row includes the figures of possible non-operative Group companies and other non-allocated items. The impact on profit/loss of associated companies not allocated to business segments are also presented on this row. In the reference year figures, the Others row also includes the assets, liabilities and employee numbers of sold business operations.
- The Eliminations row presents eliminations of internal items between segments as well as other group-level adjustments.

Business segments 2018

2018	Net sales total	Internal net sales	External net sales	Depreciations, amortizations and impairment	EBIT	Financial income and expenses	Share of associated company profits	Income tax	Profit/loss from continuing operations	Assets	Liabilities	Employees at the end of the period
Grano	136,582	85	136,497	–8,156	8,412					125,351	87,998	1,128
KL-Varaosat	14,424	0	14,424	–68	1,201					5,449	1,816	52
Selog	9,435	0	9,435	–41	811					4,038	2,261	13
Helakeskus	8,153	0	8,153	–3,018	–2,742					5,365	5,965	20
Hygga	5,395	0	5,395	–421	–177					4,327	7,434	77
Heatmasters	4,832	0	4,832	–172	232					2,411	1,389	39
CoreHW	3,653	0	3,653	–269	–640					6,291	4,782	48
Carrot	12,956	76	12,881	–197	–115					12,392	8,779	539
Oscar Software	4,423	34	4,389	–239	69					11,845	7,975	118
Others	0	0	0	–69	–1,753		350			38,198	3,111	9
Eliminations		–195	–7	0	0					–7,012	–7,012	
Group in total	199,853	0	199,652	–12,650	5,298	–2,957	350	–2,086	605	208,656	124,497	2,043

Business segments 2017

2017	Net sales total	Internal net sales	External net sales	Depreciations, amortizations and impairment	EBIT	Financial income and expenses	Share of associated company profits	Income tax	Profit/loss from continuing operations	Assets	Liabilities	Employees at the end of the period
Grano	105,345	99	105,246	–5,916	6,299		0			128,267	93,629	1,122
KL-Varaosat	13,540	0	13,540	–100	1,045					4,986	2,099	48
Selog	10,764	1	10,763	–200	805					3,905	1,371	14
Helakeskus	8,912	0	8,912	–73	546					9,323	6,828	23
Hygga	5,964	0	5,964	–640	–1,644					4,609	7,337	84
Heatmasters	5,300	0	5,300	–220	–202					2,731	1,948	43
CoreHW	994	0	994	–34	25					6,896	4,723	45
Carrot	0	0	0	0	0					0	0	0
Oscar Software	0	0	0	0	0					0	0	0
Others	0	0	0	–72	–3 964		278			70,111	48,442	431
Eliminations		–100	0	0	0					–6,675	–6,675	
Group in total	150,818	0	150,718	–7,255	2,909	–1,984	278	2,240	3,443	224,154	159,702	1,810

6. Acquired businesses

SUBSIDIARY ACQUISITIONS

On April 20, 2018, Panostaja Oyj announced that it had signed an agreement on the acquisition of the share capital of Carrot Palvelut Oy, a company providing staffing, recruitment and outsourcing services. After the trade, Panostaja will own 63% of the entity formed through the restructuring.

The value of the company's entire share capital (100%) is approx. MEUR 6.6. At the time of the closing of the books, the overall purchase price was estimated to be MEUR 6.6. Based on an acquisition cost calculation, the fair value of the net assets acquired is MEUR –1.3, resulting in a goodwill of MEUR 7.9. The fair values of MEUR 1.3 recorded for the consolidation are related to customer relationships. The remaining goodwill is formed by good profitability and prospects as well as skilled personnel. Carrot's balance sheet has been consolidated into Panostaja Group as of April 30, 2018 and the profit/loss as of May 1, 2018. The expenses connected to the acquisition, totaling MEUR 0.2, are included under other operating expenses in the consolidated income statement for the 2018 financial period.

On May 8, 2018, Panostaja Oyj signed an agreement for the purchase of Oscar Software Group Oy, a company providing ERP systems and financial management services to SMEs. The purchase price was MEUR 9.1. After the trade, Panostaja owns 55% of the entity formed through the restructuring.

The value of the company's entire share capital (100%) is approx. MEUR 9.1. At the time of the closing of the books, the overall purchase price was estimated to be MEUR 9.1. Based on the acquisition cost calculation, the fair value of the net assets acquired is MEUR 2.0, resulting in a goodwill of MEUR 7.1. The fair values of MEUR 2.1 recorded for the consolidation are related to technology and customer relationships. The remaining goodwill is formed by the extensive utilization of the service concept, growth prospects and skilled personnel. Oscar Software's figures have been consolidated into the Panostaja Group as of May 1, 2018. The expenses connected to the acquisition, totaling MEUR 0.3, are included under other operating expenses in the consolidated income statement for the 2018 financial period.

Acquisition cost calculation

	Note	MEUR
Consideration paid		6.6
Conditional consideration		0.0
Consideration in total		6.6
Acquired assets and liabilities		
Permanent assets	19	0.0
Customer relationships		1.3
Machinery and equipment		0.1
Stocks	24	0.0
Current receivables	25	3.4
Cash and cash at bank	26	0.6
Total assets		5.4
Non-current liabilities	23	0.9
Current liabilities	29	5.5
Deferred tax liabilities		0.3
Total liabilities		6.7
Net assets		–1.3
Goodwill		7.9

Cash flow statement

	MEUR
Purchase price paid as cash	–6.6
Liquid assets acquired	0.6
Direct costs of acquisition	–0.2
Cash flow effect	–6.2

Acquisition cost calculation

	Note	MEUR
Consideration paid		9.1
Conditional consideration		0.0
Consideration in total		9.1
Acquired assets and liabilities		
Permanent assets	19	0.6
Technology and customer relationships		2.1
Machinery and equipment		0.1
Stocks	24	0.0
Current receivables	25	1.5
Cash and cash at bank	26	0.9
Total assets		5.2
Non-current liabilities	23	0.3
Current liabilities	29	2.5
Deferred tax liabilities		0.4
Total liabilities		3.2
Net assets		2.0
Goodwill		7.1

Cash flow statement

	MEUR
Purchase price paid as cash	–9.1
Liquid assets acquired	0.9
Direct costs of acquisition	–0.3
Cash flow effect	–8.5

ACQUISITIONS IN THE 2017 FINANCIAL YEAR

On September 15, 2017, Panostaja Oyj announced that it had signed an agreement on acquiring the share capital of CoreHW Oy, which designs RF (radio frequency) microchips and antennas for wireless technologies. After the trade, Panostaja owns 63% of the entity formed through the restructuring. CoreHW forms a new segment for Panostaja. Panostaja's aim is to build CoreHW into a company with its own array of successful products and a global offering of high-quality design services.

The value of the company's entire share capital (100%) is approx. MEUR 5.2. At the time of the closing of the books, the overall purchase price was estimated to be MEUR 5.2. Based on an acquisition cost calculation, the fair value of the net assets acquired is MEUR 1.8, resulting in a goodwill of MEUR 3.4. The fair values of MEUR 0.7 recorded for the consolidation were related to customer relationships and technology. The remaining goodwill is formed by good profitability and prospects as well as skilled personnel. CoreHW has been incorporated into the Panostaja Group as of September 1, 2017. The expenses connected to the acquisition, totaling MEUR 0.2, are included under other operating expenses in the consolidated income statement for the 2017 financial period.

On August 18, 2017, Panostaja Oyj's subsidiary Grano Group Oy signed an agreement on the acquisition of the entire share capital of Lönnberg Painot Oy, a company providing printing services. By virtue of the Lönnberg Painot Oy acquisition, Grano will become the market leader in offset printing and will also be able to include the production of packaging in its offering.

The sale price of the shares is MEUR 12.8. Once the arrangement has been carried out, Panostaja Oyj's shareholding in Grano Group will stand at 52.8%.

Based on an acquisition cost calculation, the fair value of the net assets acquired is MEUR 3.0, resulting in a goodwill of MEUR 9.8. The fair values of MEUR 2.0 recorded for the consolidation were related to customer relationships. The remaining goodwill consists of the capability to serve customers with a wider range of products than before, Grano's strengthened market position and increased market share, capable staff and anticipated synergy benefits related to the acquired operations. The expenses connected to the acquisition, totaling MEUR 0.5, are included under other operating expenses in the consolidated income statement for the 2017 financial period.

Acquisition cost calculation

	Note	MEUR
Consideration paid		5.2
Conditional consideration		0.0
Consideration in total		5.2
Acquired assets and liabilities		
Permanent assets	19	0.0
Customer relationships	18	0.7
Machinery and equipment	19	0.1
Stocks	24	0.0
Current receivables	25	0.7
Cash and cash at bank	26	0.9
Total assets		2.4
Non-current liabilities	28	0.0
Current liabilities	29	0.5
Deferred tax liabilities	23	0.1
Total liabilities		0.6
Net assets		1.8
Goodwill		3.4

Cash flow statement

	MEUR
Purchase price paid as cash	–5.2
Liquid assets acquired	0.9
Direct costs of acquisition	–0.2
Cash flow effect	–4.5

Acquisition cost calculation

	Note	MEUR
Consideration paid		12.8
Conditional consideration		0.0
Consideration in total		12.8
Acquired assets and liabilities		
Permanent assets	19	3.0
Customer relationships	18	2.0
Machinery and equipment	19	0.9
Stocks	24	1.5
Current receivables	25	3.8
Cash and cash at bank	26	0.2
Total assets		11.4
Non-current liabilities	28	3.3
Current liabilities	29	4.5
Deferred tax liabilities	23	0.6
Total liabilities		8.4
Net assets		3.0
Goodwill		9.8

Cash flow statement

	MEUR
Purchase price paid as cash	–12.8
Liquid assets acquired	0.2
Direct costs of acquisition	–0.2
Cash flow effect	–12.8

The smaller acquisitions of Oy Fram AB, Neon2 Oy, Finepress Oy, Planeetta 10 Oy and Brand Factory Finland Oy during the financial period and the total goodwill formed by them are presented below.

The goodwill consists of the capability to serve customers with a wider range of products than before, Grano's strengthened market position and increased market share, capable staff and anticipated synergy benefits related to the acquired operations.

With its corporate acquisitions, Grano strengthened its market position particularly with regard to large prints and point-of-sale marketing. Grano also strengthened its market position locally, particularly in Western Finland.

Acquisition cost calculation

	Note	MEUR
Consideration paid		15.2
Conditional consideration		1.2
Consideration in total		16.4
Acquired assets and liabilities		
Permanent assets	19	2.0
Customer relationships	18	1.8
Machinery and equipment	19	0.7
Stocks	24	1.5
Current receivables	25	0.9
Cash and cash at bank	26	7.7
Total assets		14.7
Non-current liabilities	28	0.6
Current liabilities	29	2.0
Deferred tax liabilities	23	0.4
Total liabilities		3.0
Net assets		11.7
Minority interest		–0.6
Goodwill		5.3

Cash flow statement

	MEUR
Purchase price paid as cash	–15.2
Liquid assets acquired	7.7
Direct costs of acquisition	–0.3
Cash flow effect	–7.8

7. Divestments and discontinuations of subsidiaries and business operations

On December 19, 2017, Panostaja, together with the other owners of KotiSun Group Oy, signed an agreement to sell the company's share capital to the Buyout X fund managed by CapMan. The deal made Capman a majority shareholder in KotiSun Group, alongside Suomen Teollisuussijoitus Oy and Varma Mutual Pension Insurance Company. Panostaja Oyj owned 56.6% of the subsidiary. Once the competition authorities had given their approval, the trade was carried out on January 9, 2018. Panostaja Group's recorded sales profit for the trade was MEUR 33.0 before taxes.

In the consolidated financial statements, the result of the KotiSun segment is presented in the section 'Result from Discontinued Operations' in the financial periods that ended on October 31, 2018 and October 31, 2017. The result of sold businesses, profit resulting from its divestment and the share of cash flows were as follows:

Profit/loss of the KotiSun segment

MEUR	October 31, 2017– January 31, 2018	November 1, 2016– October 31, 2017
Earnings	7.8	42.4
Costs	–6.5	–36.1
Profit before taxes	1.3	6.3
Taxes	–0.3	–1.3
Profit after taxes	1.0	5.0
Gain on disposal	25.5	
Profit/loss from discontinued operations	26.5	5.0

KotiSun segment's cash flows until the moment of sale

MEUR		
Operating cash flow	–0.4	7.1
Investment cash flow	–0.4	–5.7
Funding cash flow	0.1	1.0
Total cash flows	–0.7	2.4

The effect of the sale of the KotiSun segment on the financial position of the Group:

MEUR	January 31, 2018
Property, plant and equipment	8.5
Intangible assets	12.9
Stocks	3.0
Deferred tax assetst	0.0
Other assets	6.8
Cash and cash equivalents	3.6
Sold liabilities	–21.2
Net assets	13.6
Consideration received as cash	40.9
Cash and cash equivalents from divested unit	–3.7
Net cash flow from corporate divestments	37.2

DIVESTMENTS AND DISCONTINUATIONS OF BUSINESS OPERATIONS IN THE 2017 FINANCIAL PERIOD

Panostaja did not sell business operations in the reference period.

Panostaja's subsidiaries Takoma Oyj and Takoma Gears Oy filed bankruptcy petitions. On March 21, 2017, Pirkanmaa district court declared the companies bankrupt.

Takoma's market situation had significantly weakened from the time of the confirmation of their reorganization program, so the assumptions on profitability and financing that the reorganization program was based on were not realized. As a result of the heavy decline on demand in the offshore and marine industry, Takoma's business had been highly unprofitable, which weakened the solvency and liquidity of the Group. During the review period, Takoma's cash position became critical, and the companies had to file a petition for bankruptcy. The operations of the Takoma subgroup have been classified as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, and the incorporation of the Takoma subgroup into the consolidated financial statements was stopped on March 21, 2017. The reference information for 2016 has been corrected with regard to the extensive income statement, including the extensive income statement items, cash flow statement and some key figures.

The profit/loss of the Takoma subgroup's discontinued operations, including the removal of the consolidated goodwill from the consolidated balance sheet, was MEUR –1.6 in total. The profit/loss of divested and discontinued business operations for the reference period MEUR 2.4 includes the MEUR –1.3 loss of the Takoma segment and the additional purchase price of MEUR 3.7 related to the divestment of Flexim Security Oy.

MEUR	2017	2016
Profit/loss from sold and discontinued operations	–1.6	2.4

TAKOMA SUBGROUP, DISCONTINUED OPERATION

Result of the Takoma segment

MEUR	November 1, 2016–March 21, 2017	November 1,2015–October 31,2016
Earnings	2.1	10.2
Costs	–2.8	–11.5
Profit before taxes	–0.7	–1.3
Taxes	0.0	0.0
Profit after taxes	–0.7	–1.3
Removal of Takoma's net assets from the balance sheet	–0.9	
Profit/loss from discontinued operations	–1.6	–1.3

Cash flows of the Takoma segment until bankruptcy

MEUR		
Operating cash flow	–0.4	1.1
Investment cash flow	0.0	–0.1
Funding cash flow	0.0	–0.4
Total cash flows	–0.4	0.6

Impact of the discontinuation of the Takoma segment on the Group's financial standing:

MEUR	March 21, 2017
Property, plant and equipment	1.6
Intangible assets	2.2
Stocks	1.6
Deferred tax assets	0.0
Other assets	0.7
Cash and cash equivalents	0.5
Sold liabilities	–8.5
Net assets	–1.9
Consideration received as cash	0.0
Cash and cash equivalents from divested unit	–0.5
Net cash flow of discontinuing the business	–0.5

8. Disposals and acquisitions of subsidiary holdings without change in controlling interest

FINANCIAL PERIOD 2018

Panostaja Oyj redeemed the shares of minority shareholders, increasing Panostaja's shareholding in Flexim Group Oy to 100%.

Selog Group Oy redeemed the entire minority share and recorded them as its own shares. After the arrangement, Panostaja owns 100% of the Selog Group.

Before the sale of the companies, KotiSun Group redeemed the minority shares of its subsidiary Kotivo Oy.

The following table shows the total effect of the change in shareholding on Group earnings

EUR 1,000	2018
Divested or acquired minority shareholders' interest	782
Consideration received or paid	–1,123
Effect of the change in ownership on retained earnings	–341

FINANCIAL PERIOD 2017

Grano Group conducted a rights issue to the key persons of the companies bought in conjunction with the corporate acquisition. Panostaja Oyj purchased the Grano Group Oy shares owned by two minority shareholders. After the arrangements, Panostaja's holding in Grano Group stood at 52.8%.

Panostaja Oyj redeemed the minority shares of Megaklinikka Group, increasing its holding in the group to 79.8%.

Suomen Helasto Oy redeemed the entire minority share and recorded them as its own shares. After the arrangement, Panostaja owns 100% of the Helasto Group.

The following table shows the total effect of the change in shareholding on Group earnings:

EUR 1,000	2017
Divested or acquired minority shareholders' interest	–232
Consideration received or paid	–921
Effect of the change in ownership on retained earnings	–1,153

9. Other operating income

EUR 1,000	2018	Adjusted*) 2017
Sales profits from corporate acquisitions	0	67
Sales profits on tangible assets	954	83
Received allowances	42	59
Other income	1,866	776
Total	2,862	985

*) The comparative data presented in the financial statements regarding the income statement and cash flow for 2017 has been adjusted due to the KotiSun subgroup being presented as a sold operation.

10. Share of associated company profits

Details of the company's associated companies are given in note 20. Investments in associated companies.

11. Employee benefit expenses

The Group has payment-based pension schemes, the payments of which are recorded in the income statement in the relevant period.

Details of the employee benefits, including share-based payments, of management considered related parties are given in note 35. Related party disclosures.

During the financial year, the Group employed an average of 1,927 (1,622) people. At the end of the financial period, it employed 2,043 (1,810) persons. The figures for the reference year include the personnel employed by the KotiSun Group (422).

EUR 1,000	2018	Adjusted*) 2017
Salaries and fees	66,190	43,795
Pension costs - payment-based arrangements	12,229	8,113
Other social security expenses	2,519	2,519
Total	80,938	54,040

*) The comparative data presented in the financial statements regarding the income statement and cash flow for 2017 has been adjusted due to the KotiSun subgroup being presented as a sold operation.

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12. Depreciations, amortizations and impairment

EUR 1,000	2018	Adjusted*) 2017
Depreciation by asset group:		
Property, plant and equipment		
Buildings and structures	0	0
Machinery and equipment	4,660	2,869
Other tangible assets	0	0
Intangible assets		
Goodwill	0	0
Development expenses	270	198
Intangible rights	2,823	2,760
Other capitalized long-term expenditure	1,768	1,428
Total	9,521	7,255
Impairments by asset group:		
Property, plant and equipment		
Buildings and structures		
Machinery and equipment	129	0
Other tangible assets		
Intangible assets		
Goodwill	3,000	0
Development expenses	0	0
Intangible rights		
Other capitalized long-term expenditure		
Total	3,129	0
Total depreciations, amortizations and impairment by asset group:		
Property, plant and equipment		
Machinery and equipment	4,789	2,869
Other tangible assets	0	0
Intangible assets		
Goodwill	3,000	0
Development expenses	270	198
Intangible rights	2,823	2,760
Other capitalized long-term expenditure	1,768	1,428
Total	12,650	7,255

*) The comparative data presented in the financial statements regarding the income statement and cash flow for 2017 has been adjusted due to the KotiSun subgroup being presented as a sold operation.

13. Other operating expenses

EUR 1,000	2018	Adjusted*) 2017
Sales losses and scrappings connected with tangible assets	236	49
Rental costs	8,783	7,776
External services	11,580	10,002
Other expense items	11,438	10,061
Total	32,037	27,888
Auditing fees	205	112
Other fees	358	339
Fees paid to auditors total, continuing operations	563	451

*) The comparative data presented in the financial statements regarding the income statement and cash flow for 2017 has been adjusted due to the KotiSun subgroup being presented as a sold operation.

14. Financial income

EUR 1,000	2018	Adjusted*) 2017
Dividend income from held-for-sale investments	8	4
Foreign exchange gains	3	2
Financial income from associated companies	38	38
Interest earned	226	285
Changes in fair value from financial assets recorded at fair value through profit and loss		
- interest derivatives, not in hedge accounting	0	0
- from financial assets that are managed based on fair value	0	0
Total	274	329

*) The comparative data presented in the financial statements regarding the income statement and cash flow for 2017 has been adjusted due to the KotiSun subgroup being presented as a sold operation.

15. Financial expenses

EUR 1,000	2018	Adjusted*) 2017
Foreign exchange losses	5	2
Impairment losses from loan receivables	285	193
Interest expenses for finance lease liabilities	548	128
Interest expenses for other financial liabilities	2,393	1,991
Total	3,231	2,313

The comparative data presented in the financial statements regarding the income statement and cash flow for 2017 has been adjusted due to the KotiSun subgroup being presented as a sold operation.

16. Income taxes

EUR 1,000	2018	2017
Direct tax	–1,764	–2,547
Taxes in previous periods	106	6
Deferred taxes	–428	3,510
Income taxes total	–2,086	969

Balancing statement between the tax expense in the income statement and the taxes calculated using the Finnish tax rate of 20.0%:

Profit before taxes	2,691	7,530
Income tax on Group income at the tax rate in Finland before taxes	–538	–1,506
Non-taxable income	754	1,334
Non-deductible expenses	–1,332	–808
Goodwill impairments	–600	
Unrecognized deferred tax assets from tax losses	–219	–374
Tax impact of previously non-deductible expenses		2,270
Use of tax losses not recorded previously	–51	
Change in deferred taxes Change in the Finnish tax rate	0	0
Share of associated company profits	70	56
Temporary differences during the period	–170	
Taxes for previous periods		–3
Taxes in the income statement	–2,086	969

The figures for discontinued operations are not distinguishable in the information for the reference year.

17. Earnings per share

Undiluted earnings per share (EPS) are calculated by dividing the profit for the period attributable to the parent company shareholders by the weighted average of the number of shares outstanding during the period. The fair value of a share is based on the average price of a share for the financial year. The profit/loss used when calculating earnings per share has been adjusted with the interest amount of the equity convertible hybrid loan.

EUR 1,000	2018	2017
Continuing operations	–2,442	–1,274
Discontinued operations	26,511	3,411
Profit for the financial period attributable to parent company shareholders	24,069	2,137
Interest on equity convertible loan (taking into account the impact of tax)	0	–337
Profit used when calculating profit per share	24,069	1,800
Interest on the subordinated loan		
Profit for the financial year for calculation of EPS		
Profit used when calculating profit per share adjusted with the diluting effect	24,069	1,800
Number of shares at the end of the financial period	52,533	52,533
of which held by company	391	471
Weighted average number of shares outstanding, 1,000	52,125	52,082
Share-based payments, 1,000	168	36
Weighted average number of shares outstanding, diluted	52,293	52,118

EUR	2018	2017
Earnings per share calculated from the profit belonging to the shareholders of the parent company:		
Earnings per share from continuing operations		
Undiluted	–0.047	–0.031
Diluted	–0.047	–0.031
Earnings per share from discontinued operations		
Undiluted	0.509	0.066
Diluted	0.507	0.066
Earnings per share on continuing and discontinued operations		
Undiluted	0.462	0.035
Diluted	0.460	0.035

18. Intangible assets

EUR 1,000	Goodwill	Intangible rights	Development expenses	Other intangible assets	Total
Acquisition cost as of November 1, 2017	100,881	21,854	1,705	8,577	133,016
Additions	34	157	777	968	1,936
Deduction	–10			–118	–128
Effect of company acquisition	15,077	3,492	353	133	19,055
Effect of the company sale or discontinuation	–11,977	–1,133		–45	–13,155
Asset deal					0
Transfer merger		–127		–2	–129
Transfer between balance sheet groups		–2	2,050	1,045	3,093
Exchange rate differences					0
Acquisition cost as of October 31, 2018	104,005	24,241	4,885	10,558	143,688
Accumulated depreciations, amortizations and impairment as of November 1, 2017	–6,167	–13,570	–1,417	–3,663	–24,817
Depreciations, amortizations and impairment for the period	–3,000				–3,000
Depreciation in the financial period		–2,823	–270	–1,768	–4,861
Deductions					0
Effect of company acquisition					0
Effect of the company sale or discontinuation		376		25	401
Asset deal					0
Transfer merger				–5	–5
Transfers between balance sheet groups				1	1
Impairment					
Accumulated depreciations, amortizations and impairment as of October 31, 2018	–9,167	–16,017	–1,687	–5,410	–32,281
Book value as of October 31, 2018	94,838	8,223	3,198	5,148	111,407
Acquisition cost as of November 1, 2016	84,509	16,639	1,627	7,095	109,870
Additions		704	78	1,176	1,958
Deduction	–4			–11	–15
Effect of company acquisition	18,600	4,565		646	23,811
Effect of the company sale or discontinuation	–2,224	–169			–2,393
Asset deal				–327	–327
Transfer merger		115			115
Transfer between balance sheet groups					0
Exchange rate differences				–2	–2
Acquisition cost as of October 31, 2017	100,881	21,854	1,705	8,577	133,016
Accumulated depreciations, amortizations and impairment as of November 1, 2016	–6,103	–10,823	–1,219	–3,645	–21,790
Depreciation in the financial period		–2,760	–198	–1,428	–4,386
Deductions					
Effect of company acquisition					
Effect of the company sale or discontinuation	–64	129			65
Asset deal				34	34
Transfer merger				467	467
Transfers between balance sheet groups		–116		909	793
Impairment					0
Accumulated depreciations, amortizations and impairment as of October 31, 2017	–6,167	–13,570	–1,417	–3,663	–24,817
Book value as of October 31, 2017	94,714	8,284	288	4,914	108,199

GOODWILL IMPAIRMENT TEST

Goodwill has been allocated to the following cash flow-producing units (or groups within units):

MEUR	2018	2017
Grano	67.0	67.0
Carrot	7.9	
Oscar	7.1	
CoreHW	3.4	3.4
Helakeskus	3.0	6.0
Megaklinikka	2.6	2.6
KL-Varaosat	1.9	1.9
Selog	1.6	1.6
Heatmasters	0.3	0.3
KotiSun		12.0
Total	94.8	94.7

Impairment testing of goodwill in the financial period was undertaken for the situation on September 30. The recoverable amount through business operations has been determined in an impairment test with the help of service value. The determined anticipated cash flows are based on the vision of the Group's management on the development of the next three years. The subsequent years after the forecast period have been extrapolated using a 2% growth estimate.

The key variables used in calculating service value are budgeted net sales and budgeted operating profit. In terms of operating profit, the cost savings and other benefits produced by restructuring activities which have already been implemented, or to which a commitment has been made, were also taken into account. Future outgoing cash flows taking place after the time of observation are not linked to these reorganization efforts to any significant extent.

In calculating service value, Grano's net sales are expected to grow organically. Grano's EBIT is expected to improve during the forecast period as a result of operational streamlining measures. The net sales and EBIT of KL-Varaosat, Selog ja Helakeskus are expected to grow moderately during the forecast period. Hygga's net sales and EBIT are expected to grow as a result of a moderate increase in the visitor numbers of the company's own clinic and streamlining measures as well as the continued growth of the licensing business. Heatmasters' net sales and EBIT are expected to grow as a result of a moderate growth in volume and the streamlining of the operations in Finland. CoreHW's net sales are expected to grow, and its relative profitability is expected to increase significantly compared to 2018. Carrot's net sales are expected to grow fairly substantially, and profitability is expected to improve significantly compared to 2018. Oscar Software's net sales are expected to grow, and its profitability is expected to remain at a good level.

The discount rates before tax used in the calculations are (discount rate % used in the reference year):

Grano 7.6% (7.5%), Carrot 9.7% (-), Oscar Software 11.0% (-), Hygga 10.3% (10.2%), Helakeskus 7.8% (7.7%), KL-Varaosat 8.7% (8.6%), Selog 9.1% (9.0%), Heatmasters 10.4% (10.4%) and CoreHW 8.3% (8.3%).

The service value that is in accordance with the test of the company's units that have been analyzed through continuous testing has been greater than their book value in all units other than Helakeskus.

Despite the overall positive development of the building sector, the development of the Helakeskus business segment's net sales and EBIT has been weaker than anticipated during the financial period. As part of impairment testing of goodwill, Panostaja has reviewed the prospects of the Helakeskus business segment and other presumptions related to the business environment. With reference to the Helakeskus segment's impairment tests, the Helakeskus segment's consolidated goodwill have been written down by MEUR 3.0. The Helakeskus segment's remaining amount of goodwill is MEUR 3.0.

Moderate changes to the key parameters used in the test calculations of segments other than Helakeskus do not result in the asset items' book value exceeding the recoverable amount accruable from them. Due to the current low interest level, however, it is clear that the sensitivity of the impairment tests will increase as the interest rates climb.

19. Property, plant and equipment

EUR 1,000	Land areas	Buildings and premises	Machinery and equipment	Other tangible assets	Advance payments fixed assets	Total
Acquisition cost as of November 1, 2017	1,170	147	46,534	280	2,182	50,313
Additions			9,034		3,027	12,061
Effect of company acquisition			259			259
Effect of the company sale or discontinuation			−12,584			−12,584
Deductions	−976	−147	−440	−1	−33	−1,597
Transfer merger			−192		2	−190
Transfers between balance sheet groups			349	3	−3,419	−3,067
Exchange rate differences			−48			−48
Other changes			103			103
Acquisition cost as of October 31, 2018	194	0	43,015	282	1,759	45,250
Accumulated depreciations, amortizations and impairment as of November 1, 2017	−179	0	−25,743	−209	−947	−27,078
Depreciation in the financial period		0	−4,660			−4,660
Effect of company acquisition			−5			−5
Effect of the company sale or discontinuation			4,350			4,350
Deductions		0	−531	1		−530
Transfer merger			186			186
Transfers between balance sheet groups						0
Exchange rate differences			12			12
Other changes						0
Accumulated depreciations, amortizations and impairment as of October 31, 2018	−179	0	−26,391	−208	−947	−27,725
Book value as of October 31, 2018	15	0	16,624	74	812	17,525
Acquisition cost as of November 1, 2016	194	417	36,332	294	119	37,356
Additions			11,818		1,969	13,787
Effect of company acquisition	976	147	3,723	14	218	5,078
Effect of the company sale or discontinuation		−417	−6,158	−28	−10	−6,613
Deductions			−672		−114	−786
Transfer merger			1,400			1,400
Transfers between balance sheet groups			61			61
Exchange rate differences			30			30
Other changes						
Acquisition cost as of October 31, 2017	1,170	147	46,534	280	2,182	50,313
Accumulated depreciations, amortizations and impairment as of November 1, 2016	−179	0	−23,598	−270	0	−24,047
Depreciation in the financial period			−5,583			−5,583
Effect of the company sale or discontinuation			3,526	28		3,554
Deductions			−9			−9
Transfer merger			−20			−20
Transfers between balance sheet groups				33	−947	−914
Exchange rate differences			−33			−33
Other changes			−26			−26
Accumulated depreciations, amortizations and impairment as of October 31, 2017	−179	0	−25,743	−209	−947	−27,078
Book value as of October 31, 2017	991	147	20,791	71	1,235	23,234

20. Investments in associated companies

EUR 1,000	2018	2017
Book value as of November 1	4,037	3,759
Share of the profit of the financial period	350	278
Additions	1	0
Deductions	–3,248	0
Book value as of October 31	1,140	4,037

Spectra Oy is an associated company in which Panostaja Group has a 39.0% holding. The profit/loss is based on the profit/loss for the financial period.

Ecosir Group Oy is an associated company, of which the Panostaja Group owns 38.6%. Profit/loss is based on the profit/loss for the financial period, and profits for the associated company are adjusted by amortization of goodwill under IFRS regulations.

The co-owners of PE Kiinteistörahasto I Ky decided in the financial period 2012 to dissolve the fund. The dissolution of the fund is still in progress.

Juuri Partners Oy is the management company of Juuri Rahasto I Ky. Juuri Rahasto I Ky is a capital fund that finances Finnish SMEs. The strategy of the fund is to finance and support companies with regard to growth, investments and exceptional situations, such as generational transitions. Panostaja divested its shareholding during the 2018 financial period. Panostaja's holding in Juuri Partners Oy was 20%.

Associated company October 31, 2018

31.10.2018	Registered office	Shareholding	Assets	Equity	Liabilities	Net sales	Profit/loss
Spectra Oy	Lohja	39.0%	1,523	320	1,203	6,401	256
Ecosir Group Oy	Espoo	38.6%	1,270	676	594	4,052	515
PE Kiinteistörahasto I Ky	Helsinki	27.1%	-	-	-	-	

21. Other non-current assets

EUR 1,000	2018	2017
Loan receivable	4,644	2,171
Held-for-sale investments	226	534
Other receivables	3,655	4,068
Total	8,525	6,772

Under other receivables, Panostaja Oyj has a receivable of MEUR 1.2 from the Group's Senior Management Team in relation to the reward scheme. There are more details concerning the reward scheme in note 35. Related party disclosures.

Held-for-sale financial assets		
Investments in unquoted shares:		
At the start of the financial period, November 1	534	713
Additions caused by the merging of businesses	0	0
Additions	0	40
Deductions	–308	–219
At the end of the financial period, October 31	226	534

22. Financial assets recorded at fair value through profit and loss

EUR 1,000	2018	2017
At the start of the financial period, November 1		
Changes in fair value	0	0
realized		
unrealized		
Additions	11,000	
Deductions		
At the end of the financial period, October 31	11,000	0

The financial assets recorded at fair value through profit and loss include an investment in the Fennian Varainhoito Oy Cash Asset Management Portfolio. The portfolio mainly consists of short-term interest bond funds and investments in company loan funds. The fund is low-risk and the investment can be withdrawn at any time. At the end of the financial year, the fund held MEUR 11.0 in investments.

23. Deferred tax assets and liabilities

Deferred tax assets

EUR 1,000	Losses confirmed or to be confirmed in taxation	Impairment losses	Other items	Total
November 1, 2016	1,218		5,756	6,974
Recorded in the income statement	4,198		156	4,354
Items of the extensive income statement				
Acquired business operations				
Discontinued operations				
Adjustment from changes in the tax rate				
Losses confirmed or to be confirmed in taxation				
Exchange rate differences				
Recognized directly in equity				
October 31, 2017	5,416	0	5,912	11,328
Recorded in the income statement	219		–128	90
Items of the extensive income statement				
Acquired business operations				
Discontinued operations	–4,965			–4,965
Adjustment from changes in the tax rate				
Losses confirmed or to be confirmed in taxation				
Exchange rate differences				
Recognized directly in equity				
October 31, 2018	670	0	5,784	6,454

Deferred tax liabilities:

EUR 1,000	Fair value allocations	Varying tax depreciations	Discontinued operations	Other items	Total
November 1, 2016	2,611		0	0	2,611
Recorded in the income statement	–298	1,131			833
Items of the extensive income statement					
Acquired business operations	1,051	105			1,156
Discontinued operations			21		21
Adjustment from changes in the tax rate					
Losses confirmed or to be confirmed in taxation					
Exchange rate differences					
Recognized directly in equity					
October 31, 2017	3,364	1,236	21	0	4,621
Recorded in the income statement	–489	1,052	–21		542
Items of the extensive income statement					-
Acquired business operations	635				635
Discontinued operations		–143			–143
Adjustment from changes in the tax rate					
Losses confirmed or to be confirmed in taxation					
Transfer between items	–1,176	1,176			0
Exchange rate differences					
Recognized directly in equity					
October 31, 2018	2,334	3,321	0		5,655

A tax receivable in the amount of MEUR 0.7 has been recognized for the confirmed losses of the subsidiaries. Deferred tax receivables have not been recognized for the MEUR 4.7 in total confirmed losses of subsidiaries. In the management's estimation, the deferred tax receivables from the subsidiaries' confirmed losses can be utilized based on estimated taxable income derived from the subsidiaries' approved business plans and budgets. The unused tax losses will expire between 2019 and 2027.

24. Stocks

EUR 1,000	2018	2017
Materials and supplies	3,339	3,493
Unfinished products	937	781
Finished products and goods	5,164	8,424
Other stocks	34	0
Total	9,474	12,698

In the Group, a total of EUR 89,000 has been recorded as costs for the financial year 2018 (EUR 130,000 in 2017), by which the book value of the stocks was reduced to correspond to its net realization value.

25. Trade and other receivables

The book value of trade receivables and other receivables corresponds to the maximum amount for the credit risk associated with them on the balance sheet date.

EUR 1,000	2018	2017
Trade receivables	29,667	28,374
Loans receivable	422	488
Accrued income	3,824	6,473
Receivables from associated companies	0	782
Tax assets based on taxable income for the period	547	1,160
Other receivables	322	1,140
Total	34,783	38,418

AGING OF TRADE RECEIVABLES

EUR 1,000	2018	2017
Not past due	26,308	24,879
Past due 1–30 days	2,137	2,758
Past due 31–180 days	899	298
Past due 181–360 days	242	87
Past due over a year	81	352
Balance sheet value of trade receivables	29,667	28,374

The Group recorded impairment losses of EUR 139,000 from trade receivables in the financial period (EUR 209,000 in 2017). The amortizations have affected invoices over a year past due as well as receivables from companies with a bankruptcy or corporate restructuring decision.

MATERIAL ITEMS CONTAINED IN ACCRUED INCOME

EUR 1,000	2018	2017
Salaries and social charges	143	91
Annual rebates	600	1,486
Advances	877	1,635
Others	2,203	3,261
Total	3,823	6,473

The balance sheet value of receivables is essentially the equivalent of their fair value.

26. Cash and cash equivalents

EUR 1,000	2018	2017
Cash in hand and bank accounts	19,348	19,466
Total	19,348	19,466

27. Notes on equity

At the end of the financial period, Panostaja Oyj's share capital was EUR 5,568,681.60 and the total number of shares was 52,533,110.

SHARE PREMIUM ACCOUNT

The maximum amount paid by the shareholders in connection with share issues that exceeds the nominal value of the shares is recorded in the share premium account. The amounts recorded in the share premium account relate to the share issues under the former Finnish Limited Liability Companies Act (734/1978), which was in force on August 31, 2006.

In cases where option rights were decided when the old Companies Act was in force, the cash payments received from share subscriptions based on the options are recognized in accordance with the terms and conditions of the arrangement for share capital and the share premium account.

OTHER FUNDS

In May 2017, the Group paid off in full a MEUR 7.5 equity convertible subordinated loan (hybrid loan) issued in 2013.

INVESTED UNRESTRICTED EQUITY FUND

The invested unrestricted equity fund consists of investments of the nature of equity and the amount paid by shareholders in connection with share issues decided upon following the entry-into-force on September 1, 2006 of the new Limited Liability Companies Act (624/2006), where it is not recognized in the share capital in accordance with an express decision. The invested unrestricted equity fund also contains a convertible bond loan equity component.

SHARE ISSUE

Share issues were not carried out in the 2018 financial period nor in the 2017 reference period.

SHARE SUBSCRIPTION

Share subscriptions were not carried out in the 2018 financial period or the 2017 reference period.

OWN SHARES

The purchase price of bought shares and their transaction costs are given as a deduction under invested unrestricted capital.

At the end of the 2018 financial period, there were 390,756 of the company's own shares (470,512).

In accordance with the decisions by the General Meeting on January 31, 2017 and by the Board, Panostaja Oyj relinquished a total of 36,261 individual shares as share bonuses to the company management on December 15, 2017. On December 15, 2017, the company relinquished to the Board members a total of 13,333 shares as meeting compensation. In accordance with the Board decision of February 1, 2018, Panostaja relinquished a total of 10,638 shares on March 2, 2018, a total of 10,000 shares on June 1, 2018 and a total of 9,524 shares on September 7, 2018, as meeting compensation.

DIVIDENDS

The dividend paid for the 2017 financial period stood at MEUR 2.1 in total (EUR 0.04 per share). MEUR 1.8 in dividends was paid to minority shareholders in subsidiaries.

The dividend paid for the 2016 financial period stood at MEUR 2.1 in total (EUR 0.04 per share). MEUR 4.2 in dividends was paid to minority shareholders in subsidiaries.

28. Financial liabilities

EUR 1,000	2018	2017
Non-current financial liabilities valued at acquisition cost		
Loans from financial institutions	55,411	89,126
Finance lease liabilities	7,842	3,176
Other loans	607	1,760
Total	63,860	94,062
Current financial liabilities valued at acquisition cost		
Installments on non-current financial loans	11,927	13,343
Other loans from financial institutions	4,477	4,156
Finance lease liabilities	2,387	1,620
Total	18,790	19,119

The fair value of liabilities is presented in Note 32. The fair values of financial assets and liabilities.

The weighted average of interest rates on October 31, 2018 was 2.1% (October 31, 2017: 2.2%). At the time of closing the books, the Group's financial liabilities stood at EUR 67,388,000. Of this, EUR 64,438,000 were variable-interest loans and EUR 2,900,000 were fixed-interest loans. Interest-bearing non-current and current liabilities are in euros.

ARRANGEMENTS CONCERNING LIABILITIES AND BREACHES OF CONTRACT

Hygga Group's MEUR 1.1 loans involve a covenant term on equity ratio and key figure on interest-bearing net liabilities / operating margin. At the time of closing the books, the company did not meet the required covenant term. However, the financier has, before the end of the financial period, consented to not maturing the liabilities in question due to a breach of covenant.

CoreHW Group's MEUR 2.4 loans involve a covenant term on equity ratio and key figure on interest-bearing net liabilities / operating margin. At the time of closing the books, the company did not meet the required covenant term. However, the financier has, before the end of the financial period, consented to not maturing the liabilities in question due to a breach of covenant.

Helasto Group's MEUR 2.5 loans involve a covenant term on equity ratio and key figure on interest-bearing net liabilities / operating margin. At the time of closing the books, the company did not meet the required covenant term. However, the financier has, before the end of the financial period, consented to not maturing the liabilities in question due to a breach of covenant. This loan also involves a covenant term that examines the Group's key figures 'interest-bearing net liabilities / operating margin' and 'equity ratio'. The covenant term on interest-bearing net liabilities / operating margin was not realized at the time of closing the books. However, the financier has, before the end of the financial period, consented to not maturing the liabilities in question due to a breach of covenant.

Carrot Group Oy's MEUR 3.6 loans involve a covenant term on equity ratio and key figure on interest-bearing net liabilities / operating margin. At the time of closing the books, the company did not meet the required covenant term. However, the financier has, before the end of the financial period, consented to not maturing the liabilities in question due to a breach of covenant.

Maturity analysis of non-current liabilities

Amortizations	LOANS FROM FINANCIAL INSTITUTIONS		FINANCE LEASE LIABILITIES		OTHER LOANS	
EUR 1,000	2018	2017	2018	2017	2018	2017
< 1 year	12,293	13,555	2,387	1,620	4,477	24
1–2 years	45,988	37,848	1,827	783	0	0
2–3 years	3,041	46,969	1,827	755	446	0
3–4 years	3,984	3,769	1,826	755	0	0
4–5 years	1,411	1,994	1,826	756	0	0
> 5 years	1,944	187	535	127	24	4,156

29. Trade payables and other liabilities

EUR 1,000	2018	2017
Advances received	404	300
Trade payables	11,988	15,702
Accruals and deferred income	13,384	17,096
Other current liabilities	10,445	8,830
Total	36,221	41,928
Material items contained in accruals and deferred income		
Annual holiday pay and social costs	8,831	8,413
Accrued wages and salaries	1,495	1,827
Accrued interest	286	55
Accrued taxes	14	323
Accrued employee pension	1,637	1,897
Other items	1,121	4,581
Total	13,384	17,096

30. Provisions

The Group did not have loss-making contracts or guarantee provisions in the financial period or reference period.

GUARANTEE PROVISIONS

The Group provides a guarantee of between one and three years for certain of its products. Faults in products noticed during the guarantee period are repaired at the cost of the Group or a similar new product is given to the customer. A provision for a guarantee given is recognized on the basis of an estimate of probable guarantee expenses. Guarantee provisions are expected to be used over the next three years, especially, however, during the first 12 months. The Group did not have recorded guarantee provisions in the financial period or reference period.

31. Maturity analysis of finance lease liabilities

EUR 1,000	2018	2017
Gross amount of finance lease liabilities – minimum rents by maturity date:		
In one year	2,741	1,775
Between one and five years	7,943	3,215
In over five years	632	128
Total	11,316	5,118
Future financial costs of finance lease liabilities	–1,088	–322
Current value of finance lease liabilities	10,228	4,796
The current value of finance lease liabilities will mature as follows		
In one year	2,386	1,620
Between one and five years	7,307	3,049
In over five years	535	127
Total	10,228	4,796

Property, plant and equipment includes machinery and equipment purchased on the basis of finance leases.

32. Fair values for financial assets and liabilities

The fair values of trade receivables, other current receivables, trade payables and other current liabilities correspond to their book value, because the effect of discounting is not essential, taking into account the maturity of the receivables. Their fair value is therefore not specified in the Notes.

The fair values of other receivables and liabilities valued at allocated acquisition cost are set by discounting their future cash flows on the balance sheet day using market interest rates, at which the company would get a similar loan on the date of the closing of the books or, with regard to receivables, market interest rates at which the company could grant a loan to a counterparty on the date of the closing of the books.

The process of determining the fair value of items valued at fair value on the balance sheet is explained in Note 33.

2018 Balance sheet item

EUR 1,000	Note	Financial assets and liabilities recognized at fair value through profit and loss	Loans and other receivables	Held-for-sale financial assets	Financial liabilities measured at amortized cost	Book values of balance sheet items	Fair value
Non-current financial assets							
Other non-current assets	21		8,525			8,525	8,525
Held-for-sale investments				226		226	226
Current financial assets							
Trade and other receivables	25		30,411			30,411	30,411
Short-term investments	22	11,000				11,000	11,000
Financial assets total		11,000	38,937	226	0	50,163	50,163
Non-current financial liabilities							
Loans from financial institutions	28				63,253	63,253	63,538
Convertible subordinated loan	28					0	0
Other non-current liabilities	28				607	607	607
Current liabilities							
Convertible subordinated loan	28				0	0	0
Interest-bearing liabilities	28				18,790	18,790	18,790
Trade payables	29				11,988	11,988	11,988
Other liabilities	29	18			7,073	7,091	7,091
Financial liabilities total		18	0	0	101,712	101,730	102,015

2017 Balance sheet item

EUR 1,000	Note	Financial assets and liabilities recognized at fair value through profit and loss	Loans and other receivables	Held-for-sale financial assets	Financial liabilities measured at amortized cost	Book values of balance sheet items	Fair value
Non-current financial assets							
Other non-current assets	21		6,772			6,772	6,772
Held-for-sale investments				534		534	534
Current financial assets							
Trade and other receivables	25		30,784			30,784	30,784
Short-term investments	22					0	0
Financial assets total		0	37,557	534	0	38,091	38,091
Non-current financial liabilities							
Loans from financial institutions	28				92,302	92,302	92,456
Convertible subordinated loan	28					0	0
Other non-current liabilities	28				1,760	1,760	1,760
Current liabilities							
Convertible subordinated loan	28				0	0	0
Interest-bearing liabilities	28				19,119	19,119	19,119
Trade payables	29				15,702	15,702	15,702
Other liabilities	29	23			8,806	8,829	8,829
Financial liabilities total		23	0	0	137,689	137,712	137,866

33. The fair value hierarchy for financial assets and liabilities valued at fair value

EUR 1,000	FAIR VALUES AT THE END OF THE PERIOD UNDER REVIEW OCTOBER 31, 2018 Level 1	Level 2	Level 3
Financial assets recorded at fair value through profit and loss			
Interest rate swaps			
Held-for-sale financial assets			
Short-term investments	11,000		
Investments in unquoted shares			226
Total	11,000		226
Financial liabilities recorded at fair value through profit and loss			
Interest rate swaps		18	
Total	0	18	0

EUR 1,000	October 31, 2017		
Financial assets recorded at fair value through profit and loss			
Interest rate swaps			
Held-for-sale financial assets			
Short-term investments			
Investments in unquoted shares			534
Total	0	0	534
Financial liabilities recorded at fair value through profit and loss			
Interest rate swaps		23	
Total	0	23	0

The fair values under Level 1 in the hierarchy are based completely on the quoted prices for the same asset items or liabilities on existing markets.

Level 2 fair values are based on input data other than the quoted prices contained in Level 1, yet on information that is verifiable either directly or indirectly for the asset item or liability concerned. Fund investments are valued based on the valuation reports of fund management companies. Derivatives are valued using the discounted cash flow method.

Level 3 fair values are based on a price other than that available on the market, and they might contain assessments made by management.

HELD-FOR-SALE NON-CURRENT FINANCIAL ASSETS

Held-for-sale non-current financial assets are all investments in unquoted shares. They are valued at acquisition price, because their fair values are not reliably available. Therefore they are not included in the fair value hierarchy.

34. Guarantees and contingencies

EUR 1,000	2018	2017
Guarantees given on behalf of Group companies		
Enterprise mortgages	93,455	82,642
Pledges given	130,373	137,159
Other liabilities	7,307	18,495

The pledges given include pledged shares in subsidiaries worth MEUR 129.9. The nominal or book value of a collateral has been used as the value of liabilities.

Other rental agreements		
In one year	11,685	10,246
In over one year but within five years maximum	23,141	22,215
In over five years	1,748	2,651
Total	36,575	35,112
Total for loans from institutions	82,043	111,421

35. Related party disclosures

The Group's related parties include the parent company as well as the subsidiaries, associated companies and joint ventures. Alongside companies with control and significant influence, corresponding power is exercised by natural persons. In addition to any persons exercising control and significant influence, the company's related parties include key persons in the management of the company and its parent company.

Individuals with rights and responsibilities relating to the planning, management and control of the activities of the corporation in question are regarded as key persons. Examples of key persons are members of the Board and Senior Management Team as well as the chief executive officer and senior vice president.

Close family members of key persons (and persons exercising control/influence) are also considered to be related parties. Marital or common law spouses and the children or other dependents of the person or their spouse, for example, are regarded as family members. In addition to family members (and persons exercising control/influence) the company's circle of related parties includes companies in which a key person or their spouse, individually or together, exercises control or significant influence.

REWARD SCHEME

The Board of Directors of Panostaja Oy decides on the principles underlying the reward scheme for the CEO and members of the Senior Management Team. The management's reward and commitment schemes consist of salary, employee benefits and a share reward scheme. The retirement pension is determined in accordance with the Employees Pensions Act (TyEL).

Until the end of the 2018 financial period, Panostaja had in place a share remuneration scheme where the company's shares could be awarded to members of the Senior Management Team as a reward for reaching the set goals. The goals were set for earnings periods that equal financial periods in length based on the Panostaja Group's EBIT and/or other operational goals, and for a five-year (5) earnings period (2014–2018) based on the cumulative earnings per share (EPS) key figure.

The share remuneration scheme concluded on October 31, 2018, as a result of which a total of 152,371 Panostaja shares will be issued to members of the Senior Management Team in December 2018. A potential bonus may also be paid in cash to cover the taxes and tax-like payments arising from the bonus.

At the time of closing the books on October 31, 2018, the members of the Senior Management Team held in their personal ownership or in the ownership of a company where they have a controlling interest 1,250,000 Panostaja shares related to the remuneration system that they have undertaken to retain in their ownership for the duration of the system's period of validity. The Management's share ownership within the incentive and commitment scheme is distributed as follows:

Pravia Oy (Juha Sarsama)	550,000 pcs
Comito Oy (Tapio Tommila)	300,000 pcs
Miikka Laine	200,000 pcs
Minna Telanne	200,000 pcs
Total	1,250,000 pcs

The members of the Senior Management Team have financed their investments themselves, in part, and through company loans, in part, and they bear the genuine corporate risk with respect to the investment they have made in the scheme.

LOANS TO RELATED PARTIES

EUR 1,000	2018	2017
At the start of the financial period	1,678	2,048
Loans granted during the financial period	0	0
Loans repaid and amortizations	–497	–370
Debited interest	9	19
Interest payments received during the financial period	–9	–19
At the end of the financial year	1,181	1,678

The loan conditions for key management personnel are as follows:

Name	Amount of loan	Conditions of repayment	Interest
Pravia Oy (Juha Sarsama)	509	Repayment in full at the end of the loan period	0.250
Comito Oy (Tapio Tommila)	340	Repayment in full at the end of the loan period	0.250
Minna Telanne	166	Repayment in full at the end of the loan period	0.250
Miikka Laine	166	Repayment in full at the end of the loan period	0.250
Total	1,181		

On October 31, 2018, company shares with a fair value of MEUR 1.2 represented the collateral on loans granted. The loan conditions of other related party loans are as follows:

Nimi	2018	2017	
Ecosir Group Oy	0	497	Subordinated loans that will mature in full in 2018. Ecosir Group Oy is liable to repay the principal and interest accrued on it only for the part of the sum of the company's unrestricted equity and all subordinated loans at the time of payment exceeding the loss on the balance sheet of the last financial period ended or of financial statements newer than this. If principal or interest remains unpaid on the annulment, liquidation or bankruptcy of the company, it will be repaid using a privilege worse than all other liabilities of the company. The company has not given collateral for the payment of the loan capital or its interest.

MANAGEMENT EMPLOYEE BENEFITS

EUR 1,000	2018	2017
Salaries and other current employee benefits	733	664
Share-based benefits	32	17
Total	765	680
Salaries and bonuses		
CEO	236	226
Deputy CEO	195	181
CEO's performance-based employer's statutory pension expenditure	41	43
Deputy CEO's performance-based employer's statutory pension expenditure	37	34
Members of the Board of Directors		
Ala-Mello Jukka	40	40
Eero Eriksson	20	20
Tarkkonen Hannu	5	20
Pääkkönen Tarja	20	20
Virtanen Antti	5	20
Reponen Hannu-Kalle	15	0
Koskenkorva Mikko	20	20

It was resolved at Panostaja Oyj's General Meeting on February 1, 2018, regarding payment of meeting compensation, that approximately 40% of the compensation remitted to the members of the Board be paid on the basis of the share issue authorization given to the Board, by issuing company shares to each Board member if the Board member does not own more than 1% of the company's shares on the date of the General Meeting. If the holding of a Board member on the date of the General Meeting is over one percent of all company shares, the compensation will be paid in full in monetary form. In addition, the Board of Directors of Panostaja Oyj decided at an organizing meeting held immediately after the General Meeting to implement the decision taken at the General Meeting regarding the compensation of the Board members as regards shares, so that the compensation is always sent four times a year on the day following publication of an interim report/financial statements for the year.

36. Subsidiaries as of October 31, 2018

RELATIONS BETWEEN THE GROUP PARENT COMPANY AND SUBSIDIARIES

	Registered office	Share of voting power %	Parent company's shareholding %
Parent company			
Panostaja Oyj	Tampere		
Subsidiaries			
Brand Factory Finland Oy	Espoo	52.8	52.8
Carrot Akatemia Oy	Helsinki	63.0	63.0
Carrot Itä-Suomi Oy	Kuopio	63.0	63.0
Carrot Joensuu Oy	Joensuu	63.0	63.0
Carrot Jyväskylä Oy	Jyväskylä	63.0	63.0
Carrot Keski-Uusimaa Oy	Hyvinkää	63.0	63.0
Carrot Logistiikka Oy	Helsinki	63.0	63.0
Carrot Länsi-Suomi Oy	Pori	63.0	63.0
Carrot Oulu Oy	Oulu	63.0	63.0
Carrot Palvelut Group Oy	Tampere	63.0	63.0
Carrot Palvelut Oy	Helsinki	63.0	63.0
Carrot Pirkanmaa Oy	Tampere	63.0	63.0
Carrot Pohjanmaa Oy	Vaasa	63.0	63.0
Carrot Pohjois-Suomi Oy	Oulu	63.0	63.0
Carrot Rakennus Oy	Helsinki	63.0	63.0
Carrot Revolution Oy	Helsinki	63.0	63.0
Carrot Satakunta Oy	Turku	63.0	63.0
Carrot Tampere Oy	Tampere	63.0	63.0
Carrot Teollisuus Oy	Helsinki	63.0	63.0
Carrot Uusimaa Oy	Helsinki	63.0	63.0
Carrot Varsinais-Suomi Oy	Turku	63.0	63.0
Copynet Finland Oy	Helsinki	52.8	52.8
CoreHW Group Oy	Tampere	63.0	63.0
CoreHW Oy	Tampere	63.0	63.0
CoreHW Semiconductor Oy	Tampere	63.0	63.0
Grano Oy	Helsinki	52.8	52.8
Grano 3D Oy	Turku	52.8	52.8
Grano Group Oy	Helsinki	52.8	52.8
Grano Diesel Oy	Helsinki	52.8	52.8
Heatmasters Group Oy	Tampere	80.0	80.0
Heatmasters Lämpökäsittely Finland Oy	Lahti	80.0	80.0
Heatmasters Technology Oy	Lahti	80.0	80.0
Heatmasters Sp.zoo	Poland	80.0	80.0
Heatmasters Scandinavia AB	Sweden	80.0	80.0
KL-Parts Oy	Tampere	75.0	75.0
KL-Varaosat Oy	Tampere	75.0	75.0
KfZ Nord Oy	Tampere	75.0	75.0
As Grano Digital	Tallinn, Estonia	52.8	52.8
Hygga Group Oy	Helsinki	79.8	79.8
Hygga Oy	Helsinki	79.8	79.8
Megakliniken AB	Stockholm, Sweden	79.8	79.8
Selog Group Oy	Tampere	100.0	100.0
Selog Oy	Helsinki	100.0	100.0
Suomen Arkistovoima Oy	Turku	52.8	52.8
Suomen Helakeskus Oy	Seinäjoki	100.0	100.0
Suomen Helasto Oy	Seinäjoki	100.0	100.0
Oscar Software Holdings Oy	Tampere	55.0	55.0
Oscar Software Group Oy	Tampere	55.0	55.0
Oscar Software Oy	Tampere	55.0	55.0

The subgroup subsidiary holdings are presented in the table in accordance with the holding of the Panostaja subgroup's parent company. More specific information on relationships of ownership of subgroup subsidiaries can be found in the financial statements of each respective subgroup.

37. Judicial events

Konsernilla ei ole tilinpäätöshetkellä avoinna olevia riita- tai oikeustapauksia, joihin liittyen konserniin voisi kohdistua merkittäviä vaateita.

38. Events after the financial period

SALE OF ASSOCIATED COMPANY ECOSIR

Panostaja sold its shareholding in Ecosir Group. The export of domestic health technology and city solutions will be expedited even further with an international group of investors gaining majority ownership of Ecosir Group's operations. Ecosir Group Oy's CEO Mauri Leponen will continue as a shareholder and CEO in the company. With regard to the deal, Panostaja will record a sales profit of MEUR 1.4 before taxes in the profit/loss for November 2018.

NEW CEO FOR GRANO

On November 8, 2018, Panostaja announced that the current CEO of Grano Jaakko Hirvonen would be retiring at a time to be specified later. On that date, he will step down as the CEO of Grano.

On December 10, 2018, Grano's Board of Directors appointed Mikko Moilanen as the company's new CEO.

MINORITY INVESTMENT IN THE SHARES OF GUGGUU OY

Panostaja Oyj secured its first minority interest by investing in the shares of Gugguu Oy, entering the company as an owner-partner for the entrepreneurs. Gugguu is a company established in 2012 that designs and manufactures first-rate children's clothing from ecological high-quality materials. The company's products include indoor and outdoor clothing for children as well as children's accessories. After the restructuring, Panostaja's holding in the company is 43%.

PARENT COMPANY INCOME STATEMENT

EUR 1,000	Note	1.11.17–31.10.18	1.11.16–31.10.17
Other operating income	1.1	42,680	153
Staff expenses	1.2	–2,859	–1,419
Depreciations, amortizations and impairment	1.3	–69	–72
Other operating expenses	1.4	–2,406	–2,775
OPERATING PROFIT/LOSS		37,345	–4,113
Financial income and costs	1.5	–3,153	–103
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES		34,192	–4,216
Income taxes	1.6	–2,679	0
PROFIT/LOSS FOR THE FINANCIAL PERIOD		31,513	–4,216

PARENT COMPANY BALANCE SHEET

ASSETS

EUR 1,000	Note	October 31, 2018	October 31, 2017
PERMANENT ASSETS			
Intangible assets	2.1	58	53
Tangible assets	2.2	175	128
Investments	2.3		42,278
PERMANENT ASSETS TOTAL		37,959	42,458
CURRENT ASSETS			
Non-current receivables	2.4	14,563	12,354
Current receivables	2.5	1,947	2,853
Short-term investments	2.6	11,000	0
Cash and cash at bank		3,141	4,903
CURRENT ASSETS TOTAL		30,652	20,111
TOTAL ASSETS		68,611	62,569

LIABILITIES

EUR 1,000	Note	October 31, 2018	October 31, 2017
EQUITY	2.7		
Share capital		5,569	5,569
Share premium account		4,691	4,691
Invested unrestricted equity fund		16,614	16,545
Profit/loss for the previous financial periods		7,083	13,384
Profit/loss for the financial period		31,513	–4,216
SHAREHOLDERS' EQUITY TOTAL		65,470	35,973
LIABILITIES	2.8		
Non-current liabilities		42	22,358
Current liabilities		3,099	4,238
LIABILITIES TOTAL		3,141	26,596
TOTAL LIABILITIES		68,611	62,569

FINANCIAL STATEMENT OF PARENT COMPANY

EUR 1,000	1.11.17–31.10.18	1.11.16–31.10.17
OPERATING CASH FLOW		
Profit/loss for the financial period	31,513	–4,216
Adjustments:	–35,295	197
Planned depreciations	69	72
Sales profits	–41,262	0
Sales losses	79	0
Financial income and costs	3,153	125
Taxes	2,679	0
Credit loss adjustments of receivables	–13	0
CHANGES		
Change in current non-interest-bearing operating receivables	1,585	–1,731
Change in current non-interest-bearing liabilities	–759	240
Interest and other financial costs	–542	–1,374
Interest and other financial income	175	508
Cash flow before extraordinary items	–3,323	–6,376
OPERATING CASH FLOW	–3,323	–6,376
INVESTMENT CASH FLOW		
Investments in tangible and intangible assets	–128	0
Investments in subsidiaries	–4,582	–4,026
Investments in associated companies	0	0
Other investments	–3	–12
Capital gains from the disposal of tangible and intangible assets	27	0
Capital gains from the disposal of subsidiaries	43,066	31
Capital gains from the disposal of other shares	3	0
Net change in internal receivables	–420	–1,562
Loans granted	–2,891	–98
Loans receivable repaid	28	431
Paid dividends	1,521	5,482
INVESTMENT CASH FLOW	36,621	245
FINANCIAL CASH FLOW		
Acquisition and disposal of own shares	69	66
Change in current interest-bearing receivables	272	222
Change in current interest-bearing liabilities		0
Loans drawn		2,316
Loans repaid	–22,316	–7,500
Dividends paid	–2,084	–2,081
FINANCIAL CASH FLOW	–24,060	–6,977
CHANGE IN CASH AND CASH EQUIVALENTS	9,238	–13,108
Cash and cash equivalents at the beginning of the financial period	4,903	18,011
CHANGE IN CASH AND CASH EQUIVALENTS	9,238	–13,108
Cash and cash equivalents at the end of the financial period	14,141	4,903

NOTES TO THE FINANCIAL STATEMENTS, OCTOBER 31

Panostaja Group's parent company is Panostaja Oyj, registered office in Tampere, Finland. The Group's consolidated financial statements can be obtained at Kalevantie 2, 33100 Tampere, Finland.

COMPARABILITY OF FIGURES

The figures for the financial period and the previous financial period are comparable.

VALUATION PRINCIPLES

Current fixed assets are entered in acquisition costs in the balance sheet with planned depreciations deducted. Fixed asset shares are valued at their acquisition price.

PENSIONS

Statutory pension insurance for staff is managed by an external pension insurance company. Pension costs are entered as a cost in the year of accrual.

DEPRECIATIONS

Planned depreciations from permanent assets are calculated based on probable operating life from the original purchase price.

Planned depreciation periods are:

Intangible rights	3 y
Goodwill	5–10 y
Other capitalized long-term expenditure	5–10 y
Buildings	20–40 y
Machinery and equipment	3–10 y
Other tangible assets	3–10 y

Notes to the income statement 1.1.–1.6.

1.1. Other operating income

EUR 1,000	2018	2017
Profits from sale of fixed assets	41,262	0
Support received	0	10
Others	1,418	143
	42,680	153

1.2. Staff expenses

EUR 1,000	2018	2017
Salaries and fees	2,370	1,137
Pension costs	402	196
Other social security expenses	87	86
	2,859	1,419
During the financial period, the company employed on average		
Clerical staff	9	9

The personnel expenses for the 2018 financial period were increased by the compensation paid to key persons in relation to the KotiSun divestment.

1.3. Depreciations, amortizations and impairment

EUR 1,000	2018	2017
Planned depreciations		
Intangible rights	1	3
Other capitalized long-term expenditure	27	29
Machinery and equipment	41	40
	69	72

1.4. Other operating expenses

EUR 1,000	2018	2017
Other operating expenses internal	58	44
Other operating expenses	406	490
Marketing costs	133	195
Data management costs	105	129
Costs for expert services	1,484	1,750
Loss on disposal of fixed asset shares	79	0
Rental costs	142	167
Other operating expenditure total	2,406	2,775
Auditor's fees		
auditing fees	57	26
auxiliary services	0	2
	57	27

1.5. Financial income and expenses

EUR 1,000	2018	2017
Dividend yields		
From companies in the same Group	1,521	5,482
From others	25	66
Dividend yields total	1,546	5,548
Other interest yields		
From companies in the same Group	424	317
From others	141	54
Other interest yields total	565	371
Other financial income		
From companies in the same Group	63	72
From others		11
Other financial income total	63	83
Other interest and financial yields total	627	454
Interest expenses		
For companies in the same Group		0
For others	413	961
Interest expenses total	413	961
Other financial expenses		
For companies in the same Group	13	2,411
For others	108	104
Other financial expenses	120	2,515
Interest costs and other financial costs total	533	3,475
Impairments of Group shares	4,600	2,443
Impairment of stocks and shares	193	186
Financial income and costs total	–3,153	–103

1.6. Income taxes

EUR 1,000	2018	2017
Income taxes from the financial period and previous periods	2,679	0

Notes to the balance sheet 2.1–2.8.

2.1. Intangible assets

EUR 1,000	2018	2017
Intangible rights		
Acquisition cost Nov 1	59	59
Additions Nov 1–Oct 31	0	0
Deductions Nov 1–Oct 31	0	0
Acquisition cost Oct 31	59	59
Accrued planned depreciations Nov 1	–53	–51
Planned depreciations Nov 1–Oct 31	–1	–3
Book value as of October 31	5	6
Other capitalized long-term expenditure		
Acquisition cost Nov 1	372	405
Additions Nov 1–Oct 31	38	0
Deductions Nov 1–Oct 31	–5	–34
Acquisition cost Oct 31	405	372
Accrued planned depreciations Nov 1	–325	–296
Planned depreciations Nov 1–Oct 31	–27	–29
Book value as of October 31	53	47
Intangible assets total		
Acquisition cost Nov 1	431	465
Additions Nov 1–Oct 31	38	0
Deductions Nov 1–Oct 31	–5	–34
Acquisition cost Oct 31	464	431
Accrued planned depreciations Nov 1	–378	–347
Planned depreciations Nov 1–Oct 31	–28	–32
Book value as of October 31	58	53

2.2. Tangible assets

EUR 1,000	2018	2017
Machinery and equipment		
Acquisition cost Nov 1	748	748
Additions Nov 1–Oct 31	90	0
Deductions Nov 1–Oct 31	–2	0
Acquisition cost Oct 31	836	748
Accrued planned depreciations Nov 1	–654	–614
Planned depreciations Nov 1–Oct 31	–41	–40
Book value as of October 31	141	94
Other tangible assets		
Acquisition cost Nov 1	34	34
Additions Nov 1–Oct 31	0	0
Deductions Nov 1–Oct 31	0	0
Acquisition cost Oct 31	34	34
Accrued planned depreciations Nov 1	0	0
Planned depreciations Nov 1–Oct 31	0	0
Book value as of October 31	34	34
Tangible assets total		
Acquisition cost Nov 1	782	748
Additions Nov 1–Oct 31	90	34
Deductions Nov 1–Oct 31	–2	0
Acquisition cost Oct 31	870	782
Accrued planned depreciations Nov 1	–654	–614
Planned depreciations Nov 1–Oct 31	–41	–40
Book value as of October 31	175	128

2.3. Investments

EUR 1,000	2018	2017
Interests in companies in the same Group		
Acquisition cost Nov 1	38,106	36,157
Additions Nov 1–Oct 31	5,182	4,422
Deductions Nov 1–Oct 31	–6,503	–2,474
Acquisition cost Oct 31	36,785	38,106
Interests in associated companies		
Acquisition cost Nov 1	3,858	3,858
Additions Nov 1–Oct 31	0	0
Deductions Nov 1–Oct 31	–3,038	0
Acquisition cost Oct 31	820	3,858
Other shares and interests		
Acquisition cost Nov 1	314	489
Additions Nov 1–Oct 31	0	12
Deductions Nov 1–Oct 31	–193	–186
Acquisition cost Oct 31	121	314
Investments total		
Acquisition cost Nov 1	42,278	40,504
Additions Nov 1–Oct 31	5,183	4,433
Deductions Nov 1–Oct 31	–9,734	–2,660
Acquisition cost Oct 31	37,726	42,278

2.4. Non-current receivables

EUR 1,000	2018	2017
Subordinated loans receivable from companies in the same Group	3,393	1,528
Loans receivable from companies in the same Group	3,529	5,205
Loans receivable	4,641	2,121
Other receivables	3,000	3,500
	14,563	12,354

2.5. Current receivables

EUR 1,000	2018	2017
Trade receivables from companies in the same Group	221	123
Trade receivables t	24	5
Other receivables	68	6
Subordinated loans receivable from associated companies	0	365
Loans receivable from associated companies	0	262
Other loans receivable	367	296
Interest receivables from companies in the same Group	51	6
Accrued income	1,216	1,791
	1,947	2,853

	2018	2017
Accrued income essential items		
Interest receivables	86	24
Proportional shares from Takoma's bankruptcy estates	0	921
Passed-on costs	1,051	769
Grano Group Oy, unwarranted transfer tax	0	6
Unemployment insurance scheduling	8	0
Cost scheduling	72	71
	1,216	1,791

2.6. Short-term investments

EUR 1,000	2018	2017
Other shares and interests		
Investment fund shares	11,000	0

2.7. Equity

EUR 1,000	2018	2017
Share capital Nov 1	5,569	5,569
Share capital Oct 31	5,569	5,569
Share premium account Nov 1–Oct 31	4,691	4,691
Invested unrestricted equity fund Nov 1	16,545	16,479
Rewards to Senior Management Team as own shares	27	17
Board bonuses as own shares	42	49
Invested unrestricted equity fund Oct 31	16,614	16,545
Retained earnings/loss Nov 1	9,168	15,286
Expired dividend liability	0	179
Dividend distribution	–2,084	–2,081
Retained earnings/loss Oct 31	7,083	13,384
Profit/loss for the financial period	31,513	–4,216
Equity total	65,470	35,973
Distributable unrestricted equity Oct 31	55,210	25,713

2.8. Liabilities

EUR 1,000	2018	2017
2.8.1. Non-current liabilities		
Loans from financial institutions	0	22,316
Other non-current liabilities	3	3
	3	22,319
Liabilities owed to companies in the same Group		
Other liabilities	39	39
	39	39
Non-current liabilities total	42	22,358
2.8.2 Current liabilities		
Trade payables	117	345
Other liabilities	29	30
Accruals and deferred income	2,951	3,733
	3,096	4,107
Liabilities owed to companies in the same Group	2	1
Trade payables	2	1
Liabilities to associated companies	0	130
	0	130
Material items contained in accruals and deferred income		
Annual holiday salaries and social costs	163	152
Bonus allocations	103	119
Property fund dissolution advance	0	3,038
Accrued interest	6	27
Grano Group Oy's additional purchase price	0	396
Accrued taxes	2,679	0
	2,951	3,733
Current liabilities total	3,099	4,238

Other notes

EUR 1,000	2018	2017
Guarantees and contingencies		
On behalf of Group companies	3,730	4,482
Guarantees given		
On behalf of associated companies	1,145	1,145
Rental liabilities		
In one year	156	156
More than one and within 5 years	537	622
In over five years	0	65
Other pledges given		
As security for own liabilities	6	6

Proposal by the Board of the parent company on the processing of the result and distribution of profits of the financial period

Panostaja Oyj's distributable assets, including the profit for the current and past financial periods of EUR 38,596,504.68 and EUR 16,613,590.25, in the invested unrestricted equity fund, amount to EUR 55,210,094.93.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.05 per share be paid to the shareholders for the past financial period.

The Board also proposes that the General Meeting authorize the Board of Directors to decide, at its discretion, on the potential distribution of assets to shareholders, should the company's financial status permit this, either as dividends or as repayment of capital from the invested unrestricted equity fund. The maximum distribution of assets performed on the basis of this authorization shall total no more than EUR 4,700,000.

It is proposed that the authorization include the right of the Board to decide on all other terms and conditions relating to said asset distribution. It is also proposed that the authorization remain valid until the start of the next Annual General Meeting.

Tampere, December 12, 2018

Jukka Ala-Mello
Chairman of the Board

Mikko Koskenkorva

Eero Eriksson

Tarja Pääkkönen

Kalle Reponen

Juha Sarsama
CEO

FINANCIAL STATEMENT ENTRY

A report has today been issued about the audit performed.

Markku Launis
Authorized public accountant

Lauri Kallaskari
Authorized public accountant
PricewaterhouseCoopers Oy
Audit firm

Audit report

For Panostaja Oyj's Annual General Meeting

AUDIT OF FINANCIAL STATEMENTS

Report

As our report, we submit that

- the consolidated financial statements provide accurate and sufficient information on the Group's financial position as well as the results of its operations and its cash flows in conformity with the International Financial Reporting Standards (IFRS) approved for use in the European Union; and
- the financial statements provide accurate and sufficient information on the parent company's financial position and the results of its operations in conformity with the regulations currently in effect in Finland regarding the preparation of financial statements, and they meet the statutory requirements.

Our report is consistent with the additional report submitted to the Audit Committee.

Subject of the audit

We have audited Panostaja Oyj's (business ID 0585148-8) financial statements for the financial period November 1, 2017–October 31, 2018. The financial statements contain:

- the Group's balance sheet, income statement, extensive income statement, statement of changes in equity, cash flow statement and notes, including a summary of the significant accounting principles used in the preparation of the financial statements;
- the parent company's balance sheet, income statement, cash flow statement and notes.

GROUNDS FOR THE REPORT

We performed the audit in conformity with the good auditing practice enforced in Finland. Our obligations under this good auditing practice are described in more detail in the section 'Duties of the auditor in auditing financial statements'.

It is our view that we have obtained the required amount of appropriate auditing evidence for establishing a foundation for our report.

Independence

We are independent of the parent company and the companies in the Group in accordance with the ethical requirements observed in Finland which pertain to the audit we have performed, and we have fulfilled our other ethical obligations under these requirements.

To the best of our knowledge and understanding, all non-audit services which we have provided to the parent company and the Group's companies are in compliance with the regulations enforced in Finland regarding such services, and we have not provided any prohibited non-audit services within the meaning of paragraph 1 of Article 5 of Regulation (EU) No 537/2014. The non-audit services we have provided are presented in Note 13 to the financial statements, titled 'Other operating expenses'.

GENERAL AUDIT APPROACH

Summary

- The materiality determined in the consolidated financial statements was EUR 1.9 million.
- The scope of the audit of the consolidated financial statements included the parent company as well as its subsidiaries in Finland and Poland, covering the majority of the Group's net sales, assets and liabilities.
- Valuation of goodwill
- Corporate acquisitions and divestments
- Valuation of shares in subsidiaries (parent company)

As part of the audit's planning process, we determined the materiality and assessed the risk of the financial statements containing a material inaccuracy. In particular, we assessed areas in which the management made subjective estimates. Examples of such areas include significant accounting estimates which involve assumptions and evaluation of future events.

Materiality

The materiality which we applied affected the planning and implementation of our audit. The goal of the audit is to obtain reasonable assurance of whether the financial statements as a whole contain material inaccuracies. Inaccuracies may be caused by misconduct or errors. They are considered to be material when they, alone or in combination, can be reasonably expected to impact financial decisions that are made by users based on the financial statements.

Based on our professional discretion, we determined certain quantitative thresholds related to materiality, such as the materiality determined for the consolidated financial statements, described in the table below. These thresholds, in combination with qualitative factors, helped us determine the full scope of the audit and the nature, timing and scope of individual auditing measures and assess the impact of inaccuracies on the financial statements as a whole.

Materiality determined for the consolidated financial statements	EUR 1.9 million
Benchmark used in determining materiality	1% of the net sales for the 2018 financial period
Grounds for choosing the benchmark	We chose net sales as the benchmark for determining materiality as, to our understanding, net sales are a benchmark generally used by readers of financial statements when assessing the Group's performance. Net sales are also a generally accepted benchmark.

Determining the scope of the audit of the consolidated financial statements

When determining the scope of our audit, we took the Panostaja Group's structure and industry as well as the processes and controls related to financial reporting into account.

In addition to the parent company, our audit also covered all of the Group's subsidiaries in Finland. The Group's net sales are formed, to a significant extent, by these subsidiaries. We also performed targeted audit measures on the Group's subsidiary in Poland. The other subsidiaries are not considered to be at risk of material inaccuracy with regard to the consolidated financial statements.

KEY FACTORS FOR THE AUDIT

Key factors for the audit are factors which, according to our professional discretion, were the most significant in the audit of the financial period in question. These factors were taken into account in our audit of the financial statements as a whole and in the preparation of our report on this audit. We will not provide a separate report on these factors.

We take the risk of the management ignoring controls into account in all our auditing. This includes an assessment of whether there are any indications of the management having a tendentious attitude which poses a risk of material inaccuracy as a result of misconduct.

Key factor in the audit of the consolidated financial statements	How the factor was handled in the audit
Valuation of goodwill	
See the accounting principles for the preparation of the consolidated financial statements and Note 18 Intangible assets	In our audit measures, we focused on confirming the adequacy of the estimates which require discretion by the management by using the following measures:
The Panostaja Group's balance sheet, dated October 31, 2018, lists MEUR 94.8 as goodwill, which accounts for 45% of the Group's total assets. For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units.	We audited the accuracy of the service value calculation model used by the company by comparing the model to the requirements of IAS 36: Impairment of Assets and by confirming the mathematical accuracy of the calculations;
The company always tests goodwill for impairment when there are indications that goodwill may be impaired, but at least once a year. In impairment testing, the amount of goodwill is compared to the recoverable amount. The recoverable amount is based on calculations of service value. These calculations require significant discretion from the management in relation to estimates of future cash flows, such as the development of net sales and expenditures, and the determination of the discount rate.	We assessed the process related to the determination of cash flow forecasts that are used in service value calculations, and we compared the forecasts to government-approved budgets and strategic figures;
Due to the management's assessments related to predictions used in goodwill testing and the significance of the balance sheet value, the valuation of goodwill is essential to the audit.	We assessed the reliability of the forecasts used by the management with regard to net sales growth and EBIT trends, among other things, by comparing forecasts from previous years to actual figures;
	We assessed the adequacy of the assumptions used in the sensitivity calculation prepared by the management;
	We utilized experts who specialize in PwC valuation in reviewing the discount rates used in the calculations. The components used in determining the discount rates were compared, as applicable, to external, generally accepted information sources; and
	We assessed the sufficiency and adequacy of the information provided in Note 18 to the consolidated financial statements.
Corporate acquisitions and divestments	
See the accounting principles for the consolidated financial statements and Note 6 Acquired business operations, Note 7 Divestments and discontinuations of subsidiaries and business operations, and Note 23 Deferred tax assets and liabilities	Our audit included the following measures::
Corporate acquisitions and divestments have resulted in numerous changes to the Group structure during the financial period. During the financial period, Panostaja acquired a controlling interest in the Carrot and Oscar Software groups and sold its shareholding in the KotiSun group	In the context of corporate acquisitions, we have examined the deeds, reviewed the principles of valuating the assets and liabilities of each purchased business as well as the underlying assumptions, and evaluated the technical accuracy of the acquisition cost calculations.
The assets and liabilities of the subject obtained through corporate acquisitions are valued at fair values at the time of purchase, to which management estimates are related.	In the context of divestments, we have examined the deeds and assessed the technical accuracy and presentation of the sales profit.
The divestment of the KotiSun group is presented in the consolidated income statement under 'Profit/loss from sold or discontinued operations.' Presenting the sales profit/loss has required significant consideration from the management with regard to taxation on divested business operations.	Furthermore, we have assessed the sufficiency and appropriateness of the information provided in Notes 6, 7 and 23 to the consolidated financial statements.
Valuation of shares in subsidiaries	
See Note 2.3 Investments to the parent company's financial statements	Our audit measures included the following measures:
In Panostaja Oyj's financial statements, dated October 31, 2018, the value of shares in subsidiaries, which are included in investments on the balance sheet, is MEUR 36.8.	We assessed the process, calculation principles and key assumptions related to the determination of cash flow forecasts used in the service value calculations;
The value of the shares in subsidiaries was determined with the help of service value calculations.	We assessed the reliability of the forecasts used by the management with regard to net sales growth and EBIT trends, among other things, by comparing forecasts from previous years to actual figures;
The number of shares in subsidiaries on the parent company's balance sheet was significant, and their valuation includes significant discretion by the management.	We utilized experts who specialize in PwC valuation in assessing the adequacy of the discount rates.
	We tested the mathematical accuracy of the valuation calculations.

With regard to the consolidated financial statements and the parent company's financial statements, there are no risks of material misstatements, as referred to in Article 10, paragraph 2(c) of Regulation EU No 537/2014.

OBLIGATIONS OF THE BOARD OF DIRECTORS AND CEO REGARDING THE FINANCIAL STATEMENTS

The board of directors and CEO are in charge of preparing the financial statements so that the consolidated financial statements provide an accurate and sufficient picture in accordance with the International Financial Reporting Standards (IFRS) approved for use in the European Union and so that the financial statements provide an accurate and sufficient picture in accordance with the regulations currently in effect in Finland regarding the preparation of financial statements and meet the statutory requirements. The board of directors and CEO are also in charge of the type of internal control which they consider to be necessary in order to prepare the financial statements without any material inaccuracies resulting from misconduct or errors.

When preparing the financial statements, the board of directors and CEO are obligated to assess the ability of the parent company and Group to continue their operation and, as applicable, present the factors that are related to the continuity of the operations and the fact that the financial statements are prepared based on this continuity. The financial statements are prepared based on the continuity of operations except if the parent company or Group is planned to be dissolved or the operations discontinued or there are no other realistic alternatives available.

DUTIES OF THE AUDITOR IN AUDITING FINANCIAL STATEMENTS

Our goal is to obtain reasonable assurance of whether the financial statements as a whole contain any material inaccuracies resulting from misconduct or errors and submit an audit report containing our statement. Reasonable assurance is a high level of assurance, but it is no guarantee that a material inaccuracy will always be recognized in audits in accordance with good auditing practice. Inaccuracies may be caused by misconduct or error, and they are considered to be material when they, alone or in combination, can be reasonably expected to impact financial decisions that are made by users based on the financial statements.

Audits that follow good auditing practice involve the use of professional discretion and retention of professional skepticism throughout the audit process. Additionally:

- We recognize and assess the risks of material inaccuracy arising from misconduct or errors, plan and carry out audit measures that respond to these risks and obtain the necessary amount of appropriate auditing evidence to base our report on. The risk of a material inaccuracy arising from misconduct being left unnoticed is greater than the risk of a material inaccuracy arising from an error being left unnoticed, as misconduct may involve joint action, falsification, deliberate omission of information or provision of incorrect information or ignorance of internal controls.
- We form an understanding of the internal controls that are relevant to the audit process in order to be able to plan audit measures that are appropriate for the situation but not with the intention of being able to provide a statement on the efficiency of the internal controls of the parent company or Group.
- We assess the adequacy of the accounting principles applied in the preparation of the financial statements and the reasonableness of the accounting estimates made by the management and the information presented on these estimates.
- We draw a conclusion of whether it was appropriate for the board of directors and CEO to prepare the financial statements based on an assumption of the continuity of operations, and, based on the auditing evidence we obtain, a conclusion of whether there is any material uncertainty related to events or conditions present which may provide significant reason to doubt the ability of the parent company or Group to continue its operations. If we conclude that material uncertainty does occur, we must draw the reader's attention to the information pertaining to the uncertainty that is presented in the financial statements in our report or, if the information pertaining to the uncertainty is insufficient, adapt our report. Our conclusions are based on auditing evidence obtained before the audit report's submission date. However, future events or conditions may lead to the parent company or Group being unable to continue its operations.
- We assess the financial statements, including all information presented therein, as well as the general presentation, structure and content of the financial statements and whether they reflect the business operations and events they are based on so as to provide an accurate and sufficient picture.
- We obtain a sufficient amount of appropriate auditing evidence from financial information pertaining to the companies or business operations belonging to the Group in order to be able to provide a report on the consolidated financial statements. We are responsible for controlling, monitoring and performing an audit of the Group. We alone are responsible for the audit report.

We communicate with administrative bodies regarding many matters, including the planned scope and timing of the audit and significant observations made during the audit, including possible considerable deficiencies in internal controls which we recognize during the audit.

We also confirm to the administrative bodies that we have complied with the relevant ethical requirements pertaining to independence and communicate with them regarding all relationships and other factors that may reasonably be considered to impact our independence and, as applicable, regarding relevant precautions.

We decide which of the factors communicated to the administrative bodies were the most significant in the audit of the financial period in question and therefore essential to the audit. We describe the factors in question in our audit report, unless a regulation or provision prevents the factor in question from being publicized or when, in extremely rare cases, we find that the factor in question will not be communicated in the audit report because its adverse impacts could be reasonably expected to be greater than the general benefits arising from such communication.

OTHER REPORTING OBLIGATIONS

Information concerning the audit assignment

We have acted as the auditor chosen by the Annual General Meeting for 19 years without interruption, since March 7, 2000.

Other information

The board of directors and CEO are responsible for other information. Other information covers the operations review and the information contained in the annual report, but it does not contain the financial statements or our audit report thereof. We were provided with the operations review before this audit report's submission date and expect to be provided with the annual report after the date in question.

Our report concerning the audit does not cover other information.

We are obligated to read the other information specified above in connection with the audit of the financial statements and simultaneously assess whether the other information is materially inconsistent with the financial statements or the knowledge we obtain while conducting the audit or whether it otherwise appears to be materially inaccurate. With regard to the operations review, we are also obligated to assess whether the review was prepared in accordance with the regulations applicable to its preparation.

As our report, we submit that

- the information in the operations review and financial statements is consistent
- the operations review was prepared in accordance with the regulations applicable to its preparation.

If, based on work focused on other information that we obtain before the audit report's submission date, we conclude that the other information in question contains a material inaccuracy, we must report this fact. Regarding this matter, we have nothing to report.

Tampere, December 17, 2018
PricewaterhouseCoopers Oy
Audit firm

Lauri Kallaskari
AUTHORIZED PUBLIC ACCOUNTANT

Markku Launis
AUTHORIZED PUBLIC ACCOUNTANT

Investor information

SHARE CAPITAL AND THE COMPANY'S OWN SHARES

At the close of the review period, Panostaja Oyj's share capital was EUR 5,568,681.60. The number of shares is 52,533,110 in total.

The total number of own shares held by the company at the end of the review period was 390,756 (at the beginning of the financial period 470,512). The number of the company's own shares corresponded to 0.8% of the number of shares and votes at the end of the entire review period.

In accordance with the decisions by the General Meeting on January 31, 2017 and by the Board, Panostaja Oyj relinquished a total of 36,261 individual shares as share bonuses to the company management on December 15, 2017. On December 15, 2017, the company relinquished to the Board members a total of 13,333 shares as meeting compensation. In accordance with the Board decision of February 1, 2018, Panostaja relinquished a total of 10,638 shares on March 2, 2018, a total of 10,000 shares on June 1, 2018 and a total of 9,524 shares on September 7, 2018, as meeting compensation.

The company's shares have been publicly listed since 1989. Currently, its shares are quoted on the Nasdaq Helsinki stock exchange.

Administration and general meeting

Panostaja Oyj's Annual General Meeting was held on February 1, 2018 in Tampere. The number of Board members was confirmed at five (5), and Jukka Ala-Mello, Eero Eriksson, Mikko Koskenkorva and Tarja Pääkkönen were re-elected to the Board for the term ending at the end of the next Annual General Meeting, and Kalle Reponen was accepted as a new member.

Auditing service network PricewaterhouseCoopers Oy and Authorized Public Accountant Markku Launis were elected as auditors for the period ending at the end of the next Annual General Meeting 2019. Auditing service network PricewaterhouseCoopers Oy has stated that Authorized Public Accountant Lauri Kallaskari will serve as the chief responsible public accountant.

The General Meeting confirmed the financial statements and consolidated financial statements presented for the financial year November 1, 2016–October 31, 2017 and resolved that the shareholders be paid EUR 0.04 per share as dividends.

The Meeting also resolved that the Board of Directors be authorized to decide at its discretion on the potential distribution of assets to shareholders should the company's financial status permit this, either as dividends or as repayment of capital from the invested unrestricted equity fund. The maximum distribution of assets performed on the basis of this authorization totals EUR 4,700,000. The authorization includes the right of the Board to decide on all other terms and conditions relating to said asset distribution. The authorization will remain valid until the beginning of the next Annual General Meeting. The General Meeting granted exemption from liability to the members of the Board and to the CEO.

The General Meeting resolved that the remuneration of the Board of Directors remain unchanged and that the Chairman of the Board be paid EUR 40,000 as compensation for the term ending at the end of the next Annual General Meeting, and that the other members of the Board each be paid compensation of EUR 20,000. It was further resolved at the General meeting that approximately 40% of the compensation remitted to the members of the Board be paid on the basis of the share issue authorization given to the Board, by issuing company shares to each Board member if the Board member does not own more than one (1) percent of the company's shares on the date of the General Meeting. If the holding of a Board member on the date of the Meeting is over one percent (1%) of all company shares, the compensation will be paid in full in monetary form. It was further resolved that the travel expenses of the Board members will be paid on the maximum amount specified in the valid grounds of payment of travel expenses ordained by the Finnish Tax Administration.

In addition, the Board was authorized to decide on the acquisition of the company's own shares in one or more installments so that the number of the company's own shares to be acquired may not exceed 5,200,000 in total, which corresponds to about 9.9% of the company's total share capital. By virtue of the authorization, the company's own shares may be obtained using unrestricted equity only. The company's own shares may be acquired at the date-of-acquisition price in public trading arranged by NASDAQ Helsinki Oy or otherwise at the prevailing market price. The Board of Directors will decide how the company's own shares are to be acquired. The company's own shares may be acquired while not following the proportion of ownership of the shareholders (directed acquisition). The authorization issued at the Annual General Meeting of January 31, 2017 to decide on the acquisition of the company's own shares is cancelled by this authorization. The authorization will remain valid until August 1, 2019. The Board of Directors has not used the authorization granted by the Annual General Meeting to acquire the company's own shares during the review period.

Immediately upon the conclusion of the General Meeting, the company's Board held an organizing meeting in which Jukka Ala-Mello was elected Chairman and Eero Eriksson Vice Chairman.

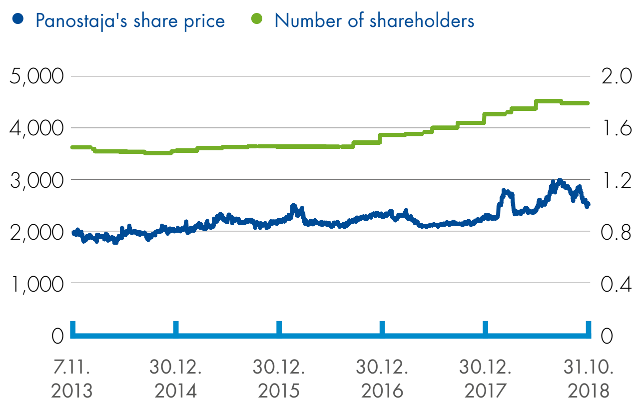
SHARE PRICE DEVELOPMENT AND SHARE OWNERSHIP

Panostaja Oyj's share closing rate fluctuated between EUR 0.88 (lowest quotation) and EUR 1.21 (highest quotation) during the financial period. During the review period, a total of 9,374,954 shares were exchanged, which amounts to 18.0% of the share capital. The October 2018 share closing rate was EUR 1.00. The market value of the company's share capital at the end of October 2018 was MEUR 52.1 (MEUR 47.5). At the end of October 2018, the company had 4,487 shareholders (4,095).

SHARE TRADE AND RATES

			Share issue adjusted	
	Lowest, EUR	Highest, EUR	Share issue adjustedl	% of shares
2018	0.88	1.21	9,374,954	18.0
2017	0.82	0.98	7,863,788	15.1
2016	0.81	1.04	5,959,389	11.5
2015	0.77	0.94	6,508,111	12.7
2014	0.69	0.91	7,908,686	15.4
2013	0.66	0.86	3,814,701	7.4
2012	0.73	1.05	5,725,530	11.1
2011	0.97	1.51	3,841,477	7.7
2010	1.32	1.75	5,301,507	11.2
2009	0.89	1.4	8,108,040	17.5

SHARE PRICE DEVELOPMENT AND SHARE OWNERSHIP



Largest shareholders

20 LARGEST SHAREHOLDERS ON OCTOBER 31, 2018

		Number of shares	% -osakkeista
1	Treindex Oy	6,186,200	11.78 %
2	Keskinäinen eläkevakuutusyhtiö Ilmarinen	4,259,000	8.11 %
3	Keskinäinen vakuutusyhtiö Fennia	3,468,576	6.60 %
4	Op-Henkivakuutus Oy	3,231,483	6.15 %
5	Koskenkorva Maija	2,847,542	5.42 %
6	Koskenkorva Matti	2,658,903	5.06 %
7	Koskenkorva Mauno	1,340,769	2.55 %
8	Koskenkorva Mikko	1,286,055	2.45 %
9	Johtopanostus Oy	1,030,000	1.96 %
10	Malo Hanna	982,207	1.87 %

		Number of sharesl	% -osakkeista
11	Kumpu Minna	982,170	1.87 %
12	Porkka Harri	822,379	1.56 %
13	Lähitapiola Keskinäinen V	674,000	1.28 %
14	Pravia Oy	632,500	1.20 %
15	Koskenkorva Pekka	583,502	1.11 %
16	Hyvät Lehder Rsm Oy	497,263	0.95 %
17	Pentti Kalervo	430,000	0.82 %
18	Malkavaara Kari	408,203	0.78 %
19	Panostaja Oyj	390,756	0.74 %
20	Hietanen Teijo	378,330	0.72 %
		33,089,459	62.99 %
	Muut osakkeenomistajat	18,374,027	
	Total	52,533,110	

DISTRIBUTION OF SHARE OWNERSHIP BY SIZE OCTOBER 31, 2018

Number of shares	Shareholders pcs	Shares/votes %	pcs	%
1–1,000	2,568	57.23 %	1,073,195	2.04 %
1,001–10,000	1,585	35.32 %	5,344,711	10.42 %
10,001–100,000	285	6.35 %	7,245,674	13.79 %
100,001–500,000	34	0.76 %	7,884,623	15.01 %
500,001-	15	0.33 %	30,984,907	58.98 %
Total	4,487	100.00 %	52,533,110	100.25 %
of which nominee-registered	6		192,715	0.04 %
Number of shares issued			52,533,110	100.00 %

DISTRIBUTION OF SHARE OWNERSHIP BY SECTOR OCTOBER 31, 2018

Sector class	Shareholders pcs	%	Shares/votes pcs	%
Companies	130	3.42 %	10,605,726	20.19 %
Financial and insurance institutions	13	0.29 %	7,900,779	15.04 %
Public bodies	1	0.02 %	4,259,000	8.11 %
Households	4,318	96.23 %	29,463,560	56.09 %
Non-profit organizations organizations	10	0.22 %	96,892	0.18 %
Foreign	15	0.33 %	14,438	0.03 %
Total	4,487	100.00 %	52,340,395	99.63 %
of which nominee-registered	6		192,715	0.37 %
Number of shares issued			52,533,110	100.00 %

panostaja

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